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PROTECTING OLDER AMERICANS AGAINST OVERPAYMENT OF INCOME TAXES

(A Revised Checklist of Itemized Deductions for Use in Taxable Year 1980)

AN INFORMATION PAPER

PREPARED BY THE STAFF OF THE

SPECIAL COMMITTEE ON AGING
UNITED STATES SENATE

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PREFACE

In recent years the Committee on Aging has published a checklist of itemized deductions before each tax season to protect older Americans from overpaying their Federal income tax. The summary is also useful for younger taxpayers because most provisions in the Internal Revenue Code apply with equal force to all age groups.

The committee is again updating its checklist to describe recent changes in the tax law for 1980. Once again, the committee emphasizes that this summary is not intended to be an all-inclusive checklist for every conceivable circumstance. Instead, it is designed for more typical situations to help assure that the vast majority of taxpayers claim every legitimate deduction, exemption, and credit to which they are entitled. Persons with more complicated tax situations can obtain assistance or more detailed information from the Internal Revenue Service or tax preparers.

The checklist is valuable for taxpayers in other ways as well. It may, for example, assist persons in determining whether it would be more advantageous to itemize deductible expenses or claim the standard deduction. In addition, it may provide guidance for individuals in planning their personal and tax affairs. Finally, it may even be helpful for taxpayers who have already filed a tax return but overlooked allowable deductions, such as the sales tax on an automobile or transportation for medical purposes for individuals with medical expenses exceeding 3 percent of their adjusted gross income. These persons may still claim these items by filing an amended return, Form 1040X. But, it must be filed within 3 years after the original return was due or filed, or within 2 years from the time the tax was paid, whichever is later.

The committee wishes to pay a special note of thanks to the Internal Revenue Service and its competent staff who reviewed this publication for accuracy, clarity, and readability. They have provided a valuable public service in helping many Americans in preparing their tax returns.

LAWTON CHILES,
Chairman.
PETE V. DOMENICI,
Ranking Minority Member.

IRS ASSISTANCE IS AVAILABLE TO HELP YOU

How to find help: If you have questions or need assistance on any Federal tax matter, help is available at the IRS. The toll-free telephone number for your area is listed in your telephone directory under "United States Government, Internal Revenue Service," and in your tax forms instruction booklet. Should you need to visit an IRS office, call this toll-free number to find the location of the office nearest you.

Publications to assist you: The IRS also prepares many free publications which will help answer your tax questions. In addition to the general publication 17, "Your Federal Income Tax," there are publications available on specific topics, such as "Tax Benefits for Older Americans" (publication 554), "Credit for the Elderly" (publication 524), and "Estimated Tax and Withholding" (publication 505). Single copies of publications can be ordered by mail using the order form in your tax package or by calling the forms/tax information number listed in your telephone directory under "United States Government, Internal Revenue Service."

Other special programs offering assistance: In addition, through the volunteer income tax assistance (VITA) program, older Americans can obtain free tax return preparation assistance from IRS trained volunteers at conveniently located sites throughout the country. Your local IRS office will be able to tell you where and when you can find this assistance in your area. A special program to provide assistance to individuals age 60 and over will be available in some areas. The IRS can tell you if trained volunteers working in the tax counseling for the elderly program are located near you.

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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 your adjusted gross income (line 31, 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 31, 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. You should have an independent appraisal made to reflect clearly the increase in value.

Cardiographs
Chiropodist
Chiropractor
Christian Science practitioner, authorized
Convalescent home (the entire cost, if the main reason for being there is to get medical care)
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)
Medicare A, voluntarily paid, if you are 65 or older and not entitled to social security benefits
Medicare B, supplementary medical insurance
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
Physical therapist
Physician
Podiatrist
Psychiatrist
Psychoanalyst
Psychologist
Psychotherapy
Radium therapy
Sacroiliac belt (prescribed by a doctor)
Seeing-eye dog and maintenance
Speech therapist
Splints
Surgeon
Telephone/teletype special communications equipment for the deaf
Transportation expenses for medical purposes (actual or 9¢ per mile plus parking and tolls; but not general repair and maintenance expenses, insurance, or depreciation in either case; 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

Expenses may be deducted only in the year you paid them. If you charge medical expenses on your credit card, the expenses are deducted in the year the charge is made regardless of when the bill is paid.

TAXES

Real estate	State, local, or foreign income
General sales	Personal property

If sales tax tables are used in arriving at your deduction, ordinarily you may add to the amount shown in the tax tables the sales tax paid on the purchase of the following items: automobiles, trucks, motorcycles, 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' pensions or compensation payments, Railroad Retirement annuities, workmen's compensation, untaxed portion of long-term capital gains, dividends untaxed under the dividend exclusion, interest on municipal bonds, untaxed part of unemployment compensation and public assistance payments).

CONTRIBUTIONS

In general, contributions may be deducted up to 50 percent of your adjusted gross income (line 31, Form 1040). However, contributions to certain private nonoperating foundations, veterans organizations, fraternal societies, or nonprofit cemetery companies, 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 9¢ per mile plus parking and tolls) for charitable purposes (may not deduct general repair and maintenance expenses, 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 your home under a written agreement with a qualifying organization (deduction is limited to $50 per month).

INTEREST

Personal loan.

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.

Other credit cards—you may deduct as interest the finance charges added to your monthly statement, expressed as an annual percentage rate, that are based on the unpaid monthly balance.

Points—deductible as interest by buyer where financing agreement provides that they are to be paid for use of lender's money and only if the charging of points is an established business practice in your area. 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 separately stated "finance charge."

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—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. Report your casualty or theft loss on Schedule A. If more than one item was involved in a single casualty or theft, or if you had more than one casualty or theft during the year, use Form 4684 for computing your personal casualty loss.

MISCELLANEOUS

Appraisal fees to determine the amount of a 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 used to store taxable income-producing property records.

Fees paid to investment counselors (if the fees relate to investments that produce taxable income.)

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 to keep your job or in order to get the job.

Cost of bond if required for employment.

Expenses of an office in your home if used regularly and exclusively for business purposes.

Educational expenses that are: (1) required by your employer to maintain your position; or (2) for maintaining or sharpening your skills for your employment.

POLITICAL CAMPAIGN CONTRIBUTIONS

You may claim a credit (line 38, Form 1040, or line 12a, Form 1040A) 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 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, (4) local committee of a national political party, or (5) certain newsletter funds set up and maintained by a person who holds, has been elected to, or is a candidate for nomination or election to a public office. The amount of the tax credit is one-half of the political contribution, with a $50 ceiling ($100 for couples filing a joint return).

PRESIDENTIAL ELECTION CAMPAIGN FUND

Additionally, you may voluntarily earmark $1 of your taxes ($2 on joint returns) for the Presidential Election Campaign Fund.

OTHER TAX RELIEF MEASURES

Filing status	*Required to file a tax return if gross income is at least—*
Single (under age 65)	$3,300
Single (age 65 or older)	4,300
Qualifying widow(er) under 65 with dependent child	4,400
Qualifying widow(er) 65 or older with dependent child	5,400
Married couple (both spouses under 65) filing jointly	5,400
Married couple (1 spouse 65 or older) filing jointly	6,400
Married couple (both spouses 65 or older) filing jointly	7,400
Married filing separately	1,000

Additional Exemption for Age.—Besides the regular $1,000 exemption, you are allowed an additional exemption of $1,000 if you are age 65 or older on the last day of the taxable year. If both a husband and wife are 65 or older on the last day of the taxable year, each is entitled to an additional exemption of $1,000 because of age. You are considered 65 on the day before your 65th birthday. Thus, if your 65th birthday is on January 1, 1981, you will be entitled to the additional $1,000 exemption because of age for your 1980 Federal income tax return.

"Zero Bracket Amount."—The "zero bracket amount" is a flat amount that depends on your filing status. If you are married filing jointly or a qualifying widow or widower, your zero bracket amount is $3,400. If you are single or a head of household, your zero bracket amount is $2,300. If you are married filing separately, it is $1,700. It is not a separate deduction; instead, the equivalent amount is built into the tax tables and tax rate schedules. Since this amount is built into the tax tables and tax rate schedules, you will need to make an adjustment if you itemize deductions. However, itemizers will not experience any change in their tax liability and the tax computation will be simplified for many itemizers.

Tax Tables.—Tax tables have been developed to make it easier for you to find your tax if your income is under certain levels. Even if you itemize deductions, you may be able to use the tax tables to find your tax easier. In addition, you do not have to deduct $1,000 for each exemption because this amount is also built into the tax table for you.

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 $1,000 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.—You may exclude from your gross income some or all of your gain from the sale or exchange of your principal residence, if you meet certain age, ownership, and occupancy requirements at the time of the sale or exchange. The exclusion is elective, and you may elect to exclude gain only once for sales or exchanges after July 26, 1978. If you were age 55 or older before the date of sale or exchange, you may elect to exclude up to $100,000 of gain on the sale or exchange if you owned and occupied the residence for 3 of the 5 years ending on the date of sale (or 5 of 8 years if you were 65 or older on the date of the sale or exchange. This applies only to a sale or exchange before July 26, 1981). Form 2119 (Sale or Exchange of Principal Residence) is helpful in determining what gain, if any, may be excluded.

Additionally, payment of tax on the gain on the sale or exchange of your personal residence in excess of the excluded amount will be deferred if, within 18 months before or 18 months after the sale or exchange, you buy and occupy 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; (2) you were on active duty in the U.S. Armed Forces; or (3) your tax home was abroad. Publication 523 (Tax Information on Selling Your Home) may also be helpful.

Credit for the Elderly.—You may be able to claim this credit and reduce taxes by as much as $375 (if single), or $562.50 (if married filing jointly), if you are:

(1) Age 65 or older, or

(2) Under age 65 and retired under a public retirement system.

For more information, see instructions for Schedules R and RP.

Credit for Child and Dependent Care Expenses.—Certain payments made for child and dependent care may be claimed as a credit against tax.

If you maintained a household that included your dependent under age 15 or a dependent or spouse incapable of self-care, you may be allowed a 20% credit for employment related expenses. These expenses must have been paid during the taxable year in order to enable you to work either full or part time.

For detailed information, see the instructions in Form 2441.

Earned Income Credit.—If you have a dependent child who shares your principal place of abode in the United States, you may be entitled to a special payment or credit of up to $500. This is called the earned income credit. It may come as a refund check or be applied against any taxes owed. Generally, if you reported earned income and had adjusted gross income (line 31, Form 1040) of less than $10,000, you may be able to claim the credit.

Earned income means wages, salaries, tips, strike benefits, other employee compensation, disability pensions, and net earnings from self-employment (generally amount shown on Schedule SE (Form 1040) line 13). A married couple must file a joint return to be eligible for the credit. Certain married persons living apart with a dependent child may also be eligible to claim the credit.

For more information, see instructions for Form 1040 or 1040A.

RESIDENTIAL ENERGY CREDIT

The law provides certain tax incentives to encourage energy conservation and conversion to renewable energy sources.

A credit of up to $300 may be claimed for expenditures for energy conservation property installed in or on your principal residence, whether you own or rent it. The residence must have been substantially completed by April 20, 1977. Items eligible for the credit are limited to the following: insulation (fiberglass, cellulose, etc.) for ceilings, walls, floors, roofs, water heaters, etc.; exterior storm (or thermal) windows or doors; caulking or weatherstripping for exterior windows or doors; a furnace replacement burner which reduces the amount of fuel used; a device to make flue openings (for a heating system) more efficient; an electrical or mechanical furnace ignition system which replaces a gas pilot light; an automatic energy-saving setback thermostat; and a meter which displays the cost of energy usage.

For years beginning after 1979, the maximum credit for renewable energy source property is $4,000. Equipment used in the production or distribution of heat or electricity from solar, geothermal, or wind energy sources for residential heating, cooling, or other purposes may qualify for this credit.

Energy credits may be claimed by completing Form 5695 and attaching it to your Form 1040.

Examples of items which do not qualify for energy credit are the following: carpeting, drapes, awnings, shades, wood paneling, fire screens, new or replacement walls (except for insulation inside the walls), exterior siding, heat pump, wood- or peat-fueled burning stoves, fluorescent lights, hydrogen fueled residential equipment, equipment using wind energy for transportation, expenditures for a swimming pool used as an energy storage medium, and greenhouses.

For further information, consult the instructions for Form 5695 and IRS Publication 903, Energy Credits for Individuals.

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