

Income Insights is a series designed to quickly describe important income tax concepts for advisors and their clients.

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Tax Management

Deductions are expenses that taxpayers can claim on their personal income tax returns to reduce their taxable income. Instead of taking the standard deduction, which is a fixed dollar amount, taxpayers can choose to itemize deductions on IRS Form 1040 Schedule A.

The Tax Cuts and Jobs Act (TCJA) dramatically increased the standard deduction, resulting in many filers no longer itemizing their deductions. For 2025, the standard deduction was further increased by the One Big Beautiful Bill Act (O3B) and is now \$15,750 for filers who are single or married filing separately, \$31,500 for married filing jointly, and \$23,650 for heads of household.

To help minimize taxable income, it's important to understand the types of expenses that qualify as itemized deductions:

### **Medical and dental expenses**

Most medical and dental expenses that exceed 7.5% of adjusted gross income (AGI) can be deducted. This provision was not altered by the TCJA.

### **State and local taxes (SALT)**

State and local taxes, including sales tax, property tax, and personal property tax, can be deducted subject to certain limits. For tax year 2025, the maximum of SALT that can be deducted is \$40,000 (this amount will rise 1% annually through 2029) and is subject to income limitations. The \$40,000 maximum deduction amount begins to phase down to \$10,000 for taxpayers with incomes above \$500,000. The \$500,000 phaseout threshold will also rise 1% annually through 2029.

In 2030, the maximum amount of SALT that can be deducted will revert to the \$10,000 cap. (For more on SALT, read "[Income Insights: Understanding the SALT Deduction](#).")

### **Home mortgage interest**

Interest paid on the first \$750,000 of a mortgage can be deducted. This limit applies to all filing statuses and was put in place by the TCJA. The exception is for mortgages in place prior to December 16, 2017. Taxpayers with those preexisting mortgages may deduct interest on the first \$1 million of mortgage debt. Should the TCJA expire, the \$1 million limitation would apply to all taxpayers.

### **Investment interest expense**

Interest paid on funds borrowed to purchase taxable investments is deductible up to the amount of the net investment income.

## Charitable donations

Amounts given to charity can be deducted subject to certain limits. Most charitable contributions of cash to public charities can be deducted up to 60% of AGI under the TCJA while other forms of charitable contributions are subject to stricter limitations. Beginning in 2026, pursuant to the O3B, if you claim an itemized deduction for a charitable contribution, you will be required to reduce your deduction by 0.5% of your "contribution base," which is generally your AGI.

## Additional expenses

Expenses such as casualty and theft losses (subject to certain limits), gambling losses, and federal tax paid on income in respect to decedent and several other categories may also be deducted.

Taxpayers should closely track all deductible expenses and understand how they compare with the standard deduction. Taxpayers on the cusp of itemizing may benefit from bunching deductible expenses together in order to maximize their tax benefit. Note that beginning in tax year 2026, O3B will limit the tax benefit of itemized deductions to 35 cents for every \$1 deducted, which means that taxpayers in the 37% tax bracket won't get the full benefit of their itemized deductions.

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