Are Charitable Deductions Dead?

According to the Huffington Post, former White House press secretary Ari Fleischer said he would likely give less to charity in 2013 because of new limits on Schedule A itemized deductions.

In talking with a number of tax professionals, there seems to be a lack of consensus about how much the new law will actually reduce charitable deductions and other itemized deductions like those for state income tax, real estate tax and mortgage interest.

This article outlines what the new law really means in this area.

If you only want to see how the new law affects you or your clients, click here to use an interactive calculator. http://ow.ly/inZ05

What does the new law do?

The new law brings back the Pease Amendment which was canceled during the Bush Tax Cuts. The Pease Amendment reduced itemized deductions for high income earning taxpayers. The effect was to make tax rates higher for those taxpayers without actually changing or increasing the rates.

What itemized deductions are subject to being reduced?

Deductions for mortgage interest, state income tax, real estate tax, sales tax, personal property tax, points paid for a loan, mortgage insurance premiums, charitable gifts, job expenses, and tax preparation fees.

What deductions are not subject to being reduced?

The reduction does not apply to deductions for medical expenses, investment interest, casualty and theft losses, and gambling losses (which can only offset gambling winnings included in income).

Who does it affect?

Married taxpayers filing jointly earning over $300,000 per year

Married taxpayers filing separately earning over $150,000 per year

Single taxpayers earning over $250,000 per year

Single head of household taxpayers earning over $275,000 per year

These earning amounts are known as thresholds.

How much is the reduction?

The reduction is equal to 3% of the amount over the threshold.

Can You Provide an Example?

Let's say you are a married filing jointly taxpayer earning combined adjusted gross income of $500,000.

In addition, you have mortgage interest, charitable deductions and state income tax totaling $80,000.

You would lose $6,000 of your itemized deductions and you would be able to deduct $74,000.