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Itemized Deductions to Consider for tax year of 2018

Arizona Residents

Please take into consideration if you are a Arizona resident that you are allowed to itemize your Arizona Return, even if you use the Standard Deduction on your Federal Return. There is always an exception to the rule and there is an exception to this rule that may apply to you if you are filing as "Married but Separate".

Medical and Dental Expenses

Medical expenses are deductible only if your out-of-pocket expenses exceed 10% of your adjusted gross income (AGI) unless you are age 65 or older. The threshold for these taxpayers is 7.5% of AGI through December 31, 2016.

Arizona residents, beware, many individuals state that they do not itemize their deductions because they do not have enough medical deductions to exceed the exclusion amount. However, Arizona has no exclusion amount so the very first dollars of medical expense is a deduction on the Arizona return (If you itemize).

Medical expenses are the costs of diagnosis, cure, treatments, or preventions of a physical or mental illness, disease, or defect. Medical expenses are deductible in the year paid, regardless of when the services were provided. Only amounts paid out-of-pockets with after tax dollars are deductible.

The following items are among those generally deductible as medical expenses:

- ✓ Alcohol and drug treatment, including inpatient care
- ✓ Ambulance services
- ✓ Dental care including cleaning, orthodontia, oral surgery, and dentures
- ✓ Educations expenses of a physically or mentally impaired individual if the school provides special education for a diagnosed medical condition
- ✓ Exercise or weight loss program prescribed by doctor for a specific medical condition
- ✓ Eyeglasses, contact lenses and supplies, and laser eye surgery
- ✓ Home improvements and specialized equipment if the main purpose is to provide a medical benefit such as ramps and railing or special telephone equipment for hearing impaired
- ✓ Hospitalization and medical treatments
- ✓ Insurance premiums for medical and dental care (including Medicare)
- ✓ Laboratory tests, X-rays, and diagnostics
- ✓ Long term care insurance (with limits) and long term care expenses
- ✓ Medical equipment and supplies including needles, crutches, bandages, oxygen equipment, prosthetic limbs, wheelchairs, hearing aids and batteries, and guide dogs
- ✓ Nursing home care and in-home nursing care
- ✓ Prescriptions medicine and drugs, including insulin
- ✓ Services provided by medical professionals including doctors, surgeons, psychiatrists, physical therapists, eye doctors, chiropractors, acupuncturists, etc.
- ✓ Smoking cessations programs, with prescription. Drugs that do not require a prescription are not deductible.
- ✓ Transportation expenses to obtain medical care including mileage, parking, tolls, and hotel expenses for overnight stays (per diem limits apply for overnight stays)

Non-Deductible Expenses

Revised 2019

- ✓ Cosmetic surgery except to correct a deformity due to accident, disease, or congenital defect
- ✓ Funeral expenses
- ✓ Health club fees (there are exceptions, check with your medical provider)
- ✓ Over-the-counter medicines (there are exceptions, check with your medical provider)
- ✓ Medicine purchased from another country including Medical marijuana
- ✓ Teeth Whitening
- ✓ Vitamins and nutritional supplements (there are exceptions, check with your medical provider)

Taxes You Paid

- ✓ State income taxes withheld and/or paid
- ✓ Additional tax paid on prior year state return
- ✓ State taxes paid on an amended return
- ✓ Estimated state taxes paid within the current tax year
- ✓ Personal property taxes actually paid (this would include such taxes as our Arizona Motor Vehicle Tax)
- ✓ Local taxes (such as sale taxes, there are exceptions, ask your tax professional)
- ✓ Real estate taxes on personal residence, co-op or condo, second home, and all real property owned (not limited to residence and second home)
- ✓ Real estate taxes are typically allocated when you buy or sell a home (See your tax professional)
- ✓ Foreign income taxes (The Foreign tax credit may be more beneficial)
- ✓ Auto license fees, tax portion based on auto value
- ✓ Sales tax in lieu of state income taxes

Non-deductible taxes include: interest and penalties on late paid taxes, federal income and excise taxes, federal estate and gift taxes, custom duties, fines and penalties for violation of the law, license fees, Social Security and Medicare taxes.

Interest You Paid

- ✓ Home mortgage interest and points paid to acquire or improve a primary residence and second home (referred to as Acquisitions Debt). Acquisitions debt is limited to \$1million (\$500,000 if MFS) for determining qualified residence interest. In addition, interest on a maximum of \$100,000 of home equity debt may also be deductible. Home equity debt is debt secured by the home that exceeds acquisitions debt
- ✓ Origination fees or points paid to purchase a home or refinance a loan. (Note: Refinanced points may need to be amortized over the loan period)
- ✓ Investment interest to extent of investment income

Charitable Gifts

Cash and Non-cash Contributions to:

- ✓ Religious Organizations of all IRS approved type*
- ✓ Nonprofit schools and hospitals
- ✓ Federal, state, and local governments
- ✓ Public Charities such as the Phoenix Rescue Mission, Salvation Army, Red Cross, Boy and Girl Scouts, etc.
- ✓ War veterans' groups
- ✓ Public parks and recreation facilities
- ✓ Other qualified charitable organizations

*Go to www.IRS.gov/charities for a list of qualifying charities.

- ✓ Arizona allows a tax credit for some organizations (see your Tax Professional)

Deductions for charitable contributions also include:

- ✓ Charitable travel miles for charitable organizations or volunteer work (2014 - 14cents per mile)
- ✓ Charity-sponsored conventions
- ✓ Exchange student (transportation and incidentals) up to \$50 per month
- ✓ Supporting a foster child (expenses exceeding payments)
- ✓ Tickets & merchandise purchased-excess of cost over fair market value

- ✓ Volunteer out-of-pocket expenses
- ✓ Your time spend volunteering is not deductible

Casualty and Theft Losses

Non-business losses must be unreimbursed and exceed 10% of your adjusted gross income plus \$100. Business losses are fully deductible (see your Tax Professional)

Miscellaneous Deductions including Job Related Expenses

Miscellaneous expenses are deductible if the expenses exceed 2% of your adjusted gross income.

Unreimbursed Employee Expenses:

- ✓ Employer required medical examination (such as those required for a CDL)
- ✓ Gifts (business related under \$25 per person)
- ✓ Job related education expenses
- ✓ Job search expenses
- ✓ Lodging and meals if away from home overnight (check per diem rates)
- ✓ Membership dues to professionals' societies
- ✓ Occupational taxes and fees
- ✓ Office-in-home expense, if required and for the convenience of the employer
- ✓ Other employer authorized business expenses
- ✓ Passport fees for a business trip
- ✓ Professional and union dues
- ✓ Professional liability insurance
- ✓ Required travel & auto mileage for job (log is required)
- ✓ Small tools, equipment and supplies
- ✓ Special work clothes and uniforms
- ✓ Subscriptions to professional journals
- ✓ Telephone calls & beepers the job requires
- ✓ Fingerprinting as required by the employer
- ✓ Travel between work locations

Other Miscellaneous Expenses:

- ✓ Appraisal fees to establish tax deductions for charitable contributions
- ✓ Cost of special proxy fights
- ✓ Financial publications and programs
- ✓ Hobby expenses to extent of hobby income
- ✓ Investment counsel
- ✓ Investment expenses & broker fees
- ✓ IRA trustee's administrative fees billed and paid separately
- ✓ Legal fees for collecting or producing taxable income (including alimony and tax planning)
- ✓ Management of undeveloped property held for profits
- ✓ Repayments of previously taxed income of \$3,000 or less
- ✓ Safe deposit box
- ✓ Tax counsel, tax preparation and audit
- ✓ Travel to investment broker or manager
- ✓ Trust administration fees
- ✓ Loss on deposits in an insolvent financial institution

Miscellaneous Deductions not subject to 2% limitation

- ✓ Amortization of bond premium (Bonds issued before 10-23-1986)
- ✓ Federal estate tax on income of decedent
- ✓ Gambling losses (to the extent of winnings)
- ✓ Jury pay given to employer (if already included in income)

- ✓ Repayment of previously taxed income over \$3,000
- ✓ Unrecovered investment in annuity on decedent's final return
- ✓ Work related expenses of a disabled individual (Medical Expense related)

Non-Deductible Expenses

- ✓ Expenses to produce tax exempt income
- ✓ Loss from sale of personal evidence
- ✓ Political contributions
- ✓ Gambling losses in excess of gambling winnings
- ✓ Hobby losses in excess of hobby income
- ✓ Legal fees for wills and estate planning

Charitable Contributions

Qualifying Organizations

Charitable contributions may be deducted only if they are made to a qualified organization. Qualified organizations generally include religious organizations, government bodies, nonprofit schools and hospitals, public parks, public charities, and war veterans' groups. If in doubt, ask the organization if it is qualified, or go to www.irs.gov/charities

Non-Deductible Contributions

The following contributions are not deductible: civic leagues; social and sports clubs; labor unions and chambers of commerce; lobbying organizations; homeowners associations' foreign organizations (with some exceptions); political groups or candidates; individuals; cost of raffle, bingo, or lottery tickets; value of time or services; or rental value of vacation property.

Limits on Contributions

In most cases, the deduction for charitable contributions may not exceed 50% of the taxpayer's adjusted gross income. A reduced limit of 30% or 20% applies to certain contributions. Contributions that exceed the limits may be carried forward five years.

General Rules for Cash Contributions

Less than \$250: Cash contributions include cash, checks, credit and debit card, electronic funds transfer, or a payroll deduction. A cash contributions may not be deducted regardless of the amount unless you keep one of the following: a cancelled check; a legible bank or credit card statement detailing the date, the amount paid, and the name of the organization; a receipt or letter from the qualified organization showing the same information; or payroll deduction records. Undocumented contributions of cash are no longer allowed.

\$250 and over: For each contribution, you must obtain an acknowledgement from the organization. An acknowledgement must be written and include: 1) the date and amount of cash contributed, 2) whether the organization gave you anything in return, and if so, a good faith estimate of the value of items received. An acknowledgement must be received prior to the filing date of the tax return (including extensions).

General Rules for Non-Cash Contributions

For non-cash contributions, the record keeping requirements depend on the value of the contribution.

If the contributions are over \$500: you must get a receipt from the organizations showing the following: 1) the name of the charitable organization, 2) the date and location of the charitable contributions, and 3) a reasonably detailed description of the property donated. A receipt is not required where it is impractical (such as an unattended drop site); however, a written record should be made with the above information.

If the contribution is over \$250: All of the above, plus, you must obtain a written acknowledgement from the qualified organization showing: 1) a description of the property donated, 2) whether the organizations gave you anything in return, and if so, a good faith estimate of the value of items received. The acknowledgement must be received before the tax filing deadline, including extensions.

If the contributions is over \$500: all of the above, and 1) a descriptions of how the property was acquired, 2) the date the property was acquired, 3) the cost basis of the property, and 4) how the value of the contribution was determined (thrift shop value, appraisal, purchase, etc.).

If the contribution is over \$5,000: all of the above and, an appraisal is required. Note: There is not a "limit" of \$5,000 on non-cash contributions. \$5,000 is the threshold requiring an appraisal of one donated item or a group of similar items. For example, if you donated two separate diamond rings, each \$3,000 in value, an appraisal is still required because they are similar class and the total is over \$5,000. Appraisal fees are deductible on Schedule A in the Misc. 2% section. The fees are not considered part of the donation.

No deduction is allowed for clothing or household items unless they are in good used condition or better. No deduction is allowed for small items of minimal monetary value, such as socks and undergarments.

Volunteer Expenses & Miscellaneous

You may deduct expenses incurred for volunteer work provided to qualified organizations. They must be directly related to the activity sponsored by the organization, unreimbursed, and not personal, living or family expenses. There are no deductions for the value of your time. For 2014 mileage is deductible at a rate of 14 cents per mile, so keep track of charitable mileage as well. There are special rules for travel expenses, conventions, large donations, business property, inventory, appreciated property, partial interest and property subject to debt. Contact your tax professional about any of these.

Special Rule for Vehicle Donations

The contributions of a vehicle with a fair market value over \$500 is generally limited to what the charity sell the vehicle for rather than the FMV or "Blue Book" value. The organization is required to supply the following information to the donor: 1) the donor's name and taxpayer ID number, 2) the vehicle identification number, 3) the date of contribution, 4) the gross proceeds from the sale, 5) a statement the deduction amount cannot exceed the proceeds from the sale, and 6) a statement the sale was made in an arm's-length transaction between unrelated parties. This information is provided in IRS Form 1098-C, Contributions of Vehicles, Boats, and Airplanes. This form must be provided to the donor within 30 days of the sale and must be attached to the donor's tax return.

The Sale Proceeds limitation does not apply in the following two cases:

If the organization retains and used the vehicle for its exempt purpose, or makes significant improvement prior to sale, the FMV as of the contribution date can be used. The charitable organization is required to provide the donor with copy of Form 1098-C within 30 days after the donation. To indicate this exception, Box 5c will be completed by the charity stating the use of the vehicle.

If, as part of the organization's charitable work, the charity sells or transfers the vehicle to a needy individual for below fair market value, the donor can generally deduct the FMV of the vehicle as of the contribution date. The charity will indicate when this exception applies by checking box 5b on Form 1098C. The form must be provided to the donor by the charity within 30 days of the original donation.

This list is not an all-inclusive list and you should seek out a Tax Professional and we hope that you would consider as.