

Five Tax Deductions You Should Know

More than 45 million Americans itemize their tax deductions which, when added together, amount to \$1.2 trillion in deductions.¹ But even at that staggering amount, the truth is that many Americans actually overlook some fairly common tax deductions. When it comes to deductions, even the small ones can have a positive impact on your bottom line.

Three Ways to Reduce Your Taxes

In general, there are at least three potential ways to reduce your taxes—**above the line deductions, below the line deductions, or tax credits**. “The line” is your adjusted gross income, or AGI, as listed on your tax return. Each type works differently. The following is based on the tax law as of the date of publication, (November, 2017):

Type	Description	Example
Above the Line	Deductions that are subtracted from your gross income (like contributions to a traditional IRA). They reduce the amount of income that is taxed.	Student Loan Interest
Below the Line	Deductions (like mortgage interest) that also reduce the amount of income that is taxed, but that apply only if the taxpayer chooses to forgo the standard deduction. These deductions may be subject to limitations based on the taxpayer’s income.	Mortgage Points and Interest, State and Local Income and Sales Tax and Cash Charitable Contributions
Tax Credits	Credits (like the Child Tax Credit) that are deducted from the tax that you owe.	Child and Dependent Care Credits

The List of ‘Above the Line’ Deductions from IRS Form 1040

Line	Description	Line	Amount
23	Educator expenses	23	
24	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ	24	
25	Health savings account deduction. Attach Form 8889	25	
26	Moving expenses. Attach Form 3903	26	
27	Deductible part of self-employment tax. Attach Schedule SE	27	
28	Self-employed SEP, SIMPLE, and qualified plans	28	
29	Self-employed health insurance deduction	29	
30	Penalty on early withdrawal of savings	30	
31a	Alimony paid b Recipient's SSN	31a	
32	IRA deduction	32	
33	Student loan interest deduction	33	
34	Tuition and fees. Attach Form 8917	34	
35	Domestic production activities deduction. Attach Form 8903	35	
36	Add lines 23 through 35	36	
37	Subtract line 36 from line 22. This is your adjusted gross income	37	

¹ <https://turbotax.intuit.com/tax-tools/tax-tips/Tax-Deductions-and-Credits/The-10-Most-Overlooked-Tax-Deductions/INF12062.html>

Five Deductions Taxpayers Often Overlook

Above the Line

- 1.) **Student Loan Interest**² – If you are repaying a student loan for either yourself or your dependent child, you may be able to deduct up to \$2,500 in interest each year, depending on your income level. In addition, if you are paying a loan that you are not obligated to pay for a non-dependent child, the IRS can consider it a gift to the child, who can then claim the deduction for himself or herself.

Below the Line

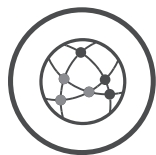
- 2.) **Mortgage Points**³ – Not only may you be able to deduct the points you paid to obtain a mortgage, but you may be able to deduct a portion of the points you pay when refinancing as well. Just how much you can deduct depends on, among other things, the type of loan and whether the property is your primary residence.
- 3.) **State and Local Sales Tax**⁴ – You may be able to deduct the state and local income taxes you paid during the year or, instead, to elect to deduct state and local sales tax you paid. Electing to deduct state and local sales tax instead of state and local income tax might be useful if you paid more in sales tax than in income tax due to a large purchase such as a vehicle or because you live in a state without income taxes.
- 4.) **Cash Charitable Contributions**⁵ – People often forget to deduct cash contributions they make in the checkout line or non-cash contributions like clothing, household goods, food, or travel for charitable activities. The key to maximizing these deductions is to document everything.

Credit

- 5.) **Child and Dependent Care Credit**⁶ – While you may be familiar with the Child and Dependent Care Credit, you may not know it can extend beyond nannies and daycare to include things like aftercare programs and day camp. The credit includes eligible expenses up to a maximum of \$6,000 for two or more children, depending on your income level.

Consult your advisor to see if you qualify for these or other deductions you may have overlooked. Or visit our Readiness Building Blocks website at [AMGFunds.com/readiness](https://www.amgfunds.com/readiness).

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² <https://www.irs.gov/taxtopics/tc450/tc456>

³ <https://www.irs.gov/credits-deductions/individuals/deducting-home-mortgage-interest-at-a-glance>

⁴ <https://www.irs.gov/credits-deductions/individuals/deducting-sales-tax-at-a-glance>

⁵ <https://www.irs.gov/credits-deductions/individuals/deducting-charitable-contributions-at-a-glance>

⁶ <https://www.irs.gov/credits-deductions/individuals/child-and-dependent-care-credit>

The information contained herein is based on the Internal Revenue Code of 1986, as amended (the "Code"), and other applicable authorities, in each case as of the date of publication, [November, 2017], and does not take into account the potential effect of any future changes to the Code or such other authorities, some of which may be of retroactive effect.

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