

## **2022 TAX TRAINING DEDUCTIONS**

### **STANDARD DEDUCTION**

A deduction from AGI to get to taxable income (the amount of income subject to tax). Taxpayers can generally take the greater of the Standard Deduction or Itemized Deductions, but for VITA clients, virtually all take the Standard Deduction for both Federal and NC.

Who can't take the Standard Deduction?

- A taxpayer filing Married Filing Separately whose spouse itemizes. You must tell TaxSlayer that the spouse itemized or it will give the taxpayer the Standard Deduction.
- Nonresident aliens and dual-status aliens (both a resident and nonresident in the same tax year). Note that returns of dual-status aliens are out of scope.

### **STANDARD DEDUCTION – MOST TAXPAYERS**

<b>Filing Status</b>	<b>Federal</b>	<b>NC</b>
<b>Single/MFS</b>	<b>\$12,950</b>	<b>\$12,750</b>
<b>Head of Household</b>	<b>\$19,400</b>	<b>\$18,800</b>
<b>MFJ/QW</b>	<b>\$25,900</b>	<b>\$25,500</b>

These numbers are increased on the Federal return if the taxpayer or spouse was born before January 2, 1958 or is blind. There is a check box on the Intake Sheet for being legally blind. See the chart on F-2 of Pub. 4012 for the calculation of the standard deduction if the taxpayer is over 64 and/or blind. For the definition of blind, see Pub. 4012, p. R-1. The Federal numbers have a built-in inflation adjustment, but NC does not and thus, requires an act of the Legislature to change.

### **STANDARD DEDUCTION – DEPENDENTS**

If the taxpayer or spouse is eligible to be claimed as a dependent on another return, the standard deduction is reduced to the taxpayer's earned income plus \$400, with a \$1,150 minimum standard deduction. The maximum standard deduction for such taxpayers is the amount shown in the table above.

### **STANDARD DEDUCTION – TAXSLAYER**

Fortunately, TaxSlayer does all the Standard Deduction calculations for you, assuming you correctly identify the taxpayer's filing status and whether the taxpayer is eligible to be claimed as a dependent on someone else's return. Note the test is eligible to claim as a dependent, not did they actually claim – taxpayers don't get to choose!

### **MFS WHERE SPOUSE ITEMIZED**

If the taxpayer is filing MFS and knows that the spouse itemized, you must tell TaxSlayer not to give the taxpayer the Standard Deduction. This is done in the Itemized

Deduction section under “Use Standard or Itemized Deduction” and then selecting “Must itemize because spouse itemized”.

## **ITEMIZED DEDUCTIONS**

Very seldom claimed by VITA taxpayers with the current Standard Deduction amounts.  
5 Categories –

- Medical – Generally includes all health and dental medical expenses, including health, dental and long-term care insurance premiums. See the list on p. F-6 of Pub. 4012. However, the total is only an itemized deduction to the extent it exceeds 7.5% of the taxpayer’s AGI which means it generally takes substantial medical expenses to get any benefit.
- Taxes – State and local income, real estate, and personal property taxes. There is an alternative general sales tax calculation that applies if it is larger than the state income taxes paid. Limited to \$10,000.
- Interest – Generally applies to mortgage interest and points. Does not apply to credit card or other non-mortgage interest or to Private Mortgage Insurance.
- Charitable Contributions – Permits a deduction for contributions made to public charities. Does not include money given to individuals through mechanisms such as Go Fund Me. The special rules allowing non-itemizers to claim a charitable contribution of \$300/\$600 has expired and does not impact 2022 tax returns. Gifts of property other than money to charity are also deductible, but for VITA sites, the return is out-of-scope if the amount claimed is in excess of \$500.
- Miscellaneous – The only relevant item for VITA sites is gambling losses up to the amount of gambling winnings.

## **ITEMIZED DEDUCTIONS - TAXSLAYER**

Your first decision with itemized deductions is whether to bother with entering the amounts. You will need to do a quick review of what itemized deductions are available to see if you believe they are close to or larger than the Standard Deduction. In the vast majority of cases, it will not make sense to enter itemized deduction information. Obviously, if the taxpayer has significant medical expenses, charitable contributions, or mortgage interest, they will be more likely to itemize.

For NC, the Standard Deduction is smaller than the Federal (although only by \$200 to \$400 for 2022), so there could be cases where a taxpayer can itemize for NC but not for Federal. You must enter the itemized deduction in the Federal section of TaxSlayer for it to compute the NC itemized deduction.

Once you enter the itemized deduction information in TaxSlayer, it will do the following:

- Compute the total itemized deductions, applying the 7.5% of AGI limit on medical expenses and the \$10,000 limit on taxes.
- Compare the total itemized to the Standard Deduction and choose the greater of the two (unless the taxpayer must itemize).
- TaxSlayer will then do the same for NC, calculating the total itemized deductions for NC purposes (which is computed differently than the Federal calculation) and comparing this to the NC Standard Deduction.

For more detail on Standard and Itemized Deductions, see Pub. 4012, pp. F-1 through F-11.

### **COMPARE DEDUCTIONS**

This is a tool located on the Deductions menu that will show, after entering the itemized deduction information into TaxSlayer, the standard deduction amount for the taxpayer versus the total itemized deductions. This can be useful in explaining to a taxpayer why they can or cannot itemize.

### **QUALIFIED BUSINESS INCOME DEDUCTION**

This is a deduction that reduces the taxable income from most self-employment income and dividends from certain investments, such as Real Estate Investment Trusts (identified in Box 5 of Form 1099-DIV). This is all computed automatically by TaxSlayer. For more detail, see Pub. 4012, p. F-13.