

Favorite Tax Deductions of "Aggressive" Taxpayers

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Abstract

It's a fact of life. The current tax system rewards taxpayers who are aggressive with their deductions. Particularly among Health Care professionals, deductions that exist often go unclaimed because people simply don't understand what is and is not deductible for the aggressive taxpayer. When it comes to your taxes, are you aggressive with your deductions each year? Or do you play it safe, hoping to avoid being audited by the IRS?

To find out what people are deducting, we undertook an informal survey of many of our CPA colleagues. What we found out is that there are a handful of tax deductions that show up repeatedly on the tax returns of those taxpayers who tend to be very aggressive with their deductions, including the following:

HOME OFFICE DEDUCTION

Two things make claiming the home office deduction very attractive. First, the rules were changed effective 1/1/1999, making it much easier to qualify for the home office deduction. And if you don't own your home, the rent you pay isn't otherwise deductible on your federal tax return. Particularly for physicians -- and other health care industry professionals -- this deduction can represent significant saving on your tax liability.

Let's take a look at the rules. To be eligible for the home office deduction, you must use a portion of your home regularly and exclusively for your business or practice. If your home office is used even one day during the year for any other purpose, no deduction will be allowed. In addition, you must perform either the income producing activity or your administrative or managerial tasks within the home office on an ongoing basis to qualify for this deduction.

TEMPORARY JOB ASSIGNMENT

Temporary job assignments provide taxpayers with the opportunity to claim a huge tax deduction. As long as the

following three conditions are met, individuals can deduct all of their travel and living expenses while away from home on a temporary job assignment:

Just imagine how huge this deduction can be. Remember, someone qualified to claim the temporary job assignment deduction can deduct travel to and from the job location plus the total amount spent for lodging for up to one full year plus the daily per diem allowance of \$31 - \$51 per day. Particularly in the case of physicians and nursing professionals who take temporary, short term assignments, this can be a very useful deduction.

AUTOMOBILE EXPENSES:

Claiming the automobile deduction has been a favorite of aggressive taxpayers for years. For 2004, people are allowed to claim a deduction of \$.375 (\$.405 in 2005) per business mile driven, which includes:

- Travel between two different workplaces.
- Travel between a residence and a temporary workplace at which a person works on an irregular or short-term basis.
- Travel to and from job interviews, conferences and continuing education seminars that qualify as deductible business expenses.

Since the only information needed to calculate the automobile deduction is the number of business miles driven, it's not too difficult to see why this is one of the

favorite deductions for taxpayers who like to be aggressive with their deductions.

NON-CASH CONTRIBUTIONS

Individuals who itemize their deductions are allowed to claim a deduction for contributions they make to qualified charitable organizations. The gift can either be cash, check, or property. Gifts of property, such as clothing or household items, are known as "non-cash" contributions, and are deductible based on the fair market value of the donated property as of the date of the gift.

To deduct a non-cash contribution (of up to \$5,000), it's up to the person who made the donation to determine fair market value. Enough said.

PER DIEM RATES

Each year, you might travel quite a bit in connection with conferences and seminars, job searches, and/or temporary job assignments. The cost of travel, lodging and 50% of the cost of meals incurred while away from home (and not reimbursed) in connection with these business trips is generally deductible.

There are two ways that you can keep track of the cost of meals and incidentals incurred while away on business. You can either keep receipts each time you eat a meal during your business trips, or you can use the per diem rates established by the IRS. Depending on the city, the per diem rate is either \$51, \$47, \$43, \$39, \$35 or \$31. A list of per diem rates by state can be found in the IRS Publication 463, Travel expenses.

Taxpayers who are aggressive with their deductions generally prefer to base their meals and entertainment deduction on the per-diem rates since the only information needed to calculate their deduction is the number of days they were away on business. And from what we've seen, these taxpayers seem to always find some business purpose for every trip that they take.

HOW AGGRESSIVE ARE YOU WITH YOUR TAX DEDUCTIONS?

How aggressive are you with the deductions you claim on

your income tax returns each year? We've put together this five question quiz to help you perform a quick self-evaluation:

1. Did you claim the home office deduction last year?

- Yes, I claimed more than 20% of my residence as a home office (+ 2 points)
- Yes, but less than 20% of my residence qualifies as a home office (+1 point)
- I either wasn't eligible to claim the home office last year, or own my home and decided not to claim the home office (0 points)
- I don't own my home, and have a home office, but didn't want to raise any red flags so didn't bother claiming the home office deduction (- 2 points)

2. Have you ever deducted for a temporary job assignment?

- Yes, and if I remember correctly, the deduction was huge (+ 2 points)
- Yes, but I only deducted my travel expenses, and didn't deduct for my lodging or my food because the deduction seemed excessive (+ 1 point)
- I never had a temporary job assignment (0 points)
- I was eligible, but didn't want to raise any red flags (- 2 points)

3. Do you claim a deduction for you automobile expenses each year?

- Each year, I deduct at least 75% of my car's mileage as a business expense (+ 2 points)
- Each year, I keep a very accurate log, and only deduct the automobile mileage that I'm eligible to claim (1 point)
- I never use a car in connection with my work (0 points)
- I could claim some of my mileage as business miles, but don't want to raise a red flag (- 2 points)

4. Did you claim any non-cash contributions last year?

- Yes, and the deduction I claimed was more than

\$500 (+ 2 points)

- Yes, but I kept the deduction to less than \$500 because I didn't want to attach the non-cash contributions form (+ 1 point)
- I didn't make any non-cash contributions last year (0 points)
- No, even though I gave away lots of stuff, I didn't bother to get any receipts and don't want to raise any red flags (- 2 points)

5. Did you do much business travel last year that wasn't reimbursed?

- If I get on a plane, it's a business trip, no matter what (+ 2 points)
- I have no problem deducting my business travel, if

the trip is 100% business (+ 1 points)

- I never have to travel for my job (0 points)
- I traveled quite a bit and wasn't always reimbursed by my employer, but didn't deduct my business travel because I didn't want to raise a red flag (- 2 points)

INTERPRETING YOUR SCORE

Greater than 5: Consider yourself aggressive

Between 4 and -4: You're an average Joe

Less than -5: Go to Home Depot, get yourself a red flag, and raise it up. Maybe that will help you get over the irrational fear that you have about raising red flags.

References

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