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Tax Law Is Full of Exceptions

Before doing your taxes, read the fine print. Experts say the new tax rules aren't as black and white as they might seem

High-income earners should make sure they didn't pay excess Social Security tax. PHOTO: MIKEL JASO

By Tom Herman

March 24, 2019 10:05 pm ET

An Internal Revenue Service official once introduced me to the rule of PUNG. When writing about taxes, he said, make frequent use of the words "probably, usually, normally and generally."

That's generally good advice—not only for tax columnists struggling to explain tricky tax laws but also for tens of millions of taxpayers racing to file their returns on time. "The law is chock-full of exceptions" and counterintuitive twists that are easy to overlook and can often have an important impact on your tax bill, says Claudia Hill, owner of TaxMam Inc., a tax services firm in Cupertino, Calif.

With the tax-filing deadline fast approaching for most of us, here are a few reminders from tax pros on how the fine print can sometimes be your friend.

Filing deadline: For most taxpayers, the filing deadline is April 15. But it's April 17 for taxpayers who live in Maine or Massachusetts because of the Patriots' Day holiday there on April 15 and the

Emancipation Day holiday in the District of Columbia on April 16. It can be even later for other taxpayers, such as those in places designated as federal disaster areas.

If you need more time to file, as millions of people do each year, don't panic: The IRS gives automatic six-month extensions until Oct. 15. But its website notes that an "extension of time to file your return doesn't grant you any extension of time to pay your taxes." The IRS estimates it will receive more than 14.6 million extension requests, a spokesman says.

Casualty losses: Fires, floods, mudslides, tornadoes, hurricanes and many other natural disasters made 2018 a year many of us are eager to forget, and this year already is shaping up as another grim reminder of Mother Nature's awesome power.

At first glance, the wide-ranging tax law enacted in late 2017 might seem like yet another disaster for the many people who suffered major casualty losses. That law generally eliminated personal casualty and theft-loss deductions for most taxpayers, starting last year. But there is an important exception, says Jackie Perlman, principal tax research analyst at The Tax Institute at H&R Block Inc. in Kansas City, Mo. Victims still are eligible to deduct net personal casualty losses "to the extent they're attributable to a federally declared disaster," the IRS says.

Warning: There are important loss limitations and other tricky calculations to consider. For details, see IRS Publication 547.

Here is a holdover from the old law that may surprise some people because it sounds counterintuitive: Victims in federal disaster areas can choose to claim their losses for the year in which the disaster actually struck or for the prior year. For example, taxpayers with net personal casualty losses this year could claim their losses on their return for 2018—or they could wait until next year and claim it on their return for 2019, says Ms. Perlman of H&R Block. Taxpayers who suffered losses in 2018 could claim those losses on their return for that year—or on their return for 2017 (typically by filing an amended return).

14-day rule: As a general rule, the net rental income you get from renting out your home is subject to tax. But "there's a special rule if you use a dwelling unit as a residence and rent it for fewer than 15 days," the IRS says on its website. "In this case, don't report any of the rental income and don't deduct any expenses as rental expenses."

Those 14 days don't have to be consecutive, says Ms. Hill, who is also an enrolled agent (enrolled agents are tax specialists authorized to represent taxpayers at all levels of the IRS).

But if you rent your home for 15 days or more, include all of that rental income in your income, says Ms. Perlman.

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Refund claims: Don't assume that you have forever to file your federal income-tax return as long as you are entitled to a refund. About 1.2 million taxpayers could lose almost $1.4 billion in unclaimed refunds because they still haven't filed a 2015 Form 1040 return, the IRS warned in a recent press release.

"In cases where a federal income tax return was not filed, the law provides most taxpayers with a three-year window of opportunity to claim a tax refund," the IRS says. If they miss that deadline, "the money becomes the property of the U.S. Treasury. For 2015 tax returns, the window closes April 15, 2019, for most taxpayers."

Here are other reasons to pay attention: The IRS reminded taxpayers seeking a 2015 tax refund "that their checks may be held if they have not filed tax returns for 2016 and 2017. In addition, the refund will be applied to any amounts still owed to the IRS or a state tax agency and may be used to offset unpaid child support or past due federal debts, such as student loans."

Credit for excess Social Security tax: Most people probably assume it's a waste of time to check and see how much their employers withheld from their paychecks for Social Security. But consider doing it anyway, especially if you're a high-income taxpayer who worked for two or more employers last year. The maximum amount that should have been withheld for 2018 was $7,960.80 (6.2% of $128,400, which was the maximum amount of wages subject to the tax.)

If more than that was withheld, claim a credit for the excess amount. However, if any single employer withheld too much, ask the employer to adjust the tax for you, the IRS says. "If the employer doesn't adjust the overcollection you can file a claim for refund using Form 843."

Interesting exception: Interest income you receive on U.S. Treasury bills, notes and bonds is taxable at the federal level. But don't forget that such interest is tax-free at the state and local level. That can be especially important for taxpayers in New York City, California or other high-tax areas.

Additional standard deduction: Thanks to the 2017 law, tax professionals predict many more people will claim the standard deduction for 2018, rather than itemizing. That law included a sharp increase in the basic standard deduction and generally limited state and local tax deductions to $10,000 per household. The basic standard deduction for 2018 is $24,000 for married couples filing jointly, or $12,000 for most singles and those who are married but filing separately.

But there is an extra amount for older taxpayers, those who qualify as blind, or both. For example, if you're married filing jointly and you and your spouse each are 65 or older, the total standard deduction for 2018 would be $26,600. See IRS Publication 17 for more details.

IRA deadline: It might seem logical to assume there is nothing you can do now to affect your return for 2018. But for some people, it isn't too late: The IRS says contributions to a traditional IRA can be made for a year "at any time during the year or by the due date for filing your return for that year, not including extensions. For most people, this means that contributions for 2018 must be made by April 15, 2019 (April 17, 2019, if you live in Maine or Massachusetts)."

Educator Expenses: Teachers and other educators who pay for educational supplies and other expenses out of their own pockets should be aware that those costs may be deductible up to $250 a year. This special deduction applies to teachers from kindergarten through grade 12, instructors, counselors, principals or aides in school for at least 900 hours during a school year. Qualified expenses include "ordinary and necessary expenses paid in connection with books, supplies, equipment (including computer equipment, software, and services), and other materials used in the classroom," the IRS says. But you can't deduct expenses for home schooling or for "nonathletic supplies for courses in health or physical education."

If you and your spouse file jointly and both are eligible, "the maximum deduction is $500," the IRS says. "However, neither spouse can deduct more than $250 of his or her qualified expenses." This deduction goes on Schedule 1 of Form 1040, line 23.

Mr. Herman is a writer in New York City. He was formerly The Wall Street Journal's Tax Report columnist. Send comments and tax questions to taxquestions@wsj.com.

Appeared in the March 25, 2019, print edition as 'Tax Law Isn't as Black and White as You Think.'