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COMMITTEE PRINT

PROTECTING OLDER AMERICANS AGAINST OVERPAYMENT OF INCOME TAXES

(A Revised Checklist of Itemized Deductions
for Use in Taxable Year 1975)

PREPARED BY THE

SPECIAL COMMITTEE ON AGING
UNITED STATES SENATE

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PREFACE

Over the years the Internal Revenue Service has repeatedly stressed that it wants no taxpayer to pay more taxes than are legally due.

Each taxpayer should claim all exemptions, deductions, and credits to which he or she is entitled under the tax law.

The U.S. Supreme Court has also addressed itself to this issue and said in *Gregory* v. *Helvering:*

> The legal right of a taxpayer to decrease the amount of what otherwise would be his taxes, or altogether avoid them, by means which the law permits, cannot be doubted.[1]

Yet, many older Americans needlessly overpay their taxes each year because they are unaware of helpful deductions which can save them precious dollars—especially during this period of rampant inflation.

To help provide protection against this serious problem the Committee on Aging has published a checklist of itemized deductions for elderly persons and, of course, other age groups as well.

Once again, the Committee has updated this summary to make it available for taxpayers in a timely manner for the forthcoming tax season.

A checklist of this nature cannot, of course, be an exhaustive summary of every available deduction for all conceivable circumstances. But, it can be helpful for persons who itemize their allowable deductions. And, it can assist taxpayers in determining whether it would be advantageous to itemize their expenses, claim the standard deduction, or use the tax tables. Such decisions are crucial—especially for older Americans living on limited incomes—and can produce substantial tax savings.

This checklist can also be valuable for elderly persons who may have failed to deduct certain permissible expenses on previous returns. These taxpayers, for example, may prepare an amended return—Form 1040X—to claim allowable expenditures initially overlooked. To obtain a refund (plus interest) for these items, Form 1040X must be filed within three years after the original return was due or filed or within two years from the time the tax was paid, whichever is later.

Finally, the Committee wants to express heartfelt thanks to the dedicated Internal Revenue Service personnel who reviewed this publication for accuracy and clarity.

FRANK CHURCH,
Chairman.
HIRAM L. FONG,
Ranking Minority Member.

[1] *Gregory* v. *Helvering,* 293 U.S. 465, 469 (1935).

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CHECKLIST OF ITEMIZED DEDUCTIONS FOR SCHEDULE A (FORM 1040)

MEDICAL AND DENTAL EXPENSES

Medical and dental expenses (unreimbursed by insurance or otherwise) are deductible to the extent that they exceed 3% of a taxpayer's adjusted gross income (line 15, Form 1040).

INSURANCE PREMIUMS

One-half of medical, hospital or health insurance premiums are deductible (up to $150) without regard to the 3% limitation for other medical expenses. The remainder of these premiums can be deducted, but is subject to the 3% rule.

DRUGS AND MEDICINES

Included in medical expenses (subject to 3% rule) but only to extent exceeding 1% of adjusted gross income (line 15, Form 1040).

OTHER MEDICAL EXPENSES

Other allowable medical and dental expenses (subject to 3% limitation):

Abdominal supports (prescribed by a doctor)
Acupuncture services
Ambulance hire
Anesthetist
Arch supports (prescribed by a doctor)
Artificial limbs and teeth
Back supports (prescribed by a doctor)
Braces

Capital expenditures for medical purposes (e.g., elevator for persons with a heart ailment)—deductible to the extent that the cost of the capital expenditure exceeds the increase in value to your home because of the capital expenditure. Taxpayer should have an independent appraisal made to reflect clearly the increase in value.

Cardiographs
Chiropodist
Chiropractor
Christian Science practitioner, authorized
Convalescent home (for medical treatment only)
Crutches
Dental services (e.g., cleaning, X-ray, filling teeth)
Dentures
Dermatologist
Eyeglasses
Food or beverages specially prescribed by a physician (for treatment of illness, and in addition to, not as substitute for, regular diet; physician's statement needed)
Gynecologist
Hearing aids and batteries
Home health services
Hospital expenses
Insulin treatment
Invalid chair
Lab tests
Lipreading lessons (designed to overcome a handicap)
Neurologist
Nursing services (for medical care, including nurse's board paid by you)
Occupational therapist
Ophthalmologist
Optician
Optometrist
Oral surgery
Osteopath, licensed
Pediatrician
Physical examinations
Physician
Physical therapist
Podiatrist
Psychiatrist
Psychoanalyst
Psychologist
Psychotherapy
Radium therapy
Sacroiliac belt (prescribed by a doctor)
Seeing-eye dog and maintenance
Speech therapist
Splints
Supplementary medical insurance (Part B) under Medicare
Surgeon
Telephone/teletype special communications equipment for the deaf
Transportation expenses for medical purposes (7¢ per mile plus parking and tolls or actual fares for taxi, buses, etc.)
Vaccines
Vitamins prescribed by a doctor (but not taken as a food supplement or to preserve general health)
Wheelchairs
Whirlpool baths for medical purposes
X-rays

TAXES

Real estate
State and local gasoline
General sales
State and local income
Personal property

If sales tax tables are used in arriving at your deduction, you may add to the amount shown in the tax tables only the sales tax paid on the purchase of five classes of items: automobiles, airplanes, boats, mobile homes, and materials used to build a new home when you are your own contractor.

When using the sales tax tables, add to your adjusted gross income any nontaxable income (e.g., Social Security, Veterans' pension or compensation payments, Railroad Retirement annuities, workmen's compensation, untaxed portion of long-term capital gains, recovery of pension costs, dividends exclusion, interest on municipal bonds, unemployment compensation and public assistance payments).

CONTRIBUTIONS

In general, contributions may be deducted up to 50 percent of your adjusted gross income (line 15, Form 1040). However, contributions to certain private nonprofit foundations, veterans organizations, or fraternal societies are limited to 20% of adjusted gross income.

Cash contributions to qualified organizations for (1) religious, charitable, scientific, literary or educational purposes, (2) prevention of cruelty to children or animals, or (3) Federal, State or local governmental units (tuition for children attending parochial schools is not deductible). Fair market value of property (e.g., clothing, books, equipment, furniture) for charitable purposes. (For gifts of appreciated property, special rules apply. Contact local IRS office.)

Travel expenses (actual or 7¢ per mile plus parking and tolls) for charitable purposes (may not deduct insurance or depreciation in either case).

Cost and upkeep of uniforms used in charitable activities (e.g., scoutmaster).

Purchase of goods or tickets from charitable organizations (excess of amount paid over the fair market value of the goods or services).

Out-of-pocket expenses (e.g., postage, stationery, phone calls) while rendering services for charitable organizations.

Care of unrelated student in taxpayer's home under a written agreement with a qualifying organization (deduction is limited to $50 per month).

INTEREST

Home mortgage.

Auto loan.

Installment purchases (television, washer, dryer, etc.).

Bank credit card—can deduct the finance charge as interest if no part is for service charges, loan fees, credit investigation fees, or similar charges.

Points—deductible as interest by buyer where financing agreement provides that they are to be paid for use of lender's money. Not deductible if points represent charges for services rendered by the lending institution (e.g., VA loan points are service charges and are not deductible as interest). Not deductible if paid by seller (are treated as selling expenses and represent a reduction of amount realized).

Penalty for prepayment of a mortgage—deductible as interest.

Revolving charge accounts—may deduct the "finance charge" if the charges are based on your unpaid balance and computed monthly.

Other charge accounts for installment purchases—may deduct the lesser of (1) 6% of the average monthly balance (average monthly balance equals the total of the unpaid balances for all 12 months, divided by 12) or (2) the portion of the total fee or service charge allocable to the year.

CASUALTY OR THEFT LOSSES

Casualty (e.g., tornado, flood, storm, fire, or auto accident provided not caused by a willful act or willful negligence) or theft losses to nonbusiness property—the amount of your casualty loss deduction is generally the lesser of (1) the decrease in fair market value of the property as a result of the casualty, or (2) your adjusted basis in the property. This amount must be further reduced by any insurance or other recovery, and, in the case of property held for personal use, by the $100 limitation. You may use Form 4684 for computing your personal casualty loss.

CHILD AND DISABLED DEPENDENT CARE EXPENSES

A taxpayer who maintains a household may claim a deduction for employment-related expenses incurred in obtaining care for a (1) dependent who is under 15, (2) physically or mentally disabled dependent, or (3) disabled spouse. The maximum allowable deduction is $400 a month ($4,800 a

year). As a general rule, employment-related expenses are deductible only if incurred for services for a qualifying individual in the taxpayer's household. However, an exception exists for child care expenses (as distinguished from a disabled dependent or a disabled spouse). In this case, expenses outside the household (e.g., day care expenditures) are deductible, but the maximum deduction is $200 per month for one child, $300 per month for two children, and $400 per month for three or more children.

When a taxpayer's adjusted gross income (line 15, Form 1040) exceeds $18,000, the deduction is reduced by $1 for each $2 of income above this amount. For further information about child and dependent care deductions, see Publication 503, Child Care and Disabled Dependent Care, available free at Internal Revenue offices.

MISCELLANEOUS

Alimony and separate maintenance (periodic payments).

Appraisal fees for casualty loss or to determine the fair market value of charitable contributions.

Union dues.

Cost of preparation of income tax return.

Cost of tools for employee (depreciated over the useful life of the tools).

Dues for Chamber of Commerce (if as a business expense).

Rental cost of a safe-deposit box for income-producing property.

Fees paid to investment counselors.

Subscriptions to business publications.

Telephone and postage in connection with investments.

Uniforms required for employment and not generally wearable off the job.

Maintenance of uniforms required for employment.

Special safety apparel (e.g., steel toe safety shoes or helmets worn by construction workers; special masks worn by welders).

Business entertainment expenses.

Business gift expenses not exceeding $25 per recipient.

Employment agency fees under certain circumstances.

Cost of a periodic physical examination if required by employer.

Cost of installation and maintenance of a telephone required by the taxpayer's employment (deduction based on business use).

Cost of bond if required for employment.

Expenses of an office in your home if employment requires it.

Payments made by a teacher to a substitute.

Educational expenses required by your employer to maintain your position or for maintaining or sharpening your skills for your employment.

Political Campaign Contributions.—Taxpayers may now claim either a deduction (line 33, Schedule A, Form 1040) or a credit (line 51, Form 1040), for campaign contributions to an individual who is a candidate for nomination or election to any Federal, State, or local office in any primary, general or special election. The deduction or credit is also applicable for any (1) committee supporting a candidate for Federal, State, or local elective public office, (2) national committee of a national political party, (3) State committee of a national political party, or (4) local committee of a national political party. The maximum deduction is $100 ($200 for couples filing jointly). The amount of the tax credit is one-half of the political contribution, with a $25 ceiling ($50 for couples filing jointly).

Presidential Election Campaign Fund.—Additionally, taxpayers may voluntarily earmark $1 of their taxes ($2 on joint returns) to help defray the costs of the 1976 Presidential election campaign.

For any questions concerning any of these items, contact your local IRS office. You may also obtain helpful publications and additional forms by contacting your local IRS office.

Other Tax Relief Measures for Older Americans

Filing status	*Required to file a tax return if gross income is at least—*
Single (under age 65)	$2,350
Single (age 65 or older)	3,100
Qualifying widow(er) under 65 with dependent child	2,650
Qualifying widow(er) 65 or older with dependent child	3,400
Married couple (both spouses under 65) filing jointly	3,400
Married couple (1 spouse 65 or older) filing jointly	4,150
Married couple (both spouses 65 or older) filing jointly	4,900
Married filing separately	750

Additional Personal Exemption for Age.—Besides the regular $750 exemption allowed a taxpayer, a husband and wife who are 65 or older on the last day of the taxable year are each entitled to an additional exemption of $750 because

of age. You are considered 65 on the day before your 65th birthday. Thus, if your 65th birthday is on January 1, 1976, you will be entitled to the additional $750 personal exemption because of age for your 1975 Federal income tax return.

Tax Credit for Personal Exemptions.—In addition to the $750 personal exemption, a tax credit of $30 is available for a taxpayer, spouse, and each dependent. No additional $30 credit is available, however, because of age or blindness.

Multiple Support Agreements.—In general, a person may be claimed as a dependent of another taxpayer, provided five tests are met: (1) Support, (2) gross income, (3) member of household or relationship, (4) citizenship, and (5) separate return. But in some cases, two or more individuals provide support for an individual, and no one has contributed more than half the person's support. However, it still may be possible for one of the individuals to be entitled to a $750 dependency deduction if the following requirements are met for multiple support:

1. Two or more persons—any one of whom could claim the person as a dependent if it were not for the support test—together contribute more than half of the dependent's support.

2. Any one of those who individually contribute more than 10% of the mutual dependent's support, *but only one of them*, may claim the dependency deduction.

3. Each of the others must file a written statement that he will not claim the dependency deduction for that year. The statement must be filed with the income tax return of the person who claims the dependency deduction. Form 2120 (Multiple Support Declaration) may be used for this purpose.

Sale of Personal Residence by Elderly Taxpayers.—A taxpayer may elect to exclude from gross income part or, under certain circumstances, all of the gain from the sale of his personal residence, provided:

1. He was 65 or older before the date of the sale, and

2. He owned and occupied the property as his personal residence for a period totaling at least 5 years within the 8-year period ending on the date of the sale.

Taxpayers meeting these two requirements may elect to exclude the entire gain from gross income if the adjusted sales price of their residence is $20,000 or less. (This election can only be made once during a taxpayer's lifetime.) If the adjusted sales price exceeds $20,000, an election may be made to exclude part of the gain based on a ratio of $20,000 over the adjusted sales price of the resi-

dence. Form 2119 (Sale or Exchange of Personal Residence) is helpful in determining what gain, if any, may be excluded by an elderly taxpayer when he sells his home.

Additionally, a taxpayer may elect to defer reporting the gain on the sale of his personal residence if within 18 months before or 18 months after the sale he buys and occupies another residence, the cost of which equals or exceeds the adjusted sales price of the old residence. Additional time is allowed if (1) you construct the new residence or (2) you were on active duty in the U.S. Armed Forces. Publication 523 (Tax Information on Selling Your Home) may also be helpful.

Retirement Income Credit.—To qualify for the retirement income credit, you must (a) be a U.S. citizen or resident, (b) have received earned income in excess of $600 in each of any 10 calendar years before 1975, and (c) have certain types of qualifying "retirement income". Five types of income—pensions, annuities, interest, and dividends included on line 15, Form 1040, and gross rents from Schedule E, Part II, column (b)—qualify for the retirement income credit.

The credit is 15% of the lesser of:

1. A taxpayer's qualifying retirement income, or

2. $1,524 ($2,286 for a joint return where both taxpayers are 65 or older) minus the total of nontaxable pensions (such as Social Security benefits or Railroad Retirement annuities) and earned income (depending upon the taxpayer's age and the amount of any earnings he may have).

If the taxpayer is under 62, the $1,524 figure is reduced by the amount of earned income in excess of $900. For persons at least 62 years old but less than 72, this amount is reduced by one-half of the earned income in excess of $1,200 up to $1,700, plus the total amount over $1,700. Persons 72 and over are not subject to the earned income limitation.

Schedule R is used for taxpayers who claim the retirement income credit.

The Internal Revenue Service will also compute the retirement income credit for a taxpayer if he has requested that IRS compute his tax, he answers the questions for columns A and B, and he completes lines 2 and 5 on Schedule R—relating to the amount of his Social Security benefits, Railroad Retirement annuities, earned income, and qualifying retirement income (pensions, annuities, interest, dividends, and rents). The taxpayer should also write "RIC" on line 17, Form 1040.

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