

Itemized Deductions

When calculating your taxable income, you have a choice of taking the “standard deduction” or itemizing your deductions. See the table below for the standard deduction for 2021 for your filing status to be used on both Federal and MN income tax returns.

| Filing Status | Standard Deduction |
|---------------------------|--------------------|
| Single | \$12,550 |
| Head of Household | \$18,880 |
| Married Filing Separately | \$12,550 |
| Married Filing Jointly | \$25,100 |
| Qualifying Widow(er) | \$25,100 |

Additional Standard Deduction Amounts for Over 65 and/or Blind

- Age: If you are age 65 or older, you may increase your standard deduction by \$1,700 if you file Single or Head of Household. If you are Married, Filing Jointly and you OR your spouse is 65 or older, you may increase your standard deduction by \$1,350. If BOTH you and your spouse are 65 or older, you may increase your standard deduction by \$2,700.
- Blindness: If you are legally blind, you may increase your standard deduction by \$1,700 if filing Single or Head-of-Household. If you are Married Filing Jointly and you OR your spouse is blind, you may increase your standard deduction by \$1,350. You may increase your standard deduction by \$2,700 if BOTH you and your spouse are blind.

Should I Itemize?

You would itemize your deductions if the total of your allowed deductions exceeds the standard deduction you are allowed. The following items can be used in calculating your itemized deductions:

Medical Expenses

You may be able to deduct expenses you paid in 2021 for medical and dental care for yourself, your spouse, and your dependents. You may deduct only the amount of your total medical

expenses that exceed 7.5% of your adjusted gross income. Medical care expenses include payments for the diagnosis, cure, mitigation, treatment, or prevention of disease, or payments for treatments affecting any structure or function of the body. You may not deduct funeral or burial expenses, nonprescription medicines, toothpaste, toiletries, cosmetics, a trip or program for the general improvement of your health, or most cosmetic surgery. You may not deduct amounts paid for nicotine gum and nicotine patches that don't require a prescription. You may not deduct any expenses paid or reimbursed by insurance, a flexible spending account (FSA), a Health Savings Account (HSA) or a Health Care Reimbursement Account (HCRA).

You may also deduct payments for insurance premiums you paid for policies that cover medical care or for a qualified long-term care insurance policy covering qualified long-term care services. However, if you're an employee, don't include in medical expenses the portion of your premiums treated as paid by your employer or any premiums paid by you through pre-tax deductions from your pay.

In addition, payments for transportation primarily for and essential to medical care that qualify as medical expenses, such as payments of the actual fare for a taxi, bus, train, ambulance, or for transportation by personal car; the amount of your actual out-of-pocket expenses such as for gas and oil; or the amount of the standard mileage rate for medical expenses, plus the cost of tolls and parking. The current standard mileage rate for medical mileage is \$.16 per mile in 2021.

State and Local Taxes (SALT)

You are allowed to deduct any state income taxes, property taxes and deductible personal property taxes you were liable for and paid during the calendar year. In MN, the only personal property taxes we pay are "car tabs". Deductible car tabs consist of the base registration fee paid to get our vehicles licensed minus \$35 per vehicle. No other fees or licenses are deductible.

The overall limitation in this category is \$10,000 – in other words, you can deduct the total paid to a maximum of \$10,000.

Interest – Mortgage

The rules regarding deductibility of mortgage interest changed dramatically with the Tax Cuts and Jobs Act (TCJA). We need much more information to determine whether or not your mortgage interest is deductible. We will analyze the information you give us and determine what portion (if any) of your interest is deductible. Here are some general guidelines:

You may deduct "qualified mortgage interest" on your principal residence and one second home. The interest must be paid on a loan secured by the home it was used to purchase, build or substantially improve (acquisition indebtedness). The loan may be a mortgage used to originally buy your home, a second mortgage or a refinanced first mortgage. Only interest on the portion of the debt that represents amounts used to buy, build or substantially improve the home is deductible.

Home equity loan (HELOC) interest. No matter when the indebtedness was incurred, you can no longer deduct the interest from a loan secured by your home to the extent the loan proceeds weren't used to buy, build, or substantially improve your home.

Home mortgage interest debt limit. You can deduct home mortgage interest on the first \$750,000 (\$375,000 if married filing separately) of indebtedness. However, higher limitations (\$1 million (\$500,000 if married filing separately)) apply if you are deducting mortgage interest from indebtedness incurred before December 16, 2017.

Mortgage Insurance Premiums. Any mortgage insurance premiums paid in connection with qualified acquisition indebtedness are treated as deductible qualified residence interest, subject to a phase-out based on your adjusted gross income. For all filing statuses except married filing separately, the phase-out begins at \$100,000 and ends at \$110,000 of AGI. Married filing separate taxpayers have a phase out from \$50,000 to \$55,000 of AGI.

Interest – Investment

Investment interest is also deductible. It is generally limited by the amount of your investment income. Some types of investment interest are margin interest paid on your brokerage account, interest paid on loans used to acquire investment property and interest allocated to you on a Schedule K-1 from a partnership or S-Corporation.

Charitable Contributions

In general, you can deduct your charitable contributions made in 2021 of money or property to a qualified charity. You can also deduct \$.14 per mile for the miles you drove on behalf of a qualified charity in 2021. Please see our Fact Sheet on Charitable Contributions for more detailed information.

It is important to note that even if you do not itemize your deductions, you may still deduct up to \$300 (\$600 married filing jointly) of charitable contributions on your federal return. You are also allowed to deduct 50% of your qualified charitable contributions in excess of \$500 on your Minnesota tax return. Example:

Your qualified charitable contributions total \$6,500. You are not able to itemize your deductions on either your federal or your MN returns. You may take a subtraction on your MN return for \$3,000 for your charitable contributions ($\$6,500 - \$500 = \$6,000 \times 50\% = \$3,000$ subtraction) in addition to subtracting your standard deduction.

Other Deductions

Many items that could be deducted in the past are no longer deductible. Examples include tax preparation fees, safe deposit box, investment expenses, etc.

Unreimbursed employee business expenses are not deductible on your federal return but may be deductible on your MN return. They must exceed 2% of your adjusted gross income and you must otherwise itemize deductions on your MN return in order to take advantage of this deduction.

Gambling losses (to the extent of taxable winnings) are still deductible.

Summary

Since the implementation of the TCJA, many taxpayers that used to itemize no longer benefit from itemizing their deductions. Our recommendation is to keep substantiation of your possible deductions throughout the year. Once you begin preparing your information for us, if it is clear that you won't exceed the standard deduction, do not waste your time recording the information in our organizer. If you want us to do the analysis, be sure to include all possible deductions.

As stated above, for 2021 you should keep record of your charitable contributions whether or not you are itemizing, as these are deductible up to \$300 (\$600 MFJ) for non-itemizers on the federal return. If you are filing a MN return, you should compile your charitable contributions if they exceed \$500 regardless of whether or not you will be itemizing. We also want you to answer the "long term care" question on the organizer if you are filing a MN return as there is a potential credit for long term care insurance.