

# Tax\$avers

## ITEMIZED DEDUCTIONS

*Must know deductions  
for every taxpayer*



## ITEMIZED DEDUCTIONS

Itemized deductions are captured on Schedule A as an alternative to taking the standard allowable deduction. To determine which is more favorable for your situation, it is often best to calculate your return both ways.

Generally, if you own your own home you will itemize deductions. To help you gather and retain the correct records, a checklist is provided here for your use. While the list is not all inclusive, it is a good starting point.

### MEDICAL & DENTAL COSTS

Medical and Dental expenses are generally deductible to the extent they exceed 7.5% of your income. Some of the more common expenses:

- adoption
- birth control pills (prescribed)
- doctor/dentist fees
- drug/alcohol treatment
- guide dog costs
- handicap access devices for disabled
- hospital fees
- insurance premiums
- prescriptions
- laser eye surgery
- lead based paint removal cost
- life-care fees for medical treatment
- longterm care ins prem.
- meals/lodging related to hospital stays
- medical devices
- operations
- organ donation
- physician diet/health programs
- psychiatric care
- school and/or home for disabled
- smoking cessation program cost
- special life items (glasses, limbs, dentures, wheelchairs, hearing aids, contacts, etc.)
- transportation (medical related)
- weight loss programs cost

### TAXES

The following taxes are generally 100% deductible.

- state/local taxes
- property taxes
- payments to mandatory state funds
- foreign income taxes
- real estate taxes
- value based auto license fee
- general state/local sales tax\*

\* Through 2007, and potentially beyond, you may deduct *either* general state/local sales tax *or* state/local income tax. Since this provision is not yet permanent, it is a good idea to save receipts substantiating major purchases involving sales tax.

## INTEREST EXPENSE

While most personal interest is no longer deductible (credit card interest, car loans, and the like), there are still interest expense deductions available to you.

- home mortgage interest
- 2nd home mortgage interest
- home equity loan interest
- New!** Mortgage loan insurance premiums covering mortgages purchased in 2007 and beyond.
- interest on special assessments (as real estate tax)
- business interest
- investment interest
- "points" paid

## CHARITABLE CONTRIBUTIONS

*(donating money or property)*

Both cash and property are generally deductible if donated to qualified organizations. Qualified organizations include:

- churches
- non-profit schools
- non-profit hospitals
- public parks
- boy & girl scouts
- war/veterans groups
- agencies such as: Red Cross, Salvation Army, Goodwill, CARE, United Way etc.
- YMCA/YWCA
- some environmental/conservation groups

**TaxSaver Tip:** All cash donations now require a bank record or receipt.

**TaxSaver Tip:** Make sure you also keep track of your mileage to and from the charity. It is also deductible.

**TaxSaver Tip:** Only donate your vehicle to a qualified charity that uses, improves or sells the vehicle at full market value. If the charity sells your vehicle without using or improving the vehicle, your deduction is limited to the gross proceeds from the sale ***and not*** what could be a higher “fair market value”.

## CASUALTY & THEFT LOSSES

Casualty and Theft losses are generally deductible to the extent they exceed 10% of your adjusted gross income, are not reimbursable via insurance, and each event exceeds \$100.

- fire
- theft
- natural loss: tornado, hurricane, flood, etc.
- car accident
- vandalism
- other accidents

## MISCELLANEOUS DEDUCTIONS

Most miscellaneous deductions are only deductible to the extent they exceed 2% of your adjusted gross income. Items with an “\*” are usually not subject to the income threshold.

- gambling losses to offset gains\*
- handicapped job related expenses\*
- work uniforms
- un-recovered annuity costs\*
- job hunting expenses
- safe deposit box cost
- tax prep fees
- employee business expenses
- hobby exp. to offset gains
- 50% of business related meals; entertainment
- classroom material expense for teachers
- repayments of income\*
- repayments of Social Security
- investment related expenses
- in-home office expenses

## MISCELLANEOUS DEDUCTIONS

(continued)

- IRA/KEOGH administration fees
- business use depreciation
- certain legal fees
- trust administration fees
- job required medical exam
- job required education expenses

## NON-DEDUCTIBLE EXPENSES

The following are common non-deductible items:


- accidental damage
- blood donation
- club dues
- commuting expenses
- cosmetic surgery
- drought losses
- estate/gift taxes
- funeral expenses
- gifts to foreign organizations
- gifts to "for profit" groups
- gifts to individuals
- home repairs
- labor union donations
- license fees
- life insurance prem.
- lost property
- non-essential education
- non-health related:  
household help  
health club dues
- PAC donations
- political donations
- property assessments
- raffle tickets
- sales taxes (unless in lieu of state income taxes)
- Soc. Sec./Medicare
- tax penalties
- termite/insect damage
- tickets and fines

## TAX SAVINGS TIPS

### *TaxSaver Tip #1: Expense Shifting*

Whenever possible shift expenses into categories of itemized deductions to surpass the IRS thresholds in a given year.

*Example:* You have surgery during the year resulting in high medical costs for that year. The IRS 7.5% of income threshold is surpassed, so every incremental Medical and Dental expense is now deductible. If possible, now is a good time to get eyes checked, to get family physicals, and to get other medical and dental work completed. Next



year you will again have to reach the 7.5% threshold before you can deduct the expense.

### ***TaxSaver Tip #2: Miles, Miles, Miles***

Capture all your mileage for business travel, charitable travel, and medical travel. Keep a log book in your car and note the miles to and from the doctor or dentist. Track the miles to drop off charitable donations, or to go to and from your charity. This area of deductible expense is often not taken or is poorly captured.

### ***TaxSaver Tip #3: Missing a few things***

What is deductible? What is not? When in doubt save the canceled check, the proof of payment, and receipt. Without the proof, the expense cannot be taken.

### ***TaxSaver Tip #4: Non-cash donations***

How many times have you dropped off a bag of clothes or a lamp and not kept a record of the gift? All of these donations that are in good or better condition are deductible. Keep a list of items you plan to give away. Put the list next to or inside the bag of items you plan to drop off. The required itemization of items donated can be prepared when the bag is ready to be dropped off at your favorite charity.

### ***TaxSaver Tip #5: Donation Traps***

You must now have a bank statement, cancelled check or receipt for *all* cash donations. So, write checks to your church versus cash in the collection plate. Send in a check to the Salvation Army or favorite charity instead of putting cash in the kettle.

Should you have any questions or concerns regarding your situation please call.

This publication provides only summary information regarding the subject matter. Please call with any questions on how this information may impact your situation.