

Tax allowable deductions

[Finance](#)



Tax allowable deductions Individual tax return form 1040. 7. Wages, salaries, tips, etc. -IRS 12(2) -it s salaries and wages can be charged separately for spouses or combined. The relief thereof is referred to in the respective columns. Individuals above 65 years are liable upto a certain amount of income to be taxed.

8. Taxable interest IRS SECTION 163 26(1)(A) it explains that an interest earned from a body corporate is liable as income for tax purposes.

Tax-exempt interest - if tax has been withheld by the institution paying the interest, this interest is exempt for tax from the individual

9. Ordinary dividends IRS SECTION 163 1(h)(11) states that dividends received by individuals shall be liable as income for tax purposes. If tax is withheld by the company, this is deducted from the computation

Qualified dividends - IRS section (1)(h)(11) states that foreign companies paying dividends shall also be included as income for tax purposes. These qualify at lower rates than ordinary dividends. For the two categories, the rates of dividend are given according to tax brackets.

10. Taxable refunds, credits, or offsets of state and local income taxes IRS sec. 6050(e) it says any person who makes refunds of \$10 or more in the year on behalf of the state shall be liable to fill the form for refunds.

11. Alimony received IRS section 71(1)(a) - this amount received upon separation or divorce is taxable. Section 215 (1) states that the amount is not allowable for deductions

12. Business income or (loss) - IRS section 513(a) the income from the business is liable for taxes. Losses made are carried forward the following year. Types of businesses are outlined in (C).

13. Capital gain or (loss) -IRS Sec 1031(a) - capital gains are realized upon
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disposal of assets on a profit and this figure is liable for taxes. A loss on the other hand is a deductible expense.

14. Other gains or (losses) – IRS sec 1222(1) – this determines the short or long term gains relating to capital expenditures.

15. IRA distributions – IRS sec 72 (t)(2) an excess of 10% tax is liable for early distributions i. e. before he/she reaches 59 years.

16. Pensions and annuities IRS sec. 47 (b) – liable for income tax withholding of 10% of the pension annuity.

17. Rental real estate, royalties, partnerships, S corporations, trusts, etc. – sec 163(d) interest on debt on any investment is allowable for only the net investment amount.

18. Farm income or (loss) – Tres. Reg. 1. 469. 5t- sets out that the income from is recognized if the owner is active in it for more than 500 hours in the year and interest from the farm is more than 10%.

19. Unemployment compensation – IRS sec 85(1) insurance benefits or benefits from the state in excess of \$2400 are liable for tax.

20. Social security benefits – IRS sec 3304 (a)(16) requires all wages from agencies in the securities reported for tax purposes.

21. Other income – IRS Sec. 6050w(c)(2) any other income should be filled for tax purpose. Income from credit and debit cards should be included.

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12. Compensation of officers – Treasury Regulation section 53. 4958(1) allows an officer to receive compensation from charities for certain amount that are allowable for taxes.

13 Salaries and wages (less employment credit) – Treasury Regulation section 1. 47(1-4) – any wages and/ or salaries paid to any employee is

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allowable for tax purposes. The employment credit should be deducted therefrom.

14 Repairs and maintenance - Treasury Regulation section 1. 263(a)1 - amounts incurred for incidental repairs to property in adding its value are not allowable.

15 Bad debts - Treasury Regulation sections 1. 166(1) an allowance for bad debts or a reserve reasonably made is allowable for tax.

16 Rents- Treasury Regulation sections 1. 107(1) states rental value for ministers of gospel is tax allowable, 108 states any other rental incomes to a company are allowable expenses in a business.

17 Taxes and licenses- Treasury Regulation section 26(1) taxes from the corporate are paid to the treasury as well as any licenses. Very high amounts of taxes are remitted directly to the treasury officials

18 Interests - Treasury Regulation section 897(c) interest that is sourced in the USA should be withheld for tax purposes and such remitted to the treasury.

19 Charitable contributions - Treasury Regulation section 1. 170(A) 13 states that contribution to charity is an allowable deduction for tax purposes.

20 Depreciation from Form 4562 not claimed on Schedule A or elsewhere on return (attach Form 4562) - Treasury Regulation section 1. 167(a) and (b) states that there is no time that depreciation shall be charged above a figure so reasonable than its salvage value.

21 Depletion - Treasury Regulation section 1. 613(5) an expenses that lead to depletion is deductible for taxation.

22 Advertising - Treasury Regulation section 1. 183(2) that is solely related to the business is a deductible expense.

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23 Pension, profit-sharing, etc., plans - Treasury Regulation section 1. 401-1 states that these plans should withhold 10% of the contribution in early remittances and such contributions by employees are tax allowable.

24 Employee benefit programs- Treasury Regulation section 162 (2) any benefits qualifying for tax derived from the company by an employee e. g. fringe, should be deducted from his pay.

25 Domestic production activities deduction (attach Form 8903)- IRS section 199(c) a deduction is allowable as far as deemed appropriate towards the domestic activities.

26 Other deductions (attach schedule) - Treasury Regulation section 1. 183. 2 relates to deductions only relating directly to profit generation in a company.

27 Total deductions. Add lines 12 through 26 - Treasury Regulation section 1. 482. 9 gives the enclosure towards all deduction deemed appropriate and those not allowable.

28 Taxable incomes, before net operating loss deduction and special deductions. Subtract line 27 from line 11- Treasury Regulation section 1. 861. 8 says that the taxable income so determined is from operations in the United States.

29a Less: a Net operating loss deduction (see instructions) - Treasury Regulation section 1. 904. 3 losses are carried forward from previous years and profits are taxed with the existing rate. (James et al, 23)

Work cited

James Smith, William Raabe, David Maloney, Taxation 2011: Taxation of Business Entities. Cengage Learning, USA. 2010