

## Ep96: Issues To Consider When Filing Your Tax Return

April 22, 2022

**PATTI BRENNAN:** Hi, everybody. Welcome to the “Patti Brennan” show. Whether you have \$20, or 20 million, this show is for those of you who want to protect, grow and use your assets to live your very best lives. Today’s episode is part of the ongoing series called, “Ask Patti Brennan.”

As we are in the beginning of 2022, a lot of you are getting your tax returns done. You might be preparing them yourselves, or you may have a CPA. It’s important that whoever is doing your tax return, you get an extra set of trained eyes on it.

An extra set of eyes, reviewing the return, making sure that you’re taking advantage of all the deductions and all the credits that are available to you. Every once in a while, in reviewing your tax return, you may come across a mistake from time to time. Let’s face it, accountants are like all of us. They are human beings. We are all painfully human.

I can tell you story after story of returns that we have reviewed, or taxpayers have reviewed, where something might have been missing – dividends, capital gains, something wasn’t taken advantage of. It helps to take a moment, step back, and look at the return.

What I’d like to share with you today are some of the things to look for, to make sure that you are paying the right amount of taxes that you should and not a dollar more. OK?

Number one, if you are one of those people, as most Americans are, that take the standard deduction. Under the tax law, as it stands today, the standard deduction has grown tremendously.

About 70 percent of Americans don’t itemize anymore. Between the deductions that were taken away on those Schedule A deductions, as well as the rise in the standard deduction, most people are just doing the standard.

You might ask, what are itemized deductions? The three major categories are medical expenses, state and local income taxes, and real estate taxes. Taxes in general, we call that SALT, to a max of \$10,000. Then, charitable contributions. Many people are charitably inclined, and you’re donating to various causes.



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If you take the standard deduction or when your CPA does your taxes, they're running the numbers to see, what's the bigger number - the itemized deductions or the standard deduction? For most people, the standard deduction is going to be higher.

As a result of that, those charitable contributions that you may have made, God bless your heart, but you're not getting any tax benefit from them. I will say, though, that you can take a deduction if you're single, up to \$300, if you're married filing jointly up to \$600, above the line.

In that example, in addition to the standard deduction, because that was higher, you also get that charitable deduction as well. You are getting a benefit from that. If you have dependents, children, under the age of six, there's a child tax credit. Normally, that tax credit is \$1,600 if the child is under six. It is \$1,000 for children between the ages of 6 and 17.

Last year, it was expanded, and, boy, talk about a perk. You received a \$3,600 tax credit for any child under the age of six, and \$3,000, from the ages of 6 to 17. I have to tell you, that's a big deal. You must have about \$10,000 worth of deductions to equal that tax credit, depending on your tax bracket, of course.

Tax credits are a very big deal. Make sure that you got the credit that you are entitled to. Do you have anyone in college? If so, fill out Form 8863 or make sure your accountant is running those numbers. Because there's something called the Lifetime Learning Credit, as well as the American Opportunity Tax Credit. Again, these are tax credits, they are not deductions, far more powerful when it comes to saving you money.

It's also important to determine whether you paid the Alternative Minimum Tax last year. Now, most people are not subject to AMT. If you are, you need to be aware of it.

By the way, for those of you who may have been exposed to Alternative Minimum Tax in the year 2020, check out Form 8801, to see if you got proper credit for the AMT and whether you're able to use it, again, another tax credit.

Alternative Minimum Tax is a nasty tax, but you're prepaying the taxes. You do get credit for that. The credit is only available to be used against certain types of income. Number one, did you pay it? Number two, do you have a credit? Number three, do you have the right income to use the credit?

For those of you who have an income, if you're single, an income over \$200,000, for those married and filing joint, if you have income over \$250,000, you know about this nasty little sneaky tax called the Net Investment Income Tax.

That's the 3.8 percent additional tax that you must pay on investment income. The



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important thing for all of you to know is that if you are close to those thresholds, it's a cliff. Let's say that you're single, and you have a modified adjusted gross income of \$205,000. Let me ask you a question, "Is there any way you could lose \$5,000 worth of that income?" Because if you can lose it, you're not going to be subject to the 3.8 percent tax. So, it's really important to understand how close you are and whether or not you're going to be subject to that extra hidden additional tax. Otherwise, you're writing a check on April 15th.

Last but not least, you've heard me say it before, IRAs, IRAs, IRAs. It doesn't sound like a big deal, \$6,000, if you're under the age of 50, or \$7,000, if you want to take advantage of the catch-up contribution. It doesn't sound like much, it's a big deal. Just ask my kids, they did Roth IRAs with their money from their summer jobs.

Even as a financial planner, I'm shocked at what these balances have accrued. That continues to grow, tax-free, for the rest of their working life and for their retirement. It's never too late to start an IRA. You need wages in order to set it up. It's a great opportunity to teach your kids about money. Those are a few of the tips and a few of the ideas.

Those are a few of the ideas to consider when you're reviewing your tax return. If you have questions, go to our website at [keyfinancialinc.com](http://keyfinancialinc.com). Send us a message. We'll be happy to review your tax return with you so that you can be better prepared, not just this year but every year, to make sure you're not paying more tax than you have to.

I'm Patti Brennan, Key Financial, Wealth Management with Wisdom and Care. Have a great day.

*\*Neither Patti Brennan, Key Financial, Inc. nor Royal Alliance Associates, Inc. provides tax advice. Please seek the guidance of a tax professional regarding your particular circumstances before making any financial decisions.*



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