Schedule A - Itemized Deductions

When you file your taxes each year, you may be given the choice of either taking the standard or itemizing your deductions. The standard deduction is a preset amount that you are allowed to deduct from your taxable income each year. This amount will vary according to your tax filing status and is indexed annually to keep up with inflation. Every year, millions of taxpayers are able to claim a larger deduction on their tax returns as a result of itemizing their deductions - but this won't work for everyone. To make the most out of your tax return, read on to learn when to itemize your deductions and when to stick with the standard deduction.

The Purpose and Nature of Itemized Deductions
Itemized deductions fall into a different category than above-the-line deductions such as self-employment expenses and student loan interest; they are "below-the-line" deductions, or deductions from adjusted gross income. They are computed on the Internal Revenue Service's Schedule A and then the total is carried on to your 1040 form.

Once itemized deductions have been subtracted from your income, the remainder is your actual taxable income. Itemized deductions were created as a social engineering tool by the government to provide economic incentives for taxpayers to do certain things, such as buy houses and make donations to charities.

So Which Deductions Can Be Itemized?
Schedule A is broken down into several different sections that deal with each type of itemized deduction. For a breakdown of your itemized deductions, see the IRS instructions for Schedule A.

The following is a brief overview of the scope and limits of each category of itemized deduction:

- **Unreimbursed Medical and Dental Expenses** - This deduction is perhaps the most difficult - and financially painful - to qualify for. Taxpayers that incur qualified out-of-pocket medical and/or dental expenses that are not covered by insurance can deduct expenses that exceed 10% (7.5% if born before January 2, 1949) of their adjusted gross incomes.
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- **Interest Expenses** - Homeowners can deduct the interest that they pay on their mortgages and home equity lines of credit. Each year, mortgage lenders mail Form 1098 to borrowers, which details the exact amount of deductible interest and points that they've paid over the past year. Taxpayers that bought or refinanced homes during the year can also deduct the points that they've paid, within certain guidelines.

- **Taxes Paid** - Taxpayers who itemize are able to deduct two types of taxes paid on their Schedule A. Personal property taxes, which include real estate taxes, are deductible along with state and local taxes that were assessed for the previous year. However, any refund that was received by the taxpayer from the state in the previous year must be counted as income if the taxpayer itemized deductions in the previous year.

- **Charitable Donations** - Any donation made to a qualified charity is deductible within certain limitations. Cash contributions that exceed 50% of the taxpayer's adjusted gross income must be carried over to the next year, as well as noncash contributions that exceed 30% of AGI.

- **Casualty and Theft Losses** - Any loss incurred as a result of a casualty or theft can be reported on the Schedule A. Unfortunately, only losses in excess of 10% of the taxpayer's adjusted gross income are actually deductible. If a taxpayer incurs a casualty loss in one year and deducts it on his or her taxes, then any reimbursement that is received in later years must be counted as income. Casualty losses are carried on to the Schedule A from IRS Form 4864.

- **Unreimbursed Job-Related Expenses and Certain Miscellaneous Deductions** -W-2 employees that incur work-related expenses can deduct any aggregated expenditures that exceed 2% of their adjusted gross incomes. These include items such as equipment and supplies, protective clothing, expenses for maintaining a home office for the convenience of the employer, vehicle expenses, dues to professional organizations and professional subscriptions. Certain other miscellaneous deductions are listed in this section as well, such as income tax preparation and audit fees and any expenses related to maintaining investments or income-producing property. These fees include such things as IRA or other account maintenance fees paid out of pocket, legal and accounting fees, and margin interest.

- **Other Miscellaneous Deductions** - This final category of itemized deductions includes items such as gambling losses to the extent of gambling winnings, losses from partnerships or subchapter S-corporations, estate taxes on income in respect of a decedent and certain other expenses. For additional details, see *IRS Publication 17*and the instructions for Schedule A.