

A Simple Guide To Deductions

(NAPSA)—The average taxpayer doesn't need to understand all the intricacies of tax law, but it pays to know a few basics. For example, taxpayers often know deductions save money on tax returns but may not be able to tell the difference among the types of deductions.

The Deal On Deductions

Deductions lower the amount of taxable income. You have the option of claiming the standard deduction or itemizing deductions and you should select whichever results in a higher amount. Nearly two-thirds of taxpayers claim the standard deduction, according to TaxACT spokesperson Jessi Dolmage.

Standard Deductions

Standard deduction amounts are adjusted for inflation each year, vary by filing status and are higher for those 65 and older or legally blind. For 2012 federal tax returns due April 15, 2013, standard deduction amounts are:

- \$5,950 for single or married filing separately
- \$11,900 for married filing jointly and qualifying widows(ers)
- \$8,700 for head of household.

Itemized Deductions

When you itemize deductions, you list them all separately and only certain spending qualifies. Itemized deductions may include mortgage interest, state and local taxes, charitable gifts, unreimbursed employee expenses, uninsured casualty or theft losses and miscellaneous. Some miscellaneous deductions must exceed 2 percent of your adjusted gross income and unreimbursed medical and dental costs must exceed 7.5 percent of it.

Itemized deductions are reported on Schedule A and can only be filed with long Form 1040, while taxpayers claiming the standard deduction can file Form 1040, 1040A or 1040EZ.

If a married couple files separately and one spouse claims the standard deduction, the other must also claim the standard deduction. Conversely, if one spouse itemizes deductions, the other must also itemize.

Some deductions can be claimed regardless of whether you itemize or claim the standard deduction. Often referred to as "above-the-line" deductions because they are



With a little preparation, you can save some money and make April 15th a less taxing time.

deducted from gross income, these include traditional IRA contributions, student loan interest, alimony payments, moving expenses and a portion of your self-employment tax (if applicable).

Dolmage suggests using an online or downloadable tax preparation solution to eliminate the guesswork involved with calculating whether the standard deduction or itemizing is more beneficial. "The program asks simple questions to help you determine if you qualify for the various deductions and other tax breaks. It then does the math for you and lets you know if you benefit more from the standard deduction or by itemizing."

File Free

To help make calculating your deductions easy, TaxACT, the nation's second-largest digital tax preparation provider, offers free federal tax returns. TaxACT Free Federal Edition provides step-by-step guidance for simple and complicated tax situations, plus all e-fileable forms, including those necessary for itemizing.

You can find more information about standard and itemized deductions in IRS Publication 501 at www.irs.gov. To prepare, print and e-file your federal return free with TaxACT Free Federal Edition, go to www.taxact.com.