Income Tax Expert Lists Differences Between Standard, Itemized Deductions

Editor's Note: This is the fourth of five dispatches by Internal Revenue Commissioner Russell C. Harrington giving helpful advice on preparing income tax returns. This dispatch answers questions about deductions.

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Washington — (U.P.) — What is the difference between the standard deduction and itemized deductions?

May I take a deduction for payments to the nursery school my child attends?

How do I claim my medical expenses?

How do I compute the loss on my property which was damaged by a hurricane?

How much can I deduct for interest on the automobile I am buying on installments?

These and others are questions taxpayers have been asking at Internal Revenue Service offices this year. Some of the rules covering deductions were changed in the 1954 ovehaul of the federal tax code, so you will be wise to give attention to the allowances which are available to you.

The standard deduction allows you approximately 10 per cent of your income of such things as charitable contributions, medical expenses, interest, state and city taxes, etc.—even if you did not spend that much of your income for those purposes.

The standard deduction in no case permits you to deduct more than $1000 for these items. In some cases it's less. Anyone may take it, but taxpayers who file a return on the card form 1040A or take their tax from the tax table, automatically take it.

List All Contributions

If your contributions and other deductible expenses come to more than the standard deduction allows, your best bet may be to list them all, in the spaces provided on page 2 of the form 1040. Listing your deductions item by item removes you from the percentage and dollar limitations of the standard deduction.

One deductible item which has aroused much attention in the new tax law is expenses for the care of children and disabled dependents. Contrary to the view of some people, you are not permitted to deduct for baby sitter fees when you go out to the movies. It applies primarily to women who are working or actively looking for work. It also applies to a man whose wife has died, a man who is divorced and has not remarried, and a man who is legally separated from his wife under a decree of separate maintenance.

Women and these eligible men may deduct up to $600 a year, if it costs that much to have someone look after the dependent or dependents while the taxpayer is working or looking for work. The dependent being taken care of must be the taxpayer's child, stepchild, or legally adopted child under 12 years of age, or must be some other dependent who is physically or mentally incapable of caring for himself.

Regardless of the number of children or disabled dependents being cared for, the taxpayer may not deduct more than $600, and may not deduct that much if the care expenses actually come to less.

A working wife may claim the deduction only if she files a joint return with her husband. If their combined income runs over $4,500 the amount they may deduct is reduced. For example, if they spent $400 for child care, and their income was $4,600, they could deduct only $300.

Nursery School Deduction

The answer to the question about deducting the cost of nursery school for your child is: Yes, but only the cost incurred during periods you are working.

You may not deduct amounts paid to one of your children to take care of another, or amounts paid to some other dependent of yours to take care of the child. And if you have a maid or housekeeper who cares for the child in addition to other duties such as cooking, cleaning, laundering, you may deduct only that part of her pay which represents the time she spends caring for the child.

Medical expense deductions top the list of questions which taxpayers ask year after year.

Basically, you are allowed to deduct medical and dental expenses if they run higher than 3 per cent of your income. You do not deduct that first 3 per cent portion, but you do deduct the amount above that. There's an important exception to this: If you are 65 or older, you may deduct all your medical expenses up to certain maximum amounts.

These are the limits: A single persons claiming only the one exemption for himself is limited to medical and dental deductions of not more than $2,500 per year. Married couples filing a joint return may not deduct more than $5,000 in one year, not more than $7,500 if they have one dependent; and not more than $10,000 if they have two or more dependents.

Medical and Dental

Deductible medical and dental expenses include such things as:

Payments to physicians, surgeons, dentists, optometrists, qualified psychologists and Christian Science practitioners. Also diagnosis, treatment, prevention of a disease; hospital expenses, nursing, laboratory services; eyeglasses, hearing aids, drugs (to the extent you pay out more than one per cent of your income for your total drug purchases), medical and dental supplies (including artificial teeth and limbs), ambulance hire and health insurance plans which cover the cost of medical care.

Note: If you receive payments from a health insurance plan, or are otherwise repaid for your medical and dental expenses, your deduction for these expenses is reduced accordingly.

I talked about storm and other casualty losses in an earlier article. These points are worth repeating:

Generally, the deduction you claim for storm, flood, or other casualty damage to your property is the difference between the value of your whole property immediately before the storm and its value immediately after the storm (before you clean it up).

This is the general rule whether you lose one bush or a whole house.

The cost of repair or replacement is not a factor. Nor is sentimental value. And the loss to be claimed may not exceed the cost of the property.

Deductions for Interest

The final deductible item I shall deal with is interest—the interest you pay on mortgage, on an installment plan purchase, on a personal loan, or on back taxes.

In most of these cases, the interest is clearly designated and easily reported.

In the case of many purchases on the installment plan, however, there may be no intrest fee as such, but it might be included as a part of the so-called carrying charge.

The law tells you how to figure interest in such a situation: Calculate how much you owed on your purchase at the beginning of each month; add these amounts; divide by 12; take 6 per cent of the answer and report it as interest. But the deduction, thus calculated, may not exceed the total carrying charge for the whole year.

To repeat, please keep these points in mind on all these deductible items; you may not claim them unless you list all your deductions, one-by-one; and you may not claim them if you take the standard deduction or if you file your return on form 1040A or take your tax from the tax table when filing form 1040.

Your instruction booklet has a list of typical deductible items.

Friday: How to report income from dividends or income received when sick or retired.

Rehabilitation Aid Totals $74,000 in RC Disaster Work

A total of 105 families and small businesses in Jackson and Josephine counties have received $74,000 flood rehabilitation aid from the American Red Cross since the December disaster, according to Miss Josephine McNamara, Red Cross disaster worker in charge. The remaining thirty applications to be considered should be completed this week.

Miss McNamara told the Jackson county chamber of commerce roundtable Monday that families here who received Red Cross aid "have been the most wonderful people I ever met."

She explained procedures used by Red Cross for quick and successful rehabilitation, and said the organization has a legal obligation, as "we are chartered by the federal government as the official disaster agency."

Dispersing Orders

None of the local help was in the form of cash, she said, but was distributed in dispursing orders directly to the stores and other businesses providing the clothing, furniture, and materials necessary for rehabilitation.

Speaking of the coming county-wide Red Cross drive in March, Miss McNamara told the group that Red Cross has experienced its most expensive year in disaster history. The northeastern floods cost the organization $18,000,000 and the California floods over $8,000,000.

Jackson county's goal of $9,000 for the March campaign is to be raised in the area outside that covered by the United Crusade.

Suncrest Road Bridge Started By County

Work on a 200-foot timbered bridge across Bear creek at Suncrest rd. near Talent has been started by county road crews. Part of the bridge was washed out by the December flood.

County Engineer Paul Rynning said only temporary repairs are being made on the bridge, awaiting outcome of the proposed freeway through Talent.

Crews also are working on the road between Tolo and Gold Ray dam which was badly damaged in December. It is expected to be passable within a few days. Heavy rock work necessary on about 700 feet of the road has delayed the repairs, Rynning said.

About two-thirds of the coal produced in the United States comes from the Appalachian bituminous region.

Dead line Sunday Classified is at noon Saturday; 10 a.m Monday for The Community's Biggest Marketplace