

By KRIS FRIESWICK

Taxing Times

EVERYONE HATES PAYING TAXES. HERE ARE SOME DEDUCTIONS AND CREDITS THAT WILL EASE THE PAIN.

THE TAXMAN COMETH, and he taketh away a great big chunk of every paycheck. But there are ways to claw back a few dollars come tax season – if you know where to look.

First, don't miss the obvious breaks that are listed right on your Form 1040 – things like educator expenses, moving expenses (if, without a move, your new job would have added at least 50 miles to your commute), qualified tuition and fees, health saving account contributions, child care expenses (which include day camp expenses), and health insurance premiums if you're self-employed. If you aren't sure which ones you qualify for or how much you can claim, spend a few minutes downloading the IRS forms for each of the deductions (the form number for each is listed next to it on Form 1040), and read them carefully. The IRS offers free tax guidance online (irs.gov) and via telephone at 800-829-1040.

And now for the less obvious. Exhibit A: If you installed qualified energy efficient items in your own home, such as exterior doors,

windows, or an insulation system, you could get a tax credit worth up to \$500 (See Form 5695). If you bought a qualified hybrid car in 2007, you may also get a credit right off the top of your income tax owed (although not for all hybrids, so check the current list of qualified vehicles on the IRS website).

If you itemize, the tax breaks are even better. (To itemize, these deductions must exceed the standard deduction from adjusted gross income, known as the AGI, which ranges from \$5,350 to \$10,700, depending on how you file.) If you have a mortgage, you can probably itemize, since mortgage interest and, as of this year, mortgage insurance premiums on loans acquired in 2007 are itemized deductions. As with all deductions, you shouldn't try to claim any for which you were reimbursed by an employer or a client, or if you can't document the expense or your eligibility for it. Also, many of these breaks are subject to limits or shrink or even disappear if you exceed income thresholds.

The juiciest deductions are stashed away under the heading



ILLUSTRATION/VEDEL RODRIGUEZ

“miscellaneous itemized deductions.” These, in total, must exceed 2 percent of your adjusted gross income in order to take them, says Mark Trumfio, a tax director at Walter & Shuffain, a CPA firm in Norwood and Boston. You can only take the amount of these deductions that exceeds the 2 percent AGI figure. (For instance, if your

adjusted gross was \$57,000, and your miscellaneous deductions equal \$3,000, then you can claim a net deduction of \$1,860.)

Miscellaneous deductions include the cost of your tax preparation and investment counseling. You may also deduct the cost of many un-reimbursed job-related expenses, like professional organization fees, continuing education that improves your qualifications for your current job, renewing your passport for a business trip, subscriptions to professional journals, and job searches in your current profession. If you are required by your employer to use your personally owned cell phone or computer for job-related business, you may be eligible to deduct some of the depreciation on those items. You can take gambling losses (net of gambling winnings, all of which you must declare as income) and they are not subject to the 2 percent cap.

This is just the beginning of the breaks to which you may be entitled. It’s well worth the time to get comfy with a copy of Publication 529, which lists all the miscellaneous deductions available. A few minutes of uninterrupted study on irs.gov could shave your tax bill by hundreds, maybe thousands.

Kris Frieswick, who writes frequently about money, lives in Boston.

Avoid an Audit

Tempted to deduct your Vegas bachelorette party? Know the risks. The IRS often looks for these red flags when reviewing income taxes. Audits can be conducted via mail, office appointment, or – gasp – during a personal visit by an IRS agent.

- ✘ An occupation that often pays in cash, such as taxicab driver, hairdresser, or waitress.
- ✘ Businesses run by a single family, especially those reporting on Schedule C, since they often make all of the decisions and do their own record keeping.
- ✘ Returns claiming a home-office deduction.
- ✘ Big deductions for business travel and entertainment expenses.
- ✘ Business losses several years in a row.
- ✘ A major change in income compared with your prior tax returns.