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Dave DuVal • Aug. 18, 2017



(Image credit SeeYa: <https://seeya.com>.)

Each year during tax time the “most overlooked” tax deductions get a lot of press. And every year the lists include the same deductions, such as state sales tax, student loan interest, job hunting costs, and moving expenses.

The fact is, in my tax practice I've never overlooked these particular deductions, so I

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no income taxes, such as Washington, Florida, and Texas, among others.

There are three ways your clients can claim the state and local sales tax deduction. They can:

1. Claim the amount from an IRS table that provides amounts based on the taxpayer's location, income and exemptions;
2. Claim the amount from the table plus certain specific items such as a motor vehicle, a boat or a major home improvement; or
3. Claim actual sales taxes paid for all items.

The misunderstood part of this deduction comes into play when actual expenses are claimed, such as in option two or three above. One wrinkle to the rule is that, if the total sales taxes your client pays on a motor vehicle is higher than the general sales tax rate, they are allowed to include only the amount of tax they *would have* paid at the general sales tax rate. For boats and aircraft, if the sales taxes paid exceed the general sales tax rate, no deduction is allowed.

Student Loan Interest

The student loan interest deduction is an "above the line" adjustment to income, which means that your clients do not need to itemize to receive a deduction for the interest they pay on qualified student loans. But it can be difficult to qualify for the deduction due to the long list of requirements as well as the income phase-outs.

What complicates matters most are these three rules:

1. The taxpayer must be legally obligated to pay the interest.
2. A dependent is not allowed to claim the deduction on their own tax return.
3. The student was enrolled at least half-time in a program leading to a degree, certificate, or other recognized educational credential.

It is often the case that the student loan interest deduction is not allowed when the

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parents make the payments, as the rule allows the deduction when someone else makes a payment of interest on the behalf of the student. The student is then treated as receiving the payments from the other person and, in turn, paying the interest.

Mortgage Refinancing Points

The general rule is, points your clients pay to refinance an existing mortgage are not deductible in full in the year they pay them. Instead, refi points must be amortized over the life of the loan.

But there's an exception to this general rule when your client uses a portion of the proceeds from the refinancing of their principal residence to improve the home (and the points were paid at the time of refinance). When this is the case, your clients are allowed to deduct the portion of the points they paid that are allocable to the improvement of the home.

When points are amortized over the life of the loan, your clients can deduct any remaining points in the year the mortgage is paid off. That said, a deduction for remaining points is not allowed when your client's mortgage is refinanced with the same lender, but must be re-amortized over the life of the new loan.

As tax and accounting professionals, we know that most deductions have complicated rules. These three tax breaks require perhaps just a bit more analysis to ensure we apply them correctly for our clients.

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