Standard Deductions and Itemized Deductions

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Goals

• Determine if a taxpayer should itemize deductions
• Determine the type of expenses that qualify as itemized deductions
  – Unable to cover all expenses due to the limited time frame
• Accurately report itemized deductions on Schedule A

Key Terms

• Adjusted Gross Income (AGI)
  – The taxpayer’s total adjusted gross income (AGI) is the amount used to compute some limitations, such as the medical and dental deduction on Schedule A and the credit for child and dependent care expenses
• 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
• Standard Deduction
  – An amount provided by law and based on filing status, age, blindness, and dependency that taxpayers can deduct from their adjusted gross income before tax is determined
Adjusted Gross Income (AGI)

2016 Form 1040

Itemized Deductions

- Use Schedule A (Form 1040) to figure itemized deductions
- In most cases, the federal income tax will be less if the client takes the larger of the itemized deductions or the standard deduction
- If the client itemizes, they can deduct a part of medical and dental expenses and unreimbursed employee business expenses, and amounts paid for certain taxes, interest, contributions, and miscellaneous expenses
- You can also deduct certain casualty and theft losses
- Don't include on Schedule A, items deducted elsewhere, such as on Form 1040 or Schedule C, C-EZ, E, or F
Medical and Dental Expenses

• The client generally can deduct only the part medical and dental expenses that exceeds 10% of the amount on Form 1040, line 38 (AGI)
• However, if born before January 2, 1952 the client can deduct the part of the medical and dental expenses that exceed 7.5%
  – 2016 is the last year for this special percentage for individual 65 or older, unless extended by legislation

Examples of Medical and Dental Payments that are Deductible

• Insurance premiums for medical and dental care, including premiums for qualified long-term care insurance contracts
• Prescription medicines or insulin
• Acupuncturists, chiropractors, dentists, eye doctors, medical doctors, occupational therapists, osteopathic doctors, physical therapists, podiatrists, psychiatrists, psychoanalysts (medical care only), and psychologists
• Medical examinations, X-ray and laboratory services, insulin treatment, and whirlpool baths the doctor ordered

Examples of Medical and Dental Payments that are Deductible

• Diagnostic tests, such as a full-body scan, pregnancy test, or blood sugar test kit
• Nursing help including the share of the employment taxes paid
• If the client paid someone to do both nursing and housework, they can deduct only the cost of the nursing help
• Hospital care (including meals and lodging)
• Clinic costs, and lab fees
• Qualified long-term care services
• The supplemental part of Medicare insurance (Medicare B)
• The premiums paid for Medicare Part D insurance
• A program to stop smoking and for prescription medicines to alleviate nicotine withdrawal
Examples of Medical and Dental Payments that are Deductible

- A weight-loss program as treatment for a specific disease (including obesity) diagnosed by a doctor
- Medical treatment at a center for drug or alcohol addiction
- Medical aids such as eyeglasses, contact lenses, hearing aids, braces, crutches, wheelchairs, and guide dogs, including the cost of maintaining them
- Surgery to improve defective vision, such as laser eye surgery or radial keratotomy
- Lodging expenses (but not meals) while away from home to receive medical care in a hospital or a medical care facility related to a hospital, provided there was no significant element of personal pleasure, recreation, or vacation in the travel
  - Don't deduct more than $50 a night for each eligible person

Examples of Medical and Dental Payments that are Deductible

- Ambulance service and other travel costs to get medical care
- If the client uses their own car, they can claim what they spent for gas and oil to go to and from the place they received the care
- Or they can claim the 2016 Medical standard mileage rate of 19 cents per mile
- In addition, parking and tolls can be deducted
- Cost of breast pumps and supplies that assist lactation

Deceased Taxpayer

- Certain medical expenses paid out of a deceased client's estate can be claimed on the deceased taxpayer's final return
Limit on Long-Term Care Premiums
2014-2015 Amounts

• The amount a client can deduct for qualified long-term care insurance contracts depends on the age, at the end of 2016, of the person for whom the premiums were paid

<table>
<thead>
<tr>
<th>Year age in years, attained before the close of the taxable year</th>
<th>Minimum long-term care insurance premiums you can include tax year 2014</th>
<th>Minimum long-term care insurance premiums you can include tax year 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age 40 or under</td>
<td>$515</td>
<td>$515</td>
</tr>
<tr>
<td>Age 41 to 50</td>
<td>$755</td>
<td>$735</td>
</tr>
<tr>
<td>Age 51 to 60</td>
<td>$4,090</td>
<td>$4,670</td>
</tr>
<tr>
<td>Age 61 to 70</td>
<td>$7,750</td>
<td>$9,560</td>
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<tr>
<td>Age 71 or over</td>
<td>$4,895</td>
<td>$4,710</td>
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</table>

2016 Long Term Care Limits

<table>
<thead>
<tr>
<th>If the person was, at the end of 2016, # to ...</th>
<th>THEN the most you can deduct is ...</th>
</tr>
</thead>
<tbody>
<tr>
<td>40 or under</td>
<td>$390</td>
</tr>
<tr>
<td>41-50</td>
<td>$720</td>
</tr>
<tr>
<td>51-60</td>
<td>$1,460</td>
</tr>
<tr>
<td>61-70</td>
<td>$3,900</td>
</tr>
<tr>
<td>71 and over</td>
<td>$4,870</td>
</tr>
</tbody>
</table>

Examples of Medical and Dental Payments You Can't Deduct

• The cost of diet food
• Cosmetic surgery unless it was necessary to improve a deformity related to a congenital abnormality, an injury from an accident or trauma, or a disfiguring disease
• Life insurance or income protection policies
• The Medicare tax on wages and tips or the Medicare tax paid as part of the self-employment tax or household employment taxes
Examples of Medical and Dental Payments You Can't Deduct

- Nursing care for a healthy baby
- Illegal operations or drugs
- Imported drugs not approved by the U.S. Food and Drug Administration (FDA)
  - This includes foreign-made versions of U.S.-approved drugs manufactured without FDA approval
- Nonprescription medicines, other than insulin (including nicotine gum and certain nicotine patches)
- Travel the doctor told the client to take for rest or a change
- Funeral, burial, or cremation costs

Line 1 - Medical and Dental Expenses

Medical Expenses Line 1

- Enter the total of medical and dental expenses, after the amount is reduced by any payments received from insurance or other sources
- If advance payments of the premium tax credit were made, or the client may be eligible for the premium tax credit, prepare Form 8962 before filling out Schedule A, line 1
Whose Medical and Dental Expenses Can the Client Deduct

- They can include medical and dental bills paid in 2016 for anyone who was one of the following, either when the services were provided or when they were paid
  - The client and the spouse
  - All dependents claimed on the return
  - A child whom the client doesn’t claim as a dependent because of the rules for children of divorced or separated parents
  - Any person the client could have claimed as a dependent on the return except that person received $4,050 or more of gross income or filed a joint return
  - Any person the client could have claimed as a dependent except that the individual can be claimed as a dependent on someone else’s 2016 return

Example

- The client provided over half of his/her mother’s support but can’t claim her as a dependent because she received wages of $4,050 in 2016
- The client can deduct any medical and dental expenses they paid in 2016 for the mother

Insurance Premiums for Certain Non-dependents

- The client may have a medical or dental insurance policy that also covers an individual who isn’t a dependent (for example, a nondependent child under age 27)
- The client can’t deduct any premiums attributable to this individual, unless they are such a person described under “whose medical and dental expenses can you include”
- However, if the client had family coverage when this individual was added to the policy and the premiums didn’t increase, they would be considered medical and dental insurance premiums
Reimbursements

• If an insurance company paid the provider directly for part of the expenses, and the client paid only the amount that remained, only that part paid out of the client’s pocket is a medical expense
• If the client deducted the expenses in an earlier year and the deduction reduced tax, they must include the reimbursement in income on Form 1040, line 21

Cafeteria Plans

• Don’t include insurance premiums paid by an employer-sponsored health insurance plan (cafeteria plan) unless the premiums are included in income of Box 1 of the Form(s) W-2
• Also, don’t include any other medical and dental expenses paid by the plan unless the amount paid is included in box 1 of the Form(s) W-2

Once the Medical Expenses Are Determined

• The deduction is limited to an amount in excess of 10% of the AGI
Once the Medical Expenses Are Determined

- But, if either the client or the spouse was born before January 2, 1952, multiply line 2 by 7.5%
- The 7.5% rate applies whether the client files a joint or separate return as long as one spouse was born before January 2, 1952
- If the client is claiming the 7.5% threshold amount for medical and dental expenses, make sure the appropriate boxes are checked on line 39a of Form 1040

Once the Medical Expenses Are Determined

- If the client cannot check a box on line 39a of Form 1040, but either of the spouses were born before January 2, 1952
- Attach a statement to the return indicating that the client is taking the 7.5% threshold because the client or spouse meets the requirements

Death Before Age 65

- A taxpayer is considered to be age 65 on the day before the taxpayer’s 65th birthday
- If the taxpayer wasn’t age 65 or older at the time of death, the 7.5% threshold doesn’t apply for that taxpayer or the spouse of that taxpayer who is under age 65
- For example, a taxpayer who was born on February 14, 1951, dies on February 13, 2016
- The taxpayer is considered age 65 at the time of death and the 7.5% threshold applies
- However, if the taxpayer died on February 12, 2016, the taxpayer isn’t considered age 65 and the 7.5% threshold doesn’t apply
Taxes You Paid

- Federal income and most excise taxes
- Social security, Medicare, federal unemployment (FUTA), and railroad retirement (RRTA) taxes
- Customs duties
- Federal state and gift taxes
- Certain state and local taxes, including: tax on gasoline, car inspection fees, assessments for sidewalks or other improvements to property, tax paid for someone else, and license fees (marriage, driver’s, dog, etc.)

Taxes You Can't Deduct

- State and Local Sales Tax
  - A client can elect to deduct state and local general sales taxes instead of state and local income taxes
  - A taxpayer cannot deduct both
### State and Local Income Taxes

- If the client elects to deduct state and local income taxes, check box on Line 5 of Form 1040, Schedule A
- Include on this line the following state and local income taxes:
  - State and local income taxes withheld from salary during 2016 from Form W-2: Forms W-2G, 1099-G, 1099-R, and 1099-MISC may also show state and local income taxes withheld
  - State and local income taxes paid (estimates or amounts owed and paid in 2016 – but, do not include interest or penalties)

### State and Local Income Taxes

- Don’t reduce the deduction by any:
  - State or local income tax refund or credit the client expects to receive for 2016, or
  - Refund of, or credit for, prior year state and local income taxes actually received in 2016
  - Instead, see the instructions for Form 1040, line 10

### State and Local Income Taxes

- If the client elects to deduct state and local general sales taxes, check box b on line 5
Figuring the Deduction

• To figure the deduction, the client can use either actual expenses or the optional sales tax tables.

Actual Expenses

• Generally, the client can deduct the actual state and local general sales taxes (including compensating use taxes) paid in 2016 if the tax rate was the same as the general sales tax rate.
• However, sales taxes on food, clothing, medical supplies, and motor vehicles are deductible as a general sales tax even if the tax rate was less than the general sales tax rate.
• If the client paid sales tax on a motor vehicle at a rate higher than the general sales tax rate, they can deduct only the amount of tax that they would have paid at the general sales tax rate on that vehicle.
• Motor vehicles include cars, motorcycles, motor homes, recreational vehicles, sport utility vehicles, trucks, vans, and off-road vehicles.
• Also include any state and local general sales taxes paid for a leased motor vehicle.
• Don't include sales taxes paid on items used in a trade or business.

State and Local Income Taxes

• The client must keep the actual receipts showing general sales taxes paid to use this method.
• Refund of general sales taxes.
• If the client receives a refund of state or local general sales taxes in 2016 for amounts paid in 2016, reduce the actual 2016 state and local general sales taxes by this amount.
• If the client receives a refund of state or local general sales taxes in 2016 for prior year purchases, don't reduce the 2016 state and local general sales taxes by this amount.
• But if the client deducted the actual state and local general sales taxes in the earlier year and the deduction reduced the tax, they may have to include the refund in income on Form 1040, line 21.
State and Local Income Taxes
Optional Sales Tax Tables

- Instead of using the actual expenses, the client can use the 2016 Optional State Sales Tax Table and the 2016 Optional Local Sales Tax Tables to figure the state and local general sales tax deduction.
- In addition, the client may also be able to add the state and local general sales taxes paid on certain specified items.
- To figure the state and local general sales tax deduction using the tables, there are two options:
  - The State and Local General Sales Tax Deduction Worksheet
  - The Sales Tax Deduction Calculator on the IRS website

State and Local Income Taxes

State and Local Income Taxes

State and Local Income Taxes
State and Local Income Taxes


State and Local Income Taxes

Special Issues

- If you lived in the same state for all of 2016
- What if you lived in more than one state?
- What if you lived in more than one locality?
State and Local Income Taxes

Real Estate Taxes

- Deductible real estate taxes are any state, local, or foreign taxes on real property levied for the general public welfare
- The client can deduct these taxes only if they are assessed uniformly against all property under the jurisdiction of the taxing authority
- The proceeds must be for general community or governmental purposes and not be a payment for a special privilege granted or service rendered

Real Estate Taxes

- Deductible real estate taxes generally do not include taxes charged for local benefits and improvements that increase the value of the property
- They also do not include itemized charges for services (such as trash collection) assessed against specific property or certain people, even if the charge is paid to the taxing authority
Tenant Shareholders in a Cooperative Housing Corporation

- Generally, if the client is a tenant-stockholder in a cooperative housing corporation, they can deduct the amount paid to the corporation that represents the share of the real estate taxes the corporation paid or incurred for the dwelling unit.
- The corporation should provide a statement showing the share of the taxes.

Other Issues

- Worksheet 22-1 Figuring Your Real Estate Tax Deduction
- Worksheet 22-1 Figuring Your Real Estate Tax Deduction — Taxes on Old Home
- Worksheet 22-1 Figuring Your Real Estate Tax Deduction — Taxes on New Home

Form 1099-S

- For certain sales or exchanges of real estate, the person responsible for closing the sale (generally the settlement agent) prepares Form 1099-S, Proceeds From Real Estate Transactions, to report certain information to the IRS and to the seller of the property.
- Box 2 of Form 1099-S is for the gross proceeds from the sale and should include the portion of the seller’s real estate tax liability that the buyer will pay after the date of sale.
- The buyer includes these taxes in the cost basis of the property, and the seller both deducts this amount as a tax paid and includes it in the sales price of the property.
Form 1099-S

- For a real estate transaction that involves a home, any real estate tax the seller paid in advance but that is the liability of the buyer appears on Form 1099-S, box 5
- The buyer deducts this amount as a real estate tax, and the seller reduces his or her real estate tax deduction (or includes it in income) by the same amount

Chart

<table>
<thead>
<tr>
<th>Type of Tax</th>
<th>You Can Deduct</th>
<th>You Cannot Deduct</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fees and Charges</td>
<td>Fees and charges that are paid by the buyer but that are considered a purchase price or interest.</td>
<td>Fees and charges that are not considered a purchase price or interest.</td>
</tr>
<tr>
<td>Income Taxes</td>
<td>State and local income taxes.</td>
<td>Federal income taxes.</td>
</tr>
<tr>
<td>Foreign Income Taxes</td>
<td>Employee contributions to state funds.</td>
<td>Employee contributions to private or voluntary charitable organizations.</td>
</tr>
<tr>
<td>Other Taxes</td>
<td>Taxes that are not expenses at your trade or business.</td>
<td>Taxes that are expenses at your trade or business.</td>
</tr>
<tr>
<td>Real Estate Taxes</td>
<td>State and local real estate taxes.</td>
<td>Real estate taxes that are treated as expenses at your trade or business.</td>
</tr>
<tr>
<td>Foreign Real Estate Taxes</td>
<td>Real estate taxes paid by a corporation as compensation.</td>
<td>Real estate taxes paid by a corporation.</td>
</tr>
<tr>
<td>Property Taxes</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Taxes Placed in Escrow

- If the monthly mortgage payment includes an amount placed in escrow (put in the care of a third party) for real estate taxes, the client cannot deduct the total amount placed in escrow.
- They can deduct only the real estate tax that the third party actually paid to the taxing authority.
- If the third party does not notify the client of the amount of real estate tax that was paid contact the third party or the taxing authority to find the proper amount to show on the return.
Tenants by the Entirety

- If the taxpayer’s held property as tenants by the entirety and they file separate federal returns, each of them can deduct only the taxes each of them paid on the property.

Divorced Individual

- If the divorce or separation agreement states that the client must pay the real estate taxes for a home owned by the client and the spouse, part of the payments may be deductible as alimony and part as real estate taxes.

Ministers’ and Military Housing Allowances

- If the client is a minister or a member of the uniformed services and receives a housing allowance that can be excluded from income, they still can deduct all of the real estate taxes paid on the home.
Refund (or Rebate)

- If the receives a refund or rebate in 2016 of real estate taxes paid in 2016, they must reduce the deduction by the amount refunded
- If they received a refund or rebate in 2016 of real estate taxes deducted in an earlier year, include the refund or rebate in income in the year received
- However, the amount included in income is limited to the amount of the deduction that reduced the tax in the earlier year

Real EstateRelated Items
You Cannot Deduct

- Taxes for local benefits
- Itemized charges for services (such as trash and garbage pickup fees)
- Transfer taxes (or stamp taxes)
- Rent increases due to higher real estate taxes
- Homeowners' association charges

Line 7
Personal Property Taxes

- Personal property tax is deductible if it is a state or local tax that is:
  - Charged on personal property
  - Based only on the value of the personal property
  - Charged on a yearly basis, even if it is collected more or less than once a year
### Line 7
**Personal Property Taxes**

- A tax that meets the above requirements can be considered charged on personal property even if it is for the exercise of a privilege

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### Line 7
**Personal Property Taxes**

- A yearly tax based on value qualifies as a personal property tax even if it is called a registration fee and is for the privilege of registering motor vehicles or using them on the highways
- If the tax is partly based on value and partly based on other criteria, it may qualify in part

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### Line 7
**Personal Property Taxes**

- The client’s state charges a yearly motor vehicle registration tax of 1% of value plus 50 cents per hundredweight
- The client $32 based on the value ($1,500) and weight (3,400 lbs.) of the car
- The client can deduct $15 (1% × $1,500) as a personal property tax because it is based on the value
- The remaining $17 ($0.50 × 34), based on the weight, is not deductible
**Form 1040, Schedule A**

<table>
<thead>
<tr>
<th>Taxes You Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>6</td>
</tr>
<tr>
<td>7</td>
</tr>
<tr>
<td>8</td>
</tr>
</tbody>
</table>

**Interest You Paid**

- Whether the interest expense is treated as investment interest, personal interest, or business interest depends on how and when the loan proceeds were used.

**Lines 10 and 11**

**Home Mortgage Interest**

- A home mortgage is any loan that is secured by the main home or second home.
- It includes first and second mortgages, home equity loans, and refinanced mortgages.
- A home can be a house, condominium, cooperative, mobile home, boat, or similar property.
- It must provide basic living accommodations including sleeping space, toilet, and cooking facilities.
Form 1040, Schedule A

Amount Deductible

- Fully deductible interest
  - If all of the mortgages fit into one or more of the following three categories at all times during the year, the client can deduct all of the interest on those mortgages
  - (If any one mortgage fits into more than one category, add the debt that fits in each category to the other debt in the same category)

Categories

- Mortgages took out on or before October 13, 1987 (called grandfathered debt)
- Mortgages took out after October 13, 1987, to buy, build, or improve a home (called home acquisition debt), but only if throughout 2016 these mortgages plus any grandfathered debt totaled $1 million or less ($500,000 or less if married filing separately)
- Mortgages took out after October 13, 1987, other than to buy, build, or improve a home (called home equity debt), but only if throughout 2016 these mortgages totaled $100,000 or less ($50,000 or less if married filing separately) and totaled no more than the fair market value of the home reduced by (1) and (2) above
Special Situations

- Certain items that can be included as home mortgage interest and others that can't

Late Payment Charge on Mortgage Payment

- The client can deduct as home mortgage interest a late payment charge if it wasn't for a specific service performed in connection with the mortgage loan
### Mortgage Prepayment Penalty

- If you pay off the home mortgage early, they client may have to pay a penalty
- They can deduct that penalty as home mortgage interest provided the penalty isn’t for a specific service performed or cost incurred in connection with the mortgage loan

### Sale of Home

- If the client sells a home, they can deduct the home mortgage interest (subject to any limits that apply) paid up to, but not including, the date of sale

### Prepaid Interest

- If the client pays interest in advance for a period that goes beyond the end of the tax year, they must spread this interest over the tax years to which it applies
- They can deduct in each year only the interest that qualifies as home mortgage interest for that year
Mortgage Interest Credit.

- The client may be able to claim a mortgage interest credit if they were issued a mortgage credit certificate (MCC) by a state or local government.
- Figure the credit on Form 8396, Mortgage Interest Credit.
- When they take this credit, the mortgage interest deduction must be reduced by the amount of the credit.

 Ministers' and Military Housing Allowance

- If the client is a minister or a member of the uniformed services and receive a housing allowance that isn't taxable, they can still deduct the home mortgage interest.

Other Issues to Explore

- Redeemable ground rents
- Nonredeemable ground rents
- Reverse mortgages
- Rental payments
- Refunds of interest
- Points
Form 1098, Mortgage Interest Statement

• If the client paid $600 or more of mortgage interest (including certain points) during the year on any one mortgage, they generally will receive a Form 1098 or a similar statement from the mortgage holder
• The statement for each year should be sent by January 31 of the following year
• A copy of this form will also be sent to the IRS

Form 1098, Mortgage Interest Statement

• The statement will show the total interest you paid during the year and if the client purchased a main home during the year, it also will show the deductible points paid during the year, including seller-paid points
• As a general rule, Form 1098 will include only points that the client can fully deduct in the year paid
• However, certain points not included on Form 1098 also may be deductible, either in the year paid or over the life of the loan
Investment Interest

- If the client borrows money to buy property that they hold for investment, the interest paid is investment interest
- They can deduct investment interest subject to limits
- However, the client cannot deduct interest they incurred to produce tax-exempt income
- Nor can they deduct interest expenses on straddles
- Investment interest doesn't include any qualified home mortgage interest or any interest taken into account in computing income or loss from a passive activity

Chart

<p>| Table 23-1. Where To Deduct Your Interest Expense |</p>
<table>
<thead>
<tr>
<th>If you have</th>
<th>THEN deduct it on</th>
<th>AND for more information go to</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deductible student loan interest</td>
<td>Form 1040, line 33, or Form 1040A, line 18</td>
<td>Pub. 1140</td>
</tr>
<tr>
<td>Deductible home mortgage interest and points reported on Form 1098</td>
<td>Schedule A (Form 1040), line 10</td>
<td>Pub. 536</td>
</tr>
<tr>
<td>Deductible home mortgage interest not reported on Form 1098</td>
<td>Schedule A (Form 1040), line 11</td>
<td>Pub. 536</td>
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<td>Deductible points not reported on Form 1098</td>
<td>Schedule A (Form 1040), line 12</td>
<td>Pub. 536</td>
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<td>Deductible investment interest (other than incurred to produce rents or royalties)</td>
<td>Schedule A (Form 1040), line 15c</td>
<td>Pub. 535</td>
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<tr>
<td>Deductible business interest (non-farm)</td>
<td>Schedule C or C-EZ (Form 1040)</td>
<td>Pub. 535</td>
</tr>
<tr>
<td>Deductible farm business interest</td>
<td>Schedule F (Form 1040)</td>
<td>Pub. a 225 and 535</td>
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<tr>
<td>Deductible interest incurred to produce rents or royalties</td>
<td>Schedule E (Form 1040)</td>
<td>Pub. a 227 and 535</td>
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<tr>
<td>Personal interest</td>
<td>Not deductible</td>
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</table>
Mortgage Insurance Premiums

- Mortgage insurance premiums are sometimes tax deductible—at least through the end of the 2016 tax year
- The mortgage insurance premium deduction applies only to loans taken out on or after January 1, 2007
- The insurance policy must be for home acquisition debt on a first or second home
- A home acquisition debt is one whose proceeds are used to buy, build or substantially improve a residence
- Typically, if the client is unable to make a down payment of at least 20 percent, the lender will require private mortgage insurance to secure the debt if they default
- 2016 may be the last year for this deduction unless Congress extends the provision

Mortgage Insurance Premium Worksheet

Gifts to Charity
Form 1040, Schedule A

Contributions

- Organizations that qualify to receive deductible contributions
- Contributions from which the client benefits

EO Select Check

Search Begins Here

Records

• The client must keep records to prove the amount of the contributions they make during the year
• The kind of records depends on the amount of the contributions and whether they are:
  – Cash contributions
  – Noncash contributions, or
  – Out-of-pocket expenses when donating services
• Note. An organization generally must give you a written statement if it receives a payment from you that is more than $75 and is partly a contribution and partly for goods or services

Cash Contributions

• Cash contributions include those paid by cash, check, electronic funds transfer, debit card, credit card, or payroll deduction
• The client cannot deduct a cash contribution, regardless of the amount, unless they keep one of the following:
  – A bank record that shows the name of the qualified organization, the date of the contribution, and the amount of the contribution
• Bank records may include:
  • a. A canceled check
  • b. A bank or credit union statement, or
  • c. A credit card statement
  – A receipt (or a letter or other written communication) from the qualified organization showing the name of the organization, the date of the contribution, and the amount of the contribution
  – The payroll deduction records
Payroll Deductions

- If the client makes a contribution by payroll deduction, they must keep:
  1. A pay stub, Form W2, or other document furnished by your employer that shows the date and amount of the contribution, and
  2. A pledge card or other document prepared by or for the qualified organization that shows the name of the organization
- If the employer withheld $250 or more from a single paycheck, certain rules apply

Contributions of $250 or More

- The client can claim a deduction for a contribution of $250 or more only if they have an acknowledgment of the contribution from the qualified or organization or certain payroll deduction records
- If they made more than one contribution of $250 or more, they must have either a separate acknowledgment for each or one acknowledgment that lists each contribution and the date of each contribution and shows the total contributions

Amount of the Contribution

- In figuring whether the contribution is $250 or more, don’t combine separate contributions
- For example, if the gave their church $25 each week, the weekly payments don’t have to be combined
- Each payment is a separate contribution
- If contributions are made by payroll deduction, the deduction from each paycheck is treated as a separate contribution
- Contributions from which the client benefits is the amount of the payment that is more than the value of the goods and services
Acknowledgment

• The acknowledgment must meet these tests
  – 1. It must be written
  – 2. It must include:
    • a. The amount of cash contributed
    • b. Whether the qualified organization gave them any goods or services as a result of the contribution (other than certain token items and membership benefits)
    • c. A description and good faith estimate of the value of any goods or services described in (b) (other than intangible religious benefits), and
    • d. A statement that the only benefit received was an intangible religious benefit, if that was the case
• The acknowledgment doesn't need to describe or estimate the value of an intangible religious benefit. An intangible religious benefit is a benefit that generally isn't sold in commercial transactions outside a donative (gift) context
• An example is admission to a religious ceremony

Timing is Everything

• The client must get it on or before the earlier of:
  – a. The date you file the return for the year they make the contribution or
  – b. The due date, including extensions, for filing the return
• If the acknowledgment doesn’t show the date of the contribution, they must also have a bank record or receipt that does show the date of the contribution
• If the acknowledgment shows the date of the contribution and meets the other tests they don’t need any other records

Contribution by Phone

• If the client made contribution by phone, keep the phone bill showing the name of who they made the donation to, the date they made the contribution, and the amount of the contribution
Casualty and Theft Loss

- This issue is too broad to cover in today's webinar
- Form 4684 is used for individual and business casualty losses

Job Expenses and Certain Miscellaneous Deductions
### Job Expenses and Certain Miscellaneous Deductions

- The client can deduct only the part of these expenses that exceeds 2% of the AGI.

### Examples of Expenses that are Not Deductible

- Political contributions
- Legal expenses for personal matters that don't produce taxable income
- Lost or misplaced cash or property
- Expenses for meals during regular or extra work hours
- The cost of entertaining friends
- Commuting expenses
- Travel expenses for employment away from home if that period of employment exceeds 1 year

### Examples of Expenses that are Not Deductible

- Travel as a form of education
- Expenses of attending a seminar, convention, or similar meeting unless it is related to the client's employment
- Club dues
- Expenses of adopting a child
- But the client may be able to take a credit for adoption expenses (Form 8839)
- Fines and penalties
- Expenses of producing tax-exempt income
### Tax Preparation Fees

- The fees paid for preparation of a tax return, including fees paid for filing the return electronically (Line 22)
- If the client paid the tax by credit or debit card, include the convenience fee charged on line 23 instead of this line 22

### Form 1040, Schedule A

![Form 1040, Schedule A](image)

### Other Expenses

- Enter the total amount paid to produce or collect taxable income and manage or protect property held for earning income
- Do not include any personal expenses
- List the type and amount of each expense on the dotted lines next to line 23
- If more space is needed, attach a statement to the return showing the type and amount of each expense
Other Expenses

- Examples of expenses that qualify for a deduction:
  - Certain legal and accounting fees
  - Clerical help and office rent
  - Custodial (for example, trust account) fees
  - The share of the investment expenses of a regulated investment company
  - Certain losses on non-federally insured deposits in an insolvent or bankrupt financial institution
  - Deduction for repayment of amounts under a claim of right if $3,000 or less
  - Convenience fee charged by the card processor for paying income tax (including estimated tax payments) by credit or debit card
  - The deduction is claimed for the year in which the fee was charged to the card

Other Miscellaneous Deductions

- Only the expenses listed next can be deducted on line 28
- List the type and amount of each expense on the dotted lines next to line 28
- Gambling losses (gambling losses include, but are not limited to, the cost of non-winning bingo, lottery, and raffle tickets), but only to the extent of gambling winnings reported on Form 1040, line 21
- Casualty and theft losses of income-producing property from Form 4684, lines 32 and 38b, or Form 4797, line 18a
- Loss from other activities from Schedule K-1 (Form 1065-B), box 2
- Federal estate tax on income in respect of a decedent

Form 1040, Schedule A
Other Miscellaneous Deductions

- A deduction for amortizable bond premium (for example, a deduction allowed for a bond premium carryforward or a deduction for amortizable bond premium on bonds acquired before October 23, 1986).
- An ordinary loss attributable to a contingent payment debt instrument or an inflation-indexed debt instrument (for example, a Treasury Inflation-Protected Security).
- Deduction for repayment of amounts under a claim of right if over $3,000.
- Certain unrecovered investment in a pension.
- Impairment-related work expenses of a disabled person.

Total Itemized Deductions

- Itemized Deductions can be limited (phased-out) if income exceeds a certain amount based on filing status.
  - $311,300 if married filing jointly or qualifying widow(er).
  - $285,350 if head of household.
  - $259,400 if single.
  - $155,650 if married filing separately.
- Revenue Procedure 2015-53.

Total Itemized Deductions Worksheet—Line 29

<table>
<thead>
<tr>
<th>Itemized Deductions Worksheet—Line 29</th>
<th>Keep for Your Records</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Enter the total of amounts from Schedule A, lines 4, 5, 15, 16, 17, and 18.</td>
<td></td>
</tr>
<tr>
<td>2. Enter the total of amounts from Schedule A, lines 1, 14, and 15 plus any gambling and casualty or theft losses included on Form 1040.</td>
<td></td>
</tr>
<tr>
<td>3. If the total on line 2 is less than the total on line 17,</td>
<td></td>
</tr>
<tr>
<td>No. Add to total on line 17.</td>
<td></td>
</tr>
<tr>
<td>Yes. Subtract $19,600 (if filing separate).</td>
<td></td>
</tr>
<tr>
<td>4. Enter the total of amounts from Schedule A, lines 1, 14, and 15 plus any gambling and casualty or theft losses included on Form 1040.</td>
<td></td>
</tr>
<tr>
<td>5. Enter the total of amounts from Schedule A, lines 4, 5, 15, 16, 17, and 18.</td>
<td></td>
</tr>
<tr>
<td>6. Enter the number of line 4 on line 5.</td>
<td></td>
</tr>
<tr>
<td>7. Total itemized deductions: Subtract line 4 from line 3. Enter the result here and on Schedule A, line 19.</td>
<td></td>
</tr>
</tbody>
</table>
Standard Deduction

• The standard deduction is a dollar amount that reduces the amount of income on which a taxpayer is taxed
• The standard deduction consists of the sum of the basic standard deduction and any additional standard deductions for age and/or blindness
• In general, the standard deduction is adjusted each year for inflation and varies according to the filing status, whether the client is 65 or older and/or blind, and whether another taxpayer can claim them as a dependent

Standard Deduction

• The standard deduction is not available to certain taxpayers
• The client cannot take the standard deduction if they itemize
• Also, if a MFS taxpayer itemizes, the other party must also itemize, they cannot take the standard deduction
• An individual who was a nonresident alien or dual status alien during any part of the year cannot take the standard deduction – some exceptions
• An individual who files a return for a period of less than 12 months due to a change in his or her annual accounting period
• An estate or trust, common trust fund, or partnership

Additional Standard Deduction

• The client is allowed an additional deduction if the are age 65 or older at the end of the tax year
• They will be considered to be 65 on the day before their 65th birthday
• They are allowed an additional deduction for blindness if they are blind on the last day of the tax year
• For example, a single taxpayer who is age 65 and blind would be entitled to a basic standard deduction and an additional standard deduction equal to the sum of the additional amounts for both age and blindness
### Dependents

- If the client can be claimed as a dependent by another taxpayer, the standard deduction for 2016 is limited to the greater of:
  - (1) $1,050, or
  - (2) Earned income plus $350 (but the total cannot be more than the basic standard deduction allowed for that filing status)

### 2016 Standard Deductions

<table>
<thead>
<tr>
<th>Filing Status</th>
<th>Standard Deduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Married individuals Filing Joint Returns and Surviving Spouses (§ 1(a))</td>
<td>$12,600</td>
</tr>
<tr>
<td>Heads of Households (§ 1(b))</td>
<td>$9,300</td>
</tr>
<tr>
<td>Unmarried Individuals (other than Surviving Spouses and Heads of Households) (§ 1(c))</td>
<td>$6,300</td>
</tr>
<tr>
<td>Married individuals Filing Separate Returns (§ 1(d))</td>
<td>$6,300</td>
</tr>
</tbody>
</table>
Aged or Blind

- For taxable years beginning in 2016, the additional standard deduction amount under § 63(f) for the aged or the blind is $1,250
- The additional standard deduction amount is increased to $1,550 if the individual is also unmarried and not a surviving spouse
Form 1040 Schedule A

Form 8283

Form 8283
CALT Website

http://www.calt.iastate.edu/

Tour of the CALT Website

Fall Tax Schools

- Though they are named the Farm and Urban Tax Schools, the schools cover more than farm issues.
- Common return issues for all kinds of returns are covered.
- All kinds of business entities.
- Problematic issues.
- Sometimes we even get into issues that you may encounter only once or twice a year or tax season.
- The Tax Schools are a blend of diverse topics of interest to all tax professionals.
- This year: New instructors with diverse backgrounds.
- Your adventure awaits at Iowa State’s Center for Agricultural Law and Taxation.
Farm and Urban Tax Schools 2016

- November 2, 2016 to December 13, 2016
- 8 Locations in Iowa and Online Webinar
- Save the Date for the 2016 Annual Farm and Urban Income Tax Schools
- The program is intended for tax professionals and is designed to provide up-to-date training on current tax law and regulations
  - November 2-3: Maquoketa
  - November 7-8: Red Oak
  - November 9-10: Sheldon
  - November 14-15: Mason City
  - November 17-18: Ottumwa
  - November 21-22: Waterloo
  - December 5-6: Denison
  - December 12-13: Ames and Live Webinar

Winter Webinars

- Miscellaneous Income
- Tax law Update: New Developments
- Monthly Ethics Classes

Beginning Tax Preparers Class

- CALT is working on offering a basic class for NEW tax preparers this fall in October
- The week long webinar will cover the basics an individual needs to know such as:
  - Child and Dependent Care Credit
  - Education Credits
- Other issues a first or second year preparer needs to know as well as a refresher for others who need to brush up on issues
- The class will be a week long or more and will be offered at a special rate
The Scoop

- Throughout the filing season two Scoops will be held on Scoop Dates
  - 8:00 – 8:30 am Central time
  - 12:00 – 12:30 Central time
- This assists with accommodating our west coast practitioners
- The same information will be shared at both sessions
- You have the option of registering for whatever session suits your schedule
- https://www.calt.iastate.edu/calendar-node-field-seminar-date/month

Future Scoop Dates

- October 19, 2016
- November 16, 2016
- December 14, 2016
- http://www.calt.iastate.edu/calendar-node-field-seminar-date/month

The CALT Staff

The CALT Staff

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