

Search records for tax deductions

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Reconstructing evidence of all the deductible expenses incurred during the year can be the most time-consuming part of income tax preparation, but it's unavoidable—unless you use the standard deduction of 18 percent of adjusted gross income up to \$2,300.

And even if you decide to go with the standard deduction, you will probably have to add up all of your available deductions, anyway—to find out which method of filing is more profitable.

That is why it is wise, whether you use the long-form return or the short, whether you prepare your own return or have it done for you, to make a thorough search of your records first.

When you do, here are the types of deductible expenses to look for:

- Medical and dental
- Taxes paid
- Contributions
- Interest paid
- Casualty or theft losses
- Child care and disabled dependent care
- Alimony
- Unreimbursed business expenses
- Deductible medical and dental expenses include more than doctor, dentist and hospital bills. They also take in prosthetic devices such as eye-glasses, dentures and hearing aids, special equipment such as wheel-chairs, medical travel, special foods that may be required, and many other costs.

Put aside all receipts or canceled checks that may relate to health care and thus may be medical deductions, then refer to the tax instruction booklet or ask your tax preparer about them.

Drugs and medicines are deductible only to the extent that they exceed one per cent of adjusted gross income. After subtracting the one per cent, add drug and medicine costs to other medical bills, which then are subject to another exclusion of three per cent of adjusted gross income.

The only health expense not subject to the three per cent exclusion is one half of medical insurance premiums, up to \$150.

Deductions for taxes are limited to those paid to local, state and foreign governments, and include taxes on income, real estate, personal property, sales and gasoline. Even if you expect a refund of any of these taxes later, take the tax as a deduction in the year paid and include it in income when you get the refund.

Do not deduct taxes paid to the federal government, custom duties, motor vehicle or drivers' license fees or taxes on alcohol or tobacco. Also leave out assessments for local improvements and transfer taxes on the sale of your home; they are not deductible.

Contributions are deductible only if made to qualified organizations, of which Internal Revenue maintains a current list in all its offices. Almost all of the better known charitable, religious, educational and service organizations are on the list.

If you claim a deduction for a non-cash contribution worth more than \$200, you must attach a statement to your return describing the item, telling how you acquired it, stating the fair market value and the terms under which you donated it, and giving certain other information.

When computing the deduction for interest you have paid, do not overlook the interest charged on credit card accounts and time payment plans, or the "points" paid when buying a house.

Also include any penalty imposed for prepayment of a mortgage interest charged for an income tax deficiency is another deductible item.

Personal property casualty losses—from storms, fires, floods, etc.—and those caused by theft, are deductible only to the extent that they exceed insurance compensation plus \$100 per loss.

The amount of loss can be figured either as the difference in value of the property before and after the event, or as the cost of restoring it to its previous condition.

If the loss was caused by theft, be able to show that the item was not lost or misplaced by obtaining a theft report from the police department.

To qualify for the maximum deduction of up to \$400 a month for child-care or dependent-care costs, you must have incurred these costs so that you could hold a full-time job. Payments for the care of a child under 15 or an invalid dependent or

spouse must have gone to someone other than a relative.

If your income, plus that of your spouse, exceeded \$18,000, part of the deduction is lost, and when joint income reaches \$27,000, it is entirely lost. If you are in the over-\$18,000 category—or could be if you were to take a job—look into the new, more generous provisions of the law for 1976. Use IRS form 2441.

Alimony is a tax deduction to the payer and taxable income to the receiver. Child support is neither. If, after a divorce becomes final, the payer of alimony decides to be more generous, increases not ordered by the court are not deductible.

Major deductions for an employee's job-related expenses for travel, transportation, gifts and entertainment are

taken as adjustments to income. But costs of many other income-producing activities can be claimed as ordinary deductions, for example:

- Employment agency fees and other job-seeking costs, now deductible even if they fail to produce a new job.
- Dues to unions or professional societies.
- Books, subscriptions, tools and uniforms needed to perform your work or to supervise investments.
- Safe deposit box rental for retention of securities, etc.
- Fees of tax and other financial advisers.

As mentioned earlier, if a document points to even the possibility of a deduction, refer it to your professional tax adviser.

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