10 Most Overlooked Tax Deductions You Should Use on Your Tax Return

It’s easy to overlook tax deductions. We’ve talked with tax experts to identify 10 commonly missed tax deductions you might be able to use on this year’s tax return.

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Missed deductions on your tax return can leave you feeling like a financial failure.

While your friends and favorite blogs hail the wonders of home-office deductions, work expenses, mortgage points and mileage, you sheepishly sigh and look ahead to April hoping you can manage a few deductions on your own without paying a professional.

At Highya, our goal is to equip consumers to make smart choices about all areas of their life, and taxes are no exception. So, take a moment to forgive yourself for your tax-season errors and prepare to become an expert in tax deductions.

This article is a guide to some of the most common deductions the average taxpayer misses. We talked with tax experts from across the country to dig up these oft-forgotten tax benefits. Their advice is tremendous; we're happy to share it with you.

But before we get into the deductions you've probably missed, let's just do a quick overview of what a deduction is.

A Basic Definition of Tax Deductions

The Internal Revenue Service taxes you on your income. They use a bracket system that divides everyone up into income groups. The more you make, the higher percentage of taxes the IRS takes out:

- $0-$9,325: 10%
- $9,325-$37,950: 15%
- $37,950-$91,900: 25%

The tax rates keep going up after that, but since most American households earn less than $91,900, we'll limit our brackets to three.

If you make $45,000, then you're taxed 10% on the first $9,325, 15% on what you make from $9,325 to $37,950 and 25% on anything you make beyond $37,950.

Tax deductions are dollar amounts you can subtract from your income. Lower income means lower taxes.

So, let's say you get a $5,000 deduction on your taxes and your taxable income drops from $45,000 to $40,000. That $5,000 you deducted would have been taxed at 25%, which means your deduction saved you 25% of $5,000, or $1,250.

When it comes time to file your taxes, you'll pay $1,250 less than what you would've paid without the deduction.

Pro tip: Tax deductions decrease your taxable income, but tax credits decrease the tax you pay. A $5,000 tax credit means you pay $5,000 less in taxes.

Missed Tax Deduction #1: Charitable Contributions

Many of the more than 20 experts we talked with this tax season said taxpayers usually forget to deduct charitable donations.

Melinda Kibler, an Enrolled Agent (IRS expert) and CFP at Palisades Hudson Financial Group in Fort Lauderdale, says you can claim everything from second-hand clothing donations or cash contributions.

“If you dropped off a bag of clothing at a local charity or gave them $5 at the cash register of your grocery store, make sure to track these contributions so you get the highest tax benefit possible,” Melinda said.

Tracking them can be as simple as asking for a receipt for a drop off, or using a budgeting app like YNAB to record individual cash donations.

Unfortunately, says Kyle Walters, a CFP at Atlas Tax Advisors in Dallas, Tx., most taxpayers don’t keep track of these donations.

“Charitable deductions are a big one that people miss. They drop stuff off at a goodwill trailer and don’t get a receipt,” Walters said. “When you add all the drop offs you’ve done throughout the course of the year, it really adds up.”

Don’t limit your deductions to the value of the goods you donate or the money you contribute, though. Kyle says you’re allowed to deduct the mileage you use to get to the donation center. You can also deduct mileage you use to drive to and from volunteer opportunities.

Melinda pointed out that mileage can be deducted at a rate of $0.14 per mile.

All the information you need to know about what’s allowed to be deducted and what’s not is included on the IRS’ Publication 526 page.

Missed Tax Deduction #2: Subtracting Basis from Your Home Sale

If you sell your home and make a profit of at least $250,000, you’ll have to pay taxes on it. However, says Melinda Kibler, you can deduct from the sale profit something called “basis”, which is a bland way of saying “stuff you spent money on to increase the value of the home and sell it”.

“Your basis includes what you originally paid for the home, plus any improvements you made. Improvements include big items such as an addition and also smaller items such as a fence,” she told us. “You can also add to the basis the agent’s sales commission and some settlement fees and closing costs such as legal fees, recording fees, and survey fees.”

The key here, just like charitable donations, is to keep records of all purchases and fees you want to deduct.

To learn more about the specifics of this deduction, consult IRS Publication 523.

Missed Tax Deduction #3: College Textbooks, Supplies, and Fees

David Bakke, a personal finance writer at Money Crashers, pointed out this excellent deduction for college students.

The IRS has a pretty generous program set up for education tax benefits, one of which is to deduct books, supplies, and equipment as "qualified education expenses". Both undergraduate and graduate students can claim these deductions.

The IRS allows you to deduct room and board, too, but only if what you spend on them is less than your rent at college-run housing or any room-and-board allowances included in your tuition.

If you spend more than what you would with the university's housing or allowances, you can't deduct it. Why not? Because, according to the logic, you had cheaper options you didn't take advantage of.

See Also: *A College Freshman's Budget-Friendly Survival Guide: 32 Ways to Save Money*

Missed Tax Deduction #4: State Sales Tax

The IRS allows you to deduct state income tax or sales tax when you file your taxes. Income tax tends to be higher than the amount of sales tax you paid over the course of the year, so most people take the income tax deduction.

However, there are seven states that don't have income tax:

- Alaska
- Florida
- Nevada
- South Dakota
- Texas
- Washington
- Wyoming

Two other states – New Hampshire and Tennessee – don't take income taxes, but they do tax you on dividends and money you make from investments.

If you live in one of the seven states we listed above, you can deduct all state and local sales tax you paid during the year. Now, I know you're thinking it's totally impossible to keep track of every single purchase you made in-state.

You'll be happy to know, though, the IRS has a sales tax calculation tool you can use to figure out about how much you paid. Their numbers are based on the average income and spending habits in the city where you live.

From what we gathered through our interviews, the IRS automatically does the calculations unless you do the deduction yourself.

For high earners who spend more than the average person, Kyle Walters says, it makes sense to keep your own records rather than let the IRS give you a number based on averages.

"If you're a high-income earner – which means you're a high spender – then you should put it in manually," Kyle told us. "Since we're in January, now is the time to start keeping track of it next year. Now's the time to figure out how to put the habits in place to plan for next year."

Missed Tax Deduction #5: Medical Expenses

In a year that requires a lot of medical care or high insurance premiums, this deduction can be a pretty big deal.

The medical expenses deduction takes two forms. First, self-employed taxpayers like freelancers can deduct premiums. The IRS says that the deduction is intended for self-employed workers who pay medical and dental premiums for themselves and their dependents.

For those who aren't self-employed, you can deduct any medical premiums and expenses you pay as long as the sum of those expenses is higher than 10% of your adjusted gross income (AGI).

John Hewitt, CEO of Liberty Tax, told us this rule has one little wrinkle: The 10% rule changes depending on how old you are.

"Taxpayers whose medical expenses exceed 10 percent of their adjusted gross income may be able to deduct those expenses from their income taxes if the taxpayer is under 65," John said. "For those 65 and older, the mark is 7.5 percent of AGI."

You can get additional details on the IRS' medical and dental Topic 502 page.

Missed Tax Deduction #6: Job Relocation

These days, workers are likely to change jobs four times by age of 32, which means you might be doing a lot of relocating.

Randall Brody, an Enrolled Agent with North Las Vegas firm Tax Samaritan, said that taxpayers can rack up some decent deductions for any moving expenses they paid out of pocket.

“Employees who are relocated often miss out on deducting moving expenses,” Randall told us. “There’s a variety of qualified expenses if they’ve paid out of pocket for them.”

Rental trucks, airline tickets and hiring movers all fall under allowable deductions. However, fringe moving “expenses” like buying furniture for your new place or fixing your old place up to sell it don’t count, Randall said.

You’ll have to meet distance and time tests in order to get these deductions, though.

According to the IRS, your new job has to be “at least 50 miles farther from your old home than your old job location was from your old home.”

Also, the IRS says “you must work full-time for at least 39 weeks during the first 12 months immediately following your arrival in the general area of your new job location.”

There are a few other rules you’ll want to check out before you start deducting. Click here to read them.

Missed Tax Deduction #7: Job Searches

According to Liberty Tax’s John Hewitt, many taxpayers miss out on deducting expenses they built up during a job search.

You can’t throw down this deduction for just any job search, though.

“You can deduct expenses you incurred during a job search, but you must have searched for the same line of work as your current or most recent job,” John said.

Having a hard time thinking about what to deduct? Here are a few examples John gave us:

- $0.54-per-mile deduction for car travel
- Taxi, parking, and tolls
- Employment agency fees
- Cost of preparing, printing and mailing your resume

You’ll need to keep in mind that the IRS won’t allow these deductions if you’re searching for a job for the first time. Also, you can’t claim deductions on expenses that were reimbursed.

You can find more information about this deduction on the IRS’ Job Search Expenses page.

Missed Tax Deduction #8: Investment Management Fees

When you invest your money through a traditional financial advisor or a financial firm, there's a good chance you're going to be charged a series of fees.

Those fees cover the management of your investment portfolio, and, if they reach a certain percentage of your income, they can be deducted, Melinda Kibler says.

"Your investment-management fees are deductible when they exceed 2 percent of your adjusted gross income," Melinda told us.

Now, if those management fees are being paid for out-of-pocket, you're good to go. However, if your investment advisor is using funds from your retirement account to pay for them, you can't take the deduction.

"I usually recommend paying investment-management fees for retirement assets separately," Melinda said. "You get a double benefit: Your plan grows faster, and you get a deduction."

The IRS classifies these management fees as investment expenses, and you can read more about them in the IRS' guide to investment expenses.

Missed Tax Deduction #9: Mortgage Points

When you buy a home, you have the option of paying for points, which is industry jargon for paying a percent of your interest up-front so you can save money over time.

"Taxpayers who pay mortgage points on their home often miss the chance to take the deduction," Randall Brody told us.

Part of the reason that we miss this deduction, Randall said, is that some mortgage companies don't include paid-for points in the year-end tax forms they send you.

So, we either assume the points are included in the interest we've paid on the house, or we just don't realize they aren't included and we don't investigate.

Either way, it pays to deduct points on your mortgage because you can deduct the full amount.

Only when you paid points on a secondary residence (rental or vacation property, for example) do you have to "amortize" them, or spread the points over the life of the to calculate how much you'd pay in a year.

If you want to get deep into the fine print on mortgage points deductions, check out IRS Topic 504.

Missed Tax Deduction #10 – Student Loan Interest

There are a lot of similarities between student loans and mortgages.

First, many borrowers are paying their loans over 30 years. Second, your monthly payments to the lender consist of interest and principle. Third, you can deduct the interest you pay on your loans.

Now, most folks are aware that you can deduct interest paid on their mortgage (though some still miss it), student loans are a different story.

In many cases, we're just too eager to get our return money, so we don't go to our loan servicer's website and download the 1098-E student loan interest statement.

This deduction comes with a caveat, though: You can only deduct interest paid if it totals more than $600.

HR Block Master Tax Advisor Kristina Grasso says some lenders won't send out a 1098-E, so it's important to log onto your servicers' website for the form. Around tax time, most servicers put an alert or banner on your account page that includes a link to your 1098-E.

See Also: *The 8 Different Options You Have to Pay Off Your Student Loans*

Final Thoughts: Don't Jump the Gun; Wait Until You've Got Everything You Need

We all dread tax time but we all love our refunds.

What ends up happening is that we wait for our W-2s to come in, then we rush to our tax software and skip over as many details as we can. Our goal? To get to the page that shows how much money we're getting back from the IRS.

When we asked Kristina Grasso about this mentality, she became pretty animated as she described the typical mindset of the taxpayer.

"I think for most clients, the tendency is 'Oh, I've got my W-2 I'm ready to go,'" she told us, letting out a hearty laugh. "Everyone wants to get in, get their refund and be done with it."

While this mentality may provide a quick fix for your wallet, it doesn't create an observant taxpayer. In fact, we think it's pretty ironic.

Deductions are your ticket to getting more back on your return, but most taxpayers skip deductions because they're too impatient and they want their refund.

Our advice? Come up with a year-round tax strategy that gives you a systematic way of keeping track of your deductions.

Track Your Receipts

The easiest way to do it this to take photos of receipts using any number of scanning apps available on iOS and Android. Evernote and Office Lens are two of the most popular.

Anytime you get a receipt for a donation, scan it/take a picture of it. This method is pretty effective for any deductions that require a tally of receipts, like charitable donations or job search/job relocation.

Use a Spreadsheet to Add Up Receipts

At the end of the month, total up your receipts and plug the sum into a spreadsheet that's divided into months on the left-hand column and each deduction type across the top row. At the end of the year, add up each deduction column – it's that easy.

Freelancers Need to Be Vigilant

If you're a freelancer or private contractor, your tax situation requires a little more discipline. On top of everything we've listed above, you'll have to keep track of business receipts, know your home-office deduction and maintain meticulous records of your income and tax payments.

Our guide to freelancer tax tips lays out the most important things you need to know about tax season, including how to handle tax payments, which deductions you need to take and why you need to stay organized.

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J.R. is an award winning journalist who uncovers the hard truths about personal finance, health and fitness through in-depth research and interviews with experts.