Itemized Deductions: Schedule A

Background

The calculation of itemized deductions is a useful tool to lower a client's taxable income and potentially increase their refund. However, unless a client owns their home or has significant unreimbursed medical expenses, she usually will not reach the threshold where itemization produces a higher deduction than the standard deduction. Also, if a client has no taxable income (line 43), there is no reason or benefit to itemize deductions.

Foundation Communities Policy

Before deciding to itemize, first determine the standard deduction as calculated by TaxWise. Then manually estimate the amounts from the itemized deduction categories listed on the intake sheet. If the total estimate is not reasonably close to or above the standard deduction, itemizing deductions will not be productive. Some clients may want to enter the information regardless. If so, or if your estimate justifies possible itemization, link to a Schedule A from line 40 or select Schedule A in the tree. TaxWise automatically will select the higher of the standard or itemized deductions.

How To Assist Tax Clients

Following are the more common itemized deductions you will see in the tax center:

Medical and Dental Expenses:

A complete list of eligible expenses can be found in IRS Publication 17 Chapter 21 *Medical and Dental Expenses*. The deduction for medical mileage—to and from doctor appointments, physical therapy, etc.—is often overlooked. Caution the client that, if audited, the IRS may request proof of any deductions claimed. Do not list any amounts paid with pre-tax dollars or reimbursed by insurance. On line 1 of Schedule A, link to the Schedule A detail worksheet to enter medical expenses. Only the amount of medical and dental expenses that is more than 10% of the client's adjusted gross income (7.5% if age 65 and older) is deductible.

Taxes Paid:

Sales Tax: TaxWise automatically calculates an optional sales tax deduction. In addition to the calculated amount, the client may include the sales tax on certain items of personal property he purchased during the tax year. For example, if the client purchased a pre-owned car, the sales tax paid on the purchase is added to the calculated sales tax. Enter the vehicle sales tax by linking from line 5 of Schedule A to the Sales Tax Worksheet. If the client received Social Security retirement benefits or non-taxable income which didn't have to be reported on Form 1040, enter that income on line 3 of the Sales Tax Worksheet. This entry will increase the income base on which the sales tax deduction is calculated.

State Income Tax: A client may deduct state and local income taxes or instead she can elect to deduct state and local general sales taxes. But she cannot deduct both types of taxes for the same time period. The client can deduct state and local income taxes withheld from her salary in the year they are withheld. These amounts should be indicated on the client's W-2's and entered along with other W-2 information. Be aware that a refund of deducted state income tax may need to be reported as income in the year it is received.

Real Estate Tax: Schedule A, line 6. This amount will be found on the Form 1098 provided to the client by a mortgage company or on a property tax notice provided by a taxing authority (e.g. Travis County). Ask the client for this information even if she does not present a Form 1098 to you. The amount of real estate taxes paid during the year also may be obtained by conducting a search on the county tax office website.

Interest Paid:
Home Mortgage: Link from line 10 of Schedule A to a scratch pad. Enter amounts from boxes 1 and 2 on Form 1098. A client may have a mortgage on more than one home, or may have more than one mortgage on the same home. All home mortgage interest paid during the tax year may be claimed on Schedule A.

Points: The term "points" is used to describe certain charges paid by a borrower to obtain a home mortgage. Points may also be called loan origination fees, loan discount, or discount points. Clients usually cannot deduct the full amount of points in the year paid unless they meet certain criteria. For more details see Publication 17, Chapter 23 *Interest Expense*.

Qualified Mortgage Insurance Premium: Schedule A, line 13. Do not confuse this with private mortgage insurance (PMI). Qualified Mortgage Insurance is issued by certain governmental agencies. Be aware of any changes in the tax law regarding these deductions and consult Publication 17 or an advanced preparer.

Note: Interest paid on credit cards, vehicle purchase loans, and other personal loans is ***not*** deductible on Schedule A.

Charitable Donations:
Charitable donations may not be entered directly on Schedule A. On line 16 (line 17 for non-cash donations) of the Schedule A, link to the A Detail worksheet.

Cash Contributions: All cash contributions will be listed in the section entitled 50% Limit Organizations. Advise the client of IRS recordkeeping requirements for cash contributions: you cannot deduct cash contributions, regardless of the amount, unless you have written proof of the contribution, such as a bank record (e.g. canceled check) or a statement from the charity that includes the charity name, date of contribution, and amount donated.

Non-Cash Contributions: Non-cash contributions will also be listed in the 50% Limit Organizations section. The IRS requires a written receipt that includes the name of charity, date and location of donation, and a reasonably detailed description of the property donated. For any non-cash donation valued above $250, see Publication 17, Chapter 24 *Contributions*, for additional requirements. If a non-cash donation is valued more than $500, Form 8283 is required which is out of scope. Refer such clients to a paid tax preparer.

Miscellaneous Deductions:

These will not apply to many CTC clients. However, if they exceed their standard deduction threshold utilizing the expenses above, review lines 21, 22 and 23 to ensure these potentially deductible expenses are included.