



January 2014

**SALES TAX DEDUCTION CONTINUES!**

Dear Client,

Included in the "American Jobs Creation Act of 2004" tax legislation, passed into law late in that year was a provision that gives taxpayers the choice of deducting either state income tax or sales tax as an itemized deduction. This option has been extended through 2014.

**If you reside in a state with NO sales tax:** This is a bonus deduction since the state tax deduction does not have to be given up in order to claim the sales tax. Even though you have previously taken the standard deduction, this added deduction may be enough to allow you to itemize your deductions, especially if substantial purchases were made during the year or a motor vehicle or boat was purchased. See the instructions below for options in determining the amount of your sales tax deduction for the year.

**If you reside in a state that HAS a state income tax:** We will need to determine whether it is better for you to deduct state income tax or the sales tax. Making this decision is not as simple as it may seem. If state income tax is deducted on a return and a state tax refund is received, that refund becomes taxable income in the subsequent year. Therefore, even if the sales tax deduction is less than the state tax deduction, it may be more beneficial to deduct the sales tax and avoid paying taxes on the state tax refund in the subsequent year. This is a determination that will be made when we prepare your return.

**HERE IS WHAT YOU NEED TO DO TO BE PREPARED**

We will not have time at your appointment to add up your sales tax. You will need to do that before your appointment. If you have not kept your sales tax receipts through 2013, you probably you will be forced to use the IRS-table value for sales tax based on your income. We will provide the table amount for you. We are also allowed to add sales tax from motor vehicles and boats to the table amounts. Therefore, we ask that you provide us with the following information:

- 1. If you have records and receipts of sales tax paid during 2013 please enter that total here (do not include motor vehicles or boats)
- 2. If motor vehicles or boats were purchased during the year, please enter the sales tax paid on those purchases.....

**FINAL NOTE:**

Taxpayers who use the standard deduction OR are taxed by the Alternative Minimum Tax (AMT) receive no benefit from either the sales tax or state income tax deduction. Therefore, if you know for sure that you will use the standard deduction or will be taxed by the AMT, disregard these instructions.

