Itemized Deductions: Basic Overview
myCPE is an online continuing education platform for CPAs, Accountants, EAs, Tax Professionals, CFOs, Controllers etc.

myCPE has pioneered initiative of ‘1Credit = 1Meal’(#1C1M). Through this 1C1M program, we at myCPE, donate 1 meal to an underprivileged or a poor for each credit awarded to you on our platform.

Thank You for **Raising a Smile** on Someone’s Face.
IMPORTANT INSTRUCTIONS FOR THE LIVE WEBINAR PROGRAM

01 To earn full credit
- You are required to remain connected during the entire program
- You must answer all the polling questions
- You must complete the evaluation form after the webinar has ended

02 Polling Questions: In case you are unable to submit your response to a poll question due to any technical issue, kindly reach out to the moderator via the questions/chat panel or email at support@my-cpe.com with your poll question response during the webinar.

03 When listening via your computer speakers, please note that the quality of your sound will vary depending on the speed and quality of your internet connection.

04 You shall receive an evaluation form after the end of the webinar in the next 24 hours. The evaluation form can also be submitted from your myCPE dashboard under ‘My Webinars’ Tab under the ‘Pending Evaluation’ section.
ABOUT THE Q&A SESSION

Please note that the Q&A Session will be at the end of the webinar, if time permits.

You can submit your questions through the questions panel, and it’ll be put forward to the speaker by the moderator.

In case you want to ask the question to the presenter directly through your computer or cell phone, please make sure that the microphone of your device is working properly and there’s no background noise.

If you want to speak through your cell phone, the phone number and access code are available under the Audio Panel.

Kindly refer to the screenshot below to access audio panel.
NOTICE

The materials or presentation presented herewith is for informational purposes only and are not legal advice or a substitute for legal counsel or professional assistance. This information is not intended to create, and receipt of it does not constitute any kind of business or transactional relationship. You should not rely or act upon this information without seeking professional help as may be necessary. This information is based on speaker's understanding of the subject matter; the content should be considered as situation-specific tax or legal opinions and no options should be implemented without the validation and approval of your tax advisor or CPA. While we all use reasonable efforts to furnish accurate and up-to-date information, we do not warrant that any information contained herein the presentation or made available through our website is accurate, complete, reliable, current or error-free. We assume no liability or responsibility for any errors or omissions in the content of this website or presentation. Any U.S. federal tax advice contained on our website or presentation is not intended to be used for the purpose of avoiding penalties under U.S. federal tax law.
Itemized Deductions vs. Standard Deduction
### Itemized Deductions

#### Filing Status
- [ ] Single
- [ ] Married filing jointly
- [ ] Married filing separately (MFS)
- [ ] Head of household (HOH)
- [ ] Qualifying widow(er) (QW)

If you checked the MFS box, enter the name of spouse. If you checked the HOH or QW box, enter the child’s name if the qualifying person is a child but not your dependent.

- [ ] Your first name and middle initial
- [ ] Last name
- [ ] Your social security number
- [ ] Spouse’s first name and middle initial
- [ ] Last name
- [ ] Spouse’s social security number

#### Home Address
- [ ] City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).
- [ ] Apt. no.

#### Standard Deduction

- [ ] Someone can claim:
  - [ ] You as a dependent
  - [ ] Your spouse as a dependent
  - [ ] Spouse itemsizes on a separate return or you were a dual-status alien

#### Age/Blindness
- [ ] You: Were born before January 2, 1955
- [ ] Are blind
- [ ] Spouse: Was born before January 2, 1955
- [ ] Is blind

#### Dependents (see instructions):

| (1) First name | (2) Social security number | (3) Relationship to you | (4) If it qualifies for (see instructions):
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Child tax credit</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Credit for dependents</td>
</tr>
</tbody>
</table>

#### Standard Deduction for:
- [ ] Single or Married filing separately, $12,200
- [ ] Married filing jointly or Qualifying widow(er), $24,400
- [ ] Head of household, $18,200

If you checked any box under Standard Deduction, see instructions.

---

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions.

Cat. No. 1132003
Form 1040 (2019)
Standard Deduction Amounts

For 2020:

• Single or Married Filing Separately: $12,400

• Head of Household: $18,650

• Married Filing Jointly: $24,800

• Age 65+ or blind: add $1,650 if unmarried or $1,300 per spouse if married

• Dependent: the greater of $1,100 or $350 + earned income (up to the standard deduction amount)
What Are Itemized Deductions?

Medical Expenses

State Taxes

Interest

Charitable

Casualty & Theft

Other
Polling Question #1

What form are itemized deductions claimed on?

A. Schedule A
B. Schedule F
C. Form 8889
D. Form 5471
Medical Expenses
Medical Expenses

Medical expenses in general:

• The total of all medical expenses must exceed 7.5% of a taxpayer’s AGI in order to be deductible

• Example: a taxpayer’s AGI is $80,000; they have $6,500 of medical expenses.
  • $80,000 x .075 = $6,000
  • $6,500 - $6,000 = $500 deduction for medical expenses

• As of now, the AGI limit will rise to 10% in 2021
What is a Medical Expense?

Medical expenses are amounts paid for:

• “The diagnosis, cure, mitigation, treatment, or prevention of disease, or for a purpose affecting the body’s structure or function”

• Transportation to medical care (i.e. medical mileage)

• Insurance premiums, including long-term care insurance

• Long-term care/nursing home care
Is it Deductible?

• Consult Publication 502
Who is a Dependent for Medical Purposes?

The definition of a “dependent” for medical expenses is different from the typical definition of a dependent.

- Someone may be a “medical dependent” while not actually being claimed as a dependent on the tax return.
Who is a Dependent for Medical Purposes?

A “medical dependent” is someone who could be claimed as a dependent except:

1. The person filed a joint return, or

2. The person could have been claimed as a dependent except their income was too high, or

3. In cases of divorce or separation, the “other ex” claims the dependent
Who is a Dependent for Medical Purposes?

Example:

• George and Martha’s son Thomas is 25 years old and still lives with them. Thomas makes $10,000 from his job.

• For tax-return rules, George and Martha cannot claim Thomas as a dependent because his income is too high

• But Thomas could be a medical dependent for medical expense deductions … but be careful — see the warnings below

• WARNING 1: for adults who are medical dependents (adult children, elderly parents) it is best if the taxpayer pays the provider directly, to avoid the IRS saying a gift was made

• WARNING 2: see the US Tax Court case Lang v Commissioner (TC Memo 2010-286) for an example of a situation where a parent paid an adult child’s medical bills and the court ruled that only the CHILD could take the deduction
Health Insurance Premiums

Insurance premiums include:

• Health insurance premiums paid for the taxpayer, their spouse, and dependents; includes dental and vision coverage

Do not include:

• Premiums taken pre-tax from an employer plan

• Premiums deducted as self-employed health insurance premiums
Long-Term Care

Premiums paid for long-term care insurance are deductible but subject to limits as follows:

<table>
<thead>
<tr>
<th>Age on December 31, 2019</th>
<th>Allowable Deduction for LTC Insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>40 or under</td>
<td>$420</td>
</tr>
<tr>
<td>41-50</td>
<td>$790</td>
</tr>
<tr>
<td>51-60</td>
<td>$1,580</td>
</tr>
<tr>
<td>61-70</td>
<td>$4,220</td>
</tr>
<tr>
<td>71+</td>
<td>$5,270</td>
</tr>
</tbody>
</table>
LTC Example

• George is age 52 and has a long-term care policy. He pays $1,700 of premiums on the policy for the year. For 2019, his maximum deduction for those premiums is $1,580.
Final Form 1040

• When a taxpayer dies before large medical bills are paid, the taxpayer’s estate can choose to claim those bills on the deceased person’s final Form 1040 rather than on the estate return (Form 706).

• In many cases now, this is a moot point either way
  • Standard deductions are nearly doubled so may not benefit on the 1040
  • The estate basic exclusion amount is $11.4 million
  • So may not benefit either way
Capital Improvements

• Most (but not all) capital improvements to a home related to a medical need are deductible based on: the difference between the cost incurred and the increase in the home’s value

• Expenses relating to accommodations for someone who is handicapped (such as installing a ramp) are fully deductible when paid (see Rev. Rul. 87-106)
Capital Improvements

• Example 1: your doctor prescribes that you install a special HVAC system because of your allergies. You spend $7,000 on the system. The system increased the value of your home by $2,000. You can deduct $5,000 as a medical expense.

• Example 2: your spouse becomes handicapped and so you spend $5,000 installing a ramp to the front of your house. Per Rev. Rul. 87-106, this is fully deductible.
Capital Improvements, Not Home-Related

Other capital expenses may be deductible, but only the portion that relates directly to the medical necessity.

Example: you have your van specially equipped with a lift to handle your handicapped spouse. The cost of the lift is $10,000, which you can deduct in full.

Variation: let’s say you buy a new van, with a lift, at a cost of $50,000. Without the lift, the van would have cost you $40,000. You can deduct $10,000.

WARNING: if you sell the van, you may have a capital gain! While the deduction is not depreciation, it is treated in much the same way, as it essentially reduces your basis in the asset. But watch the tax-benefit rule as well. Basically treat the sale proceeds as a reimbursement.
Reimbursements

• Reimbursements in the same year as an expense: reduce the amount of deductible expense

• Reimbursement in a later year

  • Tax-benefit rule
State and Local Taxes
SALT Limits

- The deduction limit on state and local taxes is $10,000 for all filing statuses except married filing separately

- MFS = $5,000 limit
What are State and Local Taxes?

• Property taxes, state income taxes, and personal property taxes (for example, car registration in states where you can deduct this).
What is Line 6, “Other Taxes”? 

- **Important to know because Line 6 taxes **are not subject to the $10,000 cap!**
- Per the instructions to Schedule A, it would be:
  - Foreign income taxes (if not taking a credit)
  - Generation skipping tax
- **Watch your software here!**
Sales Tax

• Instead of state income taxes, a taxpayer can deduct state sales tax instead

• For example, in a state without an income tax

• Can use actual expenses if the taxpayer happens to have records, otherwise use the chart in the Schedule A instructions

• Can use the chart plus sales tax on major purchases as listed in Schedule A instructions: vehicles, aircrafts and boats, home purchase or renovation, home sale

• Remember, the $10,000 limit still applies!
Electing to Capitalize

• A taxpayer may be able to make an election under Section 266 to capitalize taxes (and interest) paid on undeveloped land
Polling Question #2

What is the limit on deducting state and local taxes?

A. $50,000
B. $10,000
C. $1,000
D. $100,000
Interest
Allowable Interest Deductions

• Qualifying home mortgage interest

• Investment interest
Mortgage Interest

• New limits in the Tax Cut and Jobs Act (TCJA)

• Interest can be deducted on up to $750,000 of qualifying home mortgage interest for loans taken out after December 15, 2017

• $1 million is still the limit for loans taken out on or before December 15, 2017
Home Equity Loans

• Old rules: interest on up to $100,000 of home-equity debt could be deducted

• New rules: HELOC interest cannot be deducted unless the HELOC is used to buy, build or substantially improve the home — there is no provision for older HELOCS, they are ALL subject to this rule!

• If the HELOC is used to buy, build or substantially improve the home, it becomes qualifying mortgage interest and is added to other mortgage interest, subject to the $750,000 limit
Investment Interest

- Investment interest is interest on loans taken out to property held for investment

- Does NOT include interest in investments considered a passive activity — example: interest relating to a rental property goes on Schedule E

- Deduction is limited to investment income

- If interest is less than investment income, just put the amount on Schedule A

- If interest is more than investment income, use Form 4952
Interest Tracing

• Simplified version: usage of a loan should be traced, with the corresponding interest being deducted by the activity it is traced to

• Example: a HELOC taken out and used 100% for a Schedule C business — the interest is deductible on Schedule C

• Alternative to investment interest: someone takes out a loan to purchase an interest in an S-corp or partnership; the interest is deductible, either on Schedule E (page 2) or Form 8582
Charitable Contributions
NEW!

• In the CARES Act
  
  • Taxpayers who DO NOT itemize can take up to a $300 additional deduction on their tax return for cash contributions
  
  • If the taxpayer itemizes, then this is a moot point as they just take the charitable deduction
  
• Also in the CARES Act
  
  • The AGI limitation (normally 60%) is 100% for cash contributions in 2020
Substantiation

Cash contributions:

• Less than $250: documentation such as a canceled check, or a receipt from the organization

• $250 or more: need a statement from the charity which shows the amount contributed, and whether or not any goods or services were provided in exchange for the contribution

• The donor is ultimately responsible for getting the proper documentation

• The $250 limit is for each individual donation; for example donating $5 per week for a total of $260 for the year falls under the “less than $250” rules because each individual donation was less than $250
Non-Cash Donations

- If the amount of non-cash donations is over $500, you must fill out Form 8283

- Typical Goodwill contributions and such will use page 1 of the Form 8283

- The Form 8283 can get complicated when a taxpayer needs to use page 2
Stock Donations

• If the stock is publicly traded, use page 1 of the Form 8283, even if the total deduction is over $5,000
SALT Limits – Attempted Workarounds

- Notice 2019-12 addresses attempts to get around the SALT limit by allowing taxpayers to make “charitable contributions” instead of paying state taxes in return for a tax credit.

- Basically: any credit received in this situation reduces the amount of charitable deduction allowed.

- But, the taxpayer may be able to claim the reduction in charitable contribution as a state tax payment instead.

- But remember the $10,000 SALT limit still applies.
Example:

Taxpayer gives $5,000 to a charity in exchange for a 25% ($1,250) property tax credit.

The taxpayer can claim a charitable deduction for $5,000 - $1,250 = $3,750.

The taxpayer could add the $1,250 as a state tax payment and may be able to deduct it there (but remember the SALT limit would apply)
Polling Question #3

What is the new additional standard deduction allowed for charitable contributions of people who don’t itemize?

A. $10,000
B. $5,000
C. $300
D. $2,500
Miscellaneous Deductions
Reminder: Miscellaneous Deduction Change

• The TCJA eliminated the typical miscellaneous itemized deductions subject to the 2% of AGI threshold

• Important to know with so many people working from home as a result of COVID-19

• There have been rumblings about bringing back unreimbursed employee business expenses as a deduction, but it’s just rumblings as of now
Miscellaneous Deductions

• Gambling losses (NOTE: professional gamblers can now only deduct expenses totaling their winnings on Schedule C, which is a change: https://www.journalofaccountancy.com/issues/2018/oct/pro-gambling-net-losses.html) Gamblers who are not professional gamblers use Schedule A

• Casualty and theft losses from income-producing property

• Estate tax on income in respect of a decedent

• Amortizable bond premiums

• Claim of rights repayments

• Contingent-payment on a debt instrument

• Unrecovered investment in a pension

• Impairment-related work expenses of a disabled person
Excess Deductions on Termination of Estate

• Previously had been miscellaneous itemized deductions subject to 2% of AGI floor

• Then thought to maybe be nondeductible after TCJA

• In 2020, proposed regulations (https://www.govinfo.gov/content/pkg/FR-2020-05-11/pdf/2020-09801.pdf) allow as an adjustment to AGI

• Not an itemized deduction, take on Schedule 1

Legal Fees

• Personal legal fees are not deductible at all anymore (used to be 2% of AGI miscellaneous deduction)

• Legal fees that can be traced to an activity (i.e. Schedule C, Schedule E, etc) can be deducted there
Casualty and Theft Losses

• Only allowed for individuals now if the loss results from a federally declared disaster.

• The loss must be tied to that disaster.
Casualty Losses

- For 2018 and 2019 returns, taxpayers with casualty losses, who do not itemize, can claim those losses as an additional standard deduction for losses occurring no later than January 19, 2020
Electing to Claim Itemized

<p>| | | | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Add lines 5e and 6</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Interest You Paid**
Caution: Your mortgage interest deduction may be limited (see instructions).

<p>| | | | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>Home mortgage interest and points. If you didn’t use all of your home mortgage loan(s) to buy, build, or improve your home, see instructions and check this box.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a</td>
<td>Home mortgage interest and points reported to you on Form 1098. See instructions if limited.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b</td>
<td>Home mortgage interest not reported to you on Form 1098. See instructions if limited. If paid to the person from whom you bought the home, see instructions and show that person’s name, identifying no., and address.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c</td>
<td>Points not reported to you on Form 1098. See instructions for special rules.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>d</td>
<td>Mortgage insurance premiums (see instructions).</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>e</td>
<td>Add lines 8a through 8d.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Investment interest. Attach Form 4952 if required. See instructions.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Add lines 8e and 9.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Gifts to Charity**
Caution: If you made a gift and got a benefit for it, see instructions.

<p>| | | | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>11</td>
<td>Gifts by cash or check. If you made any gift of $250 or more, see instructions.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Other than by cash or check. If you made any gift of $250 or more, see instructions. You must attach Form 8283 if over $500.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>Carryover from prior year.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>Add lines 11 through 13.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Casualty and Theft Losses**

<p>| | | | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>15</td>
<td>Casualty and theft loss(es) from a federally declared disaster (other than net qualified disaster losses). Attach Form 4684 and enter the amount from line 18 of that form. See instructions.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>Other – from list in instructions. List type and amount.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Other Itemized Deductions**

<p>| | | | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>17</td>
<td>Add the amounts in the far right column for lines 4 through 16. Also, enter this amount on Form 1040 or 1040-SR, line 9.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18</td>
<td>If you elect to itemize deductions even though they are less than your standard deduction, check this box.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

For Paperwork Reduction Act Notice, see the instructions for Forms 1040 and 1040-SR. Cat. No. 17145C Schedule A (Form 1040 or 1040-SR) 2019
Electing to Claim Itemized

Can be useful:

• If taxpayer is subject to AMT, it *might* make more sense to claim the standard deduction (NOTE: this was more likely under the pre-TCJA rules)

• If the taxpayer is filing as married filing separately and their spouse itemizes (NOTE: if their spouse itemizes, they MUST itemize as well)
THANK YOU FOR ATTENDING THE LIVE WEBINAR HOSTED BY MYCPE

You shall be receiving an **evaluation form** on your registered email address **within 24 hours** of completion of today’s webinar.

Kindly note that the evaluation form will only be available for those **attendees who have attended the entire program and answered all the polling questions**.

In case of **CE Webinars**, please make sure that you have updated your **PTIN** in your account details. **myCPE submits your CE Credit request** through your PTIN number. Therefore, it’s a must for you to update your PTIN Number in order to receive your credits.