Should You Itemize Your Deductions for Taxes?

Article Highlights:

- Who Qualifies for the Standard Deduction
- Who Is Not Allowed to Use the Standard Deduction
- Income Limitations for Itemized Deductions
- Phase-out of Itemized Deductions

Looking ahead to the filing season for this year's tax returns, a frequent question is whether you should keep track of tax-deductible expenditures or simply settle for the standard deduction amount.

Whether you can itemize deductions on your tax return depends on how much you spent on certain expenses during the year. Money paid for medical care, mortgage interest, taxes, charitable contributions, casualty losses and miscellaneous deductions (usually job or investment related) can reduce your taxes. If the total amount spent on those categories is more than the standard deduction, you can usually benefit by itemizing.

The standard deduction amounts are based on your filing status, your age and whether or not you or your spouse is blind. The standard amounts are adjusted for inflation annually and for 2015 are:

Single	$ 6,300
Married filing jointly[1]	$12,600
Head of household	$ 9,250
Married filing separately	$ 6,300

Additional amounts if age 65 or older and for those who are blind [2] (each taxpayer):

Married taxpayers filing jointly	$ 1,250
Others	$ 1,550

[1] *Also applies to qualifying widows and widowers (have a dependent child and spouse died in 2013 or 2014)*

[2] *If a taxpayer (or spouse) is both age 65 or over and blind the taxpayer (or spouse) gets two extra amounts. The extra allowance is not available for dependents.*

But, as with most aspects of taxes, it's not that simple. There are certain taxpayers who are precluded from taking the standard amount because of special circumstances, and they include:

- **Taxpayers subject to the alternative minimum tax (AMT)** – The standard deduction is only used when computing your tax in the normal manner. You receive no benefit from the standard deduction to the extent you are taxed by the AMT.
- **Married taxpayers filing separately –** There is a rule that prevents one spouse from filing separately and claiming all of the couple's deductions while the other takes the standard deduction. Simply stated, if one spouse itemizes deductions, the other spouse must also itemize and cannot claim the standard deduction.
- **Taxpayers ineligible for the standard deduction –** Certain taxpayers, by law, are not eligible for the standard deduction. They include nonresident aliens, dual-status aliens and individuals who file returns for periods of less than 12 months.

When it comes to itemizing your deductions there are still more complications. First of all, not all of your deductions will be included in the final total that you compare against the standard deduction to decide whether you itemize or not. Certain ones are adjusted as follows:

- **Medical deductions** - They are only included to the extent that they exceed 10% (7.5% for taxpayers age 65 and over) of your adjusted gross income (AGI).
- **Taxes** - Deductions for state income or sales taxes and real property tax are not limited by income, but they are not deductible at all for AMT purposes. Thus large tax deductions can result in the addition of an alternative minimum tax.
- **Interest** - Deductible interest includes home mortgage interest and investment interest. However, home mortgage interest is limited just to the interest on up to $1 million of acquisition debt and $100,000 of equity debt. For AMT purposes, only acquisition debt interest is deductible, so the interest paid on equity debt to buy a motor home, boat, car, etc., is not deductible for the AMT.
- **Charitable contribution deductions** – They are the same for both regular tax and AMT, and the total in any year is generally limited to 50% of your income (AGI). There are lower income limits for certain non-cash contributions.
- **Miscellaneous deductions** - They are where most employee business and investment expenses are deducted. Generally these deductions are only deductible to the extent that they exceed 2% your income (AGI).

As if those complications were not enough, some of the itemized deductions for higher-income taxpayers are further limited by a formula if adjusted gross income is more than $309,900 for a married couple filing jointly or qualifying widow(er), $258,250 for single taxpayers, $284,050 for taxpayers filing as head of household, and $154,950 for married-filing-separate taxpayers. This limit applies to all itemized deductions except medical and dental expenses, casualty and theft losses, gambling losses, and investment interest.

As you can see, the choice of whether to itemize or claim the standard deduction is not always clear, and that is essentially why it is necessary to save the documentation for itemized deductions throughout the year so the two options can be compared and the better one selected. If you took the standard deduction last year and think you might have been able to itemize your deductions, an amended tax return can be prepared for a refund. Please call this office for assistance.