2017

Standard vs. Itemized Deduction

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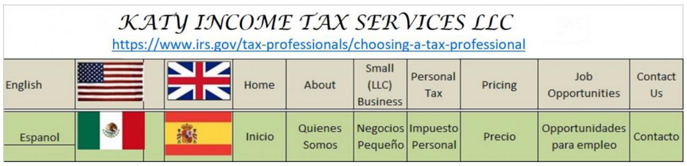

Standard Deduction

The standard deduction is a dollar amount that reduces the amount of income on which the taxpayer is taxed. 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 higher for taxpayers who:

- Are 65 or older, or
- Are blind.

2017 Standard Deduction

The basic standard deduction for 2017 is:

Single or MFS	$6,350
MFJ or QW	$12,700
HOH	$9,350

Age 65 and/or blind. The additional amounts for age 65 or older and/or blind, per person, per event in 2017 are:

MFJ, QW, or MFS	$1,250
Single or HOH	$1,550

Dependent. The standard deduction in 2017 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.

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.

In addition, an estate or trust, common trust fund, or partnership cannot use the standard deduction.

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

- Cannot use the standard deduction.
- Had large uninsured medical and dental expenses.
- Paid interest or taxes on a home.
- Had large unreimbursed employee business expenses.
- Had large uninsured casualty or theft losses, or
- Made large charitable contributions.

Itemized Deductions Limitations

Taxpayers may be subject to limitations on some itemized deductions.

Adjusted gross income (AGI) limit for medical expenses. Qualified medical expenses are deductible as itemized deductions to the extent they exceed the annual limits.

Tax Year	Annual Limit
2013 – 2016	• 7.5% of AGI for taxpayers age 65 or over on the last day of the tax year. • 10% of AGI for all others, unless filing jointly with a spouse who is age 65 or over.
2017 and after	• 10% of AGI for all taxpayers.

Miscellaneous itemized deductions subject to the 2% AGI limitation. Most miscellaneous itemized deductions are deductible to the extent they exceed 2% of AGI.

Standard vs. Itemized Deduction

Example: *Lucinda has AGI of $100,000 and unreimbursed employee expenses of $5,000. She can deduct $3,000 of those expenses as a miscellaneous itemized deduction.*

Unreimbursed expenses	$5,000
Less: 2% of AGI ($100,000 × 2%)	($2,000)
Allowable deduction	$3,000

Phaseout. In addition to these limits, total itemized deductions may be phased out (reduced) if adjusted gross income exceeds the following threshold amounts for the taxpayers filing status:

2017 Itemized Deduction Phaseout	
Itemized deductions begin to phase out when modified AGI reaches:	
MFJ, QW	$313,800
HOH	$287,650
Single	$261,500
MFS	$156,900

Which itemized deductions are limited? The following deductions are subject to the AGI limit on itemized deductions.

- Taxes paid.
- Interest paid.
- Gifts to charity.
- Job expenses and certain miscellaneous deductions.
- Other miscellaneous deductions, excluding gambling and casualty or theft losses.

Which itemized deductions are not limited? The following deductions are not subject to the AGI limit on itemized deductions. However, they are still subject to other applicable limits.

- Medical and dental expenses.
- Investment interest expense.
- Casualty and theft losses of personal use property.
- Casualty and theft losses of income-producing property.
- Gambling losses.

Figure the limit. If itemized deductions are subject to the limit, the total of all itemized deductions is reduced by the smaller of:

- 80% of itemized deductions that are affected by the limit, or
- 3% of the amount by which AGI exceeds phaseout limits.

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 $50,000, and has the following itemized deductions:*

Medical expenses	$6,000
Less: 10% of AGI threshold	($5,000)
Deductible medical expenses	$1,000
State income tax	$1,600
Real estate tax	$2,000
Mortgage interest	$1,500
Noncash charitable deductions	$400
Total Itemized Deductions	$6,500

Even though his itemized deductions are greater than the standard deduction by $150 ($6,500 minus $6,350), David chooses to take the standard deduction because he was not able to locate receipts to substantiate all his charitable contributions.

Example #2: *Assume the same facts as Example #1, however David has no charitable deductions. His total itemized deductions are now $250 less than the standard deduction ($6,500 minus $400 charitable deduction equals $6,100. David's standard deduction is $6,350). David chooses to file with the lower itemized deduction 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.