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We provide a prompt, professional, personal one-on-one tax preparation service from the comfort of your home or office. We are competitively priced; in addition we offer a number of additional services as well as comprehensive information from our web site – <http://www.taxlogic.com>. If you're ready to file your return, returning users just sign-on and last years information will be carried over. New Users, registration only takes a few minutes!

Use Schedule A (Form 1040) to figure your itemized deductions. In most cases, your Federal income tax will be less if you take the larger of your itemized deductions or your standard deduction. Higher income taxpayers, who itemize deductions on their federal tax returns, must reduce their deductions, if their adjusted gross income exceeds a certain inflation-adjusted threshold (\$132,940 in 2001; \$66,475 for married filing separately). The new law gradually repeals the itemized deduction reduction, and beginning after 2009, the itemized deduction reduction will be repealed.

Medical Deductions and Other Schedule A deductions

You may deduct only the part of your medical and dental expenses that exceeds 7.5% of the amount of Form 1040, line. 34. Publication 502 discusses the types of expenses that may and may not be deducted. It also explains when you may deduct capital expenses and special care expenses for disabled persons.

To the extent you were not reimbursed you may deduct what you paid for:

- Prescription medicines or insulin.
- Acupuncturists, chiropractors, dentists, eye doctors, medical doctors, occupational therapists, osteopathic doctors, physical therapists, podiatrists, psychiatrists, psychoanalysts and psychologists.
- Medical examinations, X-ray and laboratory services, insulin treatment, and whirlpool baths your doctor ordered.
- Nursing help.
- Hospital care.
- Qualified long-term care services.
- The supplemental part of Medicare insurance (Medicare B).
- A program to stop smoking prescription medicines to alleviate nicotine withdrawal.
- Medical treatment at a center for drug or alcohol addiction.
- Medical aids such as eyeglasses, contact lenses, hearing aids, braces, crutches, wheelchairs, and guide dogs, including the cost of maintaining them.
- Surgery to improve vision.
- Lodging expenses while away from home to receive medical care.
- Ambulance service and other travel costs to get medical care. If you used your own car, you may claim 12 cents a mile. Add parking and tolls to the amount.

Examples of medical and dental payments you may not deduct:

- Cosmetic surgery unless it was necessary to improve a deformity related to a congenital abnormality, an injury from an accident, or a disfiguring disease.
- Life insurance or income or income protection policies.

- The Medicare tax on your wages.
- Nursing care for a healthy baby.
- Illegal operations or drugs.
- Nonprescription medicines.

Enter the total of your medical and dental expenses, after you reduce these expenses by any payments received from insurance. Do not forget to include insurance premiums you paid for medical and dental care. But if you claimed the self-employed health insurance deduction on Form 1040, line 28, reduce the premiums by the amount on Line 28.

You may include medical and dental bills you paid for:

- Yourself and your spouse.
- All dependents you claim on your return.
- Your child whom you do not claim as a dependent because of the rules for children of divorced or separated parents.
- Any person you could have claimed as a dependent on your return if that person had not received \$2,900 or more of gross income or had not filed a joint return.

Taxes you Paid

Taxes that you may deduct on your Schedule A include State and local income taxes paid in 2001, State and local estimate tax payments, mandatory contributions you made to the California, New Jersey, or New York Non-Occupational Disability Benefit Fund.

Include taxes (state, local or foreign) you paid on real estate you own that was not used for business, but only if the taxes are based on the assessed value of the property. Also, the assessment must be made uniformly on property throughout the community and the proceeds must be used for general community or governmental purposes. Enter personal property tax you paid, but only if it is based on value alone and it is charged on a yearly basis.

Example. You paid a yearly fee for the registration of your car. Part of the fee was based on the car's value and part was based on its weight. You may deduct only the part of the fee that was based on the car's value (basically excise taxes are deductible).

Home Mortgage Interest

Whether your interest expense is treated as investment expense, personal interest, or business interest depends on how and when you used the loan proceeds.

A home may be a house, condominium, cooperative, mobile home, boat, or similar property. It must provide basic living accommodations, including, sleeping space, toilet, and cooking facilities.

If you took out any mortgage after October 13, 1987, your deduction may be limited. See Pub. 936 to figure your deduction if either 1 or 2 next applies. If you had more than one home at the same time, the dollar amounts in 1 and 2 apply to the total mortgages on both homes.

1. You took out any mortgages after October 13, 1987 and used the proceeds for purposes other than to buy, build, or improve your home, and all of these mortgages totaled over \$100,000 at any time during 2001. An example of this type of mortgage is a home equity loan used to pay off credit card bills, buy a car, or pay tuition.
2. You took out any mortgages after October 13, 1987, and used the proceeds to buy build, or improve your home, and these mortgages plus any mortgages you took out on or October 13, 1987 totaled over \$1 million at any time during 2001.

If the total amount of all mortgages is more than the fair market value of the home, additional limits apply.

Points are shown on your settlement statement. Points you paid only to borrow money are generally deductible over the life of the loan. Points paid for other purposes, such as for a lender's services, are not deductible. Generally, you must deduct points you paid to refinance a mortgage over the life of the loan. If you used part of the proceeds to improve your main home, you may be able to deduct the part of the points related to the improvements in the year paid.

Investment Interest

Investment interest is interest paid on money you borrowed that is allocable to property held for investment. It does not include any interest allocable to passive activities or to securities that generate tax-exempt income. Complete and attach Form 4952 to figure your deduction. You do not have to file Form 4952 if all three of the following apply.

1. Your investment interest expense is not more than your investment income from interest and ordinary dividends.
2. You have no other deductible investment expenses.
3. You have no disallowed investment interest expense from 2000.

Next week, we will be discussing the other items on a Schedule A. To get more information on the issues we have discussed, please visit our site at <http://www.taxlogic.com>.