1. How to Reduce Your Tax Bill With Itemized Deductions - YouTube

<https://www.youtube.com/watch?v=eo2lR2ysdsQ>

Transcript:

hey what's up everybody it's brennan from bench back here as you can see i've got my sweater on it's getting colder out that means we're approaching the end of the year and unfortunately at the end of the year also means tax season and of course the question that's on everybody's mind going into tax season is how do you pay the smallest amount possible in taxes well here's something you can do this tax season that you don't have to be a tax with to take advantage of this is

going to apply to sole proprietors contractors or freelancers basically anybody who's going to file their taxes using form 1040. every year you make a choice when filing your taxes about what deduction you're going to take now it's time to actually understand this decision and how it can save you money on your tax bill if at any point in this video you're looking for more information or additional reading i'm gonna have links to bench blog posts down in the description below to talk about both the standard

deduction and the itemized deduction they'll provide you with a bit of a deeper dive into this subject so now it's covered let's get into it i just want to quickly talk about taxable income and how it affects your tax bill your taxable income is going to be this adjusted gross income number that you calculate on your form 1040 minus the tax deduction and this is ultimately where you're going to have the choice you're going gonna choose between taking the standard deduction and the itemized deduction to bring some

clarity to this decision let's take a look at the itemized deduction first because that's gonna require tracking certain costs that you have throughout the year these costs include your medical and dental expenses state and local taxes paid the interest you paid on your mortgage gifts to charity and any losses from casualty or theft at your end you count up all of these expenses and then calculate your total tax deduction amount i'm gonna go more into detail about what falls into these buckets later on and how to

calculate it but for now let's compare that to what the standard deduction is in comparison the standard deduction is an amount that's set every year depending on your filing status it was introduced in 1944 with one goal in mind which is to make tax paying easier today it's so common to take the standard deduction that about 70 percent of taxpayers end up taking this option but that doesn't necessarily mean it's the right choice for you with the standard deduction being a set amount there's no crazy calculations or tax

law know-how that you need to do to try and find out whether to take the standard deduction or the itemized deduction you basically just need to look for whichever of those two numbers is bigger for example this year the standard deduction is set at twelve thousand five hundred and fifty dollars for single taxpayers eighteen thousand eight hundred if you're a head of household and twenty five thousand one hundred dollars for married individuals who are filing together so with those numbers in mind now you know what you need your itemized

deduction to add up to what you can compare it to and decide which one of those two choices is right for you now to calculate your itemized deduction the best place to start is with schedule a it's the part of form 1040 that's dedicated to calculating your itemized deduction now i'm actually going to have a link to this down below in the description so you can download it and follow along with this video presentation it's going to be broken out into multiple sections and the sections correspond with the

different expense types so there's going to be five total sections the first section is your medical and dental expenses then you have your state and local taxes paid the interest you've paid on a mortgage your donations to charity and then finally any losses due to theft or casualty and of course since it's taxes it can't be as simple as combing through your bank account and adding up these numbers there are going to be some catches so let's go through these one by one and make sure you're doing the calculation

right now this is where i highly recommend following along with that schedule a once again the link is down below in the description so you can download a copy of this form online and you can follow along starting with the medical and dental expenses you're going to start on line one of your schedule a which is adding up all your eligible medical and dental expenses over the course the year it's going to include your health and dental insurance premiums any medical examinations or medical testing if you have something where you're not

quite sure if it's eligible the irs offers a pretty comprehensive guide on what can be included here so if you've got anything unsure about that's a great place to check the catch with medical expenses is that you can only claim the expenses that are over 7.5 percent of your adjusted gross income and if you're worried about doing this calculation on your own don't worry about it it's all taken care of on the form lines two to four of the schedule a are going to be the calculation of that

seven five point five percent of your adjusted gross income you will take your adjusted gross income number from line 7 of your form 1040 multiply it by 0.075 and subtract that number from line one the number that you're left with is your total medical and dental expenses minus that 7.

5 percent of your adjusted gross income and that's what's going to count towards your itemized deduction next up are going to be those local and state taxes you've paid line 5a will let you choose between whether you want to include your state income tax number or your general sales tax you can't use both so how do you make this decision well for nine states without income tax on your earnings that's a pretty easy choice so if you live in alaska florida nevada south dakota texas washington or wyoming you have no ink state income tax if you

live in new hampshire or tennessee you don't have income tax on your wage earnings you only have tax on investment income so that's a really easy decision to make for those nine states otherwise you'll have to stay on top of your state income tax number and general sales tax paid throughout the year to determine which number is best for you but fortunately as with all things tax there's always a paper trail and documents that they're asking you to keep so these numbers should be pretty accessible line 5b will be where you

include any personal property taxes so do not count any property that was used for business purposes line 5c is where you get to include any other personal property taxes that aren't real estate that includes any taxes paid on things like cars or motor homes so long as that tax is levied annually and is based on the value of the property now lines 580 to 5d are going to be capped at 10 000 total you can only put ten thousand dollars towards your itemized deduction so for line five e you will either put your total from lines five

a to five d or ten thousand dollars it's going to be the lesser of those two numbers then finally line six will be for any other taxes and it really only includes two types of taxes which is your income taxes paid to a foreign country as well as any generational skipping tax or gst that was paid on income distributions for mortgage interest it's actually going to be for mortgages or loans that were taken out for the purchase or improvement of property that will be eligible to record in this section this

will also be recorded on form 1098 which will have to be filled out anyway if you paid more than 600 in interest on your mortgage throughout the year your deduction will be limited based on your mortgage amount if you took out your loan on or after december 15 2017 you can only claim interest on the first one million dollars of that mortgage if you took out your loan before that date you can only claim the interest on the first 750 000 of your mortgage and that's because it's a change that was implemented

with the tax cuts and jobs act of 2017. so if your mortgage amount is less than 750 000 you don't really have to worry about this and you can just use your mortgage interest that you paid throughout the year but if it isn't uh you'll have to do some checking to see how much interest you can actually record here that's going to fill out lines 888c and line 9 will be used to record any investment interest and that's only going to be applicable if you're filling out form 4952 next we're going to move on to

donations to charity which you're probably already familiar with because the super common way for both people and businesses alike to curb their tax bill you'll use the donations to charity to fill out lines 11 and 12 on your schedule a line 11 is going to be your monetary donations which is going to be anything paid through cash or a check while line 12 is going to be the value of any other donations which is going to include clothing household items or even services that you've provided generally speaking you can only deduct

these donations up to 60 of your adjusted gross income so if you've got a hundred thousand dollars is your adjusted gross income on your form 1040 you can only deduct donations up to 60 thousand dollars now the final section is a little more niche it's lost due to theft or casualty and if you're filling out form 4684 this tax year you will take this number from line 18 of that form otherwise this does not apply to you and that pretty much covers how to fill out your form schedule a but before you start digging

through your receipts and transaction history i want to provide you with some quick rules of thumb for checking whether the itemized deduction is right for you so you don't sync all this time into doing the calculations if it's not going to net you anything in the end now there are three main groups of people that are going to benefit from the itemized deduction the first group is for people who have large mortgages if you're going to have a large mortgage you're likely going to have a large mortgage interest number on your

schedule a when deciding whether to take the itemized deduction this is the best place to start because it can easily bump your itemized deduction over the standard deduction the second group is going to be for those that paid a large amount of property taxes or sales taxes and don't just look at the property taxes you pay on your real estate but anything else that's eligible as well also look at how much sales tax you paid through your business as much as it can pay you to pay out that sales tax throughout the year

here's the opportunity where it's really going to benefit you by reducing that tax bill but simply put the more you own and the more that you sell through your business the more the itemized deduction can potentially benefit you just a reminder that that tax section is capped at ten thousand dollars though the last group is going to be individuals who had high medical and dental expenses throughout the course of the year that's going to make the itemized deduction a great fit this is especially true if you have a

low adjusted gross income remember that you can only deduct what's over that 7.5 of your adjusted gross income so for that rule of thumb more of your income that's going towards medical and dental expenses the more that the itemized deduction is going to benefit you so as of right now as of today what can you do for this upcoming tax season to make sure that you're making the right choice but what deduction to take well just take a moment to reflect back on your year most taxpayers are going to take the standard deduction and the

system is designed that way it's structured so that the majority of people will have a higher standard deduction than itemized deduction that way they don't have to do the calculations and tax paying is made easy but let's say you had high medical and dental expenses or maybe this is your first year with a mortgage in that case it's probably time to revisit which deduction you're going to take this tax season and you can make this decision easier now consider tracking this information throughout the year

in excel or google spreadsheet anytime you make an eligible payment just record that number in the spreadsheet then keep a digital copy of that document online in a dropbox or a google drive for easy reference by keeping a tab of this number you'll prepare yourself for this decision you'll already have an estimate of what that itemized deduction might be and then you'll have all the documents to refer back to when it comes time to fill out the form and there you have it the deduction you choose is one simple decision that

affects your tax bill for most you'll take that standard deduction but for others the decision is going to save you money on your tax bill so you can just keep reinvesting it into yourself and your business and that's going to do it for me thank you so much for joining me and hopefully this is going to help you reduce your tax bill this season as i mentioned before we've got blog posts down in the description that goes into this information a little bit of a deeper dive if you want to do some further

reading on your own time we also have a tax tip section on our blog that's dedicated to breaking down these forms and credits and deductions to make sure that you're equipped with the right information going to tax season also you can follow us on twitter we're just at bench and if you subscribe to us here you'll be informed anytime we've got a new video out with more information that can benefit you thank you so much for joining me