

5 Tax Deductions And Credits You May Not Know You're Eligible For

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Millions of Americans continue to work on and file their taxes during the current tax season. Taxpayers may find themselves confused when determining which tax deductions and credits they may be eligible for. A tax deduction reduces your taxable income before you determine how much taxes you owe and a tax credit subtracts from the amount of taxes you owe.

It's important to know that for the 2020 tax year, the standard deduction for single taxpayers increased to \$12,400 and the standard deduction for heads of household increased to \$18,650. The standard deduction for couples filing jointly increased to \$24,800. However, depending on which and how many deductions and credits you are eligible for, you may be entitled to a higher tax break than what the standard deduction offers.

There are many deductions and credits you may be eligible for without even realizing it. We have highlighted five of the most common deductions and credits that can help you save more during tax season.

1. Child and Dependent Care Credit
2. Education Expenses Credits
3. Medical and Dental Expenses Deduction
4. Charitable Contributions Deduction
5. Business Expenses Deduction

Child and Dependent Care Credit

This credit is offered to help a working individual or couples (if filing jointly) offset the costs associated with caring for a qualifying child(s) or dependent(s). The amount of your credit is based on your adjusted gross income (AGI), but the maximum amount of care expenses you are able to claim is \$3,000 for one qualifying individual or \$6,000 for two or more qualifying individuals. If you receive dependent care benefits from your employer that you deduct or exclude from your income, you must subtract this amount from your allowable expense.

When applying for this credit on your tax return, you must provide the name, address, and Taxpayer Identification Number (either the social security number or employer identification number) of the care provider. Your provider can supply you with the appropriate number needed.

The [IRS Child and Dependent Care Credit](#) website has more information on how to qualify and the necessary forms needed to apply for the credit.

Education Expenses Credits

Education expenses towards tuition, fees, or other related expenses could qualify for a tax credit. Qualifying education expenses must be paid by the taxpayer or their spouse, a student claimed as a dependent on your tax return, or a third party including relatives or friends.

Qualifying expenses include tuition or fees required for attendance at eligible educational institutions. Expenses such as room and board, insurance, transportation, or medical expenses don't qualify for an education expenses credit. These expenses must pay for an academic period that starts during the tax year or the first three months of the following tax year.

There are two major educational expense credits you may qualify for: the Lifetime Learning Credit (LLC) or the American Opportunity Tax Credit (AOTC). The American Opportunity Tax Credit is a credit for eligible students for expenses incurred during the first four years of higher education. Taxpayers can receive a maximum of \$2,500 per eligible student. The Lifetime Learning Credit is a credit that can help pay for undergraduate, graduate, and professional degree courses with no limit of the number of years you can claim the credit. Taxpayers can receive up to \$2,000 per tax return.

The Lifetime Learning Credit and American Opportunity Tax Credit have different qualification criteria and income limits. The IRS website breaks down the [similarities and differences between both credits](#) and has a [guide to further help taxpayers](#) claim these credits.

Medical and Dental Expenses Deduction

If you have medical or dental bills that are not covered by your insurance, you may be able to receive a deduction to reduce your tax bill. The IRS allows taxpayers to deduct qualifying unreimbursed medical and dental expenses that exceed 7.5% of your total adjusted gross income (AGI). The IRS also allows you to deduct travel expenses you incur to receive medical care including car mileage, bus, taxi, train, and parking fees.

It's important to note that these expenses include any payments for the diagnosis, cure, treatment, mitigation, or prevention of disease. To claim your medical and dental expenses deduction, you need to itemize your deductions on the [Schedule A \(Form 1040\), Itemized Deductions](#) form from the IRS. For further information on what medical or dental expenses can be included, visit the [Medical and Dental Expenses](#) page on the IRS website.

Charitable Contributions Deduction

Did you make any charitable donations last year? If so, your contribution, up to a certain amount, may be deductible. To be eligible, your donation must go to an approved IRS nonprofit group which includes select, local and national educational, religious, or charitable organizations.

To deduct charitable contributions, you must maintain a record of the contribution via a bank record, receipt, or written communication from the organization stating the amount donated and the date of the contribution. If you donate goods such as household items, clothing, furniture, or vehicles, you can deduct the fair market value of your property. If you need help determining the value of your donated property, the IRS provides guidelines to assess the value of your donated property.

For contributions of \$250 or more, you must keep a written record from the qualified organization stating the amount of the donation and a description of any property donated. This record must state whether the organization provided anything in exchange for your donation and if so, provide a description and estimate of the value of the goods or services. If your charitable non-cash contribution exceeds \$500, the IRS requires additional documentation.

For further information and paperwork regarding charitable contributions, visit the [IRS Charitable Contributions](#) page.

Business Expenses Deduction

If you run a business or are a gig worker, you may be able to deduct business expenses from your tax return. These expenses must be considered ordinary and necessary. An ordinary expense is a common expense in your trade or business and a necessary expense is considered to be one that is helpful for your business.

For example, if you're a rideshare or delivery driver, you may be able to deduct on-the-job mileage and other car expenses from your tax return. If you're a graphic designer and use design software to complete work for clients, you may be able to claim the cost of the software as a business expense.

Not every expense is eligible to be included in your deduction so it is important to do your research. The IRS has a great overview of [how to deduct business expenses](#) and what qualifies for a deduction.

The deadline to file is April 15th so try to complete and submit your taxes to the IRS soon. You can set up to receive your refund via [direct deposit to your Level account](#). All you need to do is provide your Level routing and account numbers on your tax return. You can find your Level routing and account numbers in the 'Main Menu' of your Level app. If you're not a Level customer, you can [sign up now](#) to have your refund deposited directly into your Level account up to 2 days early¹. Remember, the IRS ultimately determines if taxpayers are eligible for refunds, not Level.

Writer Bio



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Katy Sputo is the Marketing and Social Media Coordinator at Level. She aims to make all things financial fun and interesting to learn.

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