WEBVTT

1

00:00:02.895 --> 00:00:03.765

Hello everyone.

2

00:00:04.115 --> 00:00:05.885

Welcome to your self-study course.

3

00:00:06.415 --> 00:00:09.085

Thank you for choosing my CPE one as your partner

4

00:00:09.185 --> 00:00:10.525

for continuing education.

5

00:00:11.105 --> 00:00:13.925

To avail your credit certificate, it is required for you

6

00:00:13.945 --> 00:00:15.325

to complete the entire video.

7

00:00:15.705 --> 00:00:17.565

Please do not fast forward the video,

8

00:00:18.035 --> 00:00:20.205

otherwise the system won't be able

9

00:00:20.205 --> 00:00:21.485

to capture your watch time.

10

00:00:21.945 --> 00:00:24.525

If you cannot go through the entire video in one go,

11

00:00:24.865 --> 00:00:26.245

you can always come back later

12

00:00:26.265 --> 00:00:27.845

and pick up from where you left off.

13

00:00:29.265 --> 00:00:31.405

Please note that you must answer all the

14

00:00:31.405 --> 00:00:32.765

review questions correctly.

15

00:00:34.145 --> 00:00:35.965

To access the final quiz, you'll need

16

00:00:35.965 --> 00:00:37.245

to watch the entire video.

17

00:00:38.565 --> 00:00:42.325

A minimum score of 70% on the final quiz is required

18

00:00:42.325 --> 00:00:43.565

to earn your certificate.

19

00:00:43.985 --> 00:00:45.685

The handout material is available

20

00:00:45.825 --> 00:00:47.845

for download in the designated section.

21

00:00:48.505 --> 00:00:51.085

If you have any technical questions, feel free

22

00:00:51.085 --> 00:00:53.925

to email us at support@myccp.com. Happy

23

00:00:54.165 --> 00:00:56.725

Learning and thank you for choosing my CPE one.

24

00:01:02.325 --> 00:01:04.485

I wanna start off as I usually do

25

00:01:04.485 --> 00:01:07.045

with some learning objectives for today, so

26

00:01:07.045 --> 00:01:10.325

that we all are on the same page as to why we are here.

27

00:01:11.185 --> 00:01:15.445

Um, and in order to understand how, um,

28

00:01:15.705 --> 00:01:18.165

tax deductions reduce taxable income

29

00:01:18.265 --> 00:01:21.325

and how credits reduce the tax, we need

30

00:01:21.325 --> 00:01:25.045

to understand the federal income tax formula, which many

31

00:01:25.065 --> 00:01:26.485

of us learned back in

32

00:01:27.025 --> 00:01:29.525

the day when we first took our first tax force.

33

00:01:30.265 --> 00:01:31.525

But we'll just review it

34

00:01:31.705 --> 00:01:34.085

and that'll help us understand

35

00:01:34.145 --> 00:01:36.565

how deductions reduce taxable income.

36

00:01:37.535 --> 00:01:40.605

We'll be able to differentiate between deductions

37

00:01:40.665 --> 00:01:44.405

and credits and why there is a big difference between them.

38

00:01:45.625 --> 00:01:48.495

We'll know how deductions affect various parts

39

00:01:48.555 --> 00:01:49.735

of the tax formula.

40

00:01:53.375 --> 00:01:57.005

We'll also introduce credits that we may not be aware of

41

00:01:57.115 --> 00:02:00.485

that became available with recent tax legislation.

42

00:02:01.415 --> 00:02:02.805

We'll learn how deductions

43

00:02:02.805 --> 00:02:05.605

and credits affect the alternative minimum tax,

44

00:02:06.825 --> 00:02:10.125

and then we'll introduce strategies using the deductions

45

00:02:10.145 --> 00:02:13.085

and credits to reduce tax liability.

46

00:02:19.285 --> 00:02:21.825

The first thing I wanna look at is the tax formula.

47

00:02:22.045 --> 00:02:24.785

And again, I think many of you are familiar with this.

48

00:02:25.005 --> 00:02:29.625

It was on the cover of every tax book you ever picked up,

49

00:02:30.405 --> 00:02:31.745

but let's just go through it

50

00:02:31.745 --> 00:02:35.145

because it, it's helpful to review.

51

00:02:36.645 --> 00:02:38.625

So we start off with gross income,

52

00:02:38.835 --> 00:02:40.865

which is income from all sources,

53

00:02:41.055 --> 00:02:44.665

however, derived, there are a few, some exclusions

54

00:02:44.665 --> 00:02:46.465

that don't go into gross income.

55

00:02:46.935 --> 00:02:49.425

They are not deductions, they don't go on,

56

00:02:49.895 --> 00:02:51.065

they're not part of the formula.

57

00:02:51.935 --> 00:02:53.385

They never get to the formula.

58

00:02:53.685 --> 00:02:55.625

So things like inheritances

59

00:02:55.645 --> 00:02:58.945

and gifts are not gross income for tax purposes

60

00:03:00.305 --> 00:03:04.845

or interest of, of municipal bonds are not in, are not part

61

00:03:04.845 --> 00:03:08.905

of gross income, but gross income is everything else

62

00:03:09.525 --> 00:03:10.785

unless there's some kind

63

00:03:10.785 --> 00:03:13.345

of provision in the tax law against it.

64

00:03:14.365 --> 00:03:18.015

Now, when people say to me, I found a, um,

65

00:03:18.535 --> 00:03:21.335

a hundred dollars bill and the sidewalk

66

00:03:21.715 --> 00:03:25.695

and I kept it, um, well, you just increased genetic income

67

00:03:26.435 --> 00:03:29.775

and there's no exclusion, um, that I say, well,

68

00:03:29.785 --> 00:03:30.815

who's gonna report that?

69

00:03:30.845 --> 00:03:33.535

Well, that's not for me to say.

70

00:03:34.365 --> 00:03:37.655

Ethically, I will tell you that it's supposed to be reported

71

00:03:37.835 --> 00:03:39.015

and it is gross income

72

00:03:39.355 --> 00:03:41.815

and there's no exception for finding things.

73

00:03:41.915 --> 00:03:44.335

That's finding you find something

74

00:03:44.795 --> 00:03:47.655

and increases your net worth is part of gross income.

75

00:03:49.845 --> 00:03:52.745

We have different types of deductions from gross income

76

00:03:53.005 --> 00:03:57.425

and the one that has the best most benefit

77

00:03:57.605 --> 00:03:59.065

to us, and it's not a choice.

78

00:04:00.125 --> 00:04:02.945

It either is for adjusted gross income

79

00:04:03.445 --> 00:04:05.345

or from adjusted gross income.

80

00:04:06.215 --> 00:04:08.145

What if for adjusted gross income,

81

00:04:09.245 --> 00:04:10.705

we will find out in a little while,

82

00:04:10.765 --> 00:04:14.225

but basically for adjusted gross income

83

00:04:14.405 --> 00:04:17.785

or things like moving expenses for

84

00:04:18.585 --> 00:04:19.585

military personnel.

85

00:04:20.325 --> 00:04:24.945

But more important are IRAs SEP plans, um,

86

00:04:25.165 --> 00:04:29.545

and other types of pension plans, um, that are deductions

87

00:04:29.605 --> 00:04:34.255

for a GI from a GI, we have

88

00:04:34.255 --> 00:04:37.535

to deduct are deduct are itemized deductions.

89

00:04:38.405 --> 00:04:43.085

Our itemized deductions are medical expenses,

90

00:04:43.575 --> 00:04:46.485

charitable deductions, mortgage interest.

91

00:04:46.495 --> 00:04:49.165

Those are the basic deductions.

92

00:04:49.895 --> 00:04:51.985

When you add those up, they have

93

00:04:51.985 --> 00:04:54.225

to exceed the standard deduction

94

00:04:55.005 --> 00:04:57.385

or you're going to use the standard deduction.

95

00:04:58.435 --> 00:05:01.185

We'll go, we'll talk more about that when we get

96

00:05:01.245 --> 00:05:04.225

to the atomized deductions and standard deduction.

97

00:05:04.805 --> 00:05:09.135

The important thing to remember here is that if

98

00:05:09.745 --> 00:05:12.945

something is deductible for a GI

99

00:05:14.025 --> 00:05:15.715

like iris and set plans

100

00:05:15.815 --> 00:05:20.635

and so forth, then you can also take

101

00:05:20.655 --> 00:05:21.875

the standard deduction.

102

00:05:22.565 --> 00:05:26.735

However, itemized deductions, if you itemized deductions,

103

00:05:27.105 --> 00:05:28.735

don't exceed the standard deduction,

104

00:05:29.195 --> 00:05:31.815

you will not take the itemized deductions.

105

00:05:32.315 --> 00:05:34.895

That's where that a little bit more as we get along.

106

00:05:35.805 --> 00:05:39.375

Then there is for self-employed people, for business people,

107

00:05:40.215 --> 00:05:43.055

a deduction for qualified business income.

108

00:05:43.715 --> 00:05:47.615

That's a 20% automatic deduction from the gross income

109

00:05:48.435 --> 00:05:53.015

of a Schedule C or partnership, um, business

110

00:05:53.755 --> 00:05:54.815

or S corporation.

111

00:05:56.035 --> 00:05:59.845

Um, and that brings you down to taxable income.

112

00:06:00.145 --> 00:06:02.685

And those I've said so far, nothing about credits.

113

00:06:03.585 --> 00:06:05.875

Credits don't reduce taxable income,

114

00:06:06.925 --> 00:06:08.705

but then you apply the tax rates

115

00:06:08.845 --> 00:06:11.025

and that gives you your income tax liability.

116

00:06:12.245 --> 00:06:15.265

And then you see down below minus credits.

117

00:06:16.005 --> 00:06:19.265

You take your credits after you get your total tax.

118

00:06:20.335 --> 00:06:22.555

The amount of the credit doesn't depend on

119

00:06:22.555 --> 00:06:23.595

the amount of the tax.

120

00:06:24.815 --> 00:06:28.155

So credits are 100% deductible, like

121

00:06:28.725 --> 00:06:30.075

offsetting the tax.

122

00:06:30.775 --> 00:06:33.075

So if your tax liability comes out to 10,000

123

00:06:33.615 --> 00:06:35.555

and you have credits of 10,000,

124

00:06:36.135 --> 00:06:37.875

you will have no tax liability.

125

00:06:40.575 --> 00:06:45.195

So keep this formula in mind as we go through the, um,

126

00:06:45.745 --> 00:06:46.875

rest of the slides.

127

00:06:49.105 --> 00:06:53.005

So moving on, let's talk about deductions in general.

128

00:06:54.635 --> 00:06:58.255

So unlike gross income where I said

129

00:06:58.285 --> 00:07:00.695

that gross income is income,

130

00:07:00.915 --> 00:07:04.855

unless you can find an exception, goes the other way

131

00:07:04.855 --> 00:07:09.735

with deductions, there has to be a specific, um,

132

00:07:10.105 --> 00:07:13.135

place in the, in the tax law

133

00:07:13.685 --> 00:07:15.175

that allows a deduction.

134

00:07:16.675 --> 00:07:19.895

So there's no constitutional right to a deduction.

135

00:07:20.725 --> 00:07:24.915

Deductions, a matter of legislative grace allowed solely

136

00:07:25.055 --> 00:07:26.475

by the discretion of Congress.

137

00:07:27.935 --> 00:07:30.675

The value of a deduction depends on the tax

138

00:07:30.675 --> 00:07:31.915

bracket of the taxpayer.

139

00:07:32.955 --> 00:07:35.905

We'll be discussing the deductions that are allowable.

140

00:07:36.845 --> 00:07:39.735

They may yet be always be able to be utilized,

141

00:07:39.875 --> 00:07:41.695

and we'll talk about what that means.

142

00:07:41.795 --> 00:07:43.735

In other words, when someone says

143

00:07:43.735 --> 00:07:46.015

to you a charitable contribution's deductible,

144

00:07:46.275 --> 00:07:47.535

the answer is yes, they are,

145

00:07:48.715 --> 00:07:50.015

but you may not be able

146

00:07:50.015 --> 00:07:53.175

to utilize them if they don't exceed along

147

00:07:53.175 --> 00:07:55.095

with the other itemized deductions,

148

00:07:55.515 --> 00:07:57.695

if they don't exceed the standard deduction.

149

00:08:04.145 --> 00:08:07.685

So deductions are not need to be,

150

00:08:08.185 --> 00:08:11.485

not necessarily need to be identified specifically.

151

00:08:12.785 --> 00:08:16.125

Um, some are specifically allowed despite the fact

152

00:08:16.125 --> 00:08:18.605

that they don't meet any general criteria,

153

00:08:20.185 --> 00:08:24.085

and the cost of living are generally not deductible.

154

00:08:24.745 --> 00:08:27.605

So while the cost of earning a living are ordinarily

155

00:08:27.815 --> 00:08:30.915

deductible in full, the cost of,

156

00:08:31.575 --> 00:08:34.195

of living in general are not deductible.

157

00:08:35.095 --> 00:08:39.195

So personal expenses are almost never deductible.

158

00:08:47.875 --> 00:08:49.215

We planning

159

00:08:49.405 --> 00:08:53.615

with these deductions depends on the time value of money.

160

00:08:53.915 --> 00:08:57.605

In other words, what's the real difference if I take a

161

00:08:57.605 --> 00:08:59.605

deduction this year or next year?

162

00:09:00.535 --> 00:09:02.635

The rather, the, the reality is,

163

00:09:02.635 --> 00:09:04.235

if I'm gonna be in the same bracket,

164

00:09:05.015 --> 00:09:07.865

then there probably might not be a difference

165

00:09:08.435 --> 00:09:10.345

other than the time value of money

166

00:09:11.445 --> 00:09:15.145

I'm paying the tax a year earlier than I really

167

00:09:15.145 --> 00:09:16.265

would have to pay it.

168

00:09:17.075 --> 00:09:19.495

So if I were to invest that dollar,

169

00:09:19.965 --> 00:09:22.815

what would it be worth at the end of a year?

170

00:09:24.395 --> 00:09:27.215

The year in a deduction depends on your accounting method,

171

00:09:27.355 --> 00:09:30.295

but for most individuals, almost all individuals,

172

00:09:31.035 --> 00:09:33.215

we use the cash method of accounting.

173

00:09:33.955 --> 00:09:36.495

But if we have a business for the business,

174

00:09:36.515 --> 00:09:39.375

we might be using the accrual method of accounting.

175

00:09:41.865 --> 00:09:44.725

Um, as we already said, we have to distinguish

176

00:09:44.725 --> 00:09:48.765

between deductions for a GI and itemized deductions.

177

00:09:50.385 --> 00:09:54.045

And no matter what kind of deduction we take, no matter

178

00:09:54.055 --> 00:09:56.935

where we taking it, substantiation

179

00:09:57.155 --> 00:09:59.335

of deductions is always a must.

180

00:09:59.875 --> 00:10:03.015

You must establish the right to the deduction.

181

00:10:04.305 --> 00:10:08.045

So you have to show that you really spent it, how you spent

182

00:10:08.045 --> 00:10:09.125

and what you spent it on,

183

00:10:10.525 --> 00:10:14.105

and every kind of, um, deduction

184

00:10:15.045 --> 00:10:19.265

has a different type of substantiation that you need

185

00:10:19.265 --> 00:10:20.305

to be concerned with.

186

00:10:20.965 --> 00:10:23.705

And we'll talk about those as we go along.

187

00:10:30.865 --> 00:10:32.245

So two general rules.

188

00:10:32.585 --> 00:10:37.445

The first is section 1 62 A allows a taxpayer

189

00:10:37.445 --> 00:10:42.125

to deduct all the ordinary and necessary expenses paid

190

00:10:42.145 --> 00:10:44.165

or incurred during the taxable year

191

00:10:44.945 --> 00:10:49.205

and carrying on a trade or business, right?

192

00:10:49.955 --> 00:10:52.295

Put some emphasis in carrying on a trade or business

193

00:10:52.725 --> 00:10:54.455

because if you are not in a trade

194

00:10:54.455 --> 00:10:58.015

or business section 1 62 A doesn't apply.

195

00:10:58.975 --> 00:11:00.115

If you're an investor

196

00:11:00.535 --> 00:11:03.115

but you're not working, you're not running a business.

197

00:11:05.965 --> 00:11:09.855

Section 1 62 A does not apply to you.

198

00:11:14.045 --> 00:11:17.065

The other general section is section two 12

199

00:11:18.095 --> 00:11:22.705

that allows a taxpayer deduct all the necessary and ordinary

200

00:11:22.765 --> 00:11:25.905

and necessary expenses paid during the year

201

00:11:26.005 --> 00:11:28.145

for the production or collection of income

202

00:11:28.925 --> 00:11:30.665

for the management conservation

203

00:11:30.765 --> 00:11:34.265

or maintenance of property held for the production of income

204

00:11:35.245 --> 00:11:37.665

or in connection with determination collection

205

00:11:37.685 --> 00:11:40.105

or refund of any tax.

206

00:11:41.685 --> 00:11:45.595

So section two 12 makes

207

00:11:46.215 --> 00:11:50.595

the fee you pay to me deductible, um,

208

00:11:50.615 --> 00:11:51.755

if you're an investor

209

00:11:52.225 --> 00:11:55.885

because you, you come to me to prepare your tax return

210

00:11:56.705 --> 00:11:59.765

to have, which is helping determination collection

211

00:12:00.225 --> 00:12:03.205

or refund of tax, um,

212

00:12:03.825 --> 00:12:05.965

in section 1 62 A

213

00:12:11.295 --> 00:12:15.795

and second 1 62 A, you still get a deduction if you come

214

00:12:15.795 --> 00:12:17.075

to me to do your return,

215

00:12:17.735 --> 00:12:20.555

but only for the business aspect of the return.

216

00:12:21.615 --> 00:12:26.075

So I don't, you don't get a deduction for my preparation

217

00:12:26.095 --> 00:12:29.035

of your return not under current law anyway.

218

00:12:30.665 --> 00:12:34.245

Law preparation of a tax return of a 10 40

219

00:12:35.105 --> 00:12:38.845

is not deductibles considered to be a personal expense.

220

00:12:40.525 --> 00:12:41.685

I wanna stop for a second

221

00:12:41.785 --> 00:12:44.765

and just mention that I did not include a lot

222

00:12:44.765 --> 00:12:48.765

of slides in here on the tax cuts in Jobs Act,

223

00:12:48.815 --> 00:12:52.845

which came into effect in 20 17 20 18,

224

00:12:54.235 --> 00:12:57.935

and the Tax Cut Jobs act in effect from 2018

225

00:12:58.155 --> 00:13:02.205

to 2025, at which point it will sunset

226

00:13:03.435 --> 00:13:06.015

and we don't know what the law will be after that.

227

00:13:07.225 --> 00:13:11.565

So rather than spend the time this morning conjecturing on

228

00:13:11.675 --> 00:13:16.055

what might happen on December 31st, 2025,

229

00:13:17.325 --> 00:13:20.655

I've decided to fully concentrate on

230

00:13:20.655 --> 00:13:22.215

what the law is this year

231

00:13:23.075 --> 00:13:27.575

and next year for 2024 and 2025,

232

00:13:28.785 --> 00:13:32.565

and even 2023 since some people either still haven't filed

233

00:13:32.595 --> 00:13:35.885

returns or may want to amend the return,

234

00:13:36.905 --> 00:13:39.605

but I'm not going ahead to 2026.

235

00:13:40.645 --> 00:13:41.725

I will be doing that.

236

00:13:41.865 --> 00:13:44.805

We have another webinar on year in tax planning coming up,

237

00:13:45.345 --> 00:13:49.365

and in that one I will talk more about the effect

238

00:13:49.505 --> 00:13:51.605

of the Tax Cuts and Jobs Act.

239

00:13:52.245 --> 00:13:56.425

So for today, we are talking about the law as it is today.

240

00:14:03.335 --> 00:14:04.595

For more general rules,

241

00:14:04.775 --> 00:14:07.075

the expenses must be sufficiently related

242

00:14:07.175 --> 00:14:08.875

to carrying on a trader business

243

00:14:09.175 --> 00:14:13.475

or an income producing activity Trader, business 1 62,

244

00:14:14.295 --> 00:14:16.355

income producing activity two 12.

245

00:14:17.055 --> 00:14:20.195

The expenses always have to be ordinary and necessary.

246

00:14:20.285 --> 00:14:21.995

We'll talk more about what that means.

247

00:14:22.735 --> 00:14:24.795

The expenses have to be reasonable.

248

00:14:24.965 --> 00:14:26.315

We'll talk about what that means,

249

00:14:27.135 --> 00:14:28.635

and the expense must be paid

250

00:14:28.695 --> 00:14:31.115

or incurred during the taxable year.

251

00:14:36.755 --> 00:14:39.775

The thrust of the general rules is to allow expenses

252

00:14:39.835 --> 00:14:43.735

and cards seeking, uh, per in, in seeking

253

00:14:44.295 --> 00:14:45.745

a profit.

254

00:14:46.765 --> 00:14:49.345

And this allowed personal expenses.

255

00:14:50.205 --> 00:14:54.845

In fact, section 2 62 specifically prohibits the personal

256

00:14:54.845 --> 00:14:58.805

living or family expenses except those specially allowed.

257

00:14:59.885 --> 00:15:01.405

Determining whether a particular expenses

258

00:15:01.625 --> 00:15:03.245

for profit making purposes

259

00:15:03.305 --> 00:15:05.405

or personal purposes is one

260

00:15:05.405 --> 00:15:07.365

of the most difficult problems in taxation.

261

00:15:08.445 --> 00:15:10.885

Although many expenses are purely personal

262

00:15:10.905 --> 00:15:14.805

or purely business, many expenses have both elements,

263

00:15:15.105 --> 00:15:16.925

and we call those the gray areas.

264

00:15:17.255 --> 00:15:18.845

We'll get into those as well.

265

00:15:22.705 --> 00:15:25.225

A perfect case for illustrating the difficulty

266

00:15:25.325 --> 00:15:29.545

of determining whether the proper relationship exists

267

00:15:30.485 --> 00:15:34.825

is the case of Harold Dell Jenkins, who was also known

268

00:15:34.845 --> 00:15:38.585

as Conway Twitty, the famous current country singer

269

00:15:39.795 --> 00:15:43.195

Twitty, decided to try his luck in the fast food business

270

00:15:43.295 --> 00:15:45.195

and established Twitty Burgers Inc.

271

00:15:45.975 --> 00:15:48.755

The business went broke within two years

272

00:15:48.885 --> 00:15:52.955

after it opened, Tweney decided it was in his best interest

273

00:15:53.015 --> 00:15:56.195

to reimburse his friends for their losses.

274

00:15:57.315 --> 00:15:59.795

Consequently, he reimbursed the investors

275

00:16:00.575 --> 00:16:04.235

$97,000 even though he was not legally

276

00:16:04.545 --> 00:16:05.675

obligated to do so.

277

00:16:06.685 --> 00:16:10.585

The IRS denied the deduction for the payments, indicating

278

00:16:10.855 --> 00:16:14.345

that Twitty did not did, did it at a sense

279

00:16:14.345 --> 00:16:15.825

of moral obligation.

280

00:16:16.905 --> 00:16:19.585

Twitty, however, asserted the payments were made

281

00:16:20.045 --> 00:16:21.745

to protect his reputation.

282

00:16:26.555 --> 00:16:31.065

The IR the, um, the courts,

283

00:16:32.005 --> 00:16:35.985

the courts agreed with Twitty, with Conway Twitty

284

00:16:37.045 --> 00:16:41.465

and the, um, legal staff of the IRS

285

00:16:42.285 --> 00:16:44.585

in agreeing that they weren't going to

286

00:16:45.515 --> 00:16:47.185

fight the case any further.

287

00:16:48.755 --> 00:16:52.215

Um, the legal staff came up with this little rhyme,

288

00:16:52.395 --> 00:16:56.335

and I thought it might be a little, give a little levity

289

00:16:56.395 --> 00:16:58.135

to our contact this morning.

290

00:16:58.955 --> 00:17:02.495

So Harold Jenkins and Conway Twitty, they are both the same,

291

00:17:03.405 --> 00:17:06.305

but one was born and the other achieved fame.

292

00:17:07.445 --> 00:17:09.945

The man is talented in his many, a friend.

293

00:17:10.495 --> 00:17:13.905

They opened a restaurant, his name, he did lend,

294

00:17:14.875 --> 00:17:17.325

they are two different things making burgers.

295

00:17:17.325 --> 00:17:21.205

And so the business went sour. It didn't take long.

296

00:17:21.825 --> 00:17:24.165

He repaid his friends. Why did he act?

297

00:17:25.105 --> 00:17:26.685

Was it business or friendship

298

00:17:26.785 --> 00:17:30.965

or was it what, which is fact business court business,

299

00:17:30.985 --> 00:17:33.765

the court held is deductible, they feel,

300

00:17:34.425 --> 00:17:37.725

and the IRS said, we disagree with the answer,

301

00:17:38.345 --> 00:17:39.805

but let's not appeal.

302

00:17:41.145 --> 00:17:45.845

So you can see how here we are in one case where, um,

303

00:17:47.185 --> 00:17:50.605

you and anyone in this audience right now, if I were

304

00:17:50.605 --> 00:17:53.205

to have asked you before I told you the result

305

00:17:54.035 --> 00:17:57.685

what you thought it should be, I I I am sure we would get,

306

00:17:58.665 --> 00:18:00.525

um, far different answers.

307

00:18:00.785 --> 00:18:03.245

And when I've done this in live classes,

308

00:18:04.285 --> 00:18:07.695

I've usually gotten about a 60%.

309

00:18:08.235 --> 00:18:12.555

People who feel he, um, should not have gotten the deduction

310

00:18:12.555 --> 00:18:15.715

because it was just something he decided he wanted to do.

311

00:18:16.455 --> 00:18:19.955

And other people, 40% felt

312

00:18:20.025 --> 00:18:22.515

that he was protecting his reputation,

313

00:18:23.005 --> 00:18:25.275

which is a deductible expense.

314

00:18:26.855 --> 00:18:29.515

So we're beginning to see how some

315

00:18:29.515 --> 00:18:32.435

of these things can fall into the gray areas

316

00:18:35.075 --> 00:18:37.255

if an expense is incurred, regardless

317

00:18:37.355 --> 00:18:39.575

of whether the taxpayer was seeking a profit,

318

00:18:40.275 --> 00:18:42.335

the courts have generally been reluctant

319

00:18:42.335 --> 00:18:43.775

to allow the deduction.

320

00:18:45.405 --> 00:18:48.305

In the case of reading, the court decided

321

00:18:48.455 --> 00:18:49.745

that taxpayers claim

322

00:18:49.775 --> 00:18:53.825

that personal living expenses incurred were effectively the

323

00:18:53.825 --> 00:18:55.385

cost of labor sold.

324

00:18:56.405 --> 00:19:00.425

Um, the court denied that deduction in Sparkman.

325

00:19:00.595 --> 00:19:04.305

Ninth Circuit denied a radio announces deduction

326

00:19:04.845 --> 00:19:06.625

for dentures that were obtained

327

00:19:07.405 --> 00:19:09.505

to overcome a speech handicap.

328

00:19:10.365 --> 00:19:12.985

But they said that that's a personal expense.

329

00:19:14.005 --> 00:19:17.105

If the primary purpose of the expense is business,

330

00:19:17.485 --> 00:19:19.465

the entire cost is deductible.

331

00:19:20.005 --> 00:19:22.505

If the expense has both personal

332

00:19:22.525 --> 00:19:26.305

and business elements allocate a portion of the expense

333

00:19:26.405 --> 00:19:30.905

to each, if the expense would not have been incurred except

334

00:19:30.905 --> 00:19:32.145

for the business activity,

335

00:19:32.885 --> 00:19:36.305

the additional excess cost is deductible.

336

00:19:38.645 --> 00:19:43.125

It's not easy. Meals

337

00:19:43.265 --> 00:19:46.925

and lodging, these are deductible generally when a

338

00:19:47.125 --> 00:19:48.845

taxpayer's away from home on business

339

00:19:48.865 --> 00:19:50.485

or meeting with a business purpose.

340

00:19:52.625 --> 00:19:57.055

Meals, though this is, this part really

341

00:19:57.785 --> 00:19:59.375

needs a lot of elaboration

342

00:19:59.375 --> 00:20:04.015

because business meals, when you're not away from home,

343

00:20:04.875 --> 00:20:07.215

are deductible at 50%.

344

00:20:08.115 --> 00:20:09.415

So the only time they're fully,

345

00:20:09.725 --> 00:20:11.415

what this should really say is

346

00:20:11.415 --> 00:20:15.615

that the deductions are fully deductible when the taxpayer

347

00:20:15.615 --> 00:20:17.175

is away from home on business

348

00:20:17.195 --> 00:20:18.935

or meeting with business purpose.

349

00:20:20.275 --> 00:20:23.775

But meals in general are 50% deductible

350

00:20:23.855 --> 00:20:25.415

because you're not away from home,

351

00:20:25.955 --> 00:20:30.525

but you take your friend, you take your friend who's, um,

352

00:20:31.595 --> 00:20:35.515

a business client, um, to lunch, you can do that

353

00:20:35.575 --> 00:20:37.435

and get a 50% deduction.

354

00:20:38.105 --> 00:20:40.355

However, if you take a person to lunch

355

00:20:40.415 --> 00:20:42.595

and you don't discuss business at all,

356

00:20:43.575 --> 00:20:44.795

you don't get a deduction.

357

00:20:46.215 --> 00:20:49.255

How do you know? How does the IRS know old story?

358

00:20:50.225 --> 00:20:52.085

You have your big red book.

359

00:20:52.485 --> 00:20:54.845

Remember the old days we had this big red book today,

360

00:20:54.865 --> 00:20:56.285

you probably would put it in the computer,

361

00:20:57.225 --> 00:20:59.365

but you gotta keep a log of all your meals

362

00:20:59.985 --> 00:21:02.005

and the purpose, who you went with,

363

00:21:02.435 --> 00:21:04.445

what you discussed and so forth.

364

00:21:05.265 --> 00:21:08.605

You are not gonna lie. You're not gonna say we discussed

365

00:21:08.845 --> 00:21:13.405

business with what we talked about was the Dodges

366

00:21:13.405 --> 00:21:14.605

and winning the World Series.

367

00:21:15.425 --> 00:21:18.795

Um, you know, if if that's the case,

368

00:21:18.935 --> 00:21:20.515

you wanna, you gotta be honest.

369

00:21:21.335 --> 00:21:25.545

So, but then the, I, again, again, as soon

370

00:21:25.625 --> 00:21:29.825

as you are honest, the IRS will elect will allow that as,

371

00:21:30.525 --> 00:21:33.905

as, um, evidence of your,

372

00:21:34.925 --> 00:21:36.065

uh, for your deduction.

373

00:21:37.065 --> 00:21:39.325

Now, your question always is, is that

374

00:21:39.425 --> 00:21:43.045

how would the IRS know if I put down that every lunch

375

00:21:43.185 --> 00:21:45.925

and dinner I had was for a business purpose

376

00:21:46.985 --> 00:21:49.725

and put down that it was for this or that?

377

00:21:50.585 --> 00:21:53.925

Uh, my only answer to you is as an accountant who

378

00:21:54.705 --> 00:21:57.525

is a member of professional organizations

379

00:21:57.825 --> 00:22:02.565

and I have a license to defend, um, CPA,

380

00:22:03.585 --> 00:22:07.605

um, I will tell you that I want you to be honest.

381

00:22:08.005 --> 00:22:10.125

I mean, you know, it's nice to get deductions.

382

00:22:10.625 --> 00:22:13.445

If you're not entitled to them, you won't get them.

383

00:22:13.665 --> 00:22:18.125

You should not get them. So if you come to any CPA

384

00:22:18.185 --> 00:22:21.255

or accountant who, um,

385

00:22:21.915 --> 00:22:26.065

is follows the ethics of the professions, um,

386

00:22:27.125 --> 00:22:28.985

you will, they will, you'll not,

387

00:22:29.255 --> 00:22:30.665

they will not let you do that.

388

00:22:31.095 --> 00:22:33.065

They will not let you put,

389

00:22:33.325 --> 00:22:35.945

put something in your book is not really true.

390

00:22:37.105 --> 00:22:39.405

Um, clothing

391

00:22:39.505 --> 00:22:40.765

and hygiene, the course

392

00:22:40.785 --> 00:22:44.365

of uniforms in the maintenance are deductible if they're

393

00:22:44.605 --> 00:22:46.445

required as a condition of employment

394

00:22:46.945 --> 00:22:49.325

and not suitable for everyday wear.

395

00:22:50.495 --> 00:22:52.915

Um, revenue ruling,

396

00:22:52.965 --> 00:22:57.235

56 dash 1 68 denied the deduction for cost

397

00:22:57.235 --> 00:23:00.235

of the dependent care while the taxpayer

398

00:23:00.535 --> 00:23:01.555

did charitable work.

399

00:23:02.325 --> 00:23:05.575

However, the cost of dependent care

400

00:23:06.315 --> 00:23:11.055

for a taxpayer who's doing, um, work for an organization

401

00:23:11.525 --> 00:23:15.585

that they're getting paid for or going to full-time

402

00:23:15.605 --> 00:23:17.025

or being a full-time student,

403

00:23:17.795 --> 00:23:20.585

there is a credit we'll talk about later.

404

00:23:21.485 --> 00:23:24.145

Um, for dependent Care,

405

00:23:29.635 --> 00:23:30.155

a few things.

406

00:23:30.305 --> 00:23:33.685

Commuting, never deductible over the course

407

00:23:33.685 --> 00:23:36.925

of commuting back and forth to work and never deductible.

408

00:23:38.055 --> 00:23:40.225

Home office is very complicated,

409

00:23:40.485 --> 00:23:42.985

but you can take a deduction for your home office.

410

00:23:43.885 --> 00:23:47.605

Um, if you don't wanna go through the entire

411

00:23:48.395 --> 00:23:49.925

formula and so forth.

412

00:23:49.995 --> 00:23:52.405

They have come up with simple procedures,

413

00:23:53.065 --> 00:23:55.045

so you shouldn't overlook that deduction.

414

00:23:56.075 --> 00:23:59.025

There are various deductions and credits for education.

415

00:23:59.435 --> 00:24:00.785

We'll talk about some of those.

416

00:24:01.805 --> 00:24:05.065

Um, they're mostly credits at this point,

417

00:24:05.525 --> 00:24:08.185

so we'll wait till we get to credits to talk about them.

418

00:24:09.705 --> 00:24:13.305

Interest expense is per, if it's personal,

419

00:24:13.655 --> 00:24:14.785

it's non-deductible.

420

00:24:14.885 --> 00:24:17.265

So if credit card interest is not deductible,

421

00:24:17.765 --> 00:24:20.865

if it's residential, then it's for a mortgage,

422

00:24:20.895 --> 00:24:23.185

then we'll be talking about that a little bit more.

423

00:24:23.635 --> 00:24:26.465

Investment interest will be talking about a little bit more

424

00:24:27.475 --> 00:24:28.705

litigation expenses.

425

00:24:29.005 --> 00:24:30.305

If they're business related,

426

00:24:30.935 --> 00:24:32.585

then they're generally deductible.

427

00:24:33.355 --> 00:24:36.015

But if there's, a friend of mine is going to court now

428

00:24:36.015 --> 00:24:38.415

to sue the landlord because of,

429

00:24:38.645 --> 00:24:42.685

because is making her leave her apartment sooner

430

00:24:42.715 --> 00:24:44.045

than her lease was up.

431

00:24:45.165 --> 00:24:48.695

That is a litigation expense, but it's not deductible

432

00:24:48.885 --> 00:24:51.615

because it's related to a personal expense

433

00:24:52.195 --> 00:24:54.215

and not a business or investment expense.

434

00:24:56.535 --> 00:24:58.715

Moving expenses now very limited.

435

00:24:59.015 --> 00:25:03.715

We, before the TCJA, we take moving expenses

436

00:25:03.975 --> 00:25:04.995

for business moves.

437

00:25:06.095 --> 00:25:09.155

Um, now moving expenses are very limited.

438

00:25:10.135 --> 00:25:14.755

Um, they're limited basically for armed forces personnel,

439

00:25:15.335 --> 00:25:16.835

um, making moves.

440

00:25:26.745 --> 00:25:31.165

So then we get to that definition of ordinary and necessary.

441

00:25:37.315 --> 00:25:40.535

The ordinary condition has been imposed since the

442

00:25:40.535 --> 00:25:41.575

inception of the law.

443

00:25:42.675 --> 00:25:46.215

As a practical matter, it's still unclear when it applies

444

00:25:46.235 --> 00:25:47.695

to deny deduction.

445

00:25:48.955 --> 00:25:52.775

In the past, the courts have employed, have employed to any,

446

00:25:52.835 --> 00:25:57.135

to deny any expenses that are highly unusual in nature

447

00:25:57.995 --> 00:26:00.775

and are in the nature of capital expenditures.

448

00:26:02.035 --> 00:26:06.675

So what that means is, is that if let's say,

449

00:26:07.335 --> 00:26:09.875

um, we are in a business, um,

450

00:26:10.615 --> 00:26:14.435

but we buy a, uh, car for the business,

451

00:26:15.665 --> 00:26:18.275

well, we're not gonna be denied the deduction,

452

00:26:18.855 --> 00:26:21.865

but in that case, we're going to be asked

453

00:26:21.925 --> 00:26:26.345

to depreciate the car and take depreciation expenses.

454

00:26:27.045 --> 00:26:29.945

So we're gonna capitalize the cost of the car

455

00:26:30.445 --> 00:26:34.385

and take depreciation over probably seven years.

456

00:26:35.925 --> 00:26:40.355

Um, if we buy a building for a million dollars,

457

00:26:41.305 --> 00:26:42.875

that building is going to have

458

00:26:42.925 --> 00:26:47.085

to have a life under the tax tables of 37 and a half years

459

00:26:47.825 --> 00:26:50.765

and will take depreciation accordingly.

460

00:26:52.415 --> 00:26:55.745

There's a landmark case called WELS versus Bert,

461

00:26:56.335 --> 00:27:00.285

where the expenses of paying off debts previously discharged

462

00:27:00.945 --> 00:27:04.325

by bankruptcy were not considered ordinary

463

00:27:04.465 --> 00:27:06.125

and more likely were considered

464

00:27:06.125 --> 00:27:09.205

to be capital expenditures not deductible.

465

00:27:10.535 --> 00:27:13.675

In this case, the definition of ordinary was established

466

00:27:13.815 --> 00:27:18.515

by Justice Cardoza who stated that the test was not whether

467

00:27:19.715 --> 00:27:21.115

expenses were habitual

468

00:27:21.735 --> 00:27:23.155

or normal in the sense

469

00:27:23.155 --> 00:27:25.555

that the taxpayer will make them often,

470

00:27:26.295 --> 00:27:30.595

but whether the payment is necessarily is customarily,

471

00:27:30.815 --> 00:27:34.635

I'm sorry, customarily made in the given circumstance.

472

00:27:42.195 --> 00:27:45.135

So let's look at a couple of other cases to get, just

473

00:27:45.135 --> 00:27:49.055

to get the idea of how the courts look at some

474

00:27:49.055 --> 00:27:52.655

of these issues and how we,

475

00:27:55.395 --> 00:27:59.815

how we as accountants Now, you know, go both ways with you.

476

00:28:00.175 --> 00:28:03.815

I spoke about how I wanna make sure if you my client,

477

00:28:04.795 --> 00:28:08.655

you're keeping accurate records at the same time.

478

00:28:09.755 --> 00:28:12.055

If you enter a transaction that

479

00:28:12.115 --> 00:28:14.615

to me sends a little bit business

480

00:28:14.675 --> 00:28:17.455

and a little bit personal, I'm going

481

00:28:17.455 --> 00:28:19.215

to say we're going for the deduction.

482

00:28:20.265 --> 00:28:22.525

Um, we're not doing anything wrong.

483

00:28:23.665 --> 00:28:28.335

We just believe that the item is deductible

484

00:28:29.315 --> 00:28:32.955

be because, and we'll get into what

485

00:28:32.955 --> 00:28:36.075

because might be so in Goodell,

486

00:28:36.575 --> 00:28:39.595

the stock dealer could not deduct the premiums paid on

487

00:28:39.595 --> 00:28:42.555

insurance on the life of the president of the, of the

488

00:28:48.225 --> 00:28:52.555

president of the company in the United States, you go stock,

489

00:28:52.885 --> 00:28:55.755

stock dealer could not deduct premiums on the insurance on

490

00:28:55.755 --> 00:28:57.395

the life of the president of his company.

491

00:28:58.175 --> 00:29:00.875

We believe the death would disrupt the stock market.

492

00:29:01.535 --> 00:29:05.995

The court stated the expenditure is so unusual as never

493

00:29:05.995 --> 00:29:09.995

to have been made so far, the record reveals by the other

494

00:29:10.585 --> 00:29:12.195

persons in the same business.

495

00:29:12.585 --> 00:29:16.875

When confronted with similar conditions in Greenspan,

496

00:29:17.015 --> 00:29:19.755

the court denied a deduction to a corporation

497

00:29:19.855 --> 00:29:23.435

for the creation of a horticultural showplace at,

498

00:29:23.435 --> 00:29:26.235

at its home of its principle officer.

499

00:29:27.335 --> 00:29:30.675

And the stockholder became the cost, the corporation field

500

00:29:30.735 --> 00:29:35.355

to show that such an expense was ordinarily incurred in

501

00:29:35.355 --> 00:29:38.955

promoting a corporate business in Dunn

502

00:29:38.955 --> 00:29:42.405

and McCarthy Corporation was

503

00:29:43.065 --> 00:29:44.845

or was allowed amounts

504

00:29:45.795 --> 00:29:50.085

from here can were allowed amounts paid to certain employees

505

00:29:50.745 --> 00:29:53.165

who had loan funds to his former president

506

00:29:53.585 --> 00:29:55.125

and lost the money in gambling.

507

00:29:55.705 --> 00:29:57.525

And he died in solvent.

508

00:29:58.065 --> 00:30:02.965

And they were able to, the, were able to deduct the amounts

509

00:30:02.995 --> 00:30:06.565

that, um, the corporation was allowed to deduct the amounts

510

00:30:06.565 --> 00:30:09.485

that were paid, um, to the employees.

511

00:30:14.005 --> 00:30:16.465

So now we go from ordinary to necessary.

512

00:30:17.415 --> 00:30:21.305

Necessary implies that the expenses must be appropriate

513

00:30:21.325 --> 00:30:24.985

and helpful in contrast to being indispensable

514

00:30:25.245 --> 00:30:26.265

or unavoidable.

515

00:30:27.005 --> 00:30:28.265

As a practical matter,

516

00:30:28.685 --> 00:30:31.985

the courts rarely consider this aspect of the expenses,

517

00:30:32.535 --> 00:30:34.665

leaving the judgment to the taxpayer.

518

00:30:37.225 --> 00:30:41.925

So if it's ordinary, they usually say that it's necessary.

519

00:30:43.465 --> 00:30:46.975

Reasonable implies an expenditure is neither extravagant

520

00:30:47.075 --> 00:30:49.575

nor exor ex extra exorbitant.

521

00:30:50.475 --> 00:30:53.295

So when you take all of these together, the

522

00:30:53.845 --> 00:30:58.615

criterion gets a, is really set up to regulate expenses

523

00:30:58.725 --> 00:31:02.035

between related parties.

524

00:31:02.035 --> 00:31:05.475

So the most common applications to deny the deduction

525

00:31:05.475 --> 00:31:07.035

for compensation payments

526

00:31:07.465 --> 00:31:10.075

that are non-deductible dividends in disguised

527

00:31:10.075 --> 00:31:11.315

as double taxation.

528

00:31:12.675 --> 00:31:15.575

But the other thing about related parties is, is that

529

00:31:16.315 --> 00:31:20.135

any time you have a transaction between related parties,

530

00:31:21.255 --> 00:31:26.095

the transaction usually is not deductible

531

00:31:26.955 --> 00:31:29.095

by the party that pays the expense.

532

00:31:30.045 --> 00:31:31.425

And it's an interesting thing

533

00:31:31.425 --> 00:31:35.185

because it, well, it's not deductible

534

00:31:35.685 --> 00:31:37.905

to the person paying the expense.

535

00:31:39.085 --> 00:31:42.825

The party receiving the item has income,

536

00:31:43.985 --> 00:31:47.205

um, then they won't be taxed twice.

537

00:31:48.445 --> 00:31:50.985

So, but somebody's gotta pay tax.

538

00:31:51.045 --> 00:31:52.905

The IRS always gets its money.

539

00:31:53.045 --> 00:31:57.385

That's one thing you have to understand with all of this,

540

00:31:58.245 --> 00:31:59.865

the IRS gets its money.

541

00:32:00.605 --> 00:32:04.905

Um, so, um, at the end of the day,

542

00:32:05.175 --> 00:32:06.785

they can get denied deductible.

543

00:32:06.855 --> 00:32:11.465

They can court can go against the IRS and so forth,

544

00:32:12.125 --> 00:32:16.785

but most of the time the IRS has the best chance to win

545

00:32:17.335 --> 00:32:21.375

because they have their own legal staff, they have, um,

546

00:32:22.575 --> 00:32:25.455

a number of people doing audits and so forth.

547

00:32:26.725 --> 00:32:31.025

So, um, we should never think we are

548

00:32:31.425 --> 00:32:32.745

guaranteed a deduction.

549

00:32:33.165 --> 00:32:36.585

No guaranteed the deduction until the tax return is done

550

00:32:37.315 --> 00:32:38.465

three years pass.

551

00:32:38.725 --> 00:32:41.405

And usually then, you know, you'll allow,

552

00:32:41.405 --> 00:32:43.125

you're gonna be allowed the deduction.

553

00:32:44.705 --> 00:32:45.775

Three years meaning,

554

00:32:45.845 --> 00:32:48.255

because that's the statute of limitation,

555

00:32:49.405 --> 00:32:51.575

says three years from the time you file

556

00:32:52.235 --> 00:32:54.215

to challenge anything on your return,

557

00:32:57.575 --> 00:33:01.405

there is a deduction for educators.

558

00:33:02.645 --> 00:33:05.085

Educators are primarily elementary

559

00:33:05.385 --> 00:33:08.365

and middle high school, um, teachers

560

00:33:09.225 --> 00:33:12.045

who claim a deduction for unreimbursed expenses

561

00:33:13.145 --> 00:33:15.565

within the classroom up to $300.

562

00:33:17.575 --> 00:33:19.895

Anything above that goes into the regular

563

00:33:20.615 --> 00:33:22.775

business expense category.

564

00:33:23.785 --> 00:33:25.885

But this is deduction below the line.

565

00:33:25.885 --> 00:33:27.645

They don't need any real proof.

566

00:33:28.515 --> 00:33:32.765

They, they, they need to be able to say they spent $300,

567

00:33:33.375 --> 00:33:34.565

which is not hard.

568

00:33:35.875 --> 00:33:39.375

Um, but, uh,

569

00:33:40.165 --> 00:33:43.015

unfortunately for people like myself

570

00:33:43.115 --> 00:33:47.515

who teach at the college level, uh, with these webinars,

571

00:33:48.515 --> 00:33:51.455

I'm not entitled to that $300 deduction.

572

00:33:57.455 --> 00:33:59.355

Health savings accounts.

573

00:34:01.185 --> 00:34:04.365

Health savings accounts are tax exempt accounts

574

00:34:04.395 --> 00:34:08.565

that the taxpayer sets up with a US financial institution,

575

00:34:09.815 --> 00:34:12.345

bank or mutual fund or, um, bank

576

00:34:12.405 --> 00:34:15.585

or any kind of Merrill Lynch or any of those companies.

577

00:34:16.525 --> 00:34:19.225

Um, to save money used exclusively

578

00:34:19.965 --> 00:34:21.745

for future medical expenses.

579

00:34:22.845 --> 00:34:24.945

The account must be used in conjunction

580

00:34:25.095 --> 00:34:27.785

with a high deductible health plan.

581

00:34:29.425 --> 00:34:31.365

The amount that may be contributed

582

00:34:31.425 --> 00:34:35.445

to a taxpayer's health savings account depends on the nature

583

00:34:35.625 --> 00:34:39.925

of his or her coverage and his or her age.

584

00:34:42.915 --> 00:34:45.815

For self only coverage,

585

00:34:46.565 --> 00:34:49.135

meaning only the taxpayers being covered

586

00:34:49.565 --> 00:34:53.375

because the self-employed person, the taxpayers

587

00:34:53.375 --> 00:34:56.695

and employee can contribute up to $3,850.

588

00:34:59.355 --> 00:35:03.975

Anyone who reached over 55 in deduct 4,850

589

00:35:04.985 --> 00:35:09.325

for family coverage, the taxpayer contributed to 7,500

590

00:35:10.275 --> 00:35:11.815

and up to 9,500.

591

00:35:11.995 --> 00:35:16.815

For the taxpayer who have both reached 50, 55 years old.

592

00:35:19.135 --> 00:35:20.775

Contributions to health savings plan

593

00:35:20.795 --> 00:35:23.935

for 2023 may include contributions made

594

00:35:23.935 --> 00:35:26.175

until April 15th, 2024.

595

00:35:27.115 --> 00:35:30.015

And therefore, contributions to a health insurance account

596

00:35:30.015 --> 00:35:34.215

for 2024 can mean can include contributions

597

00:35:34.805 --> 00:35:38.365

made until April 15th, 2025.

598

00:35:45.125 --> 00:35:47.585

We do have to look at the self-employment tax.

599

00:35:48.245 --> 00:35:51.345

Um, a self-employed person is allowed a deduction

600

00:35:52.245 --> 00:35:56.505

for the portion of the FICA taxes paid to arrive at his

601

00:35:56.605 --> 00:35:57.625

or her a GI.

602

00:35:58.365 --> 00:36:01.705

The deduction for the employer share is equal to 50%

603

00:36:02.205 --> 00:36:07.185

of the self-employment tax for 2024, the deduction equals

604

00:36:08.285 --> 00:36:09.545

6.2%

605

00:36:09.605 --> 00:36:13.625

of the first $168,600

606

00:36:14.715 --> 00:36:18.015

of men earnings from self, from self-employment

607

00:36:18.975 --> 00:36:21.785

plus four point 45%

608

00:36:22.325 --> 00:36:25.145

of net earnings from self-employment income.

609

00:36:27.395 --> 00:36:30.735

The 0.29% additional Medicare tax

610

00:36:31.315 --> 00:36:34.535

is on the employer's portion of FCA taxes.

611

00:36:35.325 --> 00:36:40.225

Therefore, the 9.6% tax is

612

00:36:40.765 --> 00:36:44.665

not, um, is not deductible.

613

00:36:46.545 --> 00:36:49.285

So let's continue on with the self-employed people.

614

00:36:50.325 --> 00:36:53.985

The self-employed individual can deduct a specified amount

615

00:36:54.015 --> 00:36:56.625

paid on his or her behalf to a qualified

616

00:36:57.395 --> 00:36:59.665

retirement plans such as a sep.

617

00:37:00.945 --> 00:37:05.045

Now this may be one where when you went to school, um,

618

00:37:05.425 --> 00:37:10.175

you learned that, um, a qua,

619

00:37:10.335 --> 00:37:14.775

a self-employed individual couldn't do a qualified plan.

620

00:37:15.575 --> 00:37:18.185

They can only do an IRA or a sep.

621

00:37:18.885 --> 00:37:21.625

But that changed, um, a few years back.

622

00:37:22.705 --> 00:37:25.805

And now it's, there's something called parity

623

00:37:26.235 --> 00:37:28.405

between self-employed individuals

624

00:37:28.545 --> 00:37:32.525

and corporations so that now the same rules apply.

625

00:37:32.705 --> 00:37:36.885

So a self-employed individual has the same right

626

00:37:37.745 --> 00:37:42.165

to a deduction for a payment to a qualified plan

627

00:37:42.345 --> 00:37:44.365

or a CEP plan, um,

628

00:37:45.655 --> 00:37:47.595

as a corporation does.

629

00:37:48.585 --> 00:37:52.965

Now the CEP plan is not a qualified plan.

630

00:37:53.825 --> 00:37:57.605

That's why it's, it's, it's a little different in that

631

00:37:58.265 --> 00:38:02.405

you don't have all the ERISA rules applying to the set plan.

632

00:38:04.135 --> 00:38:06.835

If you're filing, if you do a qualified plan,

633

00:38:06.865 --> 00:38:11.155

then every year you have to file a Form 5,500 series.

634

00:38:13.115 --> 00:38:14.575

But if you have a set plan,

635

00:38:14.995 --> 00:38:17.975

you have no special extra reporting for the company

636

00:38:18.825 --> 00:38:22.615

other than showing the amount that you paid into the plan.

637

00:38:23.665 --> 00:38:27.565

And, um, you may have a schedule of

638

00:38:27.635 --> 00:38:29.245

what contributions were made,

639

00:38:30.105 --> 00:38:32.245

but you won't be denied the deduct,

640

00:38:32.305 --> 00:38:34.245

you won't be denied the deduction.

641

00:38:36.105 --> 00:38:40.085

The maximum annual contribution is a lesser of 25%

642

00:38:40.105 --> 00:38:41.605

of self-employment earnings

643

00:38:42.385 --> 00:38:46.605

or $69,000 in 2024.

644

00:38:47.395 --> 00:38:50.645

Self-employed earnings are reduced by the deductible part

645

00:38:50.645 --> 00:38:51.725

of self-employment.

646

00:38:51.775 --> 00:38:54.485

Taxes and contributions

647

00:38:54.665 --> 00:38:57.285

to the plan are subtracted from net earnings

648

00:38:57.385 --> 00:39:01.325

to calculate self-employment earnings, creating a circular

649

00:39:01.875 --> 00:39:06.845

computation for convenience of standards rate of 20% is used

650

00:39:07.425 --> 00:39:10.085

to calculate the allowable deduction.

651

00:39:14.565 --> 00:39:17.575

Self-employed individuals can deduct a hundred percent

652

00:39:17.595 --> 00:39:20.055

of payments made to health insurance coverage

653

00:39:21.235 --> 00:39:25.975

for the individual, his, his or his spouse and dependents.

654

00:39:26.595 --> 00:39:29.775

The deduction is limited to the taxpayer's earned income

655

00:39:30.575 --> 00:39:33.375

derived from the business for which the insurance plan

656

00:39:33.995 --> 00:39:37.045

is established booming.

657

00:39:37.185 --> 00:39:39.045

So nobody's saying they don't hear me,

658

00:39:39.225 --> 00:39:42.205

but, um, hopefully everybody's hearing me well.

659

00:39:43.185 --> 00:39:46.805

Um, the deduction to penalties, early withdrawal

660

00:39:46.905 --> 00:39:48.925

of funds from certificates, deposit,

661

00:39:49.585 --> 00:39:53.525

or other time savings account, again,

662

00:39:53.745 --> 00:39:56.565

the deduction is taken only in the year

663

00:39:56.675 --> 00:39:58.685

that the penalty is incurred.

664

00:39:59.805 --> 00:40:02.205

A form 10 99 INT

665

00:40:02.505 --> 00:40:05.125

or form 10 99 OID

666

00:40:05.945 --> 00:40:09.325

tax receipt will show the amount of any penalty charts.

667

00:40:10.225 --> 00:40:13.725

The 10 99 INT is obviously interest.

668

00:40:14.595 --> 00:40:18.655

The 10 99 OID is, um,

669

00:40:19.915 --> 00:40:24.535

for, um, those accounts where, um,

670

00:40:24.805 --> 00:40:28.175

they, the person didn't, um,

671

00:40:28.955 --> 00:40:30.015

pay their debt

672

00:40:30.995 --> 00:40:35.945

and, um, there was, they get a 10 99 oh ID

673

00:40:35.965 --> 00:40:38.785

for income because they're relieved of the debt

674

00:40:39.695 --> 00:40:42.315

and in that debt is included.

675

00:40:42.855 --> 00:40:46.115

Um, any penalty that was charged.

676

00:40:47.515 --> 00:40:51.785

Penalties are not deductible though. Um, in general,

677

00:41:07.275 --> 00:41:10.905

Let's talk about divorce divorces.

678

00:41:12.285 --> 00:41:15.265

Um, the area gets a little bit complicated here.

679

00:41:15.315 --> 00:41:18.705

Again, this is because of the tax Cuts and Jobs Act.

680

00:41:19.165 --> 00:41:23.845

Um, when the tax cuts and Jobs Act was before Tax

681

00:41:24.105 --> 00:41:25.445

and Jobs Act, that means

682

00:41:25.505 --> 00:41:28.615

before 2019, um,

683

00:41:29.495 --> 00:41:32.535

alimony was considered gross income to the,

684

00:41:33.865 --> 00:41:38.175

and it was deductible by the payer, the alimony

685

00:41:38.895 --> 00:41:42.295

payments could not exceed then pass the death

686

00:41:42.395 --> 00:41:43.655

of the payee spouse.

687

00:41:45.245 --> 00:41:49.865

Um, divorces executed or modified after 2018.

688

00:41:50.965 --> 00:41:52.945

So after 2018,

689

00:41:54.565 --> 00:41:57.525

alimony is no longer deductible to the payer

690

00:41:58.225 --> 00:42:01.525

and it's not including the gross income of the recipient.

691

00:42:02.505 --> 00:42:04.795

Therefore, whether alimony's deductible

692

00:42:05.095 --> 00:42:07.835

or not depends on when the divorce was executed.

693

00:42:08.855 --> 00:42:11.875

So in other words, the grandfathered in

694

00:42:13.015 --> 00:42:15.735

divorces from before 2019.

695

00:42:17.325 --> 00:42:20.985

So there's still a line for alimony on the retirement,

696

00:42:21.205 --> 00:42:23.545

and you look at that and you say, why is there a line

697

00:42:23.545 --> 00:42:25.665

for alimony when it's not deductible anymore,

698

00:42:26.705 --> 00:42:28.245

but it is still deductible

699

00:42:28.665 --> 00:42:31.605

and picked up as income to the recipient.

700

00:42:32.505 --> 00:42:34.365

If it's a divorce that was executed

701

00:42:34.465 --> 00:42:38.855

before 2019, you can't modify it

702

00:42:39.275 --> 00:42:44.175

or, or, or now what happens here is very often,

703

00:42:45.035 --> 00:42:47.855

um, a smart person who

704

00:42:48.415 --> 00:42:51.695

receives the alimony doesn't wanna have to pick it up

705

00:42:51.695 --> 00:42:54.895

as income, will try

706

00:42:54.915 --> 00:42:57.655

to agree on a modification of the agreement.

707

00:42:58.925 --> 00:43:01.705

Um, and, um, they may be willing

708

00:43:01.725 --> 00:43:03.305

to take a little bit less money.

709

00:43:04.485 --> 00:43:08.785

Um, the person giving the alimony may be very happy

710

00:43:08.805 --> 00:43:13.425

to give a little bit less money just so as not to create

711

00:43:14.255 --> 00:43:16.345

this taxable income to the payer.

712

00:43:17.685 --> 00:43:21.065

Um, but again, that, that's how you,

713

00:43:21.605 --> 00:43:24.145

we talk about when we talk about tax planning

714

00:43:25.165 --> 00:43:28.625

and we'll talk more about tax planning, um,

715

00:43:28.725 --> 00:43:31.105

in the webinar than I'm doing in a couple of weeks.

716

00:43:31.235 --> 00:43:33.705

We'll talk about year end planning and so forth.

717

00:43:39.555 --> 00:43:43.815

So IRAs, IRAs, when they were first introduced,

718

00:43:44.115 --> 00:43:45.295

and I don't remember the year,

719

00:43:45.315 --> 00:43:46.815

but it's quite a while ago,

720

00:43:50.225 --> 00:43:54.845

the initial contribution was $2,000 a year and that was it.

721

00:43:56.155 --> 00:43:57.205

That was the whole story.

722

00:43:57.625 --> 00:44:00.285

It was, that's all this screen would've said.

723

00:44:01.505 --> 00:44:03.325

But as the years have gone by,

724

00:44:03.955 --> 00:44:06.205

different rules have been put into effect

725

00:44:06.225 --> 00:44:09.765

to limit the amount that can go in to put more go in,

726

00:44:10.985 --> 00:44:14.885

but with, depending on income levels.

727

00:44:15.985 --> 00:44:19.605

So for 2024 contributions are fully deductible

728

00:44:21.605 --> 00:44:26.545

up to the lesser of $7,000, $8,000

729

00:44:26.685 --> 00:44:28.185

for taxpayers age 50

730

00:44:28.285 --> 00:44:32.460

and over, well 100% of includeable compensation

731

00:44:32.995 --> 00:44:36.365

because contributions are deducted from gross income,

732

00:44:37.185 --> 00:44:40.965

all distributions are included as ordinary income

733

00:44:43.345 --> 00:44:47.845

to qualify for the return year Contributions must be made

734

00:44:47.865 --> 00:44:52.485

by the due date of the return without regard to extensions.

735

00:44:56.675 --> 00:44:58.655

So in other words, April 15th,

736

00:45:00.055 --> 00:45:01.375

I guess I could have said

737

00:45:01.385 --> 00:45:03.175

April 15th and it would've been easier.

738

00:45:04.275 --> 00:45:07.615

So in other words, if, if you put a return on extension,

739

00:45:08.715 --> 00:45:13.415

you do not get an extension for the IRA contribution,

740

00:45:13.615 --> 00:45:14.895

I need to be clear about that.

741

00:45:16.115 --> 00:45:19.175

Uh, because you can for a set plan

742

00:45:19.995 --> 00:45:24.215

or a qualified plan, you can wait

743

00:45:24.345 --> 00:45:27.015

until you file the return to make the contribution.

744

00:45:27.725 --> 00:45:29.945

That's not true with IRAs.

745

00:45:30.455 --> 00:45:33.905

IRAs must be made by April 15th,

746

00:45:33.955 --> 00:45:36.425

which is the due date of the return.

747

00:45:37.325 --> 00:45:39.785

Now if April 15th comes down on a Sunday

748

00:45:41.005 --> 00:45:43.985

and the return's not due till Monday, then

749

00:45:44.045 --> 00:45:46.585

that's the date you have to do the IRA by

750

00:45:47.685 --> 00:45:49.185

that's not an extension.

751

00:45:50.415 --> 00:45:54.555

But once you file an extension, you gotta get that IRA in by

752

00:45:55.575 --> 00:45:58.135

a April 15th by the due date of the return.

753

00:45:59.995 --> 00:46:03.575

Now compensation includes alimony and earned income,

754

00:46:04.515 --> 00:46:06.455

but not pensions, annuities,

755

00:46:06.675 --> 00:46:09.615

or other deferred compensation distributions.

756

00:46:10.795 --> 00:46:14.455

So if you're getting alimony and it's taxable alimony

757

00:46:15.555 --> 00:46:19.895

or earned income, you can, you can use that for,

758

00:46:20.195 --> 00:46:23.015

for the, uh, magic to the IRA.

759

00:46:27.755 --> 00:46:32.655

An additional $7,000 or 8,000 for taxpayers age 50

760

00:46:32.675 --> 00:46:35.775

and over may be contributed to an IRA

761

00:46:35.795 --> 00:46:38.135

for the taxpayer's non-working spouse

762

00:46:38.955 --> 00:46:42.095

or a spouse earning less, less income

763

00:46:42.635 --> 00:46:44.295

if a joint return is filed.

764

00:46:46.045 --> 00:46:49.825

The combined IRA contributions of both spouses can exceed

765

00:46:50.685 --> 00:46:53.865

the combined compensation for the year

766

00:46:57.515 --> 00:46:58.885

student loan interest.

767

00:46:59.645 --> 00:47:03.045

Taxpayers can deduct $2,500 of interest paid

768

00:47:03.625 --> 00:47:06.685

on qualified educational loans in 2024.

769

00:47:07.585 --> 00:47:10.845

The deduction is available every year that the

770

00:47:11.885 --> 00:47:15.225

interest is paid, but the interest is

771

00:47:15.225 --> 00:47:16.585

subject to income limits.

772

00:47:17.565 --> 00:47:19.345

So if you are in a,

773

00:47:19.525 --> 00:47:21.865

if you're a married couple filing jointly

774

00:47:22.625 --> 00:47:27.245

and your A GI is $170,000, you are going

775

00:47:27.305 --> 00:47:30.125

to begin to lose part

776

00:47:30.125 --> 00:47:32.325

of your $2,500 deduction.

777

00:47:33.195 --> 00:47:37.615

If married filing jointly couple has over $200,000

778

00:47:37.755 --> 00:47:42.375

of a GI, there is no student loan interest deduction

779

00:47:43.315 --> 00:47:46.255

for single people heads of household

780

00:47:46.435 --> 00:47:48.575

or married single separately.

781

00:47:50.095 --> 00:47:54.515

The a GI phase out rate is rule is 65 80

782

00:47:54.545 --> 00:47:57.335

$5,000, um,

783

00:47:58.675 --> 00:48:00.175

to a hundred thousand.

784

00:48:01.565 --> 00:48:03.855

Once they exceed a hundred thousand dollars,

785

00:48:04.725 --> 00:48:06.095

there's no deduction.

786

00:48:17.085 --> 00:48:20.585

So let's, we've talked about this a little bit already

787

00:48:20.715 --> 00:48:23.225

today, but let's boil it down.

788

00:48:27.075 --> 00:48:29.555

Itemized versus standard deduction.

789

00:48:30.725 --> 00:48:33.025

So a taxpayer itemized deduction,

790

00:48:33.165 --> 00:48:37.785

if the total amount allowable itemized is greater than the

791

00:48:37.785 --> 00:48:39.585

amount of the standard deduction.

792

00:48:40.685 --> 00:48:43.855

Otherwise, the taxpayer claims a standard deduction.

793

00:48:44.975 --> 00:48:47.255

A taxpayer must elect to itemize

794

00:48:47.435 --> 00:48:49.815

or no itemized deductions will be allowed.

795

00:48:50.715 --> 00:48:54.935

Do you elect by filing schedule A of form 10 40

796

00:48:56.185 --> 00:48:58.285

and you can change your election

797

00:48:58.985 --> 00:49:01.325

by filing an amended return.

798

00:49:06.935 --> 00:49:09.795

The amounts paid for qualified medical expenses

799

00:49:10.025 --> 00:49:13.995

that exceed 7.5% of a GI can be deducted

800

00:49:14.805 --> 00:49:16.705

to qualify for the deduction.

801

00:49:16.805 --> 00:49:19.505

The expense must be paid during the taxable year

802

00:49:19.525 --> 00:49:22.665

for the taxpayer, the taxpayer spouse

803

00:49:23.325 --> 00:49:27.585

or a dependent and must be comp compensated by insurance

804

00:49:28.435 --> 00:49:31.815

and must not be compensated by insurance or otherwise.

805

00:49:31.815 --> 00:49:33.095

During the taxable year,

806

00:49:34.035 --> 00:49:37.255

the expense could have been rendered in a prior year.

807

00:49:38.115 --> 00:49:40.735

In other words, the actual activity may have happened in

808

00:49:40.735 --> 00:49:44.605

another year, but in this case, you can deduct any,

809

00:49:44.985 --> 00:49:47.325

any expense paid in the current year.

810

00:49:48.725 --> 00:49:51.665

The expenses have to be primarily to alleviate

811

00:49:51.845 --> 00:49:55.145

or prevent a physical or mental disability or illness.

812

00:49:57.035 --> 00:50:01.685

What does that mean? Diagnosis, cure mitigation treatment

813

00:50:01.685 --> 00:50:03.125

or prevention of the disease

814

00:50:03.785 --> 00:50:06.405

or for the purpose of affecting any structure

815

00:50:06.505 --> 00:50:07.725

or function of the body.

816

00:50:08.625 --> 00:50:11.325

Transportation primarily for essential

817

00:50:11.325 --> 00:50:12.885

to medical care is deductible.

818

00:50:13.635 --> 00:50:16.605

Medical insurance is deductible as part

819

00:50:16.605 --> 00:50:19.765

of medical expenses except for a self-employed person

820

00:50:20.705 --> 00:50:24.765

who might be able to get the deduction as a, um,

821

00:50:27.045 --> 00:50:29.265

as a adjustment for gross income

822

00:50:30.325 --> 00:50:33.105

and qualified long-term care premiums

823

00:50:33.165 --> 00:50:37.185

and services are deductible as a medical expense.

824

00:50:37.725 --> 00:50:41.065

And some states like New York, it's also

825

00:50:41.625 --> 00:50:44.145

a credit on the state tax return.

826

00:50:51.745 --> 00:50:54.165

The owner of real estate can deduct state

827

00:50:54.165 --> 00:50:55.765

and local real property taxes,

828

00:50:56.825 --> 00:51:01.045

but taxes have an overall limit of $10,000

829

00:51:01.225 --> 00:51:06.045

for a single person and $20,000 for married filing jointly.

830

00:51:06.875 --> 00:51:10.665

These typos can be very distracting, sometimes

831

00:51:11.625 --> 00:51:12.845

10,000 single

832

00:51:13.225 --> 00:51:16.925

and $20,000 married filing jointly.

833

00:51:17.005 --> 00:51:20.325

I thought I'd fixed that. If real property is bought

834

00:51:20.325 --> 00:51:21.685

or sold during the year,

835

00:51:21.825 --> 00:51:25.325

the real property tax is apportioned between the buyer

836

00:51:25.345 --> 00:51:27.925

and seller based on the number

837

00:51:27.925 --> 00:51:30.205

of days each one held a property

838

00:51:30.505 --> 00:51:32.605

during the real property tax year.

839

00:51:33.925 --> 00:51:38.205

Personal property taxes, which are also called aveor, taxes

840

00:51:39.185 --> 00:51:43.685

are deductible, but only if the taxes is substantially in

841

00:51:43.925 --> 00:51:45.925

proportion to the value of the property

842

00:51:46.705 --> 00:51:51.325

is imposed on an annual basis and it's part of the state

843

00:51:51.325 --> 00:51:55.085

and local income tax deduction with the limits I mentioned

844

00:51:55.175 --> 00:51:58.685

above 10,000 single and 20,000.

845

00:51:58.685 --> 00:52:01.525

20,000 married filing jointly

846

00:52:05.335 --> 00:52:07.225

Qualified residence interest.

847

00:52:07.365 --> 00:52:09.305

And this of course is mortgage interest

848

00:52:09.605 --> 00:52:12.665

and qualified resident interest is deductible

849

00:52:13.285 --> 00:52:17.945

on no more than $750,000 of the sum

850

00:52:18.005 --> 00:52:19.025

of acquisition

851

00:52:19.805 --> 00:52:23.875

and home equity in indebtedness 3 75

852

00:52:24.775 --> 00:52:27.075

for married filing separately.

853

00:52:28.175 --> 00:52:29.315

If interest is paid

854

00:52:29.315 --> 00:52:31.795

or incurred during the year on acquisition

855

00:52:31.795 --> 00:52:35.155

of home equity indebtedness, that is secured

856

00:52:35.175 --> 00:52:36.835

by a qualified residence.

857

00:52:37.995 --> 00:52:40.105

A read that again.

858

00:52:41.205 --> 00:52:45.465

If in, if in interest to paid during crew

859

00:52:45.465 --> 00:52:50.225

during the tax year on acquisition on home, that is occurred

860

00:52:51.045 --> 00:52:52.785

by the qualified residence.

861

00:52:54.005 --> 00:52:56.965

A qualified residence includes the principal resident

862

00:52:57.325 --> 00:53:00.685

taxpayer and one other residence owned by the taxpayer.

863

00:53:01.645 --> 00:53:04.565

A taxpayer has more than two residences

864

00:53:05.385 --> 00:53:08.805

may select each year the residents to be used

865

00:53:08.865 --> 00:53:12.445

to determine the amount of qualified residents income.

866

00:53:12.865 --> 00:53:17.115

But you cannot have more than two houses, um,

867

00:53:18.045 --> 00:53:21.475

where the residents used.

868

00:53:22.665 --> 00:53:25.115

What does acquisition embeddedness mean?

869

00:53:28.665 --> 00:53:31.235

Acquisition in debtedness is debt in card.

870

00:53:31.235 --> 00:53:32.995

In acquiring, constructing,

871

00:53:33.495 --> 00:53:36.715

or substantially improving a qualified residence,

872

00:53:37.645 --> 00:53:41.425

the debt has to be secured by the residents.

873

00:53:41.425 --> 00:53:42.505

So if you go to the bank

874

00:53:43.355 --> 00:53:46.975

and borrow money to pay, um,

875

00:53:52.475 --> 00:53:56.415

if you go to the bank, um, and borrow money

876

00:53:57.625 --> 00:54:00.565

and it's not secured by the residents,

877

00:54:01.035 --> 00:54:02.085

then it's not a mortgage

878

00:54:02.505 --> 00:54:05.245

and it's not qualified residents interest.

879

00:54:07.015 --> 00:54:11.265

Moving on, what is home equity indebtedness mean?

880

00:54:11.375 --> 00:54:15.705

Home equity indebtedness is debt other than acquisition

881

00:54:15.775 --> 00:54:20.105

debt, but it's still secured by a qualified residence.

882

00:54:20.245 --> 00:54:23.785

The extent it does not exceed the fair market value

883

00:54:23.935 --> 00:54:27.145

residence reduced by any acquisition indebtedness,

884

00:54:28.125 --> 00:54:31.305

the home equity debt has to be used to buy, build

885

00:54:31.365 --> 00:54:35.145

or substantially improve the qualified residents

886

00:54:35.925 --> 00:54:38.785

points paid by the borrower prepaid interest,

887

00:54:39.235 --> 00:54:42.705

which is typically deductible over the terms of the loan

888

00:54:43.725 --> 00:54:45.585

points paid by the seller

889

00:54:45.805 --> 00:54:49.185

or a selling expense that reduces the amount

890

00:54:50.145 --> 00:54:51.225

realized on the sale.

891

00:54:56.555 --> 00:54:58.935

Now we turn to investment expense.

892

00:54:59.035 --> 00:55:00.975

And remember now we said

893

00:55:00.975 --> 00:55:03.615

that personal expense is not deductible at all.

894

00:55:04.075 --> 00:55:06.615

Credit card interest is not deductible at all.

895

00:55:08.145 --> 00:55:10.265

Mortgage interest is deductible to the extent

896

00:55:10.265 --> 00:55:14.025

of $750,000 of value.

897

00:55:15.465 --> 00:55:19.095

Investment interest expense is interest paid

898

00:55:19.115 --> 00:55:21.175

or incurred to purchase

899

00:55:21.275 --> 00:55:23.855

or carry property held for investment.

900

00:55:24.805 --> 00:55:26.575

This is section two 12.

901

00:55:27.545 --> 00:55:30.095

Investment interest does not include

902

00:55:30.605 --> 00:55:32.295

qualified residents interest

903

00:55:33.035 --> 00:55:35.535

or any passive activity Interest.

904

00:55:36.715 --> 00:55:39.445

Passive activity Interest is includeable

905

00:55:39.445 --> 00:55:41.005

with passive activities

906

00:55:41.625 --> 00:55:45.325

and deductible within the passive loss rules,

907

00:55:47.445 --> 00:55:50.775

the IRS or the Internal Revenue code.

908

00:55:50.795 --> 00:55:54.535

The IC allows a deduction for a limited amount

909

00:55:54.555 --> 00:55:57.335

of investment interest as an itemized deduction.

910

00:55:58.275 --> 00:56:02.655

The limit is that investment interest may be deducted only

911

00:56:02.755 --> 00:56:07.295

to the extent of net investment income, which is

912

00:56:08.075 --> 00:56:12.175

any excess of income over investment expenses.

913

00:56:17.775 --> 00:56:20.225

What exactly is investment income?

914

00:56:20.955 --> 00:56:23.605

Investment income is non-trade

915

00:56:23.625 --> 00:56:28.005

or non-business income from interest dividends not subject

916

00:56:28.105 --> 00:56:31.955

to capital gain tax and annuities, royalties

917

00:56:32.015 --> 00:56:34.675

and other gross income from property health

918

00:56:34.695 --> 00:56:37.525

for investment net gain.

919

00:56:37.665 --> 00:56:40.445

On the disposition of property health for investment,

920

00:56:41.365 --> 00:56:43.805

a taxpayer may elect to treat all

921

00:56:44.065 --> 00:56:48.205

or a a portion of long-term capital gains

922

00:56:48.205 --> 00:56:51.685

and qualified dividends as investment income.

923

00:56:52.885 --> 00:56:53.905

Income treaters.

924

00:56:53.915 --> 00:56:58.265

Gross portfolio income under the passive activity rules

925

00:57:00.685 --> 00:57:04.105

income from interest in activities that involve a trade

926

00:57:04.105 --> 00:57:06.785

or business in which the taxpayer does not

927

00:57:07.065 --> 00:57:08.305

materially participate.

928

00:57:08.805 --> 00:57:11.705

If the activity is not treated as a passive activity

929

00:57:12.435 --> 00:57:14.705

under the passive activity loss rules,

930

00:57:15.775 --> 00:57:18.385

this allowed investment interest is carried

931

00:57:18.385 --> 00:57:19.625

forward indefinitely.

932

00:57:20.685 --> 00:57:23.025

It is the extent of investment income

933

00:57:23.565 --> 00:57:25.905

in a subsequent taxable year.

934

00:57:27.135 --> 00:57:30.075

To the extent interest related

935

00:57:30.095 --> 00:57:34.195

to producing tax exempt income is not deductible.

936

00:57:36.225 --> 00:57:38.885

So if the interest is earned on municipal bonds

937

00:57:39.905 --> 00:57:43.645

and then there's an expense, you can't use

938

00:57:43.645 --> 00:57:46.205

that expense against the, um,

939

00:57:46.905 --> 00:57:49.005

non-deductible interest income.

940

00:57:56.575 --> 00:57:59.235

And there we turn to charitable contributions

941

00:57:59.375 --> 00:58:01.275

and we'll be here for a few slides.

942

00:58:02.115 --> 00:58:06.785

Charitable contributions are not simple at all.

943

00:58:07.145 --> 00:58:11.485

I mean, it's a, if if a person makes a hundred thousand

944

00:58:11.485 --> 00:58:14.605

dollars and contributes 40,000,

945

00:58:17.255 --> 00:58:22.145

it's pretty simple, but that's the end of the simplicity.

946

00:58:23.235 --> 00:58:25.865

Let's talk about it. Charitable contributions made

947

00:58:25.865 --> 00:58:29.985

to a qualified charity, which means public charities

948

00:58:30.005 --> 00:58:34.175

or private foundations are deducted on Schedule A.

949

00:58:35.135 --> 00:58:38.875

The donations can be made as cash or non-cash property.

950

00:58:39.725 --> 00:58:43.055

Individuals can carry forward any excess contributions

951

00:58:43.155 --> 00:58:44.255

for five years.

952

00:58:45.715 --> 00:58:50.015

All rights and interested in the not into the donation

953

00:58:50.885 --> 00:58:54.095

must be transferred to the qualified organization.

954

00:58:55.195 --> 00:58:59.095

So you can't do half and half, I mean you're contributing

955

00:58:59.095 --> 00:59:01.895

or you know, if you can't say here's a hundred thousand

956

00:59:01.895 --> 00:59:05.855

dollars, you can keep 50, but I may want 50 back.

957

00:59:06.045 --> 00:59:07.215

Nope, you can't do that.

958

00:59:07.715 --> 00:59:11.055

Um, basically you either make the hundred thousand

959

00:59:11.775 --> 00:59:12.495

contribution or the,

960

00:59:22.055 --> 00:59:25.365

there are a lot of donation requirements here that, um,

961

00:59:25.585 --> 00:59:27.885

you need to know about clothing

962

00:59:27.945 --> 00:59:30.765

and household items donated can be in good

963

00:59:30.785 --> 00:59:34.295

or better condition, uh, where they have to be valued

964

00:59:34.555 --> 00:59:37.655

by a qualified appraisal at $500

965

00:59:37.795 --> 00:59:41.925

or more for cash or cash equivalent donation.

966

00:59:42.285 --> 00:59:45.605

Regardless of the amount, the taxpayer must maintain a

967

00:59:45.745 --> 00:59:49.995

record of the contribution bank record, um,

968

00:59:50.415 --> 00:59:54.595

or canceled check, or a written record from the charity.

969

00:59:55.495 --> 00:59:58.235

The written record has to include the name of the charity,

970

00:59:59.055 --> 01:00:01.675

the date and the amount of the contribution.

971

01:00:12.925 --> 01:00:15.465

If a donation is in the form of property, the amount

972

01:00:15.465 --> 01:00:18.545

of donation depends on the type of the property, the type

973

01:00:18.545 --> 01:00:20.745

of organization that receives the property.

974

01:00:21.815 --> 01:00:24.825

Capital gain property is property on which a long-term

975

01:00:24.825 --> 01:00:26.785

capital gain would be recognized

976

01:00:27.325 --> 01:00:29.945

if it was sold on the date of the contribution.

977

01:00:31.225 --> 01:00:34.145

Ordinary income property is property on which ordinary

978

01:00:34.245 --> 01:00:36.385

income or short term capital gain

979

01:00:36.955 --> 01:00:39.905

would be recognized if it was sold on the date

980

01:00:39.965 --> 01:00:41.225

of the contribution.

981

01:00:46.035 --> 01:00:47.815

Now we have different limitations.

982

01:00:48.035 --> 01:00:52.655

We have a 50% limitation, 30% limitation,

983

01:00:53.035 --> 01:00:54.855

and a 20% limitation.

984

01:00:55.745 --> 01:00:58.515

It's 50% of adjusted gross income.

985

01:00:59.945 --> 01:01:04.735

So the most anyone can, can get,

986

01:01:04.875 --> 01:01:08.735

get a deduction for, um, of any kind of charity

987

01:01:08.835 --> 01:01:12.455

and so forth is 50% of adjusted gross income.

988

01:01:14.005 --> 01:01:17.745

So most charitable organizations, public organizations

989

01:01:18.205 --> 01:01:22.755

and um, private operating foundations

990

01:01:23.815 --> 01:01:27.065

usually are eligible for the 50% limit.

991

01:01:27.725 --> 01:01:31.985

And that includes churches, educational organizations,

992

01:01:33.145 --> 01:01:36.505

hospitals, and certain medical research in organizations,

993

01:01:37.135 --> 01:01:41.785

organizations that are operated only to receive whole invest

994

01:01:41.965 --> 01:01:46.825

and administer property and to make expenditures to

995

01:01:47.205 --> 01:01:49.065

or for the benefit of state

996

01:01:49.125 --> 01:01:51.545

and municipal colleges and universities.

997

01:01:53.935 --> 01:01:55.695

A contribution to the United States

998

01:01:55.875 --> 01:01:58.015

or any state of the,

999

01:01:58.515 --> 01:02:01.455

of the government is a deductible contribution.

1000

01:02:01.615 --> 01:02:03.055

I don't know if so many people who do that.

1001

01:02:03.875 --> 01:02:07.335

Um, private operating foundations, which are

1002

01:02:07.885 --> 01:02:09.255

private foundations,

1003

01:02:09.915 --> 01:02:12.455

but that meet certain requirements to be treated

1004

01:02:12.675 --> 01:02:14.055

as public charities

1005

01:02:15.115 --> 01:02:17.415

and private non-operating foundations

1006

01:02:17.415 --> 01:02:20.405

that make qualifying contributions are a hundred percent

1007

01:02:20.515 --> 01:02:21.845

qualify within two

1008

01:02:21.845 --> 01:02:25.085

and a half months following the year,

1009

01:02:25.115 --> 01:02:27.005

they receive the contribution.

1010

01:02:47.975 --> 01:02:52.515

So charitable contributions are subject to limitations.

1011

01:02:53.375 --> 01:02:58.115

So the overall limitation on charitable deductions is

1012

01:02:58.115 --> 01:02:58.915

50%,

1013

01:03:04.905 --> 01:03:08.845

but some of the contributions can be further limited to 30%

1014

01:03:08.945 --> 01:03:12.925

or 20% of a GI depending on the type

1015

01:03:12.925 --> 01:03:14.125

of contribution given

1016

01:03:14.345 --> 01:03:17.405

and the type of organization to which it's given.

1017

01:03:18.105 --> 01:03:22.485

Any donations that exceed this limitation can be forward,

1018

01:03:22.595 --> 01:03:26.245

carried forward and deducted within the next

1019

01:03:26.355 --> 01:03:27.405

five year period.

1020

01:03:28.295 --> 01:03:30.285

After five years, it's lost.

1021

01:03:34.305 --> 01:03:38.355

There's a special 30% limitation for capital gain property.

1022

01:03:39.785 --> 01:03:42.765

The, the 30% limitation applies to gift

1023

01:03:42.965 --> 01:03:47.405

of capital gain property given to the public charities.

1024

01:03:48.425 --> 01:03:52.045

If the, if it is only applicable if the donor elects not

1025

01:03:52.065 --> 01:03:56.205

to reduce the fair market value of the donated property

1026

01:03:56.705 --> 01:03:59.405

by the amount that would've been long-term capital gain

1027

01:04:00.065 --> 01:04:04.475

if it had been sold, if the reduction is elected

1028

01:04:05.185 --> 01:04:09.155

only 50%, um, can,

1029

01:04:09.535 --> 01:04:11.115

um, apply.

1030

01:04:12.315 --> 01:04:14.555

I think the reason you're seeing this, uh,

1031

01:04:14.555 --> 01:04:16.395

little 60% thing is

1032

01:04:16.395 --> 01:04:21.075

because cash contribution, we call them 50%

1033

01:04:21.585 --> 01:04:23.675

charities because that's how they're define.

1034

01:04:24.535 --> 01:04:27.715

But temporarily, because of the tax and cuts

1035

01:04:27.715 --> 01:04:32.595

and Jobs act, you can deduct up to 60% of a GI

1036

01:04:32.815 --> 01:04:33.875

for the next two years.

1037

01:04:34.695 --> 01:04:36.635

We don't know what will happen after that.

1038

01:04:41.395 --> 01:04:45.455

And there's one more limitation and that's a 20% limitation

1039

01:04:46.195 --> 01:04:47.935

and it applies to capital gain.

1040

01:04:48.335 --> 01:04:52.255

Property donated to non 50% charities.

1041

01:04:53.575 --> 01:04:56.875

The limit is the lesser of 20% of a GI

1042

01:04:57.455 --> 01:05:01.675

or 30% of a GI minus the capital gain contributions

1043

01:05:02.215 --> 01:05:03.635

to the public charities

1044

01:05:05.705 --> 01:05:07.805

and accounting for the different limitations.

1045

01:05:08.105 --> 01:05:10.645

All donations subject to the 50%

1046

01:05:11.735 --> 01:05:16.125

limit are considered before the donations subject to 30%.

1047

01:05:17.525 --> 01:05:20.665

And again, the reason for the bracket is

1048

01:05:21.725 --> 01:05:26.185

the code defines contributions well as charities as 50%

1049

01:05:26.205 --> 01:05:29.785

of a GI, but we have the temporary change

1050

01:05:30.325 --> 01:05:35.265

to 60% in carrying over excess contributions

1051

01:05:35.285 --> 01:05:36.945

to subsequent tax years.

1052

01:05:37.765 --> 01:05:39.625

The excess must be carried over

1053

01:05:39.725 --> 01:05:42.305

to the appropriate limitation categories.

1054

01:05:43.165 --> 01:05:46.825

If a contribution is in the 30% category

1055

01:05:47.485 --> 01:05:48.625

is more than the limit,

1056

01:05:49.245 --> 01:05:51.985

the excess is carried over in subject

1057

01:05:52.045 --> 01:05:57.025

to the 30% limitation in the next tax year.

1058

01:06:00.235 --> 01:06:04.565

Okay, let's move on. Um, casualty and theft losses.

1059

01:06:05.545 --> 01:06:08.005

And as I said, there's not gonna be, if you're looking

1060

01:06:08.065 --> 01:06:09.125

for a polling question,

1061

01:06:09.125 --> 01:06:11.685

there won't be one until the very end.

1062

01:06:12.745 --> 01:06:16.685

Um, the itemized deductions for personal casualty

1063

01:06:16.705 --> 01:06:20.725

and theft losses is allowed if attributed

1064

01:06:20.905 --> 01:06:22.605

to a federally declared

1065

01:06:22.745 --> 01:06:26.485

and non federally declared disaster losses limited

1066

01:06:26.665 --> 01:06:30.565

to offsetting casualty gains only the amount

1067

01:06:30.565 --> 01:06:33.245

of loss over a hundred dollars is deductible

1068

01:06:33.985 --> 01:06:36.525

and only the accurate amount of all losses.

1069

01:06:36.755 --> 01:06:41.205

More than 10% of adjusted gross income is deductible.

1070

01:06:52.845 --> 01:06:55.585

But the following expenses are deductible

1071

01:06:55.925 --> 01:06:57.865

as other itemized deductions.

1072

01:06:59.955 --> 01:07:03.735

Premium on a taxable bonds casualty

1073

01:07:03.915 --> 01:07:07.015

and theft losses from income producing property,

1074

01:07:08.205 --> 01:07:12.295

federal estate tax on income and respect of the decedent.

1075

01:07:13.155 --> 01:07:15.215

And that is an amount that can come

1076

01:07:15.215 --> 01:07:17.695

through in a form K one from an estate

1077

01:07:18.605 --> 01:07:21.755

where there are excess deductions in the final year.

1078

01:07:23.485 --> 01:07:26.085

Gambling losses and expenses up to the amount

1079

01:07:26.185 --> 01:07:30.935

of gambling winnings, impairment related work, expenses

1080

01:07:31.315 --> 01:07:35.075

of persons with disabilities, repayments

1081

01:07:35.075 --> 01:07:38.515

of more than $3,000 under a claim of right

1082

01:07:39.725 --> 01:07:43.665

and unrecovered investment in a pension plan.

1083

01:07:48.485 --> 01:07:51.945

The taxpayer has an option here deducting the loss on the

1084

01:07:51.945 --> 01:07:53.145

return the D year,

1085

01:07:54.045 --> 01:07:57.545

and this is for casualty loss is only casualty

1086

01:07:57.545 --> 01:08:01.185

and theft loss is only the taxpayer has the option

1087

01:08:01.205 --> 01:08:03.145

of deducting the loss on the return

1088

01:08:03.245 --> 01:08:05.305

for the year in which the loss occurred

1089

01:08:06.285 --> 01:08:08.505

or the preceding year tax return

1090

01:08:08.605 --> 01:08:10.265

by filing an amended return.

1091

01:08:11.385 --> 01:08:14.425

A disaster loss document is compute the same way

1092

01:08:14.425 --> 01:08:15.725

as a casualty loss,

1093

01:08:16.665 --> 01:08:19.405

but personal losses are claimed on Schedule A

1094

01:08:19.865 --> 01:08:21.725

as an itemized deduction.

1095

01:08:23.035 --> 01:08:26.715

Disaster losses exceeding a hundred dollars plus 10%

1096

01:08:26.735 --> 01:08:28.595

of a GI are deductible

1097

01:08:29.455 --> 01:08:31.875

if the disaster losses claimed on the

1098

01:08:31.875 --> 01:08:33.035

preceding years return.

1099

01:08:33.855 --> 01:08:38.075

The a GI limitation is based on the prior year's.

1100

01:08:38.315 --> 01:08:38.915

A GI

1101

01:08:45.605 --> 01:08:46.895

what a how it's a hobby.

1102

01:08:47.685 --> 01:08:51.455

Well, the IRS has a a little difference of opinion

1103

01:08:52.505 --> 01:08:53.895

about what a hobby is.

1104

01:08:54.515 --> 01:08:57.535

Uh, we usually think of hobby as being a stamp collection,

1105

01:08:58.745 --> 01:09:00.805

um, or a collection of baseball cards.

1106

01:09:02.275 --> 01:09:04.615

The IRS defines a hobby

1107

01:09:04.755 --> 01:09:08.895

or the entire revenue code defines a hobby as an activity

1108

01:09:09.715 --> 01:09:12.615

for which profit is not a primary motive.

1109

01:09:13.715 --> 01:09:15.445

Thus, the IRS does not

1110

01:09:16.005 --> 01:09:18.805

consider an activity as a business.

1111

01:09:19.905 --> 01:09:23.325

An activity is presumed not to be a hobby

1112

01:09:24.065 --> 01:09:26.365

if profits result in any three

1113

01:09:26.465 --> 01:09:28.685

of five consecutive tax years.

1114

01:09:29.925 --> 01:09:32.745

In the case of breeding training or showing

1115

01:09:32.925 --> 01:09:34.985

and racing horses, two

1116

01:09:35.085 --> 01:09:37.985

of seven consecutive years is the rule.

1117

01:09:39.455 --> 01:09:42.465

Some of the factors used determine whether an activity is

1118

01:09:42.465 --> 01:09:44.785

carried on for profit, are

1119

01:09:45.365 --> 01:09:49.905

the way the taxpayer carries on the activity, the expertise

1120

01:09:50.085 --> 01:09:53.105

of the taxpayer advisors, the time

1121

01:09:53.125 --> 01:09:55.265

and effort expended by the taxpayer

1122

01:09:55.985 --> 01:09:57.105

carrying on the activity.

1123

01:09:58.115 --> 01:10:01.215

The expectation that assets used in the activity

1124

01:10:01.875 --> 01:10:03.255

may appreciate value.

1125

01:10:04.075 --> 01:10:07.695

The success of the taxpayer carrying on are the similar

1126

01:10:07.875 --> 01:10:09.335

and dissimilar activities

1127

01:10:09.875 --> 01:10:13.895

and the elements of personal pleasure or recreation.

1128

01:10:14.745 --> 01:10:18.335

These are the things they look at in trying to decide

1129

01:10:18.915 --> 01:10:20.215

if something is a hobby.

1130

01:10:21.605 --> 01:10:24.985

So if I'm carrying on a business for the last 10 years

1131

01:10:25.165 --> 01:10:27.505

and I haven't generated a profit from it,

1132

01:10:28.525 --> 01:10:31.895

and when it comes down

1133

01:10:31.955 --> 01:10:33.535

to it, I'm working.

1134

01:10:33.955 --> 01:10:35.735

I'm a partner in a partnership.

1135

01:10:36.755 --> 01:10:40.335

Um, and I do webinars and I do teaching.

1136

01:10:41.075 --> 01:10:45.535

And now I also have another business where, um,

1137

01:10:46.055 --> 01:10:50.655

I have, I discuss with people what they need to do to

1138

01:10:51.285 --> 01:10:53.335

prepare for the unexpected.

1139

01:10:54.385 --> 01:10:56.435

That business does not produce a profit

1140

01:10:57.955 --> 01:11:01.415

and it produces a loss, which I will take on my return,

1141

01:11:02.485 --> 01:11:04.745

but I'm hoping that it will turn around

1142

01:11:04.925 --> 01:11:09.585

and will become profitable in the next five or six years.

1143

01:11:10.545 --> 01:11:13.045

And if it does, then, um, to,

1144

01:11:13.545 --> 01:11:15.845

in taking the losses, a business loss.

1145

01:11:17.025 --> 01:11:19.165

But if I go on for five or six years

1146

01:11:19.585 --> 01:11:21.005

and I don't make any money,

1147

01:11:21.705 --> 01:11:25.325

but my money is coming from my accounting business

1148

01:11:25.425 --> 01:11:26.765

and from my webinars

1149

01:11:26.785 --> 01:11:30.485

and from my teaching, the IRS will deny the

1150

01:11:30.485 --> 01:11:32.445

deduction as a hobby.

1151

01:11:32.875 --> 01:11:35.845

It's not a hobby. It's something I really am interested

1152

01:11:35.945 --> 01:11:40.455

and would like to do business, but it may not, may

1153

01:11:40.455 --> 01:11:43.495

or may not take off as a full business.

1154

01:11:45.855 --> 01:11:48.225

I'll talk more about that also in my,

1155

01:11:49.005 --> 01:11:51.545

in the next program in two weeks,

1156

01:11:53.935 --> 01:11:57.835

tax credits are used to achieve primary policy objectives,

1157

01:11:58.505 --> 01:12:02.115

such as providing tax relief to low income taxpayers.

1158

01:12:03.075 --> 01:12:05.675

A dollar credit reduces gross income,

1159

01:12:06.325 --> 01:12:08.115

gross liability by a dollar.

1160

01:12:09.525 --> 01:12:11.385

So we've now switched off.

1161

01:12:11.755 --> 01:12:14.585

We've gone off from deductions

1162

01:12:15.205 --> 01:12:17.065

and we're now talking about credits.

1163

01:12:18.055 --> 01:12:21.355

Now let's remember that the deductions are good.

1164

01:12:22.145 --> 01:12:23.595

It's great to have deductions,

1165

01:12:24.485 --> 01:12:28.425

but we have all these rules that sometimes, you know,

1166

01:12:28.425 --> 01:12:31.385

you can have a lot of medical expenses

1167

01:12:31.525 --> 01:12:32.625

and a lot of interest,

1168

01:12:33.125 --> 01:12:35.425

but if they don't exceed the standard deduction,

1169

01:12:36.045 --> 01:12:39.515

you are not going to utilize them.

1170

01:12:39.515 --> 01:12:40.995

You're going to take the standard,

1171

01:12:41.255 --> 01:12:46.145

you're gonna take the standard deduction with, with credits.

1172

01:12:46.735 --> 01:12:51.465

Credits have no, um, connection

1173

01:12:52.085 --> 01:12:53.465

to adjusted gross income

1174

01:12:53.525 --> 01:12:57.355

or taxable income tax credits are used

1175

01:12:57.415 --> 01:13:01.595

to achieve policy objectives such as providing tax relief

1176

01:13:01.615 --> 01:13:05.955

to low income taxpayers credits reduced gross liability

1177

01:13:06.295 --> 01:13:07.395

dollar for dollar.

1178

01:13:09.215 --> 01:13:11.235

Non-refundable credits are credits

1179

01:13:11.235 --> 01:13:14.155

that cannot exceed the taxpayer's federal income tax.

1180

01:13:14.865 --> 01:13:18.575

Once the tax liability reaches zero,

1181

01:13:19.195 --> 01:13:22.255

no more credits can be taken to reduce refunds.

1182

01:13:23.155 --> 01:13:26.615

Non-refundable credits include the foreign tax credit,

1183

01:13:27.555 --> 01:13:32.055

the lifetime learning credit, the retirement savings credit

1184

01:13:32.655 --> 01:13:34.855

contribution credit, and the credit

1185

01:13:34.995 --> 01:13:36.695

for the elderly or disabled.

1186

01:13:38.135 --> 01:13:41.635

Our refundable credit is payable as a refund

1187

01:13:41.635 --> 01:13:44.715

to the extent the credit amount exceeds the tax.

1188

01:13:44.805 --> 01:13:46.675

Other, the tax otherwise due.

1189

01:13:46.675 --> 01:13:51.465

Do refundable credits include the additional child

1190

01:13:51.925 --> 01:13:55.105

tax credit and the earned income credit?

1191

01:14:07.265 --> 01:14:11.205

As I mentioned, um, in the learning objectives,

1192

01:14:12.445 --> 01:14:16.915

we're going to be looking at some credits that actually,

1193

01:14:18.015 --> 01:14:22.915

um, don't, um,

1194

01:14:28.105 --> 01:14:29.205

Are are fairly new.

1195

01:14:30.075 --> 01:14:31.655

You may not have ever heard of them before.

1196

01:14:32.515 --> 01:14:36.555

And the reason you may not have heard of them before is

1197

01:14:36.555 --> 01:14:38.355

because they are brand new

1198

01:14:38.935 --> 01:14:43.275

and they come out of either the Infrastructure Act,

1199

01:14:43.855 --> 01:14:48.115

the CHIPS Act, or the Inflation Reduction Act.

1200

01:14:48.515 --> 01:14:50.665

Those are three tax bills that passed

1201

01:14:51.085 --> 01:14:53.065

during the Biden administration.

1202

01:14:54.305 --> 01:14:56.865

If you remember at the beginning of his administration,

1203

01:14:57.485 --> 01:14:59.705

he was talking about building back better

1204

01:15:00.505 --> 01:15:02.485

and there were going to be amazing number

1205

01:15:02.625 --> 01:15:04.245

of more credits available,

1206

01:15:05.265 --> 01:15:07.485

but unfortunately that got knocked down

1207

01:15:07.865 --> 01:15:09.405

and we're left with these four

1208

01:15:09.545 --> 01:15:12.765

or five credits that I'm going to be mentioning.

1209

01:15:13.065 --> 01:15:13.285

Now,

1210

01:15:22.655 --> 01:15:24.795

An individual can claim a tax credit

1211

01:15:24.975 --> 01:15:28.035

for certain home energy improvements placed in service

1212

01:15:28.375 --> 01:15:31.075

before January 1st, 2033.

1213

01:15:32.355 --> 01:15:34.805

With respect to a home in the United States,

1214

01:15:35.025 --> 01:15:39.765

the credit is generally equal to 30% of the amount paid

1215

01:15:39.825 --> 01:15:41.725

or incurred during the tax year

1216

01:15:42.545 --> 01:15:46.125

for qualified energy efficiency improvements,

1217

01:15:47.155 --> 01:15:50.165

residential energy, property expenditures,

1218

01:15:50.905 --> 01:15:52.565

and home energy audits.

1219

01:15:53.955 --> 01:15:58.115

Expenditures made from subsidized energy financing

1220

01:15:58.175 --> 01:16:00.915

and not considered cooperative

1221

01:16:00.935 --> 01:16:03.355

and condominium dwellers can claim

1222

01:16:03.815 --> 01:16:07.515

by splitting the qualified costs among the owners

1223

01:16:07.575 --> 01:16:10.795

of the units that are benefited by the improvement.

1224

01:16:11.615 --> 01:16:14.735

A taxpayer calculates the credit on IRS

1225

01:16:14.845 --> 01:16:19.425

4 56 95 qualified

1226

01:16:19.685 --> 01:16:22.865

energy property energy, exterior windows

1227

01:16:23.165 --> 01:16:25.665

and exterior doors placed in service

1228

01:16:25.835 --> 01:16:29.185

after 2024 must be produced

1229

01:16:29.325 --> 01:16:31.025

by a qualified manufacturer

1230

01:16:31.645 --> 01:16:36.025

and the taxpayer return must include the qualified product

1231

01:16:36.745 --> 01:16:37.825

identification Number

1232

01:16:49.185 --> 01:16:51.995

Next is an energy efficient improvement credit.

1233

01:16:52.735 --> 01:16:55.915

The annual credit is generally limited to a maximum total

1234

01:16:55.975 --> 01:16:58.815

of $1,200 with the annual credit.

1235

01:16:59.125 --> 01:17:02.655

Also limited to $600 for any item

1236

01:17:02.875 --> 01:17:06.695

of qualified energy property or exterior windows

1237

01:17:06.915 --> 01:17:11.215

or skylights, $500 for all exterior doors

1238

01:17:11.355 --> 01:17:15.495

and two 50 for any single exterior door,

1239

01:17:16.135 --> 01:17:18.895

$150 from an energy order.

1240

01:17:19.565 --> 01:17:23.575

However, in addition to this, $1,200 maximum credit,

1241

01:17:24.175 --> 01:17:29.135

a tax payment may also claim a maximum $2,000 annual credit

1242

01:17:29.715 --> 01:17:33.455

for electric or natural gas heat pump water heaters

1243

01:17:33.995 --> 01:17:37.575

and biomass stoves and boilers.

1244

01:17:39.875 --> 01:17:42.415

The credit is a nonrefundable credit

1245

01:17:42.965 --> 01:17:46.175

that can be claimed against the regular and alternative

1246

01:17:46.275 --> 01:17:48.695

and alternative minimum tax liability.

1247

01:17:49.855 --> 01:17:53.635

Unlike the residential clean energy credit, any

1248

01:17:54.175 --> 01:17:57.035

unused energy efficient home improvement credit

1249

01:17:57.825 --> 01:18:02.115

that is lost, it can be carried over to the net year.

1250

01:18:02.655 --> 01:18:06.755

The amount that the without credit, which reduces tax basis

1251

01:18:07.315 --> 01:18:09.395

increase would lead, would

1252

01:18:09.395 --> 01:18:13.515

otherwise result from the expenditure.

1253

01:18:22.245 --> 01:18:26.455

Next up is the residential energy credit.

1254

01:18:28.065 --> 01:18:29.905

A credit can be claim a tax credit.

1255

01:18:32.265 --> 01:18:34.645

An individual may claim a tax credit

1256

01:18:34.785 --> 01:18:39.165

for residential property placed in service in connection

1257

01:18:39.165 --> 01:18:41.045

with a dwelling unit in the United States

1258

01:18:41.595 --> 01:18:44.165

that the taxpayer uses as a residence.

1259

01:18:45.305 --> 01:18:48.245

Now I wanna stop here to point out that most

1260

01:18:48.265 --> 01:18:50.945

of these credits talk about

1261

01:18:52.225 --> 01:18:54.065

property placed in service in the United States.

1262

01:18:55.135 --> 01:18:57.025

This all came from a strategy

1263

01:18:58.045 --> 01:19:01.505

and basically it is a Republican backed strategy

1264

01:19:02.715 --> 01:19:07.205

that says we are not going to give these credits to people

1265

01:19:07.225 --> 01:19:09.325

who buy property overseas.

1266

01:19:10.335 --> 01:19:14.715

It comes from that buy American um, strategy.

1267

01:19:15.895 --> 01:19:18.675

So that's why you'll see that most of these credits

1268

01:19:19.295 --> 01:19:21.555

are limited, which deductions warrant

1269

01:19:22.545 --> 01:19:24.885

to expenditures in the United States.

1270

01:19:26.295 --> 01:19:30.995

So the residential clean energy credit is equal to 30%

1271

01:19:31.095 --> 01:19:32.675

of the cost qualified.

1272

01:19:33.735 --> 01:19:37.515

It includes solar, electric property, solar warning,

1273

01:19:37.625 --> 01:19:42.445

heating, property fuel cell property, small wind,

1274

01:19:42.805 --> 01:19:46.725

NG property, and geothermal heat pump property

1275

01:19:47.585 --> 01:19:50.005

and battery storage technology.

1276

01:19:51.515 --> 01:19:54.125

Fuel cell property must be installed

1277

01:19:54.665 --> 01:19:57.005

on the taxpayer's principal residence

1278

01:19:57.505 --> 01:20:02.045

and the credit is limited to $500 for each half

1279

01:20:02.065 --> 01:20:05.645

of a 0.5 kilowatt of capacity.

1280

01:20:07.375 --> 01:20:10.225

Some of these credits are almost impossible for us

1281

01:20:10.365 --> 01:20:12.745

as accountants to calculate.

1282

01:20:13.295 --> 01:20:17.305

They almost have to be calculated by the company

1283

01:20:18.045 --> 01:20:20.025

that's producing the product

1284

01:20:20.995 --> 01:20:24.805

because we don't know what kilowatts are and so forth.

1285

01:20:24.825 --> 01:20:28.905

So we are relying heavily on the companies

1286

01:20:28.975 --> 01:20:30.625

that produce the credits.

1287

01:20:33.865 --> 01:20:36.405

The residential energy credit also applies

1288

01:20:36.465 --> 01:20:39.005

to expenditures made in 2021

1289

01:20:39.025 --> 01:20:42.845

and 2022 for biomass fuel property

1290

01:20:43.435 --> 01:20:46.805

cooperative and condominium TWIs can claim the credit

1291

01:20:46.945 --> 01:20:48.725

by splitting the qualified costs

1292

01:20:49.315 --> 01:20:52.685

with the other owners benefited by the qualified property.

1293

01:20:53.495 --> 01:20:57.195

The credit drops to 26% in 2033

1294

01:20:57.975 --> 01:21:00.795

and 22% in 2034.

1295

01:21:01.655 --> 01:21:03.515

The credit is non-refundable.

1296

01:21:04.355 --> 01:21:06.405

It's a non-refundable personal credit

1297

01:21:06.405 --> 01:21:08.685

that may reclaimed against the regular tax

1298

01:21:08.905 --> 01:21:10.485

and the alternative minimum tax

1299

01:21:11.105 --> 01:21:13.245

he allowed credit reduces the taxpayer's

1300

01:21:13.245 --> 01:21:14.485

basis in the residence.

1301

01:21:15.145 --> 01:21:17.725

Unlike energy and efficient home improvement credit,

1302

01:21:18.185 --> 01:21:21.525

the residential clean energy credit applies to labor costs

1303

01:21:22.185 --> 01:21:24.845

or onsite preparation, assembly

1304

01:21:25.385 --> 01:21:27.685

and original installation, installation

1305

01:21:28.265 --> 01:21:29.605

of qualified property

1306

01:21:29.945 --> 01:21:32.965

and two existing homes as well as new ones.

1307

01:21:33.425 --> 01:21:36.245

Any unused credit may be carried forward.

1308

01:21:44.075 --> 01:21:48.975

And then we have the EV credit for the electric vehicles

1309

01:21:49.045 --> 01:21:50.775

that are now on the market.

1310

01:21:52.375 --> 01:21:55.075

An individual may claim a tax credit

1311

01:21:55.415 --> 01:21:58.955

for a qualified new clean vehicle placed in service

1312

01:21:59.205 --> 01:22:03.075

after 2022 and before 2023.

1313

01:22:04.195 --> 01:22:07.115

A tax pay may rely on proposed regulations

1314

01:22:07.185 --> 01:22:11.315

that provide guidance on the new clean vehicle credit.

1315

01:22:12.065 --> 01:22:14.395

This is widely known as EV credit.

1316

01:22:14.655 --> 01:22:16.115

The credit has two components.

1317

01:22:17.035 --> 01:22:21.235

A $3,750 credit applies if the vehicle satisfies

1318

01:22:21.915 --> 01:22:24.995

a domestic test for critical minerals in the battery

1319

01:22:26.025 --> 01:22:28.605

and a 3,750 credit.

1320

01:22:29.185 --> 01:22:32.285

If the vehicle satisfies domestic content

1321

01:22:32.545 --> 01:22:33.845

for battery components,

1322

01:22:34.705 --> 01:22:37.765

the matter maximum credit is $7,500.

1323

01:22:38.545 --> 01:22:42.045

The credit is not allowed at the taxpayers modifying gross

1324

01:22:42.185 --> 01:22:46.795

income for the tax year of the credit,

1325

01:22:47.775 --> 01:22:49.475

for the tax year of the credit

1326

01:22:50.575 --> 01:22:52.955

or less of the proceeding.

1327

01:22:53.095 --> 01:22:56.355

Tax year exceeds $300,000

1328

01:22:56.855 --> 01:22:59.595

or married filing jointly surviving spouse.

1329

01:23:00.035 --> 01:23:03.675

I don't think too many people get to spend that much on the

1330

01:23:04.195 --> 01:23:06.005

EB vehicles, but it's possible,

1331

01:23:07.225 --> 01:23:09.105

I guess if you Jayla know you buy.

1332

01:23:09.565 --> 01:23:13.305

Um, but most people don't spend that kind

1333

01:23:13.305 --> 01:23:14.305

of money on vehicles.

1334

01:23:16.835 --> 01:23:18.035

I guess maybe I did.

1335

01:23:18.215 --> 01:23:22.075

So basically I have pretty much covered everything.

1336

01:23:22.335 --> 01:23:27.005

So, um, poll in question six did come up.

1337

01:23:27.285 --> 01:23:29.485

I wasn't really ready for it to come up.

1338

01:23:30.305 --> 01:23:32.625

Um, which

1339

01:23:32.645 --> 01:23:35.985

of these is non a credit against tax liability?

1340

01:23:37.935 --> 01:23:42.835

Um, so this one should have been a little bit easier.

1341

01:23:44.055 --> 01:23:48.275

Um, the EV credit is a credit against the tax liability.

1342

01:23:49.095 --> 01:23:50.995

It does reduce the tax liability.

1343

01:23:51.895 --> 01:23:55.475

The earned income credit does reduce the tax liability

1344

01:23:56.625 --> 01:23:59.285

and the foreign taxes credit does

1345

01:24:00.965 --> 01:24:02.165

decrease tax liability.

1346

01:24:03.345 --> 01:24:06.165

The only possible answer in this question

1347

01:24:06.265 --> 01:24:07.445

was passive losses.

1348

01:24:08.795 --> 01:24:10.735

Now Passive losses are not a credit.

1349

01:24:10.765 --> 01:24:12.935

Passive losses are a deduction

1350

01:24:13.995 --> 01:24:18.295

and passive losses are deducted only if this passive income,

1351

01:24:19.335 --> 01:24:21.475

um, much bigger topic

1352

01:24:21.695 --> 01:24:24.435

to get into than we're gonna get into today.

1353

01:24:24.655 --> 01:24:28.235

But passive activity, losses, again,

1354

01:24:28.535 --> 01:24:30.595

are a deduction and not a credit.

1355

01:24:30.855 --> 01:24:35.275

So the only pla that's the only possible answer here, um,

1356

01:24:35.445 --> 01:24:37.715

lemme make sure I'm reading the question right myself.

1357

01:24:37.725 --> 01:24:41.315

Which of these is not a credit against tax liability?

1358

01:24:42.055 --> 01:24:44.675

You know, EV is a credit against tax liability.

1359

01:24:45.295 --> 01:24:48.075

Earned income is a credit against tax liability,

1360

01:24:48.815 --> 01:24:51.995

and the foreign tax is a credit against tax liability.

1361

01:24:52.695 --> 01:24:56.915

And passive loss is, is the only possible correct answer.

1362

01:24:58.865 --> 01:25:03.645

Um, I'll just summarize things today by, um,

1363

01:25:04.865 --> 01:25:07.485

saying that basically a large part

1364

01:25:07.505 --> 01:25:09.805

of effective tax planning, again,

1365

01:25:09.945 --> 01:25:12.605

I'm gonna talk about year end planning, two in two weeks.

1366

01:25:13.585 --> 01:25:16.565

But a large part of effective income tax planning includes

1367

01:25:17.615 --> 01:25:22.245

minimizing the overall tax liability by create,

1368

01:25:22.465 --> 01:25:24.045

by creating, increasing

1369

01:25:24.185 --> 01:25:27.485

or accelerating deductions or credits.

1370

01:25:28.435 --> 01:25:31.315

A deduction of credit reduces the current year taxes,

1371

01:25:32.295 --> 01:25:36.475

but saddles future years with disadvantaged tax positions.

1372

01:25:37.905 --> 01:25:41.035

Thus, it's really important to look at the short term

1373

01:25:41.815 --> 01:25:45.555

and long term effect of taking these productions.

1374

01:25:46.915 --> 01:25:50.535

So again, um, I'll conclude, um,

1375

01:25:51.625 --> 01:25:56.615

with a statement that was made by Judge Learn hand, um,

1376

01:25:57.965 --> 01:26:01.385

and judge Learned hand said, um,

1377

01:26:02.655 --> 01:26:06.535

in the case of Commissioner versus Newman, over

1378

01:26:06.635 --> 01:26:10.095

and over again, the courts have said there is

1379

01:26:10.095 --> 01:26:11.415

nothing sinister.

1380

01:26:11.875 --> 01:26:16.455

And so arranging women's affairs as to keep taxes as low

1381

01:26:16.475 --> 01:26:20.655

as possible, everybody does so rich or poor

1382

01:26:21.235 --> 01:26:22.295

and all do right,

1383

01:26:22.635 --> 01:26:26.135

or nobody owes any public duty to a,

1384

01:26:26.275 --> 01:26:29.335

to pay more than the law demands.

1385

01:26:30.155 --> 01:26:32.545

Taxes are enforced extractions,

1386

01:26:33.365 --> 01:26:36.625

not voluntary contributions to demand,

1387

01:26:36.765 --> 01:26:40.225

nor more in the name of morals as mayor.

1388

01:26:40.585 --> 01:26:44.995

KI mean, what he judge in summarize what he means by

1389

01:26:44.995 --> 01:26:48.875

that is if there's a deduction available to you, take it.

1390

01:26:49.695 --> 01:26:54.615

If you are not positive about it, take the deduction.

1391

01:26:54.795 --> 01:26:58.375

But there is a form you can fill out when you file a return

1392

01:26:59.125 --> 01:27:01.095

that says, this happened.

1393

01:27:01.595 --> 01:27:04.015

And I don't know if it filed its place to this credit.

1394

01:27:04.215 --> 01:27:06.735

I don't know if this credit, if I entitled to the credit,

1395

01:27:07.215 --> 01:27:12.015

I took the credit, but I don't know if I fully qualify

1396

01:27:12.355 --> 01:27:12.695

for it.