



Table 23-1. Which Taxes Can You Deduct?

Type of Tax	You Can Deduct	You Can't Deduct
Fees and Charges	Fees and charges that are expenses of your trade or business or of producing income.	Fees and charges that aren't expenses of your trade or business or of producing income, such as fees for driver's licenses, car inspections, parking, or charges for water bills (see Taxes and Fees You Can't Deduct). Fines and penalties.
Income Taxes	State and local income taxes. Foreign income taxes. Employee contributions to state funds listed under Contributions to state benefit funds .	Federal income taxes. Employee contributions to private or voluntary disability plans. State and local general sales taxes if you choose to deduct state and local income taxes.
General Sales Taxes	State and local general sales taxes, including compensating use taxes.	State and local income taxes if you choose to deduct state and local general sales taxes.
Other Taxes	Taxes that are expenses of your trade or business. Taxes on property producing rent or royalty income. One-half of self-employment tax paid.	Federal excise taxes, such as tax on gasoline, that aren't expenses of your trade or business or of producing income. Per capita taxes.
Personal Property Taxes	State and local personal property taxes.	Customs duties that aren't expenses of your trade or business or of producing income.
Real Estate Taxes	State and local real estate taxes. Tenant's share of real estate taxes paid by cooperative housing corporation.	Real estate taxes that are treated as imposed on someone else (see Division of real estate taxes between buyers and sellers). Foreign real estate taxes. Taxes for local benefits (with exceptions). See Real Estate-Related Items You Can't Deduct . Trash and garbage pickup fees (with exceptions). See Real Estate-Related Items You Can't Deduct . Rent increase due to higher real estate taxes. Homeowners' association charges.

 **Taxes for local benefits may be included in your real estate tax bill.** If your taxing authority (or mortgage lender) doesn't furnish you a copy of your real estate tax bill, ask for it. You should use the rules above to determine if the local benefit tax is deductible. Contact the taxing authority if you need additional information about a specific charge on your real estate tax bill.

Itemized charges for services. An itemized charge for services assessed against specific property or certain people isn't a tax, even if the charge is paid to the taxing authority. For example, you can't deduct the charge as a real estate tax if it is:

- A unit fee for the delivery of a service (such as a \$5 fee charged for every 1,000 gallons of water you use),
- A periodic charge for a residential service (such as a \$20 per month or \$240 annual fee charged to each homeowner for trash collection), or
- A flat fee charged for a single service provided by your government (such as a \$30 charge for mowing your lawn because it was allowed to grow higher than permitted under your local ordinance).

 **You must look at your real estate tax bill to determine if any nondeductible itemized charges, such as those listed above, are included in the bill.** If your taxing authority (or mortgage lender) doesn't furnish you a copy of your real estate tax bill, ask for it.

Exception. Service charges used to maintain or improve services (such as trash collection or police and fire protection) are deductible as real estate taxes if:

- The fees or charges are imposed at a like rate against all property in the taxing jurisdiction;
- The funds collected are not earmarked; instead, they are commingled with general revenue funds; and
- Funds used to maintain or improve services are not limited to or determined by the amount of these fees or charges collected.

Transfer taxes (or stamp taxes). Transfer taxes and similar taxes and charges on the sale of a personal home aren't deductible. If they are paid by the seller, they are expenses of the sale and reduce the amount realized on the sale. If paid by the buyer, they are included in the cost basis of the property.

Rent increase due to higher real estate taxes. If your landlord increases your rent in the form of a tax surcharge because of increased real estate taxes, you can't deduct the increase as taxes.

Homeowners' association charges. These charges aren't deductible because they are imposed by the homeowners' association, rather than the state or local government.

Personal Property Taxes

Personal property tax is deductible if it is a state or local tax that is:

- Charged on personal property;
- Based only on the value of the personal property; and
- Charged on a yearly basis, even if it is collected more or less than once a year.

A tax that meets the above requirements can be considered charged on personal property even if it is for the exercise of a privilege. For example, a yearly tax based on value qualifies as a personal property tax even if it is called