

Deductions

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According to IRS Press, (2006) there happen to be the tax formulae, which divides personal deductions and all allowable business into two major categories. These are the for AGI deductions and the from AGI deductions. The major difference therefore lies in the way these two types of deductions are treated. Looking at for AGI deductions, all the gross income is first subjected to taxation and it is after this that the adjusted gross income is calculated. A clear identification of deductions in this category is in section 62 of IRC.

Some of the common deductions under this category are all allowable expenses, losses from sale or trade exchange, employee business expenses and the moving expenses. On the other hand is the from AGI deductions in which case the deductions are applied or rather subtracted from AGI. It is after this that a business entrepreneur arrives to the amount of taxable income. This category is mainly concerned with all the individual deductions.

According to Jones, S. & Shelley, R., (2009), from AGI deduction, which is also, referred to as itemized deductions is known to take some directions. For instance, if the deductions under this category do not exceed the standard deductions, there are chances that no benefits will exist for these deductions. There are also some other situations where some of the itemized deductions will be lost or phased out especially for taxpayers who have adjusted gross income. In most cases, this will take place where the adjusted gross income does not reach certain expected levels.

This is not the case with the for AGI deductions because, reduced AGI will consequently mean that the deductions will also be low. It is therefore necessary to make proper classification of all the deductions. The reason is <https://assignbuster.com/deductions/>

that AGI acts as the benchmark for determining the limits on certain deductions. Good examples of such are the medical expenses, charitable contribution, casualty losses and some other miscellaneous itemized deductions. The amount of money deducted on these items will definitely depend on the way they are treated. (Salanie, 2003)