

Introduction Lecture 4:

1. Tax Credits:

- Tax credits directly reduce the amount of tax owed, making them highly valuable.
- They can be refundable or non-refundable. Refundable credits can result in a refund even if the credit exceeds the amount of taxes owed.
- Common tax credits include the Earned Income Tax Credit (EITC), Child Tax Credit, Adoption Credit, and Renewable Energy Credits.
- Understanding eligibility criteria and how to claim tax credits is essential for maximizing tax savings.

2. Tax Deductions:

- Tax deductions reduce taxable income, thereby lowering the overall tax liability.
- Deductions can be categorized as either above-the-line deductions, which are subtracted from gross income to arrive at adjusted gross income (AGI), or itemized deductions, which are subtracted from AGI.
- Common above-the-line deductions include contributions to retirement accounts, health savings accounts (HSAs), and student loan interest payments.
- Itemized deductions may include expenses such as mortgage interest, state and local taxes, charitable donations, and medical expenses exceeding a certain percentage of AGI.
- Taxpayers must choose between claiming the standard deduction or itemizing deductions, selecting the option that provides the greatest tax benefit.

3. Exemptions:

- Exemptions reduce taxable income for the taxpayer, spouse, and dependents.
- However, exemptions have been largely phased out with the implementation of tax reform, and the concept has been replaced with an increased standard deduction and expanded child tax credit.
- Understanding the historical context of exemptions and how they have evolved can provide insights into the current tax landscape.

4. Maximizing Tax Benefits:

- Effective tax planning involves strategically utilizing tax credits, deductions, and exemptions to minimize tax liability.
- Strategies may include timing expenses to maximize deductions in high-income years, taking advantage of tax-advantaged accounts, and coordinating with financial goals such as retirement planning and education savings.
- Real-life examples and case studies illustrate how individuals and businesses can implement tax-saving strategies in various scenarios.