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LEARN | Understanding Itemized Deductions

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When filing their tax returns, most taxpayers can choose the greater of the standard deduction (think of this as the default) or itemized deductions on Schedule A (Form 1040).

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Did You Know?

For 2023, the standard deduction is \$13,850 for filers who are single or married filing separately, \$27,700 for married filing jointly and \$20,800 for heads of household.



Key Takeaway

By understanding what expenses and activities qualify as itemized deductions, you can help your clients minimize their tax obligations by suggesting strategies that help maximize tax deductions.

What Can Clients Deduct?

- **State and Local Taxes**
State and local taxes, including sales tax, property tax and personal property tax, can be deducted up to \$10,000 per year for all filing statuses.
- **Home Mortgage Interest**
Interest paid on the first \$750,000 of a mortgage can be deducted. This limit applies to all filing statuses.
- **Charitable Donations**
Amounts given to charity can be deducted subject to certain limits. Charitable contributions can generally be deducted up to 60% of adjusted gross income (AGI), yet, in some cases, 20%, 30% or 50% limits may apply.
- **Investment Interest Expense**
The interest paid on money borrowed to purchase taxable investments is deductible up to the amount of net investment income.
- **Medical and Dental Expenses**
Most medical and dental expenses that exceed 7.5% of AGI can be deducted.
- **Additional Expenses**
Expenses such as casualty and theft losses subject to certain limits, gambling losses and federal tax paid on income in respect of decedent as well as several other categories may also be deducted.

Next Step

Encourage clients to invite their CPAs into the conversation to understand how their full financial picture—charitable gifts, trusts and other holdings—can impact their tax deductions.

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Disclosure

Source: Internal Revenue Service.

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