

# Tax Deductions Guide and 20 Popular Breaks for 2020

Tax deductions and tax credits can be huge money-savers – if you know what they are, how they work, and how to pursue them. Here's a cheat sheet.

## What is a tax deduction?

A tax deduction lowers your taxable income and thus reduces your tax liability. You subtract the amount of the tax deduction from your income, making your taxable income lower. The lower your taxable income, the lower your tax bill.

## What is a tax credit, then?

A tax credit is a dollar-for-dollar reduction in your actual tax bill. A few credits are refundable, which means if you owe \$250 in taxes but qualify for a \$1,000 credit, you'll get a check for the difference of \$750. (Most tax credits, however, aren't refundable.)

As the simplified example in the table shows, a tax credit can make a much bigger dent in your tax bill than a tax deduction.

<b>Would you rather have:</b>		
	<i>A \$10,000 tax deduction...</i>	<i>...or a \$10,000 tax credit?</i>
Your AGI	\$100,000	\$100,000
Less: tax deduction	(\$10,000)	
Taxable income	\$90,000	\$100,000
Tax rate*	25%	25%
Calculated tax	\$22,500	\$25,000
Less: tax credit		(\$10,000)
<b>Your tax bill</b>	<b>\$22,500</b>	<b>\$15,000</b>

## The standard deduction

The standard deduction basically is a flat-dollar, no-questions-asked reduction in your AGI. The amount you qualify for depends on your filing status.

<b>Filing status</b>	<b>2019 tax year</b>	<b>2020 tax year</b>
Single	\$12,200	\$12,400
Married, filing jointly	\$24,400	\$24,800
Married, filing separately	\$12,200	\$12,400
Head of household	\$18,350	\$18,650

**Student loan interest deduction**

Deduct up to \$2,500 from your taxable income if you paid interest on your student loans.

**American Opportunity Tax Credit**

This lets you claim all of the first \$2,000 you spent on tuition, books, equipment, and school fees – but not living expenses or transportation – plus 25% of the next \$2,000, for a total of \$2,500.

**Lifetime Learning Credit**

You can claim 20% of the first \$10,000 you paid toward tuition and fees, for a maximum of \$2,000. Like the American Opportunity Tax Credit, the Lifetime Learning Credit doesn't count living expenses or transportation as eligible expenses. You can claim books or supplies needed for coursework.

**Child and dependent care tax credit**

Generally, it's 20% to 35% of up to \$3,000 of daycare and similar costs for a child under 13, an incapacitated spouse or parent, or another dependent so you can work – and up to \$6,000 of expenses for two or more dependents.

**Child tax credit**

This could get you up to \$2,000 per child and \$500 for a non-child dependent.

**Adoption credit**

For the 2020 tax year, this item covers up to \$14,300 in adoption costs per child.

**Earned Income Tax Credit**

This credit can get you between \$538 to \$6,660 in 2020 depending on how many kids you have, your marital status, and how much you make. It's something to explore if your AGI is less than about \$57,000.

**Charitable donations deduction**

If you itemize, you may be able to subtract the value of your charitable gifts – whether they're in cash or property, such as clothes or a car – from your taxable income. And in the 2020 tax year, you may be able to deduct \$300 without having to itemize.

**Medical expenses deduction**

In general, you can deduct qualified, unreimbursed medical expenses that are more than 7.5% of your adjusted gross income for the tax year.

**Deduction for state and local taxes**

You may deduct up to \$10,000 (\$5,000 if married filing separately) for a combination of property taxes and either state and local income taxes or sales taxes.

**Mortgage interest deduction**

The mortgage interest tax deduction is touted as a way to make homeownership more affordable. It cuts the federal income tax that qualifying homeowners pay by reducing their taxable income by the amount of mortgage interest they pay.

**Gambling loss deduction**

Gambling losses and expenses are deductible only to the extent of gambling winnings. So, spending \$100 on lottery tickets isn't deductible – unless you win, and report at least \$100, too. You can't deduct more than the amount you win.

**IRA contributions deduction**

You may be able to deduct contributions to a traditional IRA, though how much you can deduct depends on whether you or your spouse is covered by a retirement plan at work and how much you make.

**401(k) contributions deduction**

The IRS doesn't tax what you divert directly from your paycheck into a 401(k). For 2020, you can funnel up to \$19,500 per year into such an account. If you're 50 or older, you can contribute up to \$26,000. These retirement accounts are usually sponsored by employers, although self-employed people can open their own 401(k)s.

**Saver's Credit**

This runs 10% to 50% of up to \$2,000 in contributions to an IRA, 401(k), 403(b), or certain other retirement plans (\$4,000 if filing jointly). The percentage depends on your filing status and income.

**Health Savings Account contributions deduction**

Contributions to HSAs are tax-deductible, and the withdrawals are tax-free, too, as long as you use them for qualified medical expenses. For 2020, if you have self-only high-deductible health coverage, you can contribute up to \$3,550. If you have family high-deductible coverage, you can contribute up to \$7,100 in 2020.

**Self-employment expenses deduction**

There are many valuable tax deductions for freelancers, contractors and other self-employed people.

**Home office deduction**

If you use part of your home regularly and exclusively for business-related activity, the IRS lets you write off associated rent, utilities, real estate taxes, repairs, maintenance and other related expenses.

**Educator expenses deduction**

If you're a school teacher or other eligible educator, you can deduct up to \$250 spent on classroom supplies.

**Residential energy credit**

This one can get you up to 30% of the installation cost of solar energy systems, including solar water heaters and solar panels.