2015

Itemized Deductions
Taxes Paid

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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 2015 Forms W-2, W-2G, 1099-G, 1099-R, and 1099-MISC.
- Taxes paid in 2015 for a prior year, such as the balance due paid when filing the 2014 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 2015, including the prior year refund credited to 2015, and prior year estimated payments made during 2015. ***Example:*** The fourth quarter 2014 estimate paid in January 2015.
- 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

Note: The provision for deducting state and local sales tax expired for tax years after 2014.

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.

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

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 2014 real estate taxes on May 15, 2014 ($200 per month). Joseph sold his home on June 1, 2014 to Jim, and the closing company gave Joseph a $1,400 credit for taxes paid for the period June 1, 2014 to December 31, 2014. 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.*

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.

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 2014 for real estate taxes paid in 2014, the deduction is reduced 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 in income on line 21, Form 1040, but only to the extent a tax benefit was received for deducting the taxes in the 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 2014. $64 of the fee was based on the car's value, and $35 was based on its weight. His deduction is limited to $64.*

Refunds and Rebates
If a refund is received in 2014 for real estate taxes paid in 2014, 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.

Other Taxes

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

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.