



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?

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

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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

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

Medical and Dental Example

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Explanation:

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

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
- B. \$11,700**
- 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

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Question:

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- 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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Question:

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

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

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.