Itemized Deductions
Medical Expenses

Itemized Deductions—Medical Expenses

Medical expenses are the costs of diagnosis, cure, mitigation, treatment, or prevention of disease, and the costs for treatments affecting any part or function of the body. Medical expenses include the costs of equipment, supplies, and diagnostic devices needed for these purposes. The expenses must be primarily to alleviate or prevent a physical or mental defect or illness.

Limit on Itemized Deductions

Itemized deductions for medical expenses are limited to the amount above 7.5% of the taxpayer's adjusted gross income. Amounts below the percentage limit are not deductible.

When Medical Expenses Are Deductible

Medical expenses are deductible in the year actually paid, regardless of when the services in the past were provided. Expenses paid by check are considered paid on the date mailed or delivered. Expenses paid by phone or online are considered paid on the date the financial institution statement shows as the payment date.

Credit Card

Expenses paid by credit card are considered paid on the date charged to the credit card, not the date the balance on the credit card is paid.

Future Services

Payments for care to be provided substantially beyond the end of the year are not deductible as medical expenses, except for lifetime care advance payments and payments for long-term care insurance.

Whose Medical Expenses Are Deductible

Deductible expenses include those incurred by the taxpayer, spouse, or dependent.

Spouse

The taxpayer must have been married to the spouse either at the time the spouse received the medical services or at the time the taxpayer paid the medical expenses.

Dependent

Medical expenses paid for a dependent are deductible if the person was a dependent either at the time the services were provided or at the time the expenses were paid. For medical expense purposes, a dependent is any person for whom an exemption deduction is allowed, plus anyone who cannot be claimed as a dependent because of one of the following.

- The person who paid the medical expenses was a dependent of another taxpayer,
- The person for whom the medical expenses were paid filed a joint return,
- The person for whom medical expenses were paid had gross income of $4,150 or more during the year, or
- The dependency exemption for a child of divorced or separated parents was assigned to the non-paying parent.

Example: *Alex is 27 and still lives at home with his parents. His parents could have taken an exemption deduction for him in 2018 had it not been for the fact that he earned $4,200 at a part-time job. However, the gross income test does not apply so Alex does qualify as a dependent for purposes of the medical expense deduction.*

Itemized Deductions

Medical Expenses

Exception for an Adopted Child

Generally, a dependent must be a U.S. citizen or national or a resident of the U.S., Canada, or Mexico. An adopted child that lived with the taxpayer all year passes this test if the taxpayer is a U.S. citizen or U.S. national.

Decedent's Medical Expenses

Medical expenses paid before death by a decedent are included on the decedent's final return. This includes expenses for the decedent's spouse and dependents. A surviving spouse or personal representative of a decedent can choose to treat medical expenses paid by the estate for the medical care of the decedent as paid by the decedent at the time the medical services were provided if the expenses are paid within one year of the day after the date of death.

Medical expenses for a deceased spouse or deceased dependent are deducted on the taxpayer's return in the year paid, whether they are paid before or after the decedent's death. The expenses are deductible if the decedent was the taxpayer's spouse or dependent either at the time the medical services were provided or at the time the expenses were paid.

Long-Term Care

Amounts paid for qualified long-term care expenses are deductible as medical expenses. Qualified long-term care services are necessary diagnostic, preventive, therapeutic, curing, treating, mitigating, rehabilitative services, and maintenance and personal care services that are required by an individual who is chronically ill, and are provided pursuant to a plan of care prescribed by a licensed health care practitioner.

Medicines

The cost of prescribed medicines is deductible. Nonprescription medicines, such as nicotine gum and patches, are not deductible.

- ***Over-the-counter drugs.*** The cost of drugs purchased without a prescription, such as antacid, allergy medicine, and pain relievers, is not deductible as a medical expense. The cost of dietary supplements, such as vitamins, that are merely beneficial to the general health of the employee is not reimbursable on a pre-tax basis.
- ***Insulin exception.*** The cost of insulin is deductible whether or not it is prescribed by a doctor.
- ***Imported drugs.*** Imported prescription drugs can be deducted only if legally imported. The cost of prescribed drugs purchased and consumed in another country are deductible only if the drug is legal in both the other country and the United States.

Nursing Home

The cost of living in a nursing home, including meals and lodging, is deductible if a principal reason for being there is to get medical care. If the taxpayer is in a nursing home for personal reasons, only the part of the cost that is for medical or nursing care is deductible.

Reimbursed Medical Expenses

Medical expenses that are reimbursed by insurance, Medicare, Archer MSAs, health savings accounts (HSAs), or other sources are not deductible. Reduce total medical expenses paid by total reimbursements received during the year. Reimbursements for medical expenses are generally not included in income, and the expense that is reimbursed is not deducted from income. However, any medical expenses that exceed the reimbursements are deductible, and any reimbursements that exceed medical expenses are taxable to the extent the reimbursement was provided to the taxpayer on a pre-tax basis.

Contact Us

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- 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.

Itemized Deductions

Taxes Paid

Limit on Taxes Paid

Effective for 2018, the itemized deduction for state and local taxes is limited to $10,000 ($5,000 MFS).

State and Local Income or General Sales Taxes

A taxpayer can elect to deduct either state and local sales taxes or state and local income taxes, but not both.

State and Local Income Taxes

Includes the following:

- Withholding reported on 2018 Forms W-2, W-2G, 1099-G, 1099-R, and 1099-MISC.
- Taxes paid in 2018 for a prior year, such as the balance due paid when filing the 2017 state income tax return or a balance due when amending a prior year state income tax return.
- State and local estimated tax payments made during 2018, including the prior year refund credited to 2018, and prior year estimated payments made during 2018. ***Example:*** The fourth quarter 2017 estimate paid in January 2018.
- Mandatory contributions made to the California, New Jersey, or New York Nonoccupational Disability Funds, the Rhode Island Temporary Disability Benefit Fund, the New Jersey, Pennsylvania, or Alaska Unemployment Compensation Funds, or the Washington State Supplemental Workmen's Compensation Fund.

State and Local General Sales Taxes

There are two methods to figure the deduction.

1) ***Actual taxes paid.*** The actual taxes paid (from receipts, invoices, etc.) but only for purchases where the tax rate is the same as the general sales tax rate. For selective sales taxes on food, clothing, medical supplies, and motor vehicles, the actual tax paid is deductible even if the tax rate is less than the general sales tax rate. For motor vehicles, if the tax rate is more than the general sales tax rate, only the portion of the tax that would have been imposed at the general sales tax rate is deductible.

   Motor vehicles include cars, motorcycles, motor homes, recreational vehicles, SUVs, trucks, vans, off-road vehicles, and leased motor vehicles.

2) ***The amount from the optional state sales tax tables.*** An additional amount for local general sales taxes is allowed if the taxpayer's locality imposes a general sales tax, plus taxes paid on motor vehicles (described above), aircraft, boats, homes (including mobile and prefabricated homes), or materials to build a home. For motor vehicles only, if the tax rate is more than the general sales tax rate, only the portion of the tax that would have been imposed at the general sales tax rate is deductible. For aircraft, boats, and homes, the tax is deductible only if it was imposed at the general sales tax rate.

Business Taxes

Under either method, taxes paid on items used in a trade or business are not deductible as itemized deductions.

Real Estate Taxes

Real estate taxes are deductible as itemized deductions only if the taxpayer owns the real estate and the taxes are based on the assessed value of the property. If a mortgage company pays the taxes from an escrow account, deduct the taxes actually paid on behalf of the taxpayer, not the amount the taxpayer paid into escrow.

Itemized Deductions

Taxes Paid

Unlike mortgage interest, the real estate tax deduction is not limited to the first two homes.

Effective for 2018, foreign real property taxes are not deductible.

Charges for Services

Itemized charges for trash collection, water, sewer, etc. are not deductible as real estate taxes.

Special Assessments—Principal Portion

Charges for improvements that tend to increase the value of the property are added to the basis of the property and are not deductible. ***Example:*** An assessment to build a new sidewalk. Charges to maintain existing public facilities already in service are deductible as real estate taxes. ***Example:*** An assessment to repair an existing sidewalk.

Special Assessments—Interest Portion

Deductible as real estate taxes regardless of whether the assessment is for an improvement or a repair.

Sale or Purchase of House

The real estate tax deduction must be adjusted for the time period the taxpayer actually owned the property. The seller is treated as paying the property taxes up to, but not including, the date of sale. The buyer is treated as paying the taxes beginning with the date of sale. This rule applies even if the seller or buyer actually pay different amounts at the closing.

Example #1: *Joseph paid $2,400 for his 2018 real estate taxes on May 15, 2018 ($200 per month). Joseph sold his home on June 1, 2018, to Jim, and the closing company gave Joseph a $1,400 credit for taxes paid for the period June 1, 2018 to December 31, 2018. Joseph can deduct $1,000 for taxes paid on his old house ($2,400 paid minus $1,400 credit on his closing statement).*

Example #2: *Assume the same facts as Example #1, except that Joseph did not receive a credit on his closing statement for the period after the sale. Joseph agreed to pay the entire year in order to encourage Jim to purchase his property. Joseph is allowed to deduct only $1,000 for taxes attributed to the time he owned the property. Jim is allowed to deduct the $1,400 attributed to the time he owned the property even though Joseph is the one who actually paid the taxes. Joseph reduces the amount realized on the sale of his home by the $1,400, and Jim reduces the cost basis of the home he purchased by $1,400.*

Delinquent Taxes

If the buyer pays delinquent taxes that were imposed on the seller for an earlier year, the buyer must add the taxes paid to basis rather than deduct them.

Refunds and Rebates

If a refund is received in 2018 for real estate taxes paid in 2018, reduce the itemized deduction on Schedule A, Form 1040, by the amount of the refund. If the refund is for taxes paid in an earlier year, do not reduce the deduction on Schedule A. Instead, include the refund or rebate as Other Income on line 21, Form 1040, to the extent a tax benefit was received for deducting the taxes in an earlier year.

Personal Property Taxes

Personal property taxes are deductible if based on value alone and are charged on a yearly basis.

Example: *Jesse paid $99 for the registration of his car in 2018. $64 of the fee was based on the car's value, and $35 was based on its weight. His deduction is limited to $64.*

Other Taxes

Taxpayers can choose to deduct foreign taxes or take a tax credit on Form 1040.

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- Job change.
- Marriage.
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- 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.
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- Charitable contributions of property in excess of $5,000.

Itemized Deductions
Interest Paid

Interest That Is Deductible as an Itemized Deduction

- Home mortgage interest paid that is acquisition debt, subject to limitations.
- Points and loan origination fees to obtain a mortgage or to refinance a mortgage.
- Mortgage insurance premiums, subject to limitations. (Expired after December 31, 2017.)
- Investment interest paid, such as margin interest on a brokerage account.

Interest That Is Not Deductible as Itemized Deductions

- Interest on home equity debt (debt not used to buy, build, or substantially improve a home).
- Personal interest, such as credit card interest on non-business purchases, auto loans on vehicles not used for business, and mortgage interest on a third home.
- Business interest is deductible against business income. Business interest is not deductible as an itemized deduction even if it is for employee business expenses. ***Example:*** Interest on a car loan where an employee uses the vehicle for business is nondeductible as personal interest.
- Interest on qualified student loans is deductible on line 33, Form 1040, rather than Schedule A.
- Investment interest on debt used to purchase or carry tax-exempt investments, such as municipal bonds.

Home Mortgage Interest Paid

Secured Debt

A home mortgage is any loan that is secured by the taxpayer's main or second home as collateral for the loan. Home mortgages include first and second mortgages, and refinanced mortgages. A loan secured by the taxpayer's third home is considered a personal loan, unless the third home is used exclusively for business (such as rental property) or investment purposes (such as an inherited house that sits vacant until sold). Debt not secured by the property is personal debt. For example, interest paid on money borrowed from parents for the down payment to purchase a home is personal interest, unless the parents record the loan under state or local law and the home is collateral for the loan.

Home Defined

A home is defined as any house, condominium, cooperative, mobile home, boat, or similar property with basic living accommodations including, sleeping, toilet, and cooking facilities.

Grandfathered Debt

- Mortgage taken out on or before October 13, 1987.
- Interest paid on grandfathered debt is fully deductible regardless of what the funds were used for.

Acquisition Debt

- Mortgage taken out after October 13, 1987, to buy, build, or substantially improve a main or second home.
- **Acquisition debt incurred on or after December 15, 2017:** Total acquisition debt on main and second home combined is limited to $750,000 ($375,000 Married Filing Separately).
- **Acquisition debt incurred before December 15, 2017:** Total acquisition debt on main and second home combined is limited to $1 million ($500,000 Married Filing Separately).
- Limit is reduced by any grandfathered debt.
- Debt over the limit may be considered home equity debt, which is not deductible.

Itemized Deductions

Interest Paid

Refinanced Debt

This may be considered grandfathered debt, acquisition debt, or home equity debt, depending on the following.

- Debt secured by the home and used to refinance acquisition debt is treated as acquisition debt up to the balance of the old mortgage principal just before the refinancing. Debt used to substantially improve the home is also acquisition debt.
- Refinanced debt in excess of the old acquisition debt mortgage principal may be considered home equity debt, which is not deductible.
- Debt to refinance grandfathered debt is treated as grandfathered debt up to the balance of the old mortgage, but only for the term left on the debt that was refinanced.
- Refinanced debt that does not qualify as grandfathered debt may be considered acquisition debt or home equity debt.
- The $1 million ($500,000 Married Filing Separately) limit, above, continues to apply to refinanced acquisition debt that was incurred before December 15, 2017.

Legal Liability to Make Payments

A taxpayer must be legally liable for the loan to deduct interest on a home mortgage. Payments made on a loan in which the taxpayer is not directly liable are deductible only if the taxpayer is the legal or equitable owner of the real estate. A taxpayer may become an equitable owner if he or she assumes the benefits and burdens of ownership.

Home Equity Debt

Home equity debt is debt that does not qualify as grandfathered debt or acquisition debt. It is generally any indebtedness other than acquisition debt (debt used to buy, build, or substantially improve a home). Home equity debt includes reverse mortgages and home equity lines of credit (HELOC). All types of home equity loans essentially convert a taxpayer's home equity into cash to pay for a variety of expenses. Interest on home equity debt is not deductible as home mortgage interest.

Reverse Mortgages

In a reverse mortgage, a lender pays the owner of a home while the owner continues to live in it. The payment can occur in a lump sum, a monthly advance, a line of credit, or a combination of the three. The amounts received are considered loan advances and are not taxable. The loan comes due, depending on the plan, when the loan period ends, the owner moves, reaches a certain age, sells the home, or dies. Mortgage interest accrued on the reverse mortgage proceeds is not deductible.

Investment Interest

Interest paid on a loan to buy property held for investment is deductible. Investment interest does not include home mortgage interest or any interest taken into account in computing income or loss from a passive activity.

Investment Property

Property held for investment includes property that produces interest, dividends, annuities, or royalties not derived in the ordinary course of a trade or business.

Investment Interest

- If money is borrowed for business, personal, or investment purposes, the debt must be allocated among those purposes. Only the interest expense on the part of the debt used for investment purposes is treated as investment interest.
- Interest paid on margin accounts to buy taxable securities is deductible as investment interest.

Limitation

The deduction is limited to a taxpayer's net investment income. A taxpayer is allowed to carry over the amount of investment interest he or she is not able to deduct because of the limit. Net investment income is determined by subtracting investment expenses (other than interest expense) from investment income (interest, dividends, annuities, and royalties). Investment income does not generally include qualified dividends or net capital gain.

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- Retirement.
- Notice from IRS or other revenue department.
- Divorce or separation.
- Self-employment.
- Charitable contributions of property in excess of $5,000.

Itemized Deductions
Homeowners

Itemized Deductions for Homeowners

The IRS defines a home as any house, condominium, cooperative, mobile home, boat, or similar property that has sleeping space, toilet facilities, and cooking facilities. Some homeowners qualify for these deductions.

Real Estate Taxes

You can deduct real estate taxes assessed on all the real estate you own. You are not limited to the tax on just one or two homes.

- Only the amount actually paid is deductible. Do not confuse this amount with deposits made to your mortgage escrow account.
- Charges for trash collection, sewer, etc., are sometimes added to real estate tax bills. These amounts are not deductible as real estate taxes.
- Special assessments are sometimes added to real estate tax bills. Assessments are not necessarily deductible as real estate taxes.
- The deduction for foreign property taxes is no longer allowed.

Assessment	Tax Treatment	Example
Improvement Assessment	• Tend to increase property value. • Not deductible. Add to basis.	Assessment to build new sidewalk.
Maintenance Assessment	• Maintain existing public facilities already in use. • Deduct as real estate taxes.	Assessment to repair existing sidewalk.
Interest Charges Added to Assessment	• Deduct as real estate taxes regardless of assessment purpose.	Interest charged on unpaid portion of assessment.

- The total deduction for all state and local taxes (including income taxes) is limited to $10,000 ($5,000 MFS).

Mortgage Interest

If you borrow money to buy, build, or substantially improve your main or second home, the mortgage interest may be claimed as an itemized deduction on Schedule A.

Form 1098

Your lender will generally give you Form 1098, *Mortgage Interest Statement,* to tell you how much interest you have paid.

- An explanation must be attached to your tax return if the amount shown on Form 1098 is different from the deducted amount or if more than one person paid deductible mortgage interest (other than a spouse filing jointly).
- If you did not receive Form 1098, you must provide the name, identifying number, and address of the interest recipient.

Home Mortgage

A home mortgage is any loan secured by your main or second home, including first and second mortgages, home equity loans, and refinanced loans. The loan must be legally recorded, with the home as collateral for the debt. You must be legally liable to make the payments. For example, if you borrow money from your parents to make a down payment on your home, you cannot deduct the interest you pay them unless the loan is legally recorded with the home as collateral.

Limits

You may generally deduct the mortgage interest on your main home and a second home, up to the limits described below.

- A loan secured by a third home is a personal loan and the interest is not deductible. Interest on a third home

Itemized Deductions
Homeowners

used exclusively for business might be deductible as a business expense.

- Your mortgage interest deduction is limited, based on the type of debt you have. ***Note:*** Slightly different rules apply to mortgages taken out before October 14, 1987.

Debt Type and Limit	Definition
• Acquisition debt combined on main and second home: –December 15, 2017, or after: \$750,000 (\$375,000 MFS). –Prior to December 15, 2017: \$1,000,000 (\$500,000 MFS).	Used to buy, build, or substantially improve a main or second home.
• Home equity debt: effective 2018, no longer allowed.	Debt secured by a main or second home that is not acquisition debt.

Refinanced Loans
Debt that is refinanced generally retains its character as acquisition or home equity debt, up to the old loan balance.

- Debt used to substantially improve your home is acquisition debt, even if it is refinanced home equity debt.
- The \$1,000,000 (\$500,000 MFS) limitation continues to apply to any indebtedness incurred on or after December 15, 2017, to refinance qualified residence indebtedness incurred before that date to the extent the amount of the indebtedness resulting from the refinancing does not exceed the amount of the refinanced indebtedness. Accordingly, the maximum dollar amount that may be treated as principal residence acquisition debt will not decrease due to a refinancing.

Points
Terms such as points, loan discount, loan origination fees, etc., refer to certain charges you might pay in order to obtain a mortgage. If you pay points to borrow money, the points are deductible as prepaid interest.

- Points are deductible ratably over the life of your loan. Points you pay at the time of your home purchase are deductible in full.
- Points you pay to the lender in exchange for a lower interest rate are generally shown on your closing statement. Each point charged to obtain a loan is 1% of the loan amount. For example, 2.5 points charged on a \$100,000 loan equals \$2,500 (\$100,000 × 2.5%).
- Fees your lender charges for specific loan services are not deductible. Examples include appraisal, notary, and document fees.

Medical Expense Deductions
You may need to make home improvements in order to provide medical care for yourself, your spouse, or your dependent. ***Examples:*** (1) Lifts or elevators, (2) therapy pool for help with a specific medical condition, (3) bathroom or countertop modifications to accommodate a person who is disabled, (4) ramps, handrails, support or grab bars, (5) modifications to halls and doorways.

An expense may generate a medical deduction to the extent the expense does not result in an increase to the home's value. Not every expense results in such an increase.

Operation and Upkeep
Amounts you pay to operate and maintain a medically-related home improvement qualify as medical expenses, if the main reason is for medical care. This is true even if only part or none of the asset cost qualified for a deduction.

Other Itemized Deductions

Casualty and Theft Losses
If your home is damaged or destroyed in a disaster area declared by the President, you may have a casualty loss. Losses are calculated on Form 4684, *Casualties and Thefts.*

Mortgage Insurance Premiums
Premiums paid for acquisition indebtedness on a first or second home are treated as deductible mortgage interest. The deduction begins to phase out when AGI exceeds \$100,000 (\$50,000 MFS). The deduction expired after December 31, 2017.

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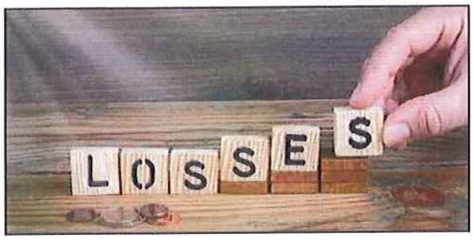


Itemized Deductions

Casualty and Theft Losses

Federally-Declared Disaster Areas

For 2018, a personal casualty loss is deductible (subject to limitations) only if such loss is attributable to a federally-declared disaster.

A federally-declared disaster is any disaster determined by the President of the United States to warrant assistance by the federal government. For areas that have been determined to be federally-declared disaster areas, see www.fema.gov/disasters.

Exception: A personal casualty loss not attributable to a federally-declared disaster may offset a personal casualty gain.

Deductible Losses

Casualty Loss

A casualty loss is the damage, destruction, or loss of property resulting from an identifiable event. The identifiable event must be:

- Sudden, not gradual or progressive.
- Unexpected, not ordinarily anticipated or intended.
- Unusual, not a day-to-day occurrence or typical of the taxpayer's activity.

Casualty and Theft Loss Examples

Deductible	*Nondeductible*
• Blackmail • Burglary • Car accident • Earthquake • Embezzlement • Extortion • Fire • Flood • Hurricane • Kidnapping for ransom • Larceny • Mine cave-in • Robbery • Shipwreck • Sonic boom • Storm • Terrorist attack • Tornado • Vandalism • Volcanic eruption	• Accidental breakage of property under normal conditions. • Burst water heater; however, damage caused by a burst water heater is a casualty. • Car rental while taxpayer's vehicle is repaired. • Costs for protection against future casualties. • Costs for treatment of personal injuries. • Damage caused by a family pet. • Defective design or workmanship that could lead to a collapse or casualty. • Losses caused by willful act or negligence of taxpayer. • Lost money or property. • Normal wear and tear. • Personal use property losses caused by drought. • Progressive damage to property caused by insects or disease. • Sentimental value.

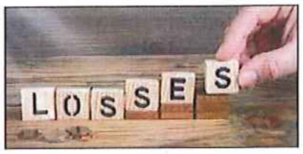
Theft Loss

A theft is the taking and removing of money or property with the intent to deprive the owner of it. The taking of property must be:

- Illegal under the law of the state where it occurred.
- Done with criminal intent.

Deductible Amount of Losses

A nonbusiness casualty or theft loss is the lesser of the taxpayer's basis in the property damaged or destroyed, or the reduction in fair market value due to the casualty or theft. From this amount, any insurance or other reimbursement received, or that could have been received, if the taxpayer chose not to file a claim is subtracted.



Casualty and Theft Losses

The casualty or theft loss is then reduced by $100 per event when computing the deductible amount. Multiple items lost in a single event result in only one $100 reduction. The total of all casualty and theft losses from all events during the year is further reduced by 10% of the taxpayer's adjusted gross income.

Criminal Fraud

Victims of criminal fraud or embezzlement related to a transaction entered into for profit are allowed to deduct the theft loss as a miscellaneous itemized deduction not subject to the 2% adjusted gross income limitation. The deduction is also not subject to any other theft loss or itemized deduction reductions or limitations.

Insurance

Losses are not deductible to the extent they are reimbursed by insurance. If property is covered by insurance, a timely insurance claim for reimbursement must be filed or the deduction is not allowed. The part of the loss not covered by insurance is deductible. If a casualty loss is claimed in one year, and in a later year the taxpayer receives reimbursement for the loss, the deductible loss is not recomputed for the taxable year in which the deduction was taken. Rather, the reimbursement amount is included in income in the taxable year in which it was received.

Insurance proceeds used for living expenses are not reimbursements for damages so amounts paid for normal living expenses are generally taxable. However, payments to cover a temporary increase in living expenses are excluded from income.

Note: If the casualty occurs in a federally declared disaster area, none of the insurance payments are taxable.

Gain on Reimbursement

If insurance or other reimbursement is more than the basis in the property damaged or destroyed, the reimbursement is a gain. The gain is taxable if a taxpayer does not use the proceeds to purchase replacement property similar or related in service and use.

The gain is postponed if:

- The taxpayer purchases property that is similar or related to it in service or use within two years of the end of the first tax year in which any part of the gain is realized (or acquires at least 80% of a corporation owning such property), and
- The cost of the replacement property is equal to or more than the reimbursement received for the damaged, destroyed, or stolen property.

If the replacement property costs less than the reimbursement, gain is recognized to the extent the reimbursement exceeds the cost of the replacement property.

Disaster Relief

Food, medical supplies, and other forms of assistance received do not reduce the casualty loss, unless they are replacements for lost or destroyed property. Qualified disaster relief payments received for expenses incurred as a result of a federally declared disaster are not taxable income.

Cash Gifts for Disaster Victims

If a taxpayer receives a cash gift as a disaster victim (such as gifts from relatives and neighbors) and there are no limits on how the taxpayer can use the money, the gift is excluded from income. The casualty loss is not reduced by the cash gift. This is true even if the cash gift is used to help pay for repairs to property damaged in the disaster.

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- Divorce or separation.
- Self-employment.
- Charitable contributions of property in excess of $5,000.

TAX YEAR
2018

Charitable Contributions Guide

Charitable Organizations

Qualified charitable organizations include nonprofit groups that are religious, charitable, educational, scientific, or literary in purpose, or that work to prevent cruelty to children or animals.

Examples of Qualified and Nonqualified Organizations

Qualified	*Nonqualified*
• Churches, mosques, temples, synagogues. • Boy and Girl Scouts, Boys and Girls Clubs of America, Red Cross, Goodwill, Salvation Army, United Way. • Fraternal orders, if gifts used for qualified charitable purposes. • Veterans' and certain cultural groups. • Nonprofit schools, colleges, museums, hospitals, and organizations trying to find medical cures. • Federal, state, and local governments, if gifts are solely for public purposes, including nonprofit volunteer fire departments, and public parks facilities.	• Country clubs, lodges, fraternal orders, and similar groups, unless they are a qualified charity. • Civic leagues, social and sports clubs, labor unions and chambers of commerce. • Political organizations and candidates. • Communist organizations. [IRC §170(k)] • Foreign organizations. ***Exceptions:*** Contributions to certain Canadian, Israeli, and Mexican charities are deductible. See IRS Pub. 526. • Homeowner's associations.

Contributions That Benefit the Taxpayer

If a taxpayer receives a benefit in exchange for a charitable contribution, the deduction is reduced by the value of the benefit received.

Example: *Paul made a $70 donation to Public TV and received a $40 CD of his all-time favorite band, the Herman's Hermits, in appreciation for his donation. His deduction equals $30.*

Expenses Incurred While Volunteering

Out-of-pocket expenses incurred in performing volunteer work for a charitable organization (including the charitable mileage deduction) are considered cash contributions. The value of a donor's time is not deductible.

Auto expenses. Deductible out-of-pocket expenses include the cost of using the taxpayer's auto in providing services for a charitable organization. Deduct the actual cost of gas and oil or the standard mileage rate. Add parking and tolls to amount claimed for either standard mileage rate or actual expenses. A mileage log is required. The general standard mileage rate for charity is 14¢ per mile in 2018.

Donor-Advised Funds

A donor-advised fund is a fund or account in which a donor can, because of being the donor, advise the fund how to distribute or invest amounts held in the fund.

Contributions to donor advised-funds. A deduction to a donor-advised fund is not deductible if:

- The qualified organization that sponsors the fund is a war veterans' organization, fraternal society, or a nonprofit cemetery company, or
- You do not have an acknowledgment from the sponsoring organization that it has exclusive legal control over the assets contributed.

There are also other circumstances in which you cannot deduct you contribution to a donor-advised fund.

TAX YEAR
2018

Charitable Cash Donation Tracker

Charitable Donation Tracker — Cash Contributions

Recordkeeping Requirements for Charitable Contributions	
Reporting Requirement Thresholds: • *Cash.* Do not combine separate contributions. • *Noncash.* Combine claimed deductions of all similar items to determine $501 or greater amount.	
Contribution: Less than $250	
Cash	One of the following: 1) Bank record with organization's name, date, and amount of contribution. Bank records may include canceled check, bank statement, or credit card statement. 2) Receipt showing organization's name, date, and amount of contribution. 3) Payroll deduction record.
Non-cash	All of the following: Receipt from a charitable organization showing the name of the organization, date and location of the contribution, and a reasonably detailed description of property contributed. ***Note:*** A receipt is not required where it is impractical to get one, such as leaving property at a charity's unattended drop site. The organization's name, date of contribution, and description of property are still required.
Contribution: $250 to $500	
Cash	Same as less than $250, plus: Written acknowledgement from the charitable organization or payroll deduction record. The acknowledgement must (1) show the date and amount of the contribution, (2) state whether any goods or services other than intangible religious benefits were provided by the charitable organization (including a good faith estimate of the value), and (3) a statement that the only benefit the taxpayer received was an intangible religious benefit, if that was the case. The taxpayer must receive the acknowledgement by the earlier of the date of filing or due date of the return, including extensions.

Contribution: $250 to $500 *(continued)*	
Non-cash	Written acknowledgement from the charitable organization showing (1) the date and location of the contribution, (2) a reasonably detailed description of the contributed property, (3) whether any goods or services other than intangible religious benefits were provided by the charitable organization (including a good faith estimate of the value), and (4) a statement that the only benefit the taxpayer received was an intangible religious benefit, if that is the case. The written acknowledgement does not need to state fair market value. The taxpayer must receive the acknowledgement by the earlier of the date of filing or due date of the return, including extensions.
Contribution: $501 to $5,000	
Cash	Same as $250 to $500.
Non-cash	Same as $250 to $500, plus: • How property was acquired (purchase, gift, inheritance, etc.). • Approximate date property was obtained or produced. • Cost or other basis and basis adjustments. If information about the date acquired or basis of the property is not available due to reasonable cause, attach an explanation to the return.
Contribution: Over $5,000	
Cash	Same as $250 to $500.
Non-cash	Same as $250 to $5,000. A written appraisal is generally required.

Part Contribution, Part Goods or Services

A written statement from a charity is required if a donation is more than $75 and is partly a contribution and partly for goods or services. The statement must contain an estimate of the value of goods or services received. ***Exception:*** A written statement for goods or services is not required if one of the following is true.

Charitable Contributions Guide

Contributions of Property

If used items were given to charity, such as clothing or furniture, the fair market value of the items is used to determine the deductible amount. Fair market value is what a willing buyer would pay a willing seller when neither has to buy or sell and both are aware of the conditions of the sale.

Note: No deduction is allowed for a charitable contribution of clothing or household items unless the item is in good used condition or better. The IRS may deny a deduction for any contribution that has minimal monetary value, such as used socks and undergarments.

Recordkeeping Rules

Cash contributions. Cash contributions include those made by cash, check, electronic funds transfer, debit card, credit card, or payroll deduction. You must maintain a record of the contribution in the form of a bank record (such as a cancelled check), payroll deduction records, or written communication from the charity.

Noncash contributions. Keep a receipt from the organization including the name, date, location, description, and fair market value of the property. Take a picture of all items donated to document that the items were in good used condition or better at the time they were donated.

$250 or more. To deduct contributions of $250 (cash or noncash) or more, you must have a written acknowledgment of your contribution from the organization.

Part contribution, part goods or services. A written statement from a charity is required if a donation is more than $75 and is partly a contribution and partly for goods or services. The statement must contain an estimate of the value of goods or services received.

Exception: A written statement for goods or services is not required if one of the following is true.

1) The charity is a federal, state, or local government or a religious organization where the benefit is an intangible religious benefit, such as admission to a religious ceremony.
2) The goods or services are of token value.
3) The goods or services are membership benefits.

Donating a Vehicle

Written Acknowledgement

Obtain written acknowledgement from the organization, which includes details on the use or disposition of the vehicle by the donee organization. A copy of the written acknowledgement must be attached to the tax return.

Deduction Limits

The deduction limit for vehicles may be less than fair market value under the gross proceeds deduction limit.

1) If the organization sells the donated vehicle without a significant intervening use or material improvement by the donee organization, then the deduction is limited to the gross proceeds received from the sale.
2) If the organization sells the donated vehicle after significant intervening use or material improvement to the vehicle, the deduction is limited to the fair market value of the vehicle.
3) If the organization sells the vehicle at significantly below fair market value, the gross proceeds limitation will not apply if it was a gratuitous transfer to a needy individual in line with the purpose of the charity to provide transportation to the poor.

Contributions of Less Than $500

A written acknowledgement is still required if the contribution is $250 or more. If the organization sells the vehicle without any significant intervening use or material improvement, and the sale yields gross proceeds of $500 or less, the deduction is equal to the lesser of fair market value or $500.

Example: *Jack donates his car, worth $800, to a charity that turns around and sells it for $400 without any significant intervening use or without making any material improvements. Jack can deduct $500 as a charitable contribution for the donation of his car. Because his deduction is $250 or more, he still needs a written acknowledgement from the charity, but the acknowledgement is not required to be attached to his return.*

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.

Charitable Cash Donation Tracker

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Cash Donation Tracker

Charitable Organization	Written Receipt?	Check #	Date	Amount
			Total	

Charitable Mileage Log

Date	Charitable Purpose	Miles
	Total Miles	

Out-of-Pocket and Auto Expenses

Taxpayers who do volunteer work for charitable organizations can deduct their out-of-pocket expenses. The expense must be incurred because of the services rendered. The value of the taxpayer's time to render the services is not deductible. Report out-of-pocket expenses as cash contributions.

- ***Auto expenses.*** Deductible out-of-pocket expenses include the cost of using the taxpayer's auto in providing services for a charitable organization. Deduct the actual cost of gas and oil or the standard mileage rate. Add parking and tolls to amount claimed for either standard mileage rate or actual expenses.
- ***Standard mileage rate.*** The general standard mileage rate for charitable deductions is 14¢ per mile for 2018.
- ***Travel expenses.*** The cost of travel, such as air, rail, and bus transportation, as well as meals and lodging, are deductible while away from home doing volunteer work if there is no significant element of personal pleasure, recreation, or vacation in the travel. The deduction will not be denied simply because the taxpayer enjoys doing the volunteer work. However, if the taxpayer has only nominal duties for the charity, or if for significant parts of the trip the taxpayer does not have duties to perform, the travel expenses are not deductible.
- ***Conventions.*** Travel expenses to attend a convention of a qualified organization are deductible only if the taxpayer is a chosen representative. Expenses to attend a church convention, for example, are not deductible if the taxpayer attends as a member of the church rather than as a chosen representative.
- ***Uniforms.*** The cost and upkeep of uniforms not suitable for everyday use are deductible if required to be worn while performing volunteer work.

Donor Advised Funds

A donor advised fund is a fund in which a donor can, because of being a donor, advise the fund on distributions or investments. A contribution to a donor advised fund is not deductible if:

- The organization sponsoring the fund is a war veterans' organization, a fraternal society, or a nonprofit cemetery company, or
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- 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.