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No Good Deed Goes Unpunished — but You Can Get Tax Relief

BY TINA OREM

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Many of us try to do the right thing — especially with our finances — but even the most well-intentioned deeds can backfire. Fortunately, a few tax maneuvers can soothe some of the burn when a thoughtful money move ends up biting you in the wallet.

Good deed: You used your bonus to make a few extra mortgage payments.

The punishment: Your lender hit you with a prepayment penalty.

How to soothe the burn: You may not be able to get out of the penalty, but at least you can deduct it on your tax return, says Noel Dalmacio, a certified public accountant and certified financial planner in Irvine, California.

“It’s going to be part of the mortgage interest,” he says. The prepayment penalty you paid should show up on your Form 1098, an interest statement your mortgage lender sends each year.

Good deed: You went back to school to get ahead in your current job.

The punishment: Your initiative went unrecognized — no raise, no promotion, nothing.

How to soothe the burn: You may be able to deduct the expense, even if you weren't rewarded at work. (And you might want to polish up that resume, too.) Things such as the Lifetime Learning Credit could knock up to \$2,000 off your tax bill, for example. But you might be able to deduct way more than that, says David Barral, a certified public accountant and certified financial planner at MBAF in New York City.

So long as the degree you're going for does not qualify you for a new career and it maintains or improves your current job skills, the tuition and related costs could count as an employee business expense, according to Barral.

"That could be a humongous deduction," he says. MBAs are popular examples of where this could work, he says, but the rules are tricky, so have a professional help with the tax prep.

Good deed: You offered to put up the Christmas lights on your elderly neighbor's house.

The punishment: You fell off the roof and knocked out half your teeth.

How to soothe the burn: Unreimbursed medical and dental expenses are deductible, though only the amount in excess of 10% of your adjusted gross income, Dalmacio says. If your AGI is \$50,000, for example, then anything beyond 10% of that (so, \$5,000) may score you a deduction. In that case, if those broken teeth chew up \$15,000 in unreimbursed dental bills, \$10,000 of it could be deductible.

It could also be a good time to have other medical procedures you've put off, he adds. "See if you can bunch it in one year, so that you can take advantage of [the deduction], because it's a high hurdle to pass," Dalmacio says.

Good deed: You lent money to a friend in need.

The punishment: Your friend stiffed you on the loan.

How to soothe the burn: Make the bad-debt deduction your new friend, says Bob Wheeler, a certified public accountant in Santa Monica, California. When you file your tax return, you'll need to provide your friend's name, as well as information about the loan and efforts you made to collect the debt, he said. You take the deduction in the year the debt becomes worthless — when there's no longer a reasonable expectation of payment. And you don't have to go to court if you can show the IRS that your friend wouldn't be able to pay even if there were a judgment.

If you're worried your good deed will turn into a bad headache, don't be afraid to run the situation by a qualified tax professional, Wheeler says.



“I have clients doing things where they’re like, ‘Oh, this’ll be such a great thing. I’m not going to bother to check with anybody.’ And then it just explodes,” he says.

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