TAX YEAR
2018

Standard vs. Itemized Deduction

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Standard Deduction

The standard deduction reduces taxable income. It is a benefit that eliminates the need for many taxpayers to itemize actual deductions, such as medical expenses, taxes, interest, and charitable contributions, on Schedule A (Form 1040). The standard deduction is increased by an additional amount for taxpayers who are 65 or older, or are blind.

2018 Standard Deduction

The basic standard deduction for 2018 is:

Single or MFS	$12,000
MFJ or QW	$24,000
HOH	$18,000

Age 65 and/or blind. The additional amounts for age 65 or older and/or blind, per person, per event in 2018 are:

MFJ, QW, or MFS	$1,300
Single or HOH	$1,600

Dependent. The standard deduction in 2018 for an individual who may be claimed as a dependent by another taxpayer cannot exceed the greater of $1,050, or earned income plus $350.

Note: The standard deduction for a dependent and the additional standard deductions for the aged and blind may change slightly when the IRS revises its 2018 inflation-adjusted amounts to follow the chained-CPI inflation rates.

Itemized Deduction

Taxpayers must decide whether to itemize deductions or to use the standard deduction. Generally, taxpayers should itemize deductions if the allowable itemized deductions are greater than the standard deduction. Some taxpayers must itemize deductions because they cannot use the standard deduction.

The standard deduction cannot be used if the taxpayer is:

- Married filing as Married Filing Separately, and the spouse itemizes deductions.
- A nonresident alien or a dual-status alien during the year.

A taxpayer may benefit from itemizing deductions on Schedule A (Form 1040), *Itemized Deductions,* if he or she:

- Cannot use the standard deduction.
- Had large unreimbursed medical and dental expenses.
- Paid interest or taxes on a home.
- Had large uninsured casualty or theft losses resulting from a presidentally-declared disaster area, or
- Made large charitable contributions.

Itemized Deductions Limitations

Taxpayers may be subject to limitations on some itemized deductions.

- **Medical and dental expenses.** Qualified medical and dental expenses are deductible as itemized deductions to the extent they exceed 7.5% of adjusted gross income (AGI). For example, for an individual with an AGI of $50,000, only those expenses that exceed $3,750 (7.5% of $50,000) would be deductible.
- **Taxes paid.** Deductible state and local income, property, and sales taxes are limited to a total amount of $10,000 ($5,000 Married Filing Separately). No deduction is allowed for foreign real property taxes.
- **Interest paid.** Deductible home mortgage interest is limited to total acquisition debt incurred on or after December 15, 2017 on a main and second home combined to $750,000 ($375,000 Married Filing Separately). Acquisition debt before December 15, 2017, remains limited to $1 million ($500,000 for Married Filing Separately). Interest on home equity debt is not deductible.
- **Charitable contributions.** An individual's deductible charitable cash contributions are limited to 60% of AGI. Any amount over the limit can be carried forward up to the next five years. No charitable deduction

Standard vs. Itemized Deduction

is allowed for payments to higher education institutions in exchange for the right to purchase tickets or seating at an athletic event. No charitable deduction is allowed for contributions of $250 or more without substantiation.

- **Casualty and theft losses.** A personal casualty or theft loss is deductible (subject to limitations) only if such loss is attributable to a federally-declared disaster.
- **Gambling losses.** Gambling losses (cost of non-winning bingo, lottery, and raffle tickets, for example) are deductible only to the extent of gambling winnings reported as Other Income on line 21, Form 1040.

Expenses Not Deductible as Itemized Deductions

Certain expenses are no longer deductible as itemized deductions, including all miscellaneous itemized deductions previously subject to the 2% AGI limitation.

Job Expenses and Certain Miscellaneous Deductions

- Unreimbursed employee business expenses and other miscellaneous deductions such as:
  - Safety equipment, small tools, and supplies needed for your job.
  - Uniforms required by your employer.
  - Protective clothing required in your work, such as hard hats, safety shoes, and glasses.
  - Physical examinations required by your employer.
  - Dues to professional organizations and chambers of commerce
  - Subscriptions to professional journals.
  - Fees to employment agencies and other costs to look for a new job in your present occupation, even if you do not get a new job.
  - Certain business use of part of your home.
  - Certain educational expenses.
- Tax preparation fees.
- Certain legal and accounting fees.
- Clerical help and office rent.
- Custodial (for example, trust account) fees.
- Investment expenses of a regulated investment company (RIC).
- Deduction for repayment under a claim of right if $3,000 or less.
- Investment expenses.
- Safe deposit box fees.

Nondeductible Expenses

- Political contributions.
- Legal expenses for personal matters that do not produce taxable income.
- Lost or misplaced cash or property.
- Expenses for meals during regular or extra work hours.
- The cost of entertaining friends.
- Commuting expenses.
- Travel expenses for employment away from home.

continued

Nondeductible Expenses continued

- Travel as a form of education.
- Expenses of attending a seminar, convention, or similar meeting.
- Club dues.
- Expenses of adopting a child. But you may be able to take a credit for adoption expenses.
- Fines and penalties.
- Expenses of producing tax-exempt income.

Itemized Deduction or Standard Deduction?

Some taxpayers may decide to take the standard deduction even if the itemized deduction is higher. Conversely, a taxpayer may choose to take the itemized deduction in a lesser amount than the standard deduction.

Example #1: *David, 45, is single, has AGI of $75,000, and has the following itemized deductions:*

Medical expenses	$6,000
Less 7.5% of AGI threshold	($5,625)
Deductible medical expenses	$375
State and local income tax	$4,025
Real estate tax	$2,500
Mortgage interest paid	$4,850
Noncash charitable contributions	$400
Total itemized deductions	$12,150

Even though his itemized deductions are greater than the standard deduction by $150 ($12,150 minus $12,000), David chooses to take the standard deduction because he was not able to locate receipts to substantiate all of his charitable contributions.

Example #2: *Assume the same facts as Example #1, however David has no charitable contributions. His total itemized deductions are now $250 less than the standard deduction ($12,150 minus $400 charitable contribution equals $11,750. David's standard deduction is $12,000). David chooses to file with the lower itemized deductions because the tax benefit of itemizing on his state return is greater than the tax benefit he loses on the federal return by not taking the standard deduction.*

Contact Us

There are many events that occur during the year that can affect your tax situation. Preparation of your tax return involves summarizing transactions and events that occurred during the prior year. In most situations, treatment is firmly established at the time the transaction occurs. However, negative tax effects can be avoided by proper planning. Please contact us in advance if you have questions about the tax effects of a transaction or event, including the following:

- Pension or IRA distributions.
- Significant change in income or deductions.
- Job change.
- Marriage.
- Attainment of age 59½ or 70½.
- Sale or purchase of a business.
- Sale or purchase of a residence or other real estate.
- Retirement.
- Notice from IRS or other revenue department.
- Divorce or separation.
- Self-employment.
- Charitable contributions of property in excess of $5,000.

This brochure contains general information for taxpayers and should not be relied upon as the only source of authority. Taxpayers should seek professional tax advice for more information.

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