

Common Deductions/Credits

Below is a list of some of the most common deductions and credits when filing for federal taxes. It is important to note that this list is subject to change and is dependent on government policy. These are not all the available deductions and credits, but only some of the most common. Please note this is not legal advice; not all of these deductions or credits will apply to every single situation.

A deduction reduces the amount of income you need to report, while a credit reduces the amount of tax you owe, or if you have no tax liability (you owe no tax), may provide you with a tax refund.

1. Earned Income tax credit

- To qualify for the EITC in 2023, you must:
 - i. Have worked and earned income under \$59,187
 - ii. Have investment income below \$10,300 in the tax year 2022
 - iii. Have a valid Social Security number by the due date of your 2022 return
(including extensions)
 - iv. Be a U.S. citizen or a resident alien all year
 - v. Not file Form 2555, Foreign Earned Income
 - vi. Meet certain rules if you are separated from your spouse and not filing a joint tax return
- Essentially, the EITC applies to individuals/households below an income threshold. It provides a refundable credit to those who qualify, **meaning that you might receive money back if you have no tax liability.** The EITC amount also

changes depending on if you have qualifying children, and the number of qualifying children you have. It also changes depending on your filing status.

- For more information, visit <https://www.irs.gov/credits-deductions/individuals/earned-income-tax-credit-eitc>
- For assistance with your EITC status, visit <https://www.irs.gov/credits-deductions/individuals/earned-income-tax-credit/use-the-eitc-assistant>

2. Mortgage interest deduction

- The mortgage interest deduction applies to interest payments on a mortgage taken out on a house. You can deduct all interest payments you make on a loan secured (or backed) by your house, so long as the value of the mortgage is \$750k or below.
- This deduction aims to make your monthly mortgage payments more bearable, as your payments on the interest are removed from your income.
- Your mortgage **MUST** be secured by your home
- For more information, visit <https://www.irs.gov/pub/irs-pdf/p936.pdf>

3. Child tax credit

- The child tax credit offers a credit generally worth around \$2k for each child under the age of 17 with a valid Social Security Number (Note: You do not need to be a citizen; if you are a resident alien you still qualify).
- Household income must be under \$200k, if only one parent is filing, or \$400k if parents are filing jointly.
- There is no limit to the amount of children you can claim credits for (IE: if you have eight children you can claim this credit eight times).

- For more information, visit <https://www.irs.gov/credits-deductions/individuals/child-tax-credit>

4. Childcare credit

- If you have to pay for the care of a qualifying individual (generally a dependent younger than 13, or someone who cannot care for themselves) so that you can work or look for work, you might be eligible for this credit
- The credit is based on your income and a percentage of expenses you incur for the care of the person
- For more information, visit <https://www.irs.gov/credits-deductions/individuals/child-and-dependent-care-credit-information>

5. American Opportunity Tax Credit (AOTC)

- This is a credit for education expenses for a student for the first four years of qualifying higher education (education beyond high school). Students must be pursuing a degree or other recognized education credential.
- To receive the full credit, your modified adjusted gross income must be \$80k or less (if filing alone; if filing jointly income must be less than \$160k). You can still receive a portion of the credit if your modified adjusted gross income is under \$90k.
- The credit is worth up to \$2500 per year. If you do not owe any tax, you can have 40% of any remaining amount of the credit (up to \$1k) refunded to you.
- **IMPORTANT:** You cannot claim both the AOTC and the LLC for the same student.

- For more information, visit <https://www.irs.gov/credits-deductions/individuals/aotc>

6. Lifetime Learning Credit (LLC)

- This is a credit for education expenses for higher education. Unlike the AOTC, there is no limit to the amount of years you can claim this credit. It is worth up to \$2k per tax return.
- To receive the full credit, your modified adjusted gross income must be less than \$80k. You can still receive a portion of the credit if your modified adjusted gross income is under \$90k.
- In contrast to the AOTC, students do not need to be pursuing a degree or other recognized education credential, but simply need to be taking secondary education or seeking to acquire or improve job skills.
- IMPORTANT: You cannot claim both the AOTC and the LLC for the same student.
- For more information, visit <https://www.irs.gov/credits-deductions/individuals/llc>

7. Student loan interest deduction

- Students may deduct the lesser of \$2500 or the amount of interest paid on qualifying student loans during the year.
- A qualifying student loan is a loan you took out solely to pay qualified higher education expenses that were:
 - i. For you, your spouse, or a person who was your dependent when you took out the loan;

ii. For education provided during an academic period for an eligible student;
and

iii. Paid or incurred within a reasonable period of time before or after you
took out the loan.

- For more information, visit <https://www.irs.gov/taxtopics/tc456>

8. Self-employment expenses

- If you are self-employed, you can deduct ordinary and necessary business expenses. In addition, you can deduct certain other business expenses.
- For more information, visit https://www.irs.gov/publications/p535#en_US_2020_publink100078332 for a thorough guide on business deductions.

9. Medical expenses deduction

- You can deduct unreimbursed medical expenses that exceed 7.5% of your adjusted gross income. For example, if your adjusted gross income is \$10k, you could deduct unreimbursed expenses after the first \$750.
- For more information, visit <https://www.irs.gov/taxtopics/tc502>

10. Retirement deductions

- Certain contributions to retirement accounts are deductible from income.
- For more information, including the limit on deductible amounts, visit <https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-ira-contribution-limits>