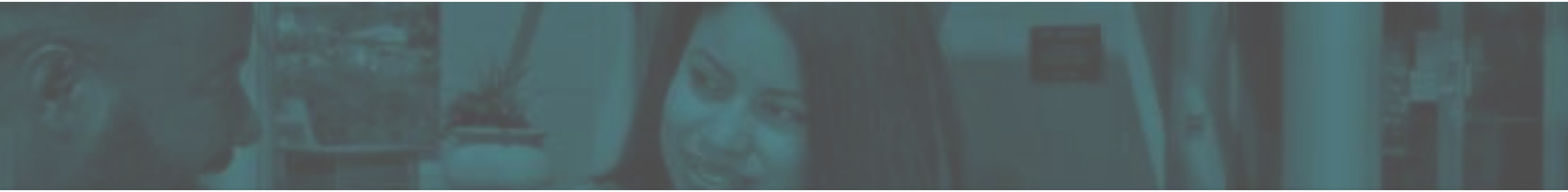
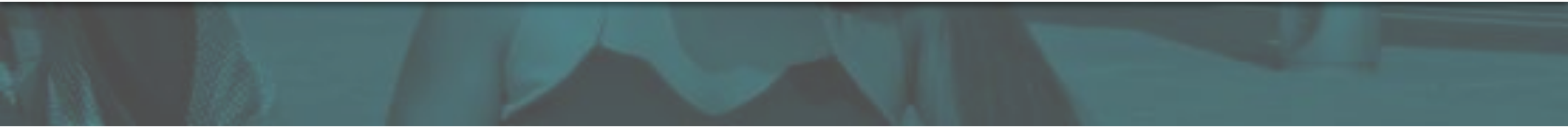


Itemized Deductions



Itemized Deductions

- Itemized deductions allow taxpayers to reduce their taxable income based on specific personal expenses.
- If the total itemized deductions are greater than the standard deduction, it will result in a lower taxable income and lower tax.
- In general, taxpayers benefit from itemizing deductions if they have mortgage interest, very large unreimbursed medical or dental expenses when compared to their income, state taxes, or other large expenses such as charitable contributions.
- For taxpayers using the Married Filing Separately status, if one spouse itemizes, the other must also itemize (even if their itemized deduction amount is zero). However, a taxpayer using the Head of Household status can use the standard deduction even when their spouse, who is filing married separately, itemizes their deductions.

Itemized Deductions

Itemized deductions include amounts paid for qualified:

- Medical and dental expenses
- Certain taxes paid
- Home mortgage interest
- Gifts to charity
- Casualty and theft losses (only losses derived from federally declared disaster areas are allowed)
- Certain miscellaneous deductions

Medical and Dental Expenses

- Taxpayers can deduct only the amount of **unreimbursed** medical and dental expenses that exceeds 7.5% of their Adjusted Gross Income (AGI).
- Qualified medical and dental expenses paid by the taxpayer during the tax year can be included for:
  - The taxpayer
  - The taxpayer’s spouse
  - Dependents claimed at the time the medical services were provided or at the time the expenses were paid
  - Individuals who could be the taxpayer’s dependent except:
    - They do not meet the gross income test, or
    - They do not meet the joint return test, or
    - The taxpayers, or their spouse if filing jointly, could be claimed as a dependent on someone else’s return

Medical and Dental Expenses

- Examples of Deductible Medical Expenses:
    - Expenses of an organ donor
    - Eye surgery (to promote the correct function of the eye)
    - Hospital services fees (lab work, therapy, nursing services, surgery, etc.)
    - Medical services fees (from doctors, dentists, surgeons, specialists)
    - Physical examination
    - Special items (artificial limbs, false teeth, eyeglasses, contact lenses, hearing aids, crutches, wheelchair, etc.)
    - Stop-smoking programs
- Refer to page F-8 in Pub 4012 for a longer list of what is deductible and what is not.

Deductible Taxes

- Taxes that are deductible include:
  - State and local income taxes – This includes withheld taxes, estimated tax payments, or other tax payments (such as a prior year state or local income tax refund that the taxpayer chose to credit to their estimated tax for the following year). Do not include penalties or interest.
  - Real estate taxes – State and local real estate taxes based on the assessed value of the taxpayer's real property, such as the taxpayer's house or land, are deductible.
  - Personal property taxes – The state and local personal property taxes paid, but only if the taxes were based on value alone and were imposed on a yearly basis.
- The total deduction for state and local income, sales, and property taxes is limited to a combined, total deduction of $10,000 ($5,000 if Married Filing Separately).

Home Mortgage Interest

- Generally, home mortgage interest is any interest paid on a loan, line of credit, or home equity loan on the taxpayer's main home or second home that is secured by the taxpayer’s main home or second home, respectively.
- The deduction for home equity mortgage interest is not allowed unless the loan proceeds were used to build, buy, or substantially improve the taxpayer’s qualified residence.
- The total amount of home mortgage interest paid by a taxpayer is shown on Form 1098.
- A taxpayer may be able to deduct interest on a main home and a second home.
- A home can be a house, cooperative apartment, condominium, mobile home, house trailer, or houseboat that has sleeping, cooking, and toilet facilities.

Gifts to Charity

- A charitable contribution is a donation or gift to a qualified organization, which may be deductible if the taxpayer itemizes.
    - To be deductible, contributions must be made to a qualifying organization, not an individual.
- Cash, check, and noncash contributions should be reported on Schedule A on either the Gifts by cash or check line or the Other than by cash or check line, respectively.
- Tax law changes and contributions to charity are no longer an above the line deduction like they were the past two years.
    - Taxpayers may no longer claim charitable contributions unless they itemize.

Gifts to Charity

- Deductions may be taken for contributions to:
  - Organizations that operate exclusively for religious, charitable, educational, scientific, or literary purposes
  - Organizations that work to prevent cruelty to children or animals
  - Organizations that foster national or international amateur sports competition if they do not provide athletic facilities or equipment
  - War veterans' organizations
  - Certain nonprofit cemetery companies or corporations

Gifts to Charity

- Contributions to the following types of organizations are not deductible as charitable contributions:
  - Business organizations, such as the Chamber of Commerce
  - Civic leagues and associations
  - Political organizations and candidates
  - Social clubs
  - Foreign organizations
  - Homeowners' associations
  - Communist organizations

Gifts to Charity

- Amounts that may not be deducted as charitable contributions include:
  - Cost of raffle, bingo, or lottery tickets
  - Tuition
  - Value of a person's time or service
  - Blood donated to a blood bank or Red Cross
  - Car depreciation, insurance, general repairs, or maintenance
  - Direct contributions to an individual
  - Sickness or burial expenses for members of a fraternal society
  - Part of a contribution that benefits the taxpayer, such as the fair market value of a meal eaten at a charity dinner

Gifts to Charity

- Deductible items include:
  - Monetary donations
  - Dues, fees, and assessments paid to qualified organizations above the value of benefits received
  - Fair market value of used clothing, furniture, and other items in good condition
  - Cost and upkeep of uniforms that have no general use but must be worn while performing services donated to a charitable organization
  - Unreimbursed transportation expenses that relate directly to the services the taxpayer provided for the organization
  - Part of a contribution above the fair market value for items received such as merchandise and tickets to charity balls or sporting events
  - Transportation expenses, including bus fare, parking fees, tolls, and either the cost of gas and oil or the standard mileage deduction may be taken.

Gifts to Charity

- Taxpayers must keep records to verify the cash and noncash contributions they make during the year.
- Advise taxpayers that they cannot deduct a cash contribution, regardless of the amount, unless one of the following records of the contribution is kept:
    - A credit card statement or a bank record, such as a canceled check, a bank copy of a canceled check, or a bank statement containing the name of the charity, the date, and the amount
    - A written communication or receipt from the charity, which must include the name of the charity, date of the contribution, and amount of the contribution.
        - Taxpayers can claim a deduction of $250 or more only if they have a contemporaneous written acknowledgment from the charitable organization showing the amount of any money contributed and whether the organization did or did not provide any goods or services in return for the contribution.

Casualty and Theft Losses

- Only casualty losses derived from federally declared disaster areas are deductible.
- All other losses are not allowed except to the extent of casualty gains.
- Taxpayers with deductible casualty and theft losses should be referred to a paid tax preparer.

Miscellaneous Expenses

- Gambling losses and expenses (through 2025) to the extent of gambling winnings (taxpayers must have a record of their losses).
- Form 1098-C, Contributions of Motor Vehicles, Boats and Airplanes are **out of scope**.