

## Extension Fact Sheet

# Tax Filing: Credits & Deductions



This fact sheet was developed by Lisa Leslie, UF/IFAS Hillsborough County Extension, 2012. Extension provides research-based community education. Financial management topics include developing a spending plan, financial goals, debt reduction, credit management, using financial institutions, and saving & investing for future goals. For more information contact Lisa Leslie at (813) 744-5519 x143 or [lesliel@hillsboroughcounty.org](mailto:lesliel@hillsboroughcounty.org)

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## **Tax Credits Vs Tax Deductions**

A tax credit is an item that reduces the actual amount of tax that you owe. For instance, if you owe \$100 and you apply a tax credit of \$20, the amount owed becomes \$80. Tax credits can be refundable or non-refundable. A non-refundable tax credit can reduce the amount of taxes you owe down to \$0. For example, if you owe \$200 and have a non-refundable tax credit of \$300, your tax liability will be reduced to \$0. The Savers Credit is an example of a non-refundable credit. A refundable tax credit can reduce your tax liability to less than \$0 and lead to you receiving more money back than you paid in taxes. So if you paid \$200 in taxes and had a refundable tax credit of \$300 you would receive a \$100 payment back from the government. The Earned Income Credit is an example of a refundable tax credit.

A tax deduction is an item that reduces your income. For example, if your income is \$40,000 and you have tax deduction of \$5,000 then your taxable income is reduced to \$35,000. How much this deduction will save you will depend on your tax rate. Your tax rate (also known as your tax bracket) is the maximum tax rate that the highest portion of your earnings are charged. As a general example - a person in the 25% tax bracket with a \$1,000 income deduction might save \$250 in taxes.

## **Tax Deductions: Should You Itemize?**

When we file taxes, the government allows filers to choose between taking a standard deduction or itemizing deductions. You cannot take both so the first thing to do is find out your standard deduction amount and then see if you have eligible items to take as itemized deductions and choose whichever is greater.

The standard deduction for filing taxes is based on filing status and is an amount set each year by the federal government. For the 2011 the standard deductions are:

- Single or \*Married Filing Separately - \$5,800
- Married Filing Jointly - \$11,600
- Head of Household - \$8,500
- If you are 65 or older or blind the standard deduction is increased.

\*When a married couple files separate returns and one spouse itemizes deductions, the other spouse cannot claim the standard deduction and therefore must itemize to claim their allowable deductions.

The main types of things we can itemize are mortgage interest, taxes paid, gifts to charity, casualty & theft losses, unreimbursed job expenses, and medical expenses. However, for medical expenses, they must be more than 7.5% of your adjusted gross income to be included as an itemized deduction. It is called itemizing because the items mentioned have to be listed on a form called a Schedule A. A great way to get a look at what can be itemized would be to download a Schedule A from [www.irs.gov](http://www.irs.gov)

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For many homeowners the first thing to check is mortgage interest. If the amount of mortgage interest that you paid is greater than or close to your standard deduction, then it is likely that it will be better to itemize. One word of caution - I have heard people say that it is best not to pay off a house because then you lose the deduction. While this may be the case in some situations it is not likely the case for many people. If you are looking for tax efficient ways to handle assets seek out an experienced tax adviser.

### **Above –the – line Deductions**

In addition to the standard deduction and itemized deductions, there are “above-the-line deductions.” These can be taken regardless of whether or not you itemize. The complete list of items that can be deducted are found on form 1040 in the adjusted gross income section. They are called above-the-line because they are subtracted from your total income and used to calculate your adjusted gross income which appears before the last line on page 1 of the 1040 & 1040A tax forms. Examples of some of above the line deductions for 2011 are student loan interest, tuition & fees, IRA deduction, health savings account deductions, and educator expenses. These are just some examples. In 2011, Form 1040A only allows for deductions for educator expenses, IRA deductions, student loan interest and tuition & fees. To see a full list of above-the-line deductions download form 1040 from [www.irs.gov](http://www.irs.gov)

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