

Income Tax Primer - 6

Compare Itemized, Standard Deductions

This is the sixth of eight articles in the Newspaper Enterprise Assn. Income Tax Primer, for readers who want more information than is supplied in the official instructions.

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Written for NEA Service

Every taxpayer has a choice of subtracting from his income either:

1. His deductible items such as charitable contributions, state and local property, income, and sales taxes, interest paid on indebtedness, medical expenses over a certain minimum, and casualty losses and thefts.

OR
2. The so-called standard deduction, 10 per cent of income under \$10,000.

Qs & As

Q—I am required to entertain customers of my employer as a part of my official duties, but no reimbursement is made for such entertainment expenses incurred at the home city of the company. My supervisor says the entertainment is required but recognition for the expenditures is taken into account in fixing my salary. Are these expenses out of my own pocket deductible?

A—Yes. Expenses required to be incurred by an employee in the performance of his official duties are deductible by him.

Q—As sales manager, I often entertain and present small gifts to sales employees under my supervision. May I deduct them even though the company does not require that I make these expenditures? My job and my commissions and bonuses depend on the employees doing a good selling job.

A—Yes. If there is a direct relationship between the employees' efficiency and efforts and your job and particularly your earnings, courts have permitted such deductions, even though the expenses were not required by the employer.

Q—I am a traveling salesman, on commission, and although I try to keep all stubs, canceled checks, credit card vouchers, and receipts, I make cash payments on trips for things like tolls, independent motels and restaurants and tips which I cannot substantiate. Do I lose the deduction for the lack of these records?

A—No. Substantiation should be kept where possible, but a daily diary or trip book of expenses has been accepted as sufficient records as long as entries were made about at the time the business expenses were paid.

The smart taxpayer always compares the total of his itemized deductions with the standard deduction and uses whichever is the larger amount.

This and the next two articles of the primer will help you make the right choice.

Contributions to recognized charities, churches, schools, and hospitals are deductible if you itemize deductions. A pledge in 1961 to make a contribution in 1962 is not deductible in 1961. Only the amount actually paid during the year is counted.

A contribution may be in money or property but not in the form of services. A blood donation is not deductible because it is considered a service.

Most taxes except federal income and excise taxes are de-

ductible. Do not overlook state and local sales taxes and gasoline taxes.

Since it is almost impossible to keep a record of your purchases subject to sales or gasoline taxes, the Internal Revenue Service will not question a reasonable estimate of such taxes. In fact, it has issued tables showing reasonable deductions for sales taxes. Ask your IRS office for the table for your state.

Property taxes are also deductible. For many homeowners, the property taxes and interest on the mortgage will exceed the standard deduction.

Most interest you pay on your indebtedness is deductible. (If you borrow money to buy tax-

exempt securities or a single premium life insurance policy, interest on that indebtedness is not deductible.) If you have not kept a record of the interest on your home mortgage, ask the bank or wherever you pay the loan to give you the total interest paid in 1961.

One disadvantage of itemizing deductions should be kept in mind. The Internal Revenue Service has the right to ask you to prove any deductions you claim. Canceled checks or re-

ceipts for large items should be retained for at least 3 years to show if requested.

Q—I pay the mortgage and taxes on a house owned by my mother. May I deduct the interest and taxes?

A—No. Such payments are on another person's property and are not deductible by you.

Q—I paid \$100 in 1961 as local assessment by the city for sidewalks in front of my house. Is that deductible as taxes?

A—No. Such payments are not considered taxes. They are an improvement to your property which should increase its value.

Q—May I estimate the state gasoline tax by starting with the total mileage driven in 1961 divided by the number of miles per gallon my car gets and multiplying the result by the state tax per gallon?

A—Yes. Remember NOT to include the federal tax on gasoline, however.

IF YOU ITEMIZE DEDUCTIONS, YOU CAN TAKE:

Contributions to recognized charities.



State and local gasoline taxes.



Interest on your mortgage.



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