

8 Legitimate Tax Loopholes You May Be Missing



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We've all heard a good lawyer joke. But did you know jokes about accountants can be just as popular? Have you heard your friends talking about how good their accountants are at finding deductions? This joke may be about them:

What is the definition of a “good tax accountant”? Someone who has a loophole named after them.



A “good tax accountant” also knows when and how to apply the Internal Revenue Code and its inherent loopholes to the benefit of their client – minimizing their tax burden and audit risk – all without violating the law.

As you reflect on the past year in preparation to meet with your accountant, instead of mulling over the prospect of whether or not you can deduct the cost of the pool you put in the backyard*, **consider these 8 Legitimate Tax Loopholes that may help you “dodge the taxman”** by legally avoiding or reducing your income taxes.

*Source: IRS, Unless it was a qualified medical expense.
<https://www.irs.gov/pub/irs-pdf/p502.pdf>

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01

Bad debts.

If someone owes you money that you can't collect, you may be able to take a bad debt deduction if you previously included the amount in your income or loaned out your cash and can show it is a valid debt (i.e. intended as a loan and not a gift).*



*Source: IRS, <https://www.irs.gov/taxtopics/tc453.html>

02

Capital gains tax rates.

The tax rate for most taxpayers is no higher than 15% when selling a capital asset (home, stocks, bonds) for a gain*, which can be significantly lower than the taxpayer's ordinary income tax rate.



*Source: IRS, <https://www.irs.gov/taxtopics/tc409.html>

03

Second home mortgage interest deduction.

You may be able to deduct the mortgage interest on the first \$750,000 of your mortgages between your primary and secondary home. If you bought your home prior to 2018, you may be eligible to deduct the interest on a mortgage larger than \$750,000. A qualified second home can include a house, condo, co-op, mobile home, house trailer, boat or similar property with sleeping, cooking and toilet facilities.



*Source: IRS, <https://www.irs.gov/newsroom/interest-on-home-equity-loans-often-still-deductible-under-new-law>

04

Rental income.

Did you list your home online as a rental option for short-term lodging but don't want to report the rental income? If you rent out your primary or second home for less than 15 days during the year, you do not need to include as income the amount of rent received.*



*Source: IRS, <https://www.irs.gov/pub/irs-pdf/p527.pdf>

05

Charitable gifts.

If you're charitably inclined, consider making a gift to a qualified organization as contributions are generally fully deductible to the extent that total contributions are less than 60% of your Adjusted Gross Income (AGI). If you're at least 70 1/2 and an IRA owner who doesn't need additional income, consider taking your required minimum distribution up to \$100,000 as a Qualified Charitable Distribution.*



*Source: IRS, <https://www.irs.gov/pub/irs-pdf/p526.pdf>

06

Pets.

While you can't typically deduct the costs associated with taking care of your family dog or cat, you may be able to deduct certain pet expenses depending on your situation. For example, you may be able to take a deduction for medical expenses if you require a service animal or a business expense deduction for farm animals or guard dogs.



07

State taxes.

Did you buy a new car, home or boat last year? You may be able to deduct from AGI state and local income taxes, general sales taxes, real estate taxes or personal property taxes up to \$10,000.*



*Source: IRS, <https://www.irs.gov/taxtopics/tc503.html>

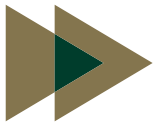
08

Retirement accounts.

One of the easiest ways to lower your tax burden is to maximize your contributions to tax deferred retirement accounts, such as an employer-provided 401(k) plan or Traditional IRA. The 401(k) contribution limit is \$18,500, but if you're over 50 years old, you can contribute an additional \$6,000. Watch out for income limits with respect to IRA contributions as the maximum \$5,500 contribution limit (plus an additional \$1,000 if you're over 50) is phased out at certain income levels.*



*Source: IRS, <https://www.irs.gov/newsroom/irs-announces-2018-pension-plan-limitations-401k-contribution-limit-increases-to-18500-for-2018>



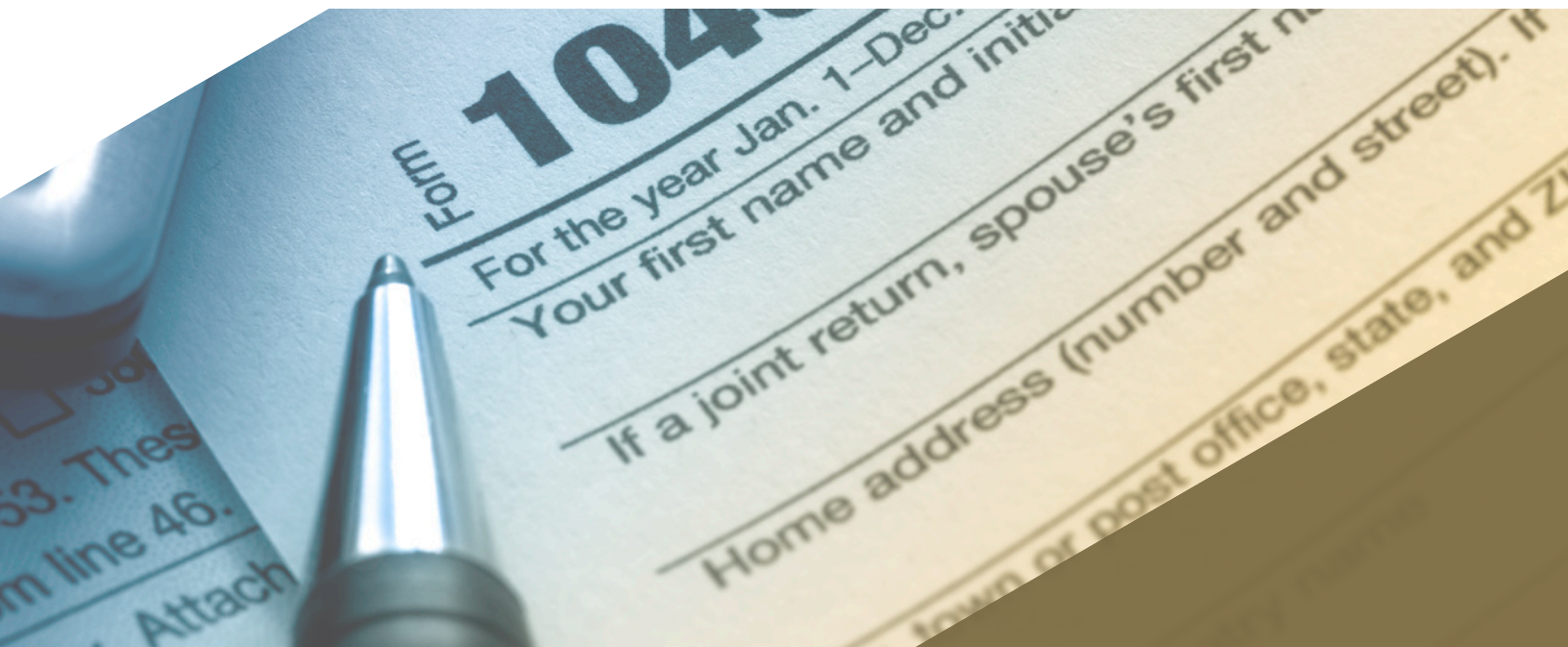
**Ready to talk?
Contact us today!**

Depending on your circumstances, there may be other loopholes your accountant can help you discover. **Take advantage of their wealth of knowledge this tax season and impress them with your own.** And next time you hear a joke about accountants, remember how much they may have helped you save over the years before laughing too hard.

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