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DEDUCTIONS FOR TAXES PAID

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Let's review a few rules on federal, state, and local taxes:

1. **California State Income Taxes** in box 24 of your W2 are deductible. So are quarterly estimates paid by self-employed and subcontractor taxpayers. TIP: Time the payment of your estimates in the year with the higher income and higher tax.
2. **Real Estate Taxes** on your house, land, or rental property are deductible in the year paid (usually April and December).

Delinquent real estate taxes paid by a seller are deductible while those paid by a buyer are not since they become part of the basis (cost) of the property.

If you do not own 100% of a property, deductibility depends on the type of ownership. A Joint Tenant who is forced to pay the other co-owner's share can deduct both payments. This is based on the principle that you pay to protect your interest. For example, your apartment would be lost if you did not pay all property taxes.

Tenants-In-Common, on the other hand, may be limited to the pro-rata share that they actually pay. For example A and B are 50-50 owners. A has no funds so B pays for the whole tax. A cannot deduct anything because he did not pay anything. B can only deduct 50% because she only owns 50%.

TIP: A could have borrowed from B and paid his 50% share so both could deduct all taxes paid.

3. The following taxes are **not deductible**:
 - A. Federal income tax
 - B. FICA (Social Security)
 - C. Penalties for late filing and late paying.
 - D. Government services (driver's license, sewer service, trash service)
 - E. Estate and inheritance taxes.
4. **Special assessments** for local benefits, such as street lighting, are capital expenditures and are not deductible. Such will reduce your profit when you sell the property.
5. The American Jobs Creation Act allowed you to **deduct sales tax** in lieu of state and local income taxes. This made sense because some states have no (or very low) state income tax. The deduction was good only for 2004 and 2005. It was set to expire but was **recently extended again**. You may continue to deduct actual sales tax paid or estimated sales tax from IRS tables plus actual amounts for purchases of automobiles, boats, and other big-ticket items.

Development: The new Tax Relief Act (Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010) extends the election to take an **itemized deduction for State and local general sales taxes** instead of the itemized deduction permitted for State and local income taxes through 2011.