

Straight Talk on Above-the-line Deductions

Tax professionals often speak about deductions that are “above” or “below” the line. In this case, the “line” is the point for determining adjusted gross income (AGI). The types of expenses generally associated with tax deductions—such as charitable donations and mortgage interest—are deducted below the line after being transferred from Schedule A. But “above-the-line deductions” are more valuable than Schedule A deductions because they reduce AGI for other tax purposes. Also, these deductions may be claimed by non-itemizers.

Which expenses are deductible above the line? Here are a few common examples:

Tuition deduction: If a taxpayer falls below certain income limits, he or she may deduct up to \$4,000 of the tuition and fees paid for postsecondary school education. The \$4,000 write-off is available for single filers with a modified AGI (MAGI) up to \$65,000; \$130,000 for joint filers. Single filers can claim a \$2,000 deduction if they have a MAGI up to \$80,000; \$160,000 for joint filers. Caveat: This deduction cannot be claimed in conjunction with a higher education tax credit.

IRA contributions: The rules limiting IRA deductions based on the amount of income apply only to active participants in employer-sponsored retirement plans. In that case, deductions for 2011 returns are phased out for single filers with a MAGI between \$56,000 and \$66,000; \$90,000 and \$110,000 for joint filers if both spouses are active participants. If only one spouse is an active participant, the deduction for joint filers is phased out between \$169,000 and \$179,000 of MAGI.

Student loan interest: A taxpayer who is legally obligated to pay off a student loan for higher education can deduct up to \$2,500 of interest on his or her tax return. This deduction is phased out for a single filer with a MAGI between \$60,000 and \$75,000; \$120,000 and \$150,000 for joint filers. Note: A child taking this deduction cannot be claimed as someone else’s dependent.

Moving expenses: Job-related moving expenses are deductible if a two-part test is passed: (1) The commute from the old home to the new workplace must be 50 miles farther than the commute from the old home to the old workplace. (2) The taxpayer is generally required to stay at the new job for at least 39 weeks of the next 12 months. If an individual qualifies, he or she can deduct the cost of transporting household goods and personal effects plus travel and lodging costs (but not meals) en route to the new home.

Self-employment tax breaks: If a taxpayer is self-employed, he or she may be able to claim several tax deductions above the line. This includes 50% of the self-employment tax the taxpayer is required to pay and 100% of health insurance costs and qualified retirement plan contributions. For example, a self-employed individual may deduct annual contributions to one of the “simplified” retirement plans allowed by law within generous limits.

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Caution: This list is certainly not all-inclusive. Obtain professional assistance to maximize deductions on 2011 returns.