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Ken Berry, JD • Mar. 28, 2014

With about two weeks to go in tax filing season, the procrastinators are finally starting to contact your office. Usually, they've postponed the inevitable because they fear they'll be entitled to only a miniscule refund or they will have to ante up to Uncle Sam.

But you can still "save the day" for clients by proposing some deft tax moves, including use of a number of special elections or strategies. Here are ten prime examples for many happy 2013 returns.

- **1. State tax deductions.** Unless you live in a state that doesn't have its own income tax, you face a choice on your 2013 tax return: Deduct your state and local income taxes or the state sales tax you paid. Figure out which one produces a bigger deduction. Note: You can add the sales tax paid on qualified big-ticket items – including boats, cars and homebuilding materials – to the IRS table amount, so that might tip the scales.
- 2. **Higher education expenses.** Clients may benefit from one of the tax credits for paying higher education expenses – the American Opportunity Tax Credit or the Lifetime Learning Credit – or a deduction for tuition and fees, but not both. Each of these tax breaks is subject to a phase-out based on modified adjusted gross income (MAGI). Again, you must crunch all the numbers to determine the best alternative for a client's situation.
- 3. **Home office deduction.** For the first time ever, the IRS approved a simplified method for deducting home office expenses on 2013 returns, up to a maximum of $1,500. In most cases, the solution is simple, too: Don't do it! Usually, deducting

actual home office costs and a percentage of overall household expenses, as well as

- 5. **SEP contributions.** A small business owner can use the same basic strategy as IRA holders with greater impact through a Simplified Employee Pension (SEP). For 2013, you can contribute up to the lesser of 25% of compensation or $51,000 ($56,500 if age 50 or over). The maximum compensation taken into account is $255,000. To top it off, you can wait until as late as October 15th to make a deductible contribution if you have a filing extension.
- 6. **Section 179 deductions.** If you placed qualified business assets in service in 2013, you're allowed to currently deduct, or "expense" up to $500,000 of the cost under Section 179 of the tax code. This generous write-off is reduced on a dollar-for-dollar basis above $2 million – not a problem for most small business owners. Caveat: The Section 179 deduction can't exceed your taxable business income.
- 7. **Bonus depreciation.** This is the cherry on top of the tax icing for some small business owners. For qualified assets placed in service in 2013, you can claim 50% bonus depreciation on any remaining balance after taking the Section 179 write-off. This extra tax break is especially beneficial for vehicles with limited first-year deductions due to the "luxury car" rules.
- 8. **Standard mileage rates.** In lieu of deducting actual expenses of driving a business car – or for medical, moving or charitable reasons – you can use a flat rate amount. The standard mileage rate for business driving in 2013 is 56.5 cents per mile; 24 cents per mile for medical and moving expenses; and 14 cents per mile for charitable travel. But your actual expenses will generally produce a bigger deduction if records are available.
- 9. **Investment interest.** As a general rule, you may deduct annual investment interest expenses up to the amount of net investment income. For this purpose, "net investment income" doesn't include capital gains. However, you can elect to include capital gains in the total — thus increasing your investment interest deduction – if you forego the favorable capital gains rate on certain gains. This election can made for as many or as few gains as needed.

- 10. **Joint vs. separate filing.** Despite the "marriage penalty," a married couple