

Don't Miss Out on Above-the-line Deductions

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Not all tax deductions are created equal. In contrast to deductions claimed by itemizers after adjusted gross income (AGI) has been calculated—such as deductions for charitable donations and mortgage interest—other deductions are available prior to the AGI calculation (i.e., “above the line” on Form 1040). Therefore, they can help you reduce your tax liability on your return in other ways.

There are plenty of opportunities for above-the-line deductions on 2010 returns. Here are several examples:

Tuition deduction: If certain requirements are met, you can deduct as much as \$4,000 of tuition and related fees paid for higher education. The \$4,000 deduction is available for single filers with an AGI up to \$65,000; \$130,000 for joint filers. Otherwise, single filers can claim a \$2,000 deduction for an AGI up to \$80,000; \$160,000 for joint filers.

Self-employment taxes: If you are a self-employed individual, you may claim several tax deductions above the line. This includes 50% of the required annual self-employment tax and 100% of health insurance coverage. Similarly, you can deduct your annual contributions to a qualified retirement plan—such as a Simplified Employee Pension (SEP)—within generous limits.

IRA contributions: You may be able to deduct IRA contributions unless you actively participate in an employer-sponsored retirement plan. In that case, deductions for the 2010 tax year are phased out for single filers with an AGI between \$56,000 and \$66,000; \$89,000 and \$109,000 for joint filers if both spouses are active participants. If only one spouse is an active participant in an employer plan, the deduction is phased out for an AGI between \$167,000 and \$177,000.

Alimony: The alimony you are required to pay to an “ex” is generally tax-deductible if certain conditions are met. For example, the alimony must be paid under a decree of divorce or legal separation agreement, written separation agreement or decree of support. Note: Alimony payments are taxable to the recipient.

Moving expenses: If you make a job-related move, you can deduct moving expenses under two conditions:

1. The new job is 50 miles farther from your old home than your old workplace was from your old home.

2. You stay at the new job for at least 39 weeks of the next 12 months. Assuming you qualify under these two tests, you can deduct the cost of transporting household goods and personal effects, plus related travel and lodging expenses (but not meals).

Student loan interest: A taxpayer who is paying off a student loan for higher education may deduct up to \$2,500 of the interest on his or her tax return. For 2010, this deduction is phased out for a single filer with an AGI between \$60,000 and \$75,000; \$120,000 and \$150,000 for joint filers. Your child can deduct the interest on any portion of the loan you repay as long as he or she cannot be claimed as your dependent.

Be aware that this is not the complete list of above-the-line deductions. For more information, contact your Henry & Horne, LLP tax adviser.

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