5 common causes of prevalent tax mistakes

By Paul Taylor

Whether you've filed for an extension on your taxes this year, or have waited until the last minute to complete paperwork, or want a better strategy for the future, chances are you could be doing a better job throughout the year to save on income taxes.

Forty-nine percent of Americans think they pay more than their fair share in taxes, according to 2013 Rasmussen reports.

Come tax time, many of the other half could be doing more to legally and strategically save money.

He cites mistakes that many taxpayers are liable to make now and in future years.

• Not knowing which tax deductions are available. Tax reform measures are enacted frequently by Congress, which makes it hard for U.S. taxpayers to know which deductions are currently available for maximizing savings. One of the most overlooked deductions is state and local sales taxes. Taxpayers may be able to take deductions for student-loan interest, out-of-pocket charitable contributions, moving expenses to take a first job, the child care tax credit, new points on home refinancing, health insurance premiums, home mortgage interest, tax-preparation services and contributions to a traditional IRA.

• Misunderstanding deduction value for medical expenses. The Affordable Care Act has altered the guidelines for tax-deductible medical expenses. Effective Jan. 1, 2013, the new policy increased the threshold for the itemized deduction for unreimbursed medical expenses from 7.5 percent of adjusted gross income to 10 percent of adjusted gross income for regular tax purposes. The increase is waived for individuals age 65 and older for tax years 2013 through 2016.

• Confusing when taxes must be paid on IRA and employer-sponsored retirement funds. Traditional IRAs and most employer-sponsored retirement plans are tax-deferred accounts, which mean they are typically funded with pre-tax or tax-deductible dollars. As a result, taxes are not payable until funds are withdrawn. Exceptions are the Roth IRA and the Roth 401(k) and Roth 403(b). Roth accounts are funded with after-tax dollars. That's why qualified distributions – after age 59½ and the five-year holding requirement has been met – are free of federal income tax.

• Overlooking tax-advantaged investments. Tax-advantaged investments can include real estate partnerships, oil and gas partnerships and suitability, which refers to how appropriate an investment may or may not be to an investor. Two of the most common types of real estate partnerships, for example, are low-income housing and historic rehabilitation. The federal government grants tax credits to those who construct or rehabilitate low-income housing or who invest in the rehabilitation or preservation of historic structures.

• Uncertainty when accounting for gift taxes. The federal gift tax applies to gifts of property or money while the donor is living. The federal estate tax, on the other hand, applies to property conveyed to others, with the exception of a spouse, after a person's death. There are several exceptions to gift taxes, including gifts of tuition or medical expenses that you pay directly to a medical or educational institution for someone else, gifts to a spouse who is a U.S. citizen, gifts to a qualified charitable organization and gifts to a political organization.

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