12 Common Tax Write-Offs You Can Claim On Your Taxes

Ellen Chang, Kemberley Washington
Contributor, Forbes Advisor Staff
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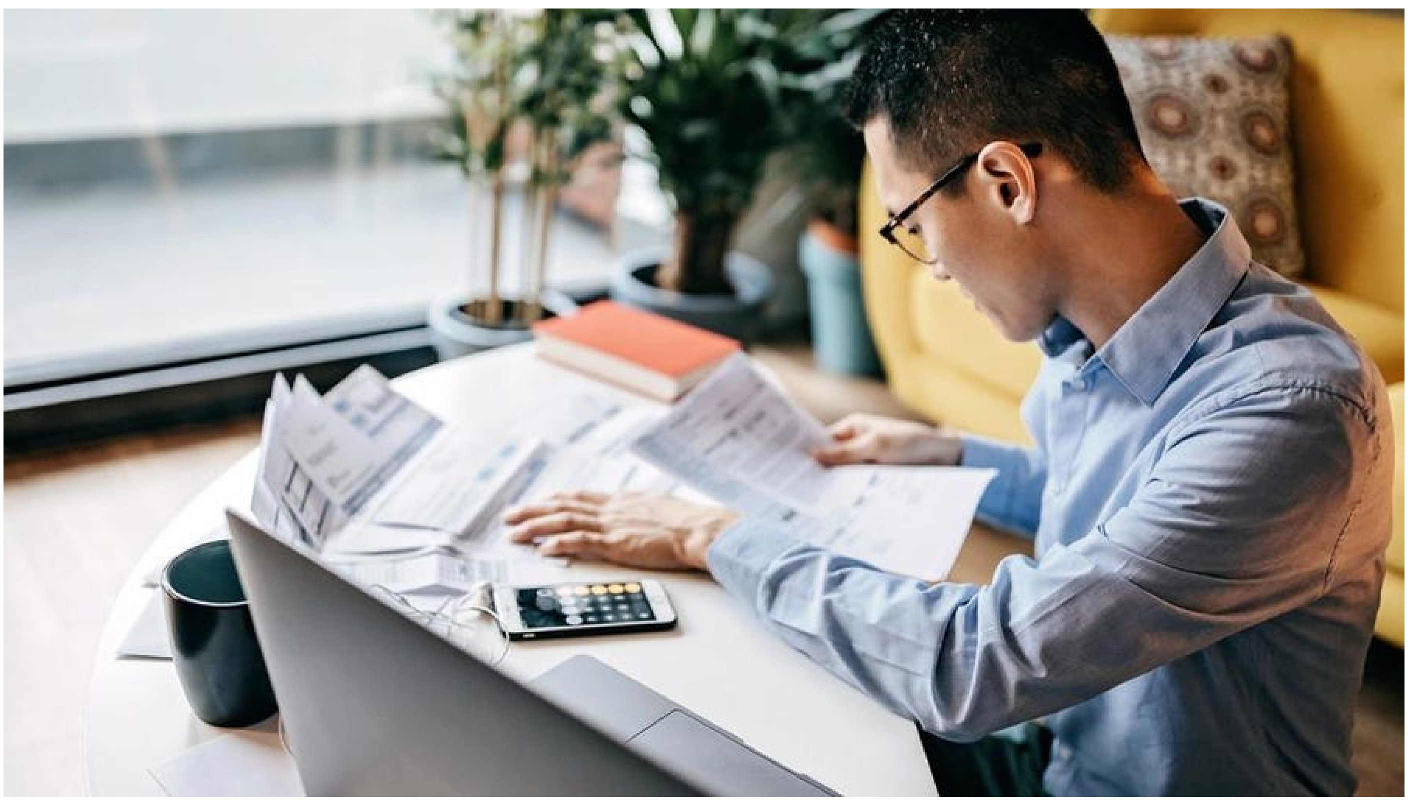

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Taxpayers may be able to take advantage of numerous deductions and credits on their taxes each year that can help them pay a lower amount of taxes—or receive a refund from the IRS.

You may be able to write off the following twelve common write-offs, which include both tax credits and deductions. Additionally, you may be entitled to write-offs on your state taxes, so check your state tax department's website to see if you qualify.

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1. Property Taxes

Under the Tax Cuts and Jobs Act (TCJA), all state and local income taxes (SALT), including property taxes, are limited to $10,000 in deductions.

2. Mortgage Interest

The interest you pay for your mortgage can be deducted and is limited to interest on $750,000 of your mortgage or less ($375,000 for married filing separate taxpayers) of mortgage debt incurred after Dec. 15, 2017. If you have a mortgage bigger than $750,000—say, $900,000— any interest you pay on the $150,000 above the $750,000 threshold isn't deductible.

3. State Taxes Paid

You can deduct state income taxes that are paid, but it is limited to up to $10,000, which includes all deductible state and local taxes.

4. Property Deductions

You can deduct mortgage insurance premiums, mortgage interest, and real estate taxes that you paid during the year for your home.

5. Charitable Contributions

Generally, you can deduct charitable contributions of cash of up to 60% of your adjusted gross income (AGI). Donations of items or property are also considered charitable contributions.

For 2021, the CARES Act allows people who donated money to qualifying charitable organizations to take a deduction of up to $300 (up to $600 for married filing joint taxpayers)—even if you don't itemize for the year.

For 2021, you can deduct 16 cents a mile for medical purposes such as driving to doctors' or hospital appointments. If you file Form 1040, you can only deduct the amount of your medical and dental expenses that are more than 7.5% of your AGI.

The expenses must have been paid in 2021, unless they were charged to a credit card (in which case you can deduct the expense in the year you charged the card, and not necessarily the year in which you repaid it).

7. Lifetime Learning Credit Education Credits

The Lifetime Learning Credit allows people to take credits for taking classes at a community college, university or other higher education institutions. The maximum amount of expenses you can deduct is up to $10,000 for an unlimited number of years. However, the maximum you can receive as a credit is $2,000 per tax return.

The credit allows for a dollar-for-dollar reduction on the amount of taxes owed. The expenses can include tuition, fee payments and required books or supplies for post-secondary education for yourself, spouse or dependent child. The credit is not refundable, which means the credit can be used to pay any taxes you owe, but you can't receive any of it as a refund.

The 2020 credit amount begins to decrease if your modified adjusted gross income (MAGI) is over a certain threshold ($59,000 if single or $118,000 if married, filing jointly). The credit is not available once your income exceeds certain amounts ($69,000 for single, $138,000 for married, filing jointly). The IRS has yet to announce the thresholds for the 2021 tax year.

Note: This credit can't be claimed in the same year as the American Opportunity Tax Credit if the expenses are claimed as the Lifetime Learning Credit.

8. American Opportunity Tax Education Credit

The American Opportunity Tax Credit gives tax credits for the first four years of higher education. The maximum annual credit is $2,500 for each eligible student. If the amount of taxes you owe is zero because of this credit, the IRS says 40% of any remaining amount of the credit (a maximum of $1,000) can be refunded to you.

The credit is worth 100% of the first $2,000 of qualified education expenses paid for each eligible student and 25% of the next $2,000 of qualified education expenses.

"If you, your spouse, or child are in school, make sure to look deeper into education credits," says Daniel Fan, managing director, head of wealth planning at First Foundation Advisors, an Irvine, Qualifying expenses include tuition, fee payments and required books or supplies for post-secondary education for yourself, spouse or dependent child.

The 2020 credit is reduced if your modified adjusted gross income is between $80,000 but less than $90,000 for a single filer and $160,000 but less than $180,000 if married filing jointly. This credit can't be claimed the same year that the Lifetime Learning Credit is claimed. The IRS has yet to announce the thresholds for the 2021 tax year.

9. Retirement Credits

The contributions you make to a retirement plan such as a 401(k) plan or traditional or Roth IRA gives you a tax credit of 50%, 20% or 10%, depending on your adjusted gross income that you report on Form 1040. Any rollover contributions do not qualify for the credit.

The maximum contribution amount that qualifies for the credit is $2,000 ($4,000 if married filing jointly), making the maximum credit $1,000 ($2,000 if married filing jointly). The IRS has a chart to help you calculate your credit.

10. IRA Contributions

The maximum contribution for 2021 in a traditional or Roth IRA is $6,000, plus another $1,000 for people who are 50 years old or more. Your contributions to a traditional IRA are tax deductible.

11. Self-Employed Health Care Premiums

If you're self-employed, you can deduct 100% of the health insurance premiums that you pay monthly for yourself, your spouse and your dependents whether or not you itemize deductions, says Robert Charron, a CPA in charge of the tax department at Friedman, a New York-based accounting firm.

If you have kids under 27 at the end of 2021, you can also deduct their premiums—even if they aren't dependents.

However, you can't claim this deduction if you're eligible to participate in a subsidized health plan from an employer of either you, your spouse, dependents, or kids under 27.

12. Student Loan Interest

The maximum student loan interest deduction is $2,500. If you are single and your AGI is over $80,000 or you are married filing jointly, and your AGI is over $165,000, you can't deduct your student loan interest.

The standard deduction is an automatic deduction of your taxable income that you can receive without doing any itemized deductions.

If you're trying to decide whether to use the standard deduction amount or try to get more by doing itemized deductions, it is important to remember that under former President Donald Trump, a new tax law was introduced called the Tax Cuts and Jobs Act (TCJA) starting in tax year 2018. This act "significantly raised the standard deduction amount for both households filing together and single individuals filing alone," Fan says.

For the 2021 tax year (filed in 2022), the standard deduction amounts are:

- $12,550 for single and married filing separate taxpayers
- $18,800 for head of household taxpayers
- $25,100 for married filing jointly or qualifying widow(er) taxpayers

Before the TCJA was passed in 2017, the amount was $6,350 for single filers and $12,700 for married filing jointly.

"Since the standard deduction amounts rose so much, it does make it harder for people to have enough expenses to be able to itemize deductions," he says.

Tips for Writing Off Contributions on Your Taxes

Keeping a good record of your contributions and expenses in a spreadsheet throughout the year can make filing taxes a lot quicker and easier.

"Preparing and organizing everything for your taxes can seem like a daunting task, but a lot of people come across the same common mistakes," Fan says. "Don't forget to always include all sources of income, make sure you are looking for and including all possible deductions, and understand the difference between a deduction and a credit."

Some common mistakes that people make include the following, Fan says:

- Not listing all income
- Not accounting for all possible deductions
- Not fully understanding the difference between deductions and credits
- Not taking advantage of contributions to retirement accounts to increase tax deductible contributions.

To see if you could possibly itemize your deductions, add up the ones which will likely result in the largest deduction, including:

- Mortgage interest deduction
- Charitable deduction
- State and local income taxes (includes property tax and state income tax, capped at $10,000)

“If these amounts are not close to the standard deduction amount, then you will likely need to take the standard deduction amount, which is normally the automatically provided amount,” Fan says.

If you are filing taxes with several deductions, start by gathering all the appropriate paperwork, such as Form 1098 for mortgage interest rate deductions. For other deductions, which are based on expenses or contributions, keep accurate records.

“If you itemize your deductions, then keep track of qualified medical expenses, charitable contributions made, or any other deductions which can be itemized,” he says. “If you are likely to take the standard deduction then record keeping will not be as important.”

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