

Itemized Deductions

As an AARP Foundation Tax-Aide Counselor, this lesson will assist you in determining if a taxpayer should itemize deductions. Generally, taxpayers should itemize if their total allowable deductions are higher than the standard deduction amount.

Learning Objectives

- Determine if a taxpayer should itemize deductions
- Determine the type of expenses that qualify as itemized deductions
- Accurately report itemized deductions on Schedule A, Itemized Deductions
- Explain the recordkeeping requirements for claiming charitable contributions

Getting Started:



Study the associated IRS VITA/TCE Training Guide Chapter 21.



Open Pub 4012 Volunteer Resource Guide **Tab F-3**.

Tax-Aide Hint:

- Don't complete Itemized Deductions if there is no taxable income
- **IRS Interactive Tax Assistant (ITA)** may be useful:
 - Can I Deduct My Medical and Dental Expenses?
 - Can I Deduct My Mortgage-Related Expenses?
 - Can I Deduct My Charitable Contributions?
 - Can I Claim My Expenses as Miscellaneous Itemized Deductions on Schedule A (Form 1040)?
 - Can I Deduct Personal Taxes That I Pay as an Itemized Deduction on Schedule A?
- Quick Useful TaxSlayer comparison under **Federal Section>Deductions:**
Compare Deductions *Try it ... bet you like it!*

IRS Sales Tax Deduction Calculator

The Sales Tax Deduction Calculator can help determine the amount of optional state and local sales tax to can claim on Schedule A of Form 1040.

<https://www.irs.gov/credits-deductions/individuals/sales-tax-deduction-calculator>

Hint from NTTC Modifications to the IRS Training Guide

Allowable medical expenses

Clarify that premiums for long-term care insurance are deductible up to a limit amount based on the age of the insured.

Deductible medical insurance expense

Clarify that taxpayers receiving premium tax credits (PTC) will adjust their current year medical deduction for medical insurance up or down for the excess PTC or additional PTC, respectively. In the example at the bottom of the page add:

Effectively, the taxpayer adds the excess APTC he/she has to repay to the net amount of premiums they paid. Conversely, he/she reduces their deduction for any additional net PTC he/she claims on the return.

Sales tax deduction

The deductible sales tax using the IRS sales tax tables can be increased by general state and local sales tax paid on any motor vehicle, boat, aircraft, and home construction or improvement.

Tax deduction limitation

State and local income taxes, property taxes, sales taxes, foreign property, and foreign income taxes paid as part of a trade or business or for the production of income are not subject to the aggregate \$10,000 limit.

Refer taxpayers adversely affected by scope limitations to professional preparers. Such as property taxes related to land rentals or royalties – scope does not allow for any expenses to be claimed on Schedule E.

Form 1098-C

Form 1098-C provided only as confirmation of a donated vehicle worth \$500 or less is in scope. No entry other than the value of the donation is required.

Noncash charitable contributions

Noncash contributions up to \$5,000 total for the year are in scope for Tax-Aide. The taxpayer is responsible for providing the cost basis (if required) and the fair market value (usually thrift store value) of all noncash donations. Refer to the Volunteer Resource Guide for specific software instructions to complete Form 8283.

Itemized Deductions

Deductible miscellaneous deductions

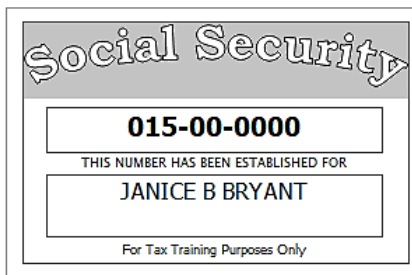
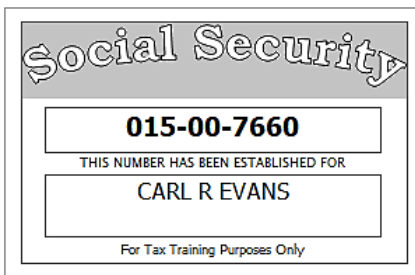
Add to the list of deductible expenses (not subject to the 2% of AGI rule):

- Repayment of income of \$3,000 or more. Note there is also a credit that may be better – see Pub 525
- Loss on termination of an annuity by a deceased annuitant – see Pub 575

Practice Lab

Revisit Open [TaxSlayer Practice Lab](#) and login.

Find the **Entering Standard and Itemized Deductions video**.



Itemized Deductions

a. Employee's social security number 115-00-0000						
b. Employer identification number (EIN) 25-5123456		1. Wages, tips, other compensation \$21,010.27		2. Federal income tax withheld \$2,100.00		
c. Employer's name, address, City, State and ZIP Code JEFFERSON COUNTY SCHOOL DISTRICT 12210 ROBIN ROAD INDIANAPOLIS IN 46204		3. Social security wages \$22,010.27		4. Social security tax withheld \$1,364.64		
		5. Medicare wages and tips \$22,010.27		6. Medicare tax withheld \$319.15		
		7. Social security tips		8. Allocated tips		
d. Control number		9. Verification code		10. Dependant care benefits		
e. Employee's first name and initial last name f. Employee's address and ZIP code JANICE B BRYANT 8705 SOMERSBY WAY YC, YS, YZIP		11. Nonqualified plans		12a. See instructions for box 12 E \$1,000.00		
		13. Statutory Retirement Third-party Employee Plan sickpay <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/>		12b. DD \$4,734.53		
		14. Other FSA 480.00		12c.		
				12d.		
15. State YS	Employer's state ID number 216123456	16. State wages, tips, etc. \$21,010.27	17. State income tax 1,051.00	18. Local wages, tips, etc.	19. Local income tax	20. Locality name

Form **W-2** Wage and Tax Statement **2018**
Copy B - To Be Filed With Employee's FEDERAL Tax Return.
 This information is being furnished to the Internal Revenue Service.

a. Employee's social security number 015-00-7660						
b. Employer identification number (EIN) 25-6123456		1. Wages, tips, other compensation \$12,283.00		2. Federal income tax withheld \$1,228.00		
c. Employer's name, address, City, State and ZIP Code PETROLEUM OIL & GAS 624 KASPAR DRIVE INDIANAPOLIS IN 42602		3. Social security wages \$12,283.00		4. Social security tax withheld \$761.55		
		5. Medicare wages and tips \$12,283.00		6. Medicare tax withheld \$178.10		
		7. Social security tips		8. Allocated tips		
d. Control number		9. Verification code		10. Dependant care benefits		
e. Employee's first name and initial last name f. Employee's address and ZIP code CARL R EVANS 8705 SOMERSBY AVE YC, YS, YZIP		11. Nonqualified plans		12a. See instructions for box 12		
		13. Statutory Retirement Third-party Employee Plan sickpay <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>		12b.		
		14. Other		12c.		
				12d.		
15. State YS	Employer's state ID number 312123456	16. State wages, tips, etc. \$12,283.00	17. State income tax 614.00	18. Local wages, tips, etc.	19. Local income tax	20. Locality name

Form **W-2** Wage and Tax Statement **2018**
Copy B - To Be Filed With Employee's FEDERAL Tax Return.
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Itemized Deductions

Itemized Deductions

Carl and Janice provide a summary of expenses that include medical expenses they paid for Janice's sister who was hospitalized after a fall. Her sister's expenses were not reimbursed by Medicare.

Medical and dental expenses

Doctor bills (Penny):	1,289.00	
Ambulance	950.30	
Hospital (Penny)	3,538.45	
Wheelchair (Penny)	1,789.56	
Dental insurance:	1,135.00	
Dental bills:	1,300.00	
Prescription co-pays	1,795.27	
Hearing aids (Carl)	2,900.30	
Long-Term Care insurance premiums (Janice)	2,450.00	
Counseling program to stop smoking	800.00	
Medical miles:	1,795	

Taxes paid

Property tax (main home):	4,900.76	
Property tax (parcel of land):.	798.00	
Personal property tax (value based):	389.00	
Sales tax (used car for Yvonne):	1,390.00	
Use your state and local tax rate for sales tax.*		

Gifts to Charity

St Paul's Church:	2,500.00	
St. Paul's Church raffle:	100.00	
Millsap Elementary Public School:	100.00	
National Cancer Society:	200.00	
Salvation Army (clothing) .	475.00	

*Use the [IRS Sales Tax Calculator](#)

Itemized Deductions

<input type="checkbox"/> CORRECTED (if checked)			
RECIPIENT'S/LENDER'S name, address, city, state, and ZIP code US BANK NATIONAL ASSOCIATION 4801 FREDERICA OWENSBORO KY 42301		* Caution: The amount shown may not be fully deductible by you. Limits based on the loan amount and the cost and value of the secured property may apply. Also, you may only deduct interest to the extent it was incurred by you, actually paid by you, and not reimbursed by another person.	
		<div style="text-align: center;"> 20 18 Form 1098 </div>	
		Mortgage Interest Statement	
RECIPIENT'S/LENDER'S federal identification number 31-0841368		PAYER'S/BORROWER'S taxpayer identification number 015-00-7660	
PAYER'S/BORROWER'S name, address, city, state, and ZIP code CARL R EVANS 8705 SOMERSBY AVE YC, YS, YZIP		1. Mortgage interest received from payer(s)/borrower(s) * \$4,527.50	
		2. Outstanding mortgage principal as of 1/1/2018 \$298,237.75	3. Mortgage origination date 05/23/2004
		4. Refund of overpaid interest	5. Mortgage insurance premiums
		6. Points paid on purchase of principal residence	
		7. Is address of property securing mortgage same as PAYER'S/BORROWER'S address? If Yes, box is checked <input checked="" type="checkbox"/> X If No, see box 8 or 9 below	
		8. Address of property securing mortgage	
10. Other PROPERTY TAX: \$4,900.76		9. If property securing mortgage has no address, below is the description of the property	
Account number (see instructions) 777-673421			
Form 1098			

Copy B For Payer/Borrower

The information in boxes 1, through 9 is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a sanction may be imposed on you if the IRS determines that an underpayment of tax results because you overstated a deduction for this mortgage interest or for these points, reported in boxes 1 and 6; or because you didn't report the refund of interest (box 4); or because you claimed a non-deductible item.

Input all of the qualified itemized deductions into Practice Lab.

Find answers in the file: *Answers to Practice Lab Self-Study Exercises* in the Self-Study 2018>H. Answers, etc. Module.

Tax-Aide Notes:

- See Volunteer Resource Guide, Pub 4012 Tab F pages 1 and 2 ... in most cases TaxSlayer chooses between the Schedule A Itemized Deductions and the Standard Deduction.
- Be careful with state income tax since some states give the option to choose between their state itemized deductions and the state standard deduction. With the new federal tax changes, a Counselor may need to create the Federal Schedule A for state purposes, regardless if it uses the Standard Deduction for Federal purposes.

Itemized Deductions

Learning Review

1: Bill and Kathy Ferris file a joint return. They paid the medical and dental bills listed below. What is the total of Bill and Kathy's qualified medical expenses?

Medical Expenses	Amount	Deductible
Unreimbursed doctors' bills	\$500	?
Unreimbursed orthodontist bill for braces	\$1,200	?
Hospital insurance premiums	\$300	?
Life insurance premiums	\$500	?
Unreimbursed prescription medicines	\$100	?
Vitamins	\$70	?
Hospital bill (before insurance company's reimbursement of \$1,000)	\$2,000	?
Smoking-cessation program	\$150	?
Total	\$4,820	?

2: Which of the following taxes are deductible on Schedule A?

- A. Federal income tax
- B. State, local, and foreign income tax and real estate tax
- C. Tax on alcohol and tobacco
- D. Foreign sales tax

?

3: For a tax to be deductible, a tax must be _____. (Select all that apply.)

- A. Imposed during the tax year
- B. Imposed on the taxpayer
- C. Paid during the tax year
- D. Paid by the taxpayer

?

4: Joe and Angela file a joint return. During the year, they made the interest payments listed below. The total of Joe and Angela's fully deductible interest for the tax year is \$.

Interest Payments	Amount	Deductible
Qualified interest on their home mortgage, reported on Form 1098	\$2,180	?
Credit card interest	\$400	?

Itemized Deductions

Points paid to refinance their mortgage for a better interest rate (None of the points qualify as interest.)	\$1,500	?
Interest on a car loan	\$2,000	?
Total	\$6,080	?

<p>5: Julia made the following contributions last year: \$600 to St. Martin's Church (The church gave her a letter verifying the amount.) \$32 to Girl Scouts (not for cookies!) \$40 to a family whose house burned \$50 for lottery tickets at a fundraiser \$100 for playing bingo at her church The amount that Julia can claim as deductible monetary contributions is \$.</p>	?
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6: Philip had the expenses shown below. What is the total of Philip's qualified miscellaneous itemized expenses? \$.		
Expense	Amount	Deductible
Income tax preparation fee	\$100	?
Safe deposit box rental (to store bonds)	\$75	?
Life insurance premiums	\$300	?
Credit card convenience fee for income tax payment	\$70	?
Loss on sale of personal home	\$1,800	?
Investment journals and newsletters	\$250	?
Investment expenses	\$200	?
Attorney fees for preparation of a will	\$100	?
Total	\$2,895	?

Answers to Learning Review

1. The total of qualified medical and dental expenses is \$3,250, which does not include life insurance premiums, vitamins, or reimbursed hospital expenses.
2. B. State, local, foreign income tax, and real estate taxes are all deductible on Schedule A.
3. B, C, and D. Taxpayers cannot deduct a tax they did not owe, did not pay, or that they paid during another year. However, the tax may have been imposed in a prior year.
4. \$2,180. The only interest that is fully deductible for the tax year is Joe and Angela's home mortgage interest. The points they paid to refinance are not deductible because they were not paid to acquire or improve the main home, and the other interest paid was personal interest and is not deductible.
5. The amount that Julia can claim as deductible cash contributions is \$632 (donations to her church and to the Girl Scouts). Bingo, lottery tickets, and donations to individuals in need are not deductible.
6. Zero. None of these expenses are qualified miscellaneous itemized deductions.

Feedback:

Please email: selfstudy@aarpdfntaxaide.org. Appreciate suggestions and comments.

Itemized Deductions

Evans Itemized Deductions		
Doctor bills (Penny):	1,289.00	
Ambulance	950.30	
Hospital (Penny)	3,538.45	
Wheelchair (Penny)	1,789.56	
Dental insurance:	1,135.00	
Dental bills:	1,300.00	
Prescription co-pays	1,795.27	
Hearing aids (Carl)	2,900.30	
Counseling program to stop smoking	800.00	
		15,498
Medical miles:	1,795	304
Long-Term Care insurance premiums (Janice)	2,450.00	1,530
		17,332
State Income Tax	1,665.00	
Sales tax (used car for Yvonne):	1,390.00	
IRS Sales Tax Calculator	695.00	2,085
Property tax (main home):	4,900.76	
Property tax (parcel of land):.	798.00	5,699
Personal property tax (value based):	389.00	389
Mortgage Interest		4,528
St Paul's Church:	2,500.00	
St. Paul's Church raffle:		
Millsap Elementary Public School:	100.00	
National Cancer Society:	200.00	
Salvation Army (clothing) .	475.00	
		3,275