



AccountingAidSociety

Itemized Deduction

What are Itemized Deductions?

- Expenses the IRS allows taxpayers to reduce taxable income based on specific personal expenses.
- Used **instead of the standard deduction**.
- Reported on **Schedule A**.
- Includes:
 - Medical & dental expenses
 - Certain taxes paid
 - Home mortgage interest
 - Charitable contributions
 - Certain miscellaneous deductions



Who Should Itemize?

- Taxpayer may benefit if:
 - Itemized deductions are **greater than standard deduction**
 - Results in lower taxable income and lower tax.
 - Filing status: Married Filing Separately (if spouse itemizes)
 - If one spouse itemizes, the other spouse must itemize* (even if itemized deduction is zero)
 - Have large medical, tax, interest, or charitable expenses

**A taxpayer using the Head of Household status can use the standard deduction even when their spouse, who is filing married separately, itemizes their deductions.*

Example

Laura is **single** and **not claimed as a dependent** in 2024. Her **itemized deductions** include:

- \$6,000 in **mortgage interest**
- \$3,500 in **property and state income taxes** (*SALT cap applies: limited to \$10,000*)
- \$1,200 in **charitable donations**
- \$500 in **unreimbursed medical expenses** (*did not exceed 7.5% of AGI threshold*)

Total Itemized Deductions: \$10,700

Standard Deduction for Single (2025): \$15,750

? Question:

Which deduction method should Laura choose for the best tax benefit?

- A. Itemize her deductions
- B. Take the standard deduction
- C. It doesn't matter—both are the same
- D. She must itemize because she has a mortgage

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Which deduction method should Laura choose for the best tax benefit?

A. Itemize her deductions

B. Take the standard deduction

C. It doesn't matter—both are the same

D. She must itemize because she has a mortgage

✓ **B. Take the standard deduction**

Explanation:

Laura's total **itemized deductions** (\$10,700) are **less than the standard deduction** for single filers in 2025 (\$15,750).

Therefore, she will benefit more by taking the **standard deduction**.

📌 *Even with a mortgage and charitable donations, taxpayers should compare both amounts and choose the higher one—this is a clear example of when **not** to itemize.*

Example

David and Maria are **married** and choose to file their **2025 tax returns using Married Filing Separately (MFS)**.

- Maria has **significant medical expenses** and chooses to **itemize deductions**
- David has only **\$1,000 in charitable contributions** and would **benefit more** from taking the **standard deduction**

? Question:

Can David claim the **standard deduction** on his return while Maria itemizes?

- A. Yes, each spouse can choose what benefits them most
- B. Yes, if his deductions are under \$15,750
- C. No, if one spouse itemizes, the other must also itemize
- D. No, because charitable donations can't be deducted under MFS

Example

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- B. Yes, if his deductions are under \$15,750
- C. No, if one spouse itemizes, the other must also itemize
- D. No, because charitable donations can't be deducted under MFS

Explanation:

When filing **Married Filing Separately**, if **one spouse itemizes**, the **other spouse is required to itemize as well**, even if it results in a smaller deduction.

 *David cannot take the standard deduction if Maria chooses to itemize. This is a key limitation of the MFS filing status.*

Scope Guidelines

- **Basic Certification:**

- Medical and dental deductions (limited scope)
- Taxes paid (state/local income or sales tax, real estate taxes)
- Charitable contributions (cash only, documented)

- **Advanced Certification:**

- Mortgage interest (Form 1098)
- Charitable gifts of property
- Casualty/theft losses (if in scope)

Reference: Pub 4012, Scope of Service Chart (Tab A)

Medical and Dental Expenses

Taxpayers can deduct **only the portion of unreimbursed medical and dental expenses** that exceeds **7.5% of their Adjusted Gross Income (AGI)**.

Qualified expenses paid during the tax year can be included for:

- The **taxpayer**
- The **taxpayer's spouse**
- Any **dependent** who was either:
 - Claimed as a dependent **at the time the medical services were provided**, or
 - Claimed **at the time the expenses were paid**

Additionally, medical expenses can also be claimed for individuals who **would qualify as a dependent**, except for one of the following reasons:

- They **do not meet the gross income test**, or
- They **do not meet the joint return test**, or
- The taxpayer (or their spouse, if filing jointly) **could be claimed as a dependent on someone else's return**

Only unreimbursed costs qualify, and proper documentation is required.

Medical and Dental Expenses

- Examples of Deductible Medical Expenses:
 - Expenses of an organ donor
 - Eye surgery (to promote the correct function of the eye)
 - Hospital services fees (lab work, therapy, nursing services, surgery, etc.)
 - Medical services fees (from doctors, dentists, surgeons, specialists)
 - Physical examination
 - Special items (artificial limbs, false teeth, eyeglasses, contact lenses, hearing aids, crutches, wheelchair, etc.)
 - Stop-smoking programs
- Refer to page F-8 in Pub 4012 for a longer list of what is deductible and what is not.

Medical and Dental Example

James is **single** with an **AGI of \$50,000** in 2025. He incurred the following **unreimbursed medical expenses**:

- \$3,000 for **eye surgery** to correct vision
- \$2,000 in **hospital fees** for lab work and therapy
- \$1,500 for **hearing aids** and **prescription eyeglasses**
- \$700 for a **stop-smoking program**

? Question:

How much of James's medical expenses can he **potentially deduct** as an itemized deduction?

- A. \$7,200
- B. \$6,200
- C. \$3,450
- D. \$0

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Explanation:

- **Total unreimbursed medical expenses:**
 $\$3,000 + \$2,000 + \$1,500 + \$700 = \mathbf{\$7,200}$
- **AGI threshold (7.5% of \$50,000):**
 $\$50,000 \times 0.075 = \mathbf{\$3,750}$
- **Deductible amount:**
 $\$7,200 - \$3,750 = \mathbf{\$3,450}$

Deductible Taxes

State and Local Tax (SALT) Deduction – Updated for 2025


Taxpayers may deduct certain state and local taxes, but **the total deduction is capped**:

- **Through 2024:**
 - **\$10,000** limit (\$5,000 if Married Filing Separately)
- **Beginning in 2025 (through 2029):**
 - Cap **increases to \$40,000** (\$20,000 if MFS)
 - However, the **increased cap is phased out** for high-income taxpayers:
 - **Phase-out starts at MAGI of \$500,000**
 - **Fully phased out at \$600,000 MAGI**

Deductible Taxes

Deductible Taxes Include:

- **State and Local Income Taxes**
 - Withholding, estimated payments, and prior-year carryovers
 - Penalties and interest are **not deductible**
- **Real Estate Taxes**
 - Must be based on the **assessed value** of real property (e.g., home or land)
- **Personal Property Taxes**
 - Deductible **only if**:
 - Based **solely on value**, and
 - Imposed on a **yearly basis**

 *The pass-through entity tax (PTET) workaround to the SALT cap **remains in place***
(Source: One Big Beautiful Bill Act of 2025)

Deductible Taxes Example

Scenario:

Samantha is **single** and owns a home. In **2025**, she paid the following:

- \$6,000 in **state income tax withholding** (Box 17 on her W-2)
- \$4,500 in **real estate taxes** on her primary residence
- \$1,200 in **personal property tax** on her vehicle (*value-based and assessed annually*)

Her **Modified Adjusted Gross Income (MAGI)** is **\$90,000**.

? Question:

How much can Samantha deduct for **state and local taxes (SALT)** on her itemized return under the **new law**?

- A. \$10,000
- B. \$11,700
- C. \$40,000
- D. \$5,000

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- A. \$10,000
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- C. \$40,000
- D. \$5,000

- Total eligible SALT deductions:
 - \$6,000 (state income tax)
 - \$4,500 (real estate tax)
 - \$1,200 (personal property tax)
 - **Total = \$11,700**
- Under the **One Big Beautiful Bill Act of 2025**, the **SALT cap is increased to \$40,000** for single filers
- Samantha's **MAGI (\$90,000)** is **well below the \$500,000 phaseout threshold**, so she can claim the **full \$11,700**

Home Mortgage Interest

- **Home mortgage interest** is any interest paid on a loan, line of credit, or home equity loan on the taxpayer's main home or second home that is secured by the taxpayer's main home or second home.
- **Home equity loan interest** is only deductible if the funds were used to **buy, build, or improve** the home.
- The amount of mortgage interest paid is reported on **Form 1098**.
- A taxpayer may deduct interest on **both a main home and a second home**.
- A “home” includes a **house, condo, co-op, mobile home, trailer, or houseboat**—as long as it has **sleeping, cooking, and toilet facilities**.
- The total amount of home mortgage interest paid by taxpayer is shown on **Form 1098**.

Home Mortgage Interest Example

Carlos owns a **main home** and a **second home**, both secured by mortgages. In **2024**, he paid:

- \$8,000 in **mortgage interest** on his **primary residence**
- \$3,500 in **mortgage interest** on his **second home**
- \$2,000 in **home equity loan interest** used to **renovate his kitchen** (secured by the home)

Carlos received **Form 1098** from his lender showing all interest amounts.

? Question:

How much mortgage interest can Carlos deduct as an itemized deduction?

- A. \$8,000
- B. \$11,500
- C. \$13,500
- D. \$2,000

Home Mortgage Interest Example

Carlos owns a **main home and a second home**, both secured by mortgages. In **2024**, he paid:

- \$8,000 in **mortgage interest** on his **primary residence**
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? Question:


How much mortgage interest can Carlos deduct as an itemized deduction?


- A. \$8,000
- B. \$11,500
- C. \$13,500**
- D. \$2,000

Explanation:

Carlos can deduct qualified mortgage interest on **both his main and second home**, plus home equity loan interest if **used to substantially improve the home**:

-  \$8,000 on the **primary home**
-  \$3,500 on the **second home**
-  \$2,000 on the **home equity loan** (used to **renovate the kitchen**, which qualifies)

 All amounts were reported on **Form 1098**, making them eligible for deduction if within loan limits.

 (Source: *IRS Publication 4012, Tab D – Itemized Deductions*)

Gifts to Charity

- A charitable contribution is a donation or gift to a qualified organization, which may be deductible if the taxpayer itemizes.
 - To be deductible, contributions must be made to a qualifying organization, not an individual.
- Cash, check, and noncash contributions should be reported on Schedule A on either the Gifts by cash or check line or the Other than by cash or check line, respectively.
- **Beginning in 2026**, non-itemizers can deduct up to \$1,000 (\$2,000 for joint returns) in charitable deductions. A new .5% of AGI floor will apply to individual taxpayers who itemize deductions, and a new 1% of AGI floor will apply to corporations. Finally, the 60% of AGI limit for cash contributions to public charities is made permanent.

Gifts to Charity

✓ Qualified Organizations for Charitable Contributions

Taxpayers may deduct contributions made to:

- Organizations operated **exclusively for**:
 - **Religious, charitable, educational, scientific, or literary purposes**
- Organizations that work to **prevent cruelty to children or animals**
- Organizations that support **amateur sports competition**, as long as they **do not provide athletic facilities or equipment**
- **War veterans' organizations**
- Certain **nonprofit cemetery companies or corporations**

Gifts to Charity

Organizations That Do NOT Qualify for Charitable Deductions

Charitable contributions **are not deductible** if made to:

- **Business organizations** (e.g., Chamber of Commerce)
- **Civic leagues and associations**
- **Political organizations or candidates**
- **Social clubs**
- **Foreign organizations**
- **Homeowners' associations**
- **Communist organizations**

Gifts to Charity

Amounts That Cannot Be Deducted as Charitable Contributions

The following **do not qualify** as deductible charitable contributions:

- **Raffle, bingo, or lottery ticket costs**
- **Tuition payments**
- **Value of your time or services**
- **Blood donations** (e.g., to Red Cross or blood bank)
- **Car expenses** like depreciation, insurance, maintenance, or general repairs
- **Direct gifts to individuals**
- **Sickness or burial expenses** for members of a fraternal society
- **The portion of a donation that provides a personal benefit**, such as the **value of a meal** at a charity dinner

Gifts to Charity

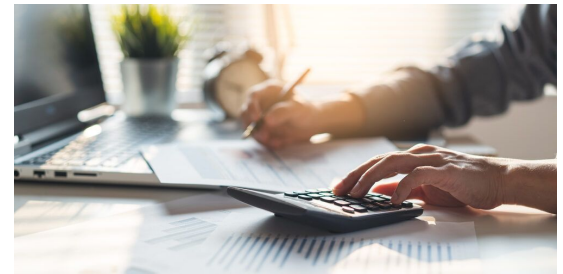
Examples of Deductible Charitable Contributions

Deductible items include:

- **Monetary donations** to qualified organizations
- **Dues, fees, or assessments** paid to qualified organizations, but **only the portion that exceeds the value of any benefits received**
- **Fair market value of donated items** (e.g., used clothing or furniture in good condition)
- **Cost and upkeep of uniforms** with **no general use**, worn while volunteering
- **Unreimbursed transportation expenses** directly related to volunteer services
- **Part of a donation that exceeds the fair market value** of items received (e.g., tickets, merchandise)
- **Travel expenses** including:
 - Bus fare, parking, tolls
 - Either **actual gas and oil costs** or the **standard mileage rate**

Charitable Contributions

- If a client reports making **significant charitable donations** that appear inconsistent with their income level, it's important to **verify the claim with documentation**.
- While we **do not question every donation**, unusually high amounts may **raise red flags** with the IRS and potentially **trigger an audit**.
- In such cases, we must be **proactive** by requesting:
 - **Receipts** from the charitable organization(s)
 - **Proof of contribution**, such as bank records or written acknowledgments
- This approach helps **protect both the client and our team** by ensuring the return is accurate and fully substantiated.



Charitable Contributions Example

Jessica donated the following to charity in 2025:

- \$300 in cash to a qualified animal rescue organization
- A dining table and chairs in **good condition** with a fair market value of **\$150**
- \$75 spent on parking and mileage while volunteering at a local food bank
- \$100 for a ticket to a charity dinner, where the **meal was valued at \$40**

Jessica itemizes her deductions.

? Question:

How much can Jessica deduct as a charitable contribution on Schedule A?

- A. \$625
- B. \$585
- C. \$475
- D. \$415

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Explanation:

Jessica can deduct:

- ☒ \$300 (cash donation)
- ☒ \$150 (fair market value of donated furniture)
- ☒ \$75 (unreimbursed transportation for charitable service)
- ☒ \$60 (portion of ticket **above meal value**: \$100 - \$40)

Total Deductible: $\$300 + \$150 + \$75 + \$60 = \$585$

 (Based on IRS Pub 4012, Tab D – Charitable Contributions)

Miscellaneous Expenses

Gambling Losses & Vehicle Donations – Key Rules

- **Gambling losses and expenses** are deductible **only up to the amount of gambling winnings**, and **only through 2025** (starting in 2026 it reduces to 90% of winnings)
 - 💡 Taxpayers **must keep accurate records** of their losses to claim this deduction
- **Form 1098-C** (used for **donations of motor vehicles, boats, or airplanes**)
 - ❌ These contributions are **out of scope** for VITA/TCE programs and **cannot be prepared** by vita.

Summary & Best Practices

- Compare itemized vs. standard deduction every time
- Confirm scope level (Basic vs. Advanced)
- Require proper documentation (e.g., receipts, Form 1098)
- Ask guiding questions during intake:
 - "Did you pay property taxes or make donations?"
 - "Do you have out-of-pocket medical expenses?"

End of Itemized Deductions

Take a few moments with your table and discuss any questions you may have regarding this topic.