

## Not All Tax News is Bad News: Tax Breaks are Out There if You Know Where to Look

Just mention the word “taxes” and you will elicit a reaction from almost anyone. Rarely positive, the reactions range from rolling of the eyes to outright pulling of the hair and gnashing of the teeth. No matter how awful the tax laws may seem, some truly serendipitous tax breaks do exist if you merely seek them out.

### **Expanding Types of Medical Deductions**

This category of tax breaks is especially interesting because not only do most of us incur medical expenses, some of us provide these services to our patients. A health related expenditure qualifying as a medical deduction has an additional benefit if you participate in a Healthcare Reimbursement Arrangement (HRA), Flexible Spending Account (FSA) or Cafeteria Plan. Such an expenditure will qualify for reimbursement from your plan. Keep in mind that you can only deduct or be reimbursed for amounts not paid by your health insurance.

### **Self-prescribed diagnostic tests**

Medical care includes a wide range of diagnostic services. Although a physician’s recommendation is important, it is not mandatory for a health related procedure, test or expenditure to be considered deductible or reimbursable. If the items are wholly medical in nature and serve no other function in everyday life, a physician’s recommendation is not necessary. Examples of this type of medical expense include annual physical exams, full-body electronic scans, home pregnancy test kits, body composition measurements, screening tests such as lung capacity, hearing, vision and osteoporosis (women only), CT Heart Calcification Scans, CT lung scans and certain “take home” screening tests.

### **Over the counter medicines**

While still not deductible as a medical expense, over the counter medications such as aspirin, antacids, allergy or cold medicines and pain relievers can be reimbursed by reimbursement plans.

### **Facilitation of Pregnancy**

The costs of infertility treatments qualify as deductible or reimbursable expenses. Included in these deductible costs are the expenses associated with acquiring a donated egg during fertility treatments. Allowable expenses are the donor’s fee for time and expenses, agency fees for procuring a donor, expenses of medical and psychological testing and post procedure medical care of the donor and possible related legal fees.



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### **Tax Free Rent**

If you rent your personal residence for less than 15 days a year, the rental income is not taxable. The good news is that there is no limit to the amount of the rent excluded as long as the property is rented for less than 15 days a year.

### **Tax Free Gain on the Sale of Your Home**

If you have used and owned a home as your principal residence for at least two out of the last five years and have not used this rule in the last two years, you can exclude up to \$250,000 of the gain from the sale (\$500,000 for joint filers meeting certain conditions). This tax break differs from the prior rules that most of you remember because you do not have to reinvest the sales proceeds, and you can use this rule as often as you qualify. When you retire, consider making your non-rental vacation home your primary residence after you sell your current residence. If you are married and have met all of the qualifications, you can exclude \$500,000 of gain on the first sale. Once you have lived in the vacation home turned primary residence for two years, you can then sell the vacation home and exclude up to \$500,000 of gain again. Assuming a 15% capital gains rate, you could permanently save as much as \$150,000 in taxes within a period of two years and one day. Pretty soon you’re talking about some real money.

### **Frequent Flyer Miles**

Personally used frequent flier miles or other promotional benefits that you earn from your business travel expenditures with airlines, hotels or rental car companies are not taxable. After a few tough business trips, use the rewards to take a vacation. Be careful; benefits received in cash or converted to cash under such programs (when earned with business travel) are taxable. The IRS’ largess does not apply when tax avoidance exists.

### **Kids Working in Your Business**

If your kids work in a business that you own, you can pay them for their efforts and shift the income to their lower tax bracket. In fact, a dependant child will not have to pay tax on up to \$5,450 of earned income in 2008. This well-tested technique works as long as the wages are commensurate with the work done. So smile! Some tax news is good news.

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