

Grab These Tax Breaks While You Still Can

As you go to do your taxes this year, it may be the last time you get to take advantage of dozens of tax provisions that expired at the end of 2013.

So grab them while you can. And be prepared for some tax-planning difficulties this year if you've come to rely on one of the big ones.

A total of 55 so-called "tax extenders," little bits of the tax code that either fall by the wayside or get automatically renewed, expired at year-end.

These last-time deals include popular tax breaks like the choice to deduct state and local sales taxes for those in states with low or no income tax, and the special mortgage debt cancellation write-off for underwater homeowners.

They're still in place for your 2013 tax returns, so there's no need to panic for this year. But they're in flux for 2014.

Sen. Ron Wyden, the new chairman of the Senate Finance Committee, has said he wants to focus on them as early as next month.

But while you're waiting for Washington to decide whether to reinstate some or all of them retroactively, you can't put off your own taxes and tax planning.

Here are details on four of the most important for individuals. Take them while you still can.

1. State and local sales taxes.

This provision let taxpayers choose between deducting state income taxes, which is a no-brainer in high-tax states like

New York, and state sales taxes, which is a much-better deal in states that don't collect income taxes like Florida.

It's a particularly big deal for those who bought big-ticket items like boats or cars last year.

In 2011, 10.9 million taxpayers deducted state sales taxes, representing nearly one-quarter of all the returns that claimed state and local taxes, according to Internal Revenue Service data.

While this tax break has had a reprieve before, the uncertainty is problematic for taxpayers who have previously relied on it and have to file estimated taxes.

That's because the first-quarter payment date (also April 15) is approaching, and the calculation could vary widely depending on whether this gets reinstated or not.

If you're in that position, you'll need to decide between potentially overpaying your estimated taxes (less than ideal) or underpaying them (risky, given the potential penalties).

2. Educator writeoff.

It's a relatively small-potatoes deduction, just \$250 per individual for unreimbursed educator expenses, but for cash-strapped teachers who often spend out-of-pocket on their students, it's a nice little bonus.

In 2011, some 3.8 million educators deducted \$962 million in school expenses, according to IRS data.

For now, if you're an educator—and the term, for tax purposes, includes teachers, principals, instructors, school aides and anyone else who spends at least 900 hours a year on education—you can claim the deduction on your 2013 taxes.

A bonus while it remains in effect: You can claim it even if you don't itemize your deductions.

3. Special tax break for the cancellation of mortgage debt.

It may come as a surprise to those who aren't tax geeks, but the tax code treats forgiven debts as taxable income.

A special provision, put in place in 2007, allows struggling homeowners to exclude up to \$2 million in canceled debt on their principal residence from income.

Those who negotiated principal reductions with their banks, faced down foreclosure, or did short sales last year can still take advantage of this tax break when they do their 2013 taxes.

But unless it's renewed, homeowners now struggling to find a way out from under their debt may face a tax bill of thousands of dollars more than they would have had they done a loan modification last year.

While the number of homeowners who are underwater on their mortgages has been declining, more than 6 million still are, according to CoreLogic, a residential property research firm.

4. Rollover of IRA distribution to charity.

Since 2006, a popular rule has permitted those aged 70 1/2 and older to donate up to \$100,000 from their individual retirement accounts (IRAs) to charity without paying tax.

The charitable rollover could count toward their required minimum distribution (RMD), but it wasn't taxed like a regular distribution (nor could those who took advantage of it claim the charitable deduction).

For retirees who didn't need the money from their RMDs for living expenses, the charitable rollover was a better deal than paying taxes on the distribution and then donating it to charity.

If you did it last year, congratulations!

Claim it on this year's return. For 2014's tax planning, the best advice is to wait on both taking RMDs and making charitable contributions until there's more clarity from Washington.

"We're advising clients to hold off," says Craig Richards, director of tax services at Fiduciary Trust. "It's big bucks."

(The opinions expressed here are those of the author, a columnist for Reuters.)

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