



DEDUCTIONS

The Tax Computation

- Tax filers are not taxed on all of their income.
- Income that is considered taxable (and certain non-taxable income) must be reported on the 1040 but that does not mean that all of the income will be taxed.

On the Form 1040, the lines for:

Total Income \neq Taxable Income

- Total Income less Adjustments = **Adjusted Gross Income**
- Adjusted Gross Income less Deductions = **Taxable Income**



Determining Taxable Income

Step 1: Determine “Total Income” (this is not the same as “Taxable Income”)

- Total Income = the sum of the following:
 - Wages
 - Interest
 - Dividends
 - Capital gains
 - Business Income
 - Pensions
 - Social Security
 - Unemployment,
 - etc.

Step 2: Reduce **Total Income** to determine **Taxable Income**

- There are two taxable income reducing categories:
 - **Adjustments**
 - IRA deductions
 - Student Loan Interest
 - Self-Employment tax, etc.
 - **Deductions**
 - Standard
 - Itemized

Note: Non-refundable credits can reduce income tax after it is calculated.

Deductions Overview

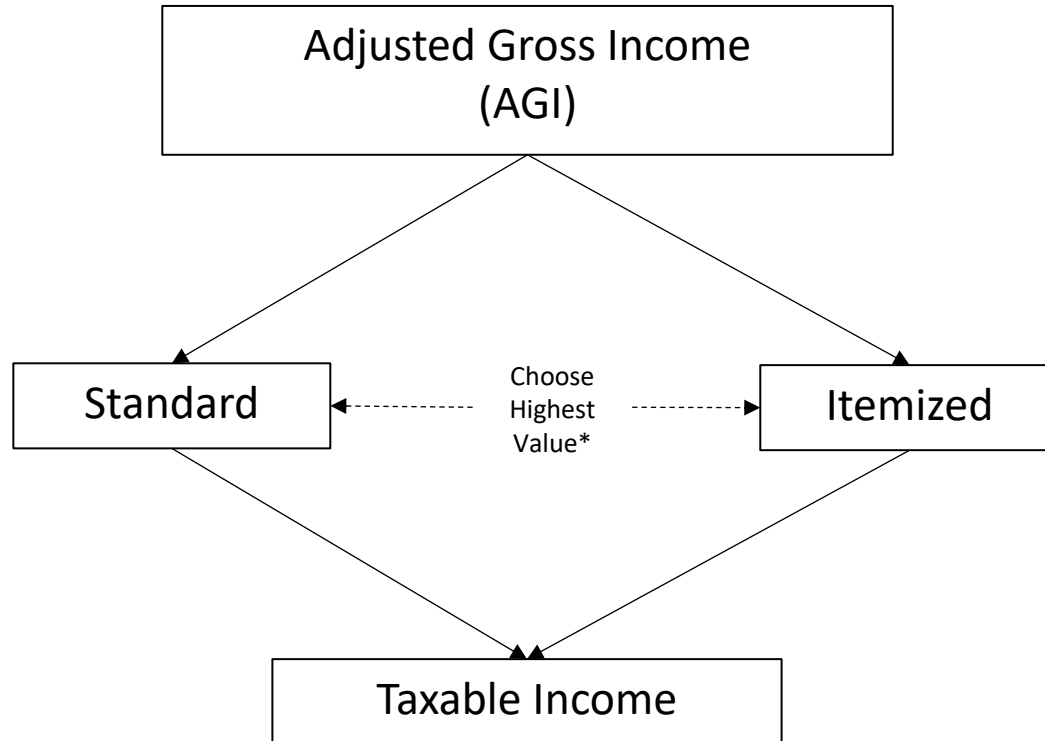
- **Deductions** are subtracted from the Adjusted Gross Income (AGI) to result in the **Taxable Income**
- The taxable income is used to determine the tax.
- There are 2 types of Deductions
Standard and Itemized *(we will learn about new ones from OB3)*
- **Only one** of these two can be applied to a return
 - **Use the one with the higher value...** UNLESS you're required to itemize your deductions! For example, MFS filers may be required to itemize
 - To obtain lowest **Taxable Income** value

Don't sweat this! You got this!

But remember, it may be beneficial to itemize for Oregon



Deductions → Taxable Income



*unless required to itemize

Standard Deduction

- **Standard Deduction** – An amount that reduces the taxable income
 - Varies according to filing status and age
 - You CANNOT take the standard deduction if you itemize deductions
 - Individuals that qualify as someone's dependent generally cannot take the full standard deduction
- **NOTE:** *Not all clients are eligible to take the Standard deduction*
 - *If a married couple is filing separately and one spouse uses Itemized deductions then the other spouse must also use Itemized deductions*
 - *If you are a nonresident or dual-status alien during the year you cannot take the standard deduction. See 4012 for special circumstances for nonresident aliens married to a US citizen or resident.*
 - *See your 4012 for other less common cases.*

Standard Deduction Values (2025 returns)

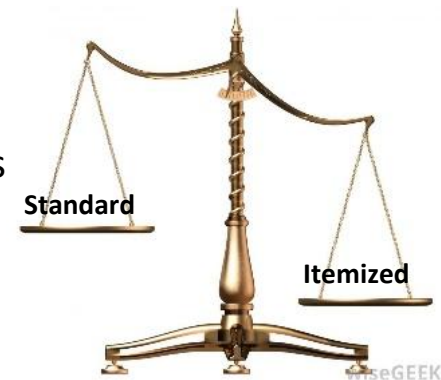
Filing Status	Standard Deduction Amount
Single and MFS	\$15,750
MFJ and Qualifying Widow(er)	\$30,500
Head of Household	\$23,625

- Additional standard deduction for 65+ and blind
 - Filing Status: MFJ, Qualifying Widow(er) or MFS → \$1,600 for each taxpayer
 - Filing Status: Single or Head of Household → \$2,000
- An individual who qualifies as a dependent: Standard Deduction is the greater of
 - \$1,350 (if all income is unearned income) *OR*
 - sum of \$450 and earned income (up to the standard deduction for their filing status)
 - *OR* the Standard Deduction for their Filing Status **if** earned income is greater than the Standard Deduction

Itemized Deductions – Schedule A

• Itemized Deductions

- Under current law, most VITA clients have lower **federal** taxable income using the standard deduction.
- Taxpayers with higher incomes or high mortgage interest expenses are more likely to benefit from **federal** itemized deductions.
- Frequently it is beneficial to itemize for Oregon since the standard deduction is much lower. Check the Oregon standard deduction charts.
- Common itemizable expenses include:
 - Medical and dental expenses
 - Taxes paid (state & local income taxes, & property taxes)
 - Home mortgage interest & points paid,
 - Gifts to charity
 - Certain miscellaneous deductions.
 - Can include gambling losses
 - Check to make sure these are in scope!



If itemizable expenses are greater than the taxpayer's standard deduction it will probably be better to itemize.

Itemized Deduction Expenses - What to include?

- Medical = expense amount that is greater than 7.5% of AGI
 - Include unreimbursed medical & dental expenses paid for all members of the household:
 - Doctor & Dental bills
 - Prescriptions
 - Hospital bills
 - Insurance premiums (health and long-term care) **not** subsidized by employers or covered by the APTC
 - Mental health treatments
 - Transportation for medical treatments
 - And others (See 4012 and IRS Schedule A Instructions for limitations and additional allowable expenses)
- Taxes
 - State income tax
 - Local or foreign income taxes (reported on 1099-INT and 1099-DIV)
 - Real estate taxes
 - Personal property taxes

Beginning with tax year 2025, the total deduction for real estate tax, personal property taxes, and state income tax is limited to \$40,000.



Itemized Deduction Expenses - What to include?

- Home mortgage interest (Form 1098)
 - Limited to the 1st and 2nd home **only**
 - Private Mortgage Insurance*
 - For reverse mortgages, no interest until the loan is settled.
- Cash or non-cash donations to a qualified charitable organization
 - Charitable deductions are limited by VITA scope
- Miscellaneous Deductions
 - Gambling losses up to the amount of winnings
 - Since TY2018 many miscellaneous deductions including union dues, investment expenses and unreimbursed employee expenses were eliminated.
 - Work related expenses are allowed for a Disabled Person only.
 - Casualty and Theft Losses are **Out of Scope** for VITA!
 - See your Publication 4012 for the complete list

**NOTE: including Private Mortgage Insurance as an interest deduction changes from tax year to tax year. Make sure you check the tax law for the year you are preparing.*

Interview About Deductions

- Start a discussion about Itemized Deductions with the client using the 13614-C
- The “Interview Tips-Itemized Deductions” is very helpful in guiding the discussion.
- Reminder: many clients will have qualifying Itemized Deductions; but may benefit more from the standard deduction on the federal return. If the client is not making mortgage payments, it’s very likely the standard deduction will be more beneficial
- Oregon standard deduction is lower, and the Special Medical Subtraction calculates using the medical deductions. So, some itemized deductions may need to be entered for the Oregon return.

Page 4

Expenses and Tax Related Events: Answer the questions on the left side of this page. Check only the boxes that apply to you and/or your spouse.

Paid any of the following expenses to itemize in 2024?	(To be completed by certified volunteer) Standard or Itemized Deductions	Notes/Comments
<input type="checkbox"/> (A) Mortgage Interest	<input type="checkbox"/> (A) 1098	# _____
<input type="checkbox"/> (A) Taxes: state, local, real estate, sales, etc.	<input type="checkbox"/> (B) Standard deduction	
<input type="checkbox"/> (A) Medical, dental, prescription expenses	<input type="checkbox"/> (A) Itemized deduction	
<input type="checkbox"/> (A) Charitable contributions		