Itemized Deductions

- Below the line deductions
  - Reported on schedule A
- Include Medical Expenses taxes

interest charitable contributions

casualty losses miscellaneous

itemized deductions

Medical Expenses

Expenditures for:

- Diagnosis, cure, treatment, or prevention of disease affecting any structure or function of the body

Deductible	Nondeductible
Prescription Drugs	Elective Cosmetic Surgery
Expenses Related to Diagnosis, Cure, and Treatment	Dance Lessons
Health Insurance Premiums	Health Club Dues
Capital Expenditures	Marijuana
Nursing Home and Special Schools	Over-the-Counter Drugs
Travel and Lodging	General Health Items (e.g., vitamins)

DEDUCTION

- deductible in year paid must exceed 7.5%
- of AGI to be deductible example
- Amy has a AGI of 10,000 and medical expenses of 1,250 amys
  - medical deduction = 500
  - [1,250 - (10,000 x 7.5%)] = 500

Capital Medical Expenses

▼ Includes wheelchairs

medical beds seeing eye

dogs ▼ must be medical

necessity advised by a

physician used primarily by

patient reasonable

Maintenance on capital expenditures also deductible as medical expenses

Capital Improvement to home

deductible to extent that the cost of improvement exceeds the increase in value to home •

exception: removal of structural barriers to home of handicapped are deemed to add not value to home thus, full amount is a medical expense

Improvements for accessibility are always deductible

- handicapped entrance/exit ramps modifications to
- bathroom and kitchens

Nursing Home and Special School Expenses

- if the primary purpose is medical treatment, all costs (including meals and lodging) qualify as medical expenses • if primary purpose is personal, only specific medical costs qualify (no meals or lodging)

Transportation and Lodging

Transportation to and form medical care is deductible

- 22% per mile for 2023 airfare, ambulances, trains, taxi, etc. are deductible at cost
- lodging while away from home for medical care • allowable amount is 50 per person per

night if parent and/or aide needs to accompany patient, their expenses are also deductible

Health Insurance Premium

- Premium paid for medical care insurance are deductible medical expenses for self-
- employed, 100% of insurance premium are deductible above the line

Reimbursed Expenses

if reimbursed in same year as expenses paid:

- reimbursement offsets deductible amount

If reimbursed in the year after medical expense were paid:

- reimbursement is income inly to extent medical deduction was taken by taxpayer (tax benefit rule)

SALT Deductions

TCJA 2017 permits a deduction of up to $10,000 for the aggregate of:

- state and local property taxes not paid or accrued in carrying on trade or business, or an activity described in section 212
- state and local income, war profits, and excess profits taxes (or sales taxes in lieu of

income taxes) paid or accrued in the taxable year non deductible foreign property taxes

repayments of state or local income taxes

Interest Includes

1. repayment penalties
2. points
3. late payment fees
4. no longer includes mortgage insurance premium (only through December 31, 2021)

Paying Interest on the Obligation of another

- not deductible commonly arises in situation where shareholder pays debt of a
- corporation

treated as capital contribution to the corporation, which can deduct the interest expense

Qualified Residence interest

can deduct interest on: principal residence one vacation home includes boat/vehicle with

- sleeping and eating accommodations vacation home treated as “qualified residence”
- if the home is not renter during the year or if the home does meet the “rental use”
    - exception of section 280A
    - ### Acquisition indebtedness
- acquire construct improve principal residence for acquisition
- indebtedness incurred on or before December 15, 2017
    - 1 million maximum principal amount
    - 500,000 for married filing separately during tax year 2018 - 2025 for acquisition
- indebtedness incurred after December 15, 2017 interest is deductible on up to
    - $750,00 maximum principal amount $375,000 for married filing separately
    - for tax years beginning after dec 31, 2025 these amounts are adjusted to:
    - 1 million maximum principal amount
        - 500,000 for married filing separately once
        - amortized, cannot be resurrected
    - **Home equity indebtedness - before 2018 and after 2025**
- 100,000 maximum principal amount
    - 50,000 for married filing separately cannot exceed FMV of
- home less acquisition indebtedness

For tax years 2018 - 2025, no interest on home equity indebtedness may be deducted

- this provision sunsets for tax years beginning after dec 31, 2025

-

interest on home equity loan that qualifies as acquisition indebtedness is deductible

Prepaid Interest (points)

Generally amortized over life of loan ▼ exception: pints paid in the acquisition or improvement of principal residence entire amount is deductible in year paid only paint on the first 1 million of acquisition indebtedness incurred on or before dec 31, 2017 is deductible • for tax years 18-25 points paid on first 750k

Investment interest

Limited to net investment income (NII) unlimited carryforward is allowed not subject to the AGI phaseout for high income taxpayers

Net investment income

NII = investment income - investment expenses other than interest ▼ **invest income includes**

interest nonqualified dividends gains on property taxed at ordinary rated under depreciation recapture rules capital gains and qualified dividends can be included if taxpayer elects to pay tax at ordinary rates ▼ investment expenses other than interest those that are directly connected with the production of investment income expenses disallowed because of the 2% floor will not reduce net investment income

Expense & interest to generate tax-exempt income

not deductible for regular tax purposes

if municipal bond interest is taxable when the AMT applies, the taxpayer may deduct interest expense incurred in purchasing the municipal bonds

•

other expenses associated with the purchase of tax-exempt securities are not deductible

Interest expense and passive income

if interest is incurred in acquiring a passive activity, the passive loss rules apply

Deductible	Nondeductible
Qualified Residence Interest (Limit 2 houses and $1,000,000 pre-12/16/17 debt or $750,000 post-12/15/17 debt)	Personal Interest Including Credit Cards, Car, Bank Loans, etc.
Home Equity Line of Credit up to $100,000 limit (before 2018 & after 2025). No deduction for Home equity interest from 2018-2025 (unless it qualifies as acquisition indebtedness).	Interest Used to Buy Tax-Free Municipal Bonds (Regular Tax)
Investment Interest Expense (to extent of investment interest income)	Home equity interest for tax years 2018-2025.

General Requirement for income tax charitable deduction

- made to qualified organizations subject of the gift is property
- (not service) deductible portion must exceed value received
- by donor paid in cash or property before close of tax year
-

Donations of Partial Interest

Right to use property is not deductible • rent-free

occupancy

Gifts of less than entire interest are not deductible unless it is: an

- undivided portion of donors entire interest a remainder
- interest in personal residence or farm a partial interest if
- transferred in trust

a charitable gift annuity

-

Income tax deduction depends on…

- typed of property given away
- identity of the donee the
  - contributor amount of
  - property given away place
- where charity is organized
-

Charitable Deduction Limitations

Interaction of Limitations • when applying the yearly overall 50% limitation for contributions of property, allowable deductions first come 50 percent gifts, then from 30 percent gifts, and finally from 20 percent gifts

◦ if cash contributions are also made during the year, the overall 50 percent limit is first reduce by the amount of cash contributions • deductions disallowed because of AGI limitations may be carried over for five years (in FIFO order)

Taxpayer with $100,000 in AGI, contributed $40,000 cash and long-term stocks with a FMV of $35,000 and a basis of $8,000 to a University

60% limit = $60,000 and 30% limit = $30,000; overall 50% limit for property = $50,000

- Amount of deduction = $50,000 (40,000 cash + 10,000 stock)
- Contribution carryforward = $25,000 stock (as 30% asset)

Gifts of Cash

- Fully Deductible subject to AGI limitations excess
- contributions carry forward: 5 years corporate

deductions limited to 10% of taxable income can move

◦ charitable deductions above-the-line

•

contributions to institutions of higher education in

-

return for a right to purchase tickets or seating at an athletic event ◦ no deduction is permitted

Long-term capital gain property

- Intangible Personal Property and Real property subject to 30% limitation can qualify for 50% limitation by reducing the value of the gift by 100% of the gain
- Tangible Personal Property used by donee in tax exempt purpose entire fair market value at the date of the gift is deductible subject to 30%
  - AGI limitation
- Not • used by donee in tax exempt purpose the fair market value of the gift must be reduced by 100 percent of the potential gain subject to the 50% limitation

Ordinary Income Property

Includes short term capital gains

- assets
- works of art, books, letters and musical compositions if given by the persons who created or prepared them • business persons stock in trade and inventory

Deduction Limited to cost basis • these gifts should be avoided when the estate will not be subject to estate taxes

ITEMIZED DEDUCTION LIMITATIONS

	Cash	Non-LTCG Property	LTCG Property
Public Charity	60%	50%	30%
Private Charity (Private Foundations & CLT)	30%	30%	20%

Charitable Deductions

Type of Property Donated	Valuation for Purposes of Charitable Deduction	Ceiling for Public Charities, Private Operating Foundations and Certain Private Nonoperating Foundations*	Ceiling for Other Private Nonoperating Foundations (PNOF)
Cash	Fair Market Value	60%	30%
Ordinary Income Property & Short-Term Capital Gain Property	Lesser of the Adjusted Basis or the Fair Market Value	50%	30%
Long-Term Capital Gain Property: ➢ Intangible	Fair Market Value	30%*	Adjusted Basis 20%**
➢ Tangible Property	(a) Fair Market Value – If related use	30%*	
	(b) Lesser of the Adjusted Basis or the Fair Market Value – If unrelated use	50%	
➢ Real Property	Fair Market Value	30%*	

*Taxpayer has the option to use the adjusted basis and the 50% of AGI ceiling for Regular Charities.
** Certain contributions of Qualified Appreciated Stock may use the fair market value.

Casualty Loss Deduction

One of few tax deductions allowed for personal losses

- Beginning in 2018, only permitted as a deduction on schedule A (personal loss) if the loss is attributable to a disaster declared by the president under section 401 of the Robert T. stafford disaster relief and emergency act

Applies in extreme cases where the taxpayer has suffered a large loss due to

1. fire
2. storm
3. shipwreck
4. theft
5. other sudden, unexpected events causing losses

Classification of Casualty loss:

business loss - above the line deduction personal loss

- schedule A itemized deduction

Personal Casualty and theft losses

Deduction for personal losses is the lower of decline in value of the asset less

- insurance proceeds received taxpayers adjusted basis in property, less
- insurance proceed received

Further Limitation

  - 100 is deducted from the loss caused by each occurrence only
  - casualty losses in excess of 10% AGI are deductible

If casualty gains exceed casualty losses gains offsets any casualty

- losses suffered in the same year excess gains are treated as
- the sale of a capital asset can be short term or long term
  - deferral of gain provisions may apply, and will be discussed in the non-taxable
  - exchanges chapter.
- personal casualty and theft gains and losses are not netted with the gains and losses on business and income producing property

EXAMPLE

Beau owned a home in New Orleans that was severely damaged by a hurricane. Beau had purchased the home for $200,000, and the fair market value of the home prior to the hurricane was $400,000. His homeowners insurance policy had lapsed one month before the hurricane hit and Beau had not obtained any other insurance. After the hurricane, the property had a fair market value of $90,000. The President declared the

Hurricane a disaster under Section 401 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act.

- Beau's casualty loss is valued at $200,000 which is his adjusted basis less insurance proceeds received (insurance proceeds in this case are zero)
- His economic loss (the fair market value before the event, $400,000 less the fair market value after the event, $90,000) is $310,000.

- Since Beau had never paid tax on the $200,000 gain in the property, however, he cannot take a tax deduction for the economic loss.

- If Beau had the property fully insured, he would have received the full $310,000 (less his deductible) from the insurance company.

EXAMPLE

Continuing with the facts from the prior example, assume that Beau's AGI for the year is $100,000.

- beaus casualty loss of 200k must be reduce by 100k the resulting loss is only
- deductible to the extent it exceeds 10% of AGI the deductible portion of
- beaus casualty loss is 189,900
  - (200,000-100-10,000[10% of AGI])
- had the loss not been caused by a presidentially declared disaster, it would not be deductible for tax years 2018-2025

Business Casualty and Theft losses

above the line deduction amount of deduction depends on whether the

event cause a complete casualty (FMV after the event = 0) loss = adj.

basis in property less insurance proceeds a partial casualty loss is the

lesser of decline in value or adjusted basis in property, less insurance

proceeds

Item	Adjusted Basis	FMV Before	FMV After	Loss
A	6,000	8,000	5,000	3,000
B	6,000	8,000	1,000	6,000
C	6,000	4,000	0	6,000

ALWAYS LIMITED TO BASIS

Fully Deductible (Tier I) (Not Subject to 2% Hurdle)	Deductible (Tier II) (Subject to 2% Hurdle)
• Gambling Losses to Extent of Gains	• Unreimbursed Employee Business Expenses (travel, journals, uniforms, union dues)
• Credit for Estate Tax on IRA Assets	• Hobby expenses to Extent of Hobby Income
• Loss of Disposition of Annuity Contracts	• Investment Expenses (e.g., fees)
• Repayment of Income	• Tax Advice and Preparation
	• Losses on Terminated IRAs
	• Educational Expenses to Maintain or Improve Taxpayer Competency
	• Home Office Deduction

Deduction Clustering

a tax planning strategy in which itemized deductions are clustered (or bunched) together in one year, making them higher than the standard deduction, while the standard deduction is taken the following year • creates a higher amount of deductions overall a taxpayer can control the timing (within certain limitations) of:

- a payment of state and local income or property taxes
- payment of mortgage interest medical expenses charitable
- donations
-

Qualified Business Income (QBI) deduction - sec . 199A

Below the line deduction

• available regardless of whether the taxpayer selects the standard deduction or itemized deduction • to create parity in tax treatment of pass through entities versus C corps

Pass through entities include

- sole proprietorships
- partnerships LLCs
- S corporations
-

Qualified Business Income

QBI is the net amount of qualified items of income from eligible pass through entities

▼ QBI does not include Capital Gains and losses dividends

interest not allocable to a trade or business commodities

transactions reasonable compensations for S corporations

owners guaranteed payments to partners for services

rendered

QBI deduction

in general, the QBI deduction is equal to the lesser of:

- 20% of qualified business income
- 20% of the taxpayers adjusted taxable income

adjusted taxable income = taxable income from all sources, after taking above the line deductions (excluding the deductions related to the business for self employment tax, self insured health insurance premiums, and self employed retirement plan contributions) and taking wither the standard or itemized deductions, reduced by net capital gains (includes spouses income if MFJ)

EXAMPLE

Chaylan's share of qualified business income from a partnership is $90,000, and her total adjusted taxable income from all sources (after taking above-the-line deductions not related to the business, and either the standard or itemized deduction, but before taking the 20% deduction for QBI) is $70,000, the deduction is the lesser of:

- 20% x $90,000, or
- 20% x 70,000

Deduction limited to $14,000

Phaseout

based on taxable income from all sources including

- spouses income if MFJ excluding the QBI
- deduction

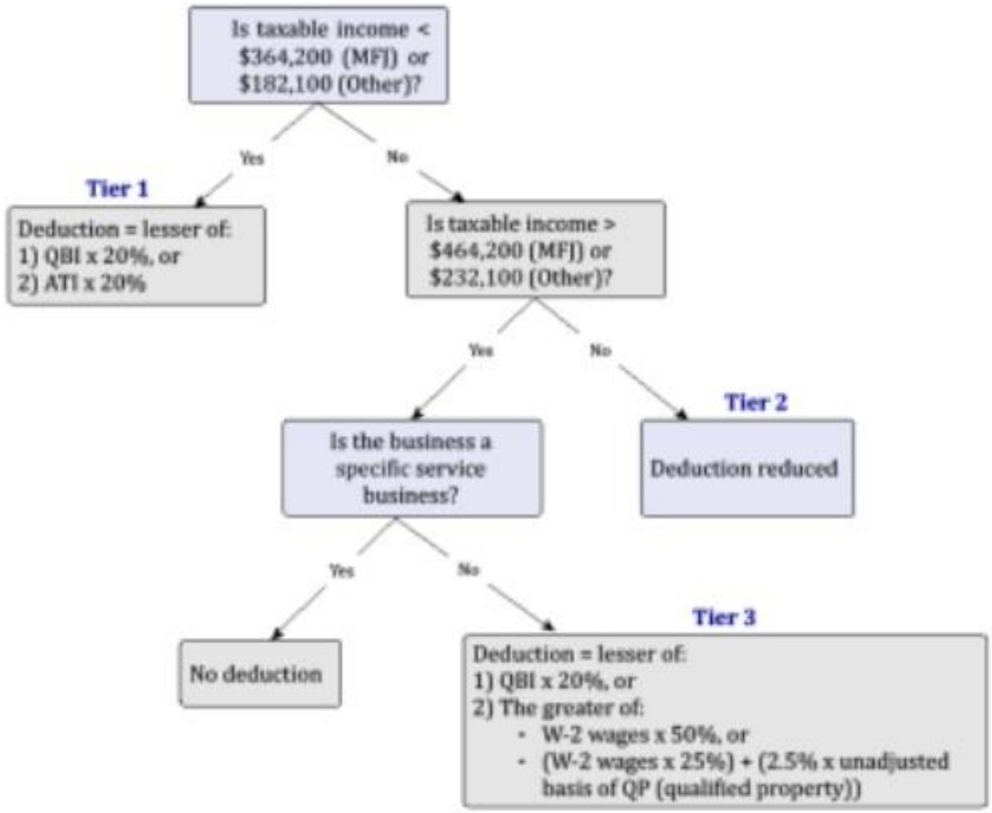
QBI Threshold and Phaseout Amounts 2023		
Filing Status	Threshold Amount	Phaseout Amount
MFJ	364,200	464,200
All Others	182,100	232,100

QBI Deduction - Specified service trade or business (SSTB)

the QBI deduction is limited for trades or business involving performance of service in the fields of:

1. health
2. law
3. accounting
4. actuarial services
5. consulting
6. performing arts
7. athletics
8. financial services
9. investing
10. investment management
11. trading or dealing in securities
12. any trade or business where the principal asset of the business is the reputation or skill of one or more of its owners are SSTBs

Does NOT include engineering or agricultural services


Is taxable income < $364,200 (MFJ) or $182,100 (Other)?
Yes
No
Tier 1
Deduction = lesser of:
1) QBI x 20%, or
2) ATI x 20%
Is taxable income > $464,200 (MFJ) or $232,100 (Other)?
Yes
No
Tier 2
Deduction reduced
Is the business a specific service business?
Yes
No
No deduction
Tier 3
Deduction = lesser of:
1) QBI x 20%, or
2) The greater of:
• W-2 wages x 50%, or
• (W-2 wages x 25%) + (2.5% x unadjusted basis of QP (qualified property))