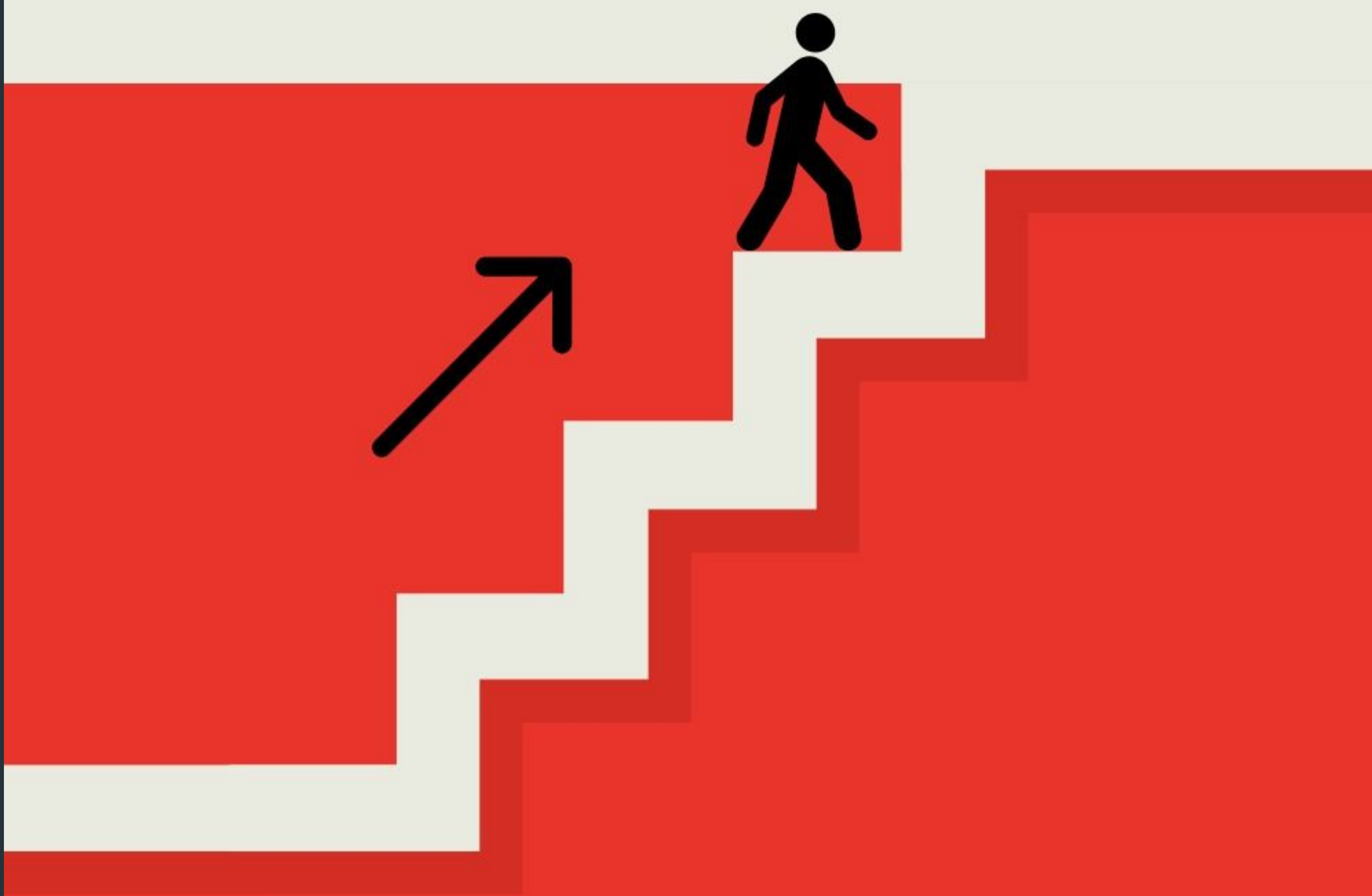
5 STEPS

To Uncover What Your TAX PRO MISSED

If you owed $5,000 or more on your taxes



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SIMPLIFY
my numbers

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Spotting Overlooked Deductions
A Simple Guide

It was 11:05 am on April 16th, I was waking up late for the first time in so long, after spending the previous night filing our remaining tax returns and extensions. I was exhausted and decided to go to sleep without my alarm for once, created an 'Out of Office' Auto-response, then crashed!

Like most Tax professionals the day after tax day, I wanted to take a trip away for a few weeks but this time, I decided to stay put and reflect on the season. The good, the bad, the ugly. And one of the first things that came to me was the number of amendments we filed this year.

Because we always have to request a copy of the previously filed tax return as part of the working papers we need to prepare the current tax return for a taxpayer who comes to us for the first time, we get an opportunity to see what was done on that tax return, and can determine whether or not, any mistakes were made. And this year, we were able to uncover so many mistakes made by other tax professionals that I decided to compile a checklist to help you, the taxpayer, review your personal tax return, to make sure that your CPA or tax pro did their job correctly.

And here's the good news: you always have 3 years from the original filing due date of a tax return to file an amended return. Which means, at the time of this writing in May of 2024, you can still amend your returns filed for the following tax years: 2021, 2022 and 2023.

But how would you know whether or not this is necessary in your case?

Look no further than this simple guide to spot the most commonly overlooked deductions.

The Important Lines to review on your 1040

Line 4,

Which shows your IRA distributions. The reason why this line is important is because it is extremely easy for a tax professional to incorrectly report your retirement account distributions as taxable if they aren't. We see a lot of clients who simply rolled over their funds from one pre-tax account to another, but received a 1099-R with the amount rolled over reported as "1" in Box 7 instead of "G" (Code G indicates that your WRS benefit was rolled over to another qualified plan). A great tax professional will make sure to ask the appropriate questions to double check the nature of those distributions to correctly report them on your return

Line 7,

Which shows your Capital gain or (loss). This line is important if you invest in stocks, but can also reveal gains and losses from other investments (i.e. real estate, sale of other assets, etc.). It is extremely important to take a second look at that line and make sure that any of your gains were not overstated, and that any deductible losses were taken into account.

The **Important Lines** to review on your **1040**

Line 10,

Which shows your Additional income which can derive from multiple sources, but the most common ones would be:

a) **Business Income or (loss)**
b) **Rental Real Estate**
c) **Unemployment compensation**

Obviously this is an important line because it directly affects your Adjusted Gross Income (AGI) and Taxable Income. For example, a loss from your business, would be reported there to offset any other ordinary income (i.e. W2 income) that you might have for the same year. Double check those figures and cross reference with other schedules (i.e. Sch 1, Sch C, Sch E, etc.)

Line 11,

Which reports your Adjusted Gross Income. This is an important line item because a lot of deductions and credits that you can qualify for, depends on what this number is and whether or not it stayed within the threshold for you to qualify for those items. In addition, certain transactions like buying a home for example, uses this number to determine your overall income for the year, especially for business owners.

The Important Lines to review on your 1040

And last but not least: Line 23

I could have picked any other lines as all of them are important at the end of the day, but this one in particular, sometimes is where we start when crafting a tax plan to help our clients save on taxes. This is the line reporting “Other taxes, including self-employment tax”. If you are a business owner, you absolutely want to pay attention to this line, because it reveals how much additional tax you had to pay if your business was profitable for that year. In fact, 15.3% of your business profits as self-employed, will go there, and could be the main reason why you owe so much. By having the right entity classification for your business, you can reduce this amount considerably.

Did You Miss These?
Commonly Overlooked Tax Breaks

In the labyrinth of tax laws and regulations, it's easy to overlook potential savings. This chapter delves into some of the most commonly missed tax breaks that could significantly lower your tax bill or increase your refund. Understanding these overlooked opportunities can lead to substantial financial benefits.

Did You Miss These? Commonly Overlooked Tax Breaks

Non-Cash Charitable Contributions

Many taxpayers donate cash to charities and claim those deductions, but non-cash contributions often get overlooked. If you've donated clothing, furniture, books, or even old electronics to a qualified organization, you can deduct the fair market value of these items. Remember to keep detailed records and receipts of your donations.

State Sales Tax Deduction

Taxpayers have the option to deduct state income tax or state sales tax from their federal tax returns. For those living in states without an income tax or for those who made significant purchases like a car or home renovation, the sales tax deduction can be more beneficial. Utilize the IRS's sales tax deduction calculator to determine which option is best for you.

Education Credits

While many are aware of the American Opportunity Credit, the Lifetime Learning Credit often goes unclaimed. This credit can provide up to $2,000 per tax return and doesn't require a degree program enrollment, making it ideal for continuing education courses. Ensure you explore all educational credits available, especially if you are investing in your professional development.

Did You Miss These? Commonly Overlooked Tax Breaks

Energy Efficient Home Improvements

Taxpayers who have installed energy-efficient systems like solar panels, geothermal heat pumps, or wind turbines are eligible for the Residential Renewable Energy Tax Credit. This credit can be a significant percentage of the cost of the systems, including installation. Check for any state-specific incentives as well.

Health Savings Account Contributions

HSAs are powerful tools for managing healthcare expenses and provide triple tax advantages: contributions are tax-deductible, the money grows tax-free, and withdrawals for qualified medical expenses are not taxed. Many overlook the opportunity to maximize their HSA contributions, which can be a strategic move to reduce taxable income.

Child and Dependent Care Credit

A common misconception is that this credit is only applicable for young children. However, taxpayers can also claim it for care expenses for a disabled spouse or dependent, regardless of age, as long as other qualifications are met. This credit can significantly offset the costs associated with care necessary for employment.

Turning Business Setbacks into Tax Advantages

So here's the deal. I understand that we all start a business to make more money, to generate profits. However, in the world of taxes, losing money in your business could actually turn into a positive outcome. Here's how your businesses can help you transform losses into gains through strategic tax planning and compliance.

To put it simply, Business losses occur when your total expenses exceed your revenues. While this is often seen as a negative outcome, our tax system allows businesses to use these losses to reduce tax liability, turning a financial setback into a potential benefit.

Turning Business Setbacks into Tax Advantages

Operational Losses

Day-to-day operations resulting in expenses higher than income.

Capital Losses

Losses from the sale of business assets for less than their purchase price.

Investment Losses

Losses from investments related to business operations.

Turning Business Setbacks into Tax Advantages

Carryover

Businesses can carry forward losses to offset future profits, reducing future tax liabilities.

Carryback

Some jurisdictions allow businesses to apply current losses to past profits, resulting in a tax refund.

Immediate Expensing

Certain investments in business assets can be immediately expensed, providing a tax deduction in the year of purchase rather than depreciating over several years.

Turning Business Setbacks into Tax Advantages

So I'm definitely not saying that you should try and lose money on purpose! But what I'm emphasizing is that if you do lose money, there are ways to make it work for your tax position. Also, if you actually have a very profitable year, in our tax planning sessions, we might recommend reinvesting your profits into the business in a specific way to create a paper loss, in order to make you more tax efficient.

Last-Minute Lifesavers
Amendments and Adjustments

When it's clear that a Taxpayer's situation is more complex than usual, we generally always recommend an extension first, to allow you enough time to gather everything necessary to maximize your tax position.

But another reason why filing an extension can be advantageous is the fact that it also extends your deadline to contribute to certain tax deferred accounts, in the current tax year, to reduce your tax liability for the previous year. So instead of having until April 15th to contribute to those accounts, you will in fact be able to do so all the way up until October 15th. That is gold! The Government basically allows us as Business Owners to first spend and reinvest all of our money throughout the year, before determining how much is left for us to pay taxes on, then gives us another 10 months in the current tax year, to make more money and reinvest it in a retroactive way to completely make any liabilities vanish. That's exciting.

Now let's assume that, like many of the clients who come to us at this time of the year, you actually filed your tax return too soon, prior to the April 15th tax deadline. We can now look at our second option, which is to open that tax return to make any potential corrections or adjustments.

The potential tax savings from amending a tax return can be substantial, so we always try to do a quick analysis of how much you could get back VS the cost of following through with a complete amendment to help you make that decision before we proceed.

Last-Minute Lifesavers

Amendments and Adjustments

To give you a quick example, a new client came to us this year with a need to get 3 years worth of tax returns filed: 2021, 2022 and 2023. But as part of our normal procedure, we requested a copy of his 2020 tax return to make sure that there were no items to carryover to his 2021 tax return.

This was a huge project, because he not only hired our Team to get his taxes caught up, he also needed his books done for the past 4 years (you won't believe the number of business owners who run their day to day operations without any bookkeeping in place).

After completing his accurate Financials for 2020, we discovered that the business had a loss of ($62,883) that year, instead of a previously reported and taxable business profit of $72,088. We suggested an amendment which completely wiped out the amount he owed and paid for that year, and got it filed before 04/15/24 **to get it all refunded to him in time.**

Conclusion

As you close this book, remember that the world of taxes is ever-evolving. What works this year might change the next. Therefore, partnering with the right Team of tax professionals who are continuously learning the nuances of the code and adapting, are your best tools in the quest to minimize your tax liability and maximize your financial health.

Our Team at Simplify My Numbers would love the opportunity to join you on your wealth journey and help you uncover things that may have been missed on your previous tax returns.

If you owe $5,000 or more on any tax returns filed for the three years preceding the reading of this book, here's a bonus link to our calendar to get those returns reviewed for potential changes. But make sure to act promptly, as this offer will only be active for the first 100 Taxpayers who take advantage of this offer:

30 Minute Tax Return Review