

ITEMIZED DEDUCTIONS

Itemized deductions can be used to lower taxable income. Specific eligible deductions are listed on Schedule A of your federal income tax return. When the total of these items exceed the standard deduction, you may find it advantageous to itemize. You should choose the deduction which results in the lowest tax liability.

Medical and Dental Expenses

Medical expenses are deductible only if your out-of-pocket expenses exceed 10% of your adjusted gross income (AGI), unless you are age 65 or older. The threshold for these taxpayers is 7.5% of AGI through December 31, 2016.

Medical expenses are the costs of diagnosis, cure, treatment, or prevention of a physical or mental illness, disease, or defect. Medical expenses are deductible in the year paid, regardless of when the services were provided. Only amounts paid out-of-pocket with after tax dollars are deductible. The following items are among those generally deductible as medical expenses—this list is not all inclusive:

- Alcohol and drug treatment, including inpatient care.
- Ambulance services.
- Dental care including cleaning, orthodontia, oral surgery, and dentures.
- Education expenses of a physically or mentally impaired individual if the school provides special education for a diagnosed medical condition. *(May need to allocate expenses)*
- Exercise or weight loss program prescribed by doctor for a specific medical condition.
- Eyeglasses, contact lenses and supplies, and laser eye surgery.
- Home improvements and specialized equipment if the main purpose is to provide a medical benefit such as ramps and railings or special telephone equipment for hearing impaired.
- Hospitalization and medical treatments.
- Insurance premiums for medical, vision and dental care, including Medicare.
- Laboratory tests, X-rays, and diagnostics.
- Long term care insurance premiums *(with limits)* and long term care expenses.
- Medical equipment and supplies including needles, crutches, bandages, oxygen equipment, prosthetic limbs, wheelchairs, hearing aids and batteries, and guide dogs.
- Nursing home care and in-home nursing care.
- Prescription medicine and drugs, including insulin.
- Services provided by medical professionals including doctors, surgeons, psychiatrists, physical therapists, eye doctors, chiropractors, acupuncturists, etc.
- Smoking cessation programs.
- Transportation expenses to obtain medical care including, mileage, parking, tolls, and hotel expenses for overnight stays *(per diem limits apply for overnight stays)*.

Non Deductible Expenses

- Cosmetic surgery except to correct a deformity due to accident, disease or congenital defect.
- Funeral expenses.
- Health club dues.
- Life insurance or disability insurance premiums
- Over-the-counter medicines, medicine purchased from another country, medical marijuana.
- Teeth whitening.
- Vitamins and nutritional supplements unless prescribed by a medical professional.

Taxes You Paid

Certain taxes qualify as itemized deductions in the year that they are paid.

- State income taxes withheld and/or paid.
- Additional tax paid on prior year state return.
- State taxes paid on an amended return.
- Estimated state taxes paid (*quarterlies*).
- Personal Property taxes paid.
- Local income taxes paid.
- Foreign income taxes paid or withheld. (*Credit may be better deduction.*)
- Auto license fees - portion based on its value.
- Sales tax in lieu of state income taxes (*optional*).
- Real estate taxes are typically allocated when you buy or sell a home. (*See your tax professional.*)
- Real estate taxes on personal residence, co-op or condo, second home, and all real property owned (*not limited to residence and second home*).

Non-deductible taxes include: interest and penalties on late paid taxes, federal income and excise taxes, federal estate and gift taxes, custom duties, fines and penalties for violation of the law, license fees, social security & Medicare taxes.

Interest You Paid

Mortgage interest is typically deductible if the taxpayer is legally liable for the debt, a debtor-creditor relationship exists, and the loan is secured debt on a qualified home.

- Home mortgage interest and points paid to acquire or improve a primary residence and second home (*referred to as Acquisition Debt*). Acquisition debt is limited to \$1million (*\$500,000 if MFS*) for determining qualified residence interest. In addition, interest on a maximum of \$100,000 of home equity debt may also be deductible. Home equity debt is debt secured by the home that exceeds acquisition debt.
- Origination Fee/Points paid to purchase a home or refinance a loan. (*Note: refinanced points may need to be amortized.*)
- Investment interest to extent of investment income.

Gifts to Charity

A charitable contribution is simply a voluntary transfer of property to a charitable organization. A taxpayer may donate any type of property, assuming the charity will accept it, at any time and in any manner desired.

Cash and Non-Cash Contributions to

- Religious Organizations such and churches and synagogues.
- Federal, state and local governments.
- Nonprofit schools and hospitals.
- Public parks and recreation facilities.
- Public Charities such as United Way, Salvation Army, Red Cross, Boy and Girl Scouts, etc.
- War veterans' groups.
- Other qualified charitable organizations.

Note: *not all "non-profits" qualify. Go to www.IRS.gov/charities for a list of qualifying charities.*

Deductions for charitable contributions also include:

- Charitable travel miles for charitable organizations or volunteer work (*14¢ per mile*).
- Charity-sponsored conventions.
- Exchange student (*transportation and incidentals*) up to \$50.00 per month.
- Supporting a foster child (*expenses exceeding payments*).
- Tickets and merchandise purchased in excess of cost over fair market value.
- Volunteer out-of-pocket expenses.

Casualty and Theft Losses

Non-business losses must be unreimbursed and exceed 10% of your adjusted gross income plus \$100. Business losses are fully deductible on the business form. (*Please see your tax advisor if this may pertain to you.*)

Job Expenses and Other Miscellaneous Deductions

Certain miscellaneous expenses are deductible if the expenses exceed 2% of your adjusted gross income.

Un-reimbursed Employee Expenses:

- Employer required medical examination.
- Gifts (*business related under \$25 each person*).
- Job related education expenses.
- Job search expenses.
- Lodging and meals if away from home overnight. (*check per diem rates*)
- Membership dues to professional societies.
- Occupational taxes and fees.
- Office-At-Home expense, if required and for the convenience of the employer.
- Passport fees for a business trip.
- Professional and union dues.
- Professional liability insurance.
- Promotion (*can be over \$25*).
- Required travel and auto mileage for job.
- Small tools, equipment and supplies.
- Special work clothes and uniforms.
- Subscriptions to professional journals.
- Telephone calls and pagers the job requires.
- Travel between work locations.

Other Miscellaneous Expenses (*subject to 2% of AGI*):

- Appraisal fees to establish tax deduction for charitable contributions.
- Cost of special proxy fights.
- Financial publications and programs.
- Hobby expenses to extent of hobby income.
- Investment counsel.
- Investment expenses & broker fees.
- IRA trustee's administrative fees billed and paid separately.
- Legal fees for collecting or producing taxable income (*including alimony and tax planning*).
- Management of undeveloped property held for profits.
- Repayment of previously taxed income of \$3000 or less.
- Safe deposit box.
- Tax counsel, preparation and audit.
- Travel to investment broker or manager.
- Trust administration fees.
- Loss on deposits in an insolvent financial institution.

Miscellaneous Deductions (*not subject to 2% limitation*)

The following items are fully deductible on Schedule A:

- Amortization of bond premium (*Bonds issued before 10/23/1986*).
- Federal estate tax on income in the respect of a decedent
- Gambling losses (*to the extent of winnings*).
- Jury pay given to employer (*if already included in income*).

- Repayment of previously taxed income over \$3000.
- Un-recovered investment in an annuity on a decedent's final return.
- Work related expenses of a disabled individual (*medical expense related*).

Non-Deductible Expenses

- Expenses to produce tax exempt income.
- Loss from sale of personal residence.
- Political contributions.
- Gambling losses in excess of gambling winnings.
- Hobby losses in excess of hobby income.
- Legal fees for wills and estate planning.