

Deduction for self-employed retirement.—Self-employed individuals are permitted a deduction from taxable income for funds they set aside currently in qualified retirement plans.

Exclusion of other employee benefits.—In addition to the benefits already enumerated, a number of other employee benefits (shown in Table 7), the cost of which is paid at least in part by the employer, are also excluded from income subject to tax. The cost to the employer is deductible, and the benefit to the employee not taxable, in all of these cases.

Exclusion of interest on life insurance savings.—Life insurance policies other than term policies, generally have a savings element in them. Savings in the form of policyholders' reserves are accumulated from the premium payment, and interest is earned on these policyholders' reserves. Such interest income is neither taxable as it accrues nor as an element of death benefits.

Deductibility of contributions for other than education.—Contributions to charitable, religious, or certain other nonprofit organizations are allowed as an itemized deduction for individuals generally up to 30 percent of adjusted gross income. Unlimited contributions, however, may be deducted by those taxpayers (a relatively small number) whose contributions plus income taxes equal 90 percent of taxable income in 8 out of the preceding 10 years.

Taxpayers whose contributions to charitable or educational organizations are in the form of capital assets, usually securities, which have appreciated in value above their cost, obtain a deduction for the contribution at the appreciated value of the asset without taxation on the appreciation in value.

Deductibility of medical expenses.—Medical expenses in excess of 3 percent of adjusted gross income and expenditures for prescribed drugs and medicines in excess of 1 percent of adjusted gross income may be deducted by individuals as itemized nonbusiness deductions. Individuals may also deduct half of the premiums paid for medical care insurance up to a maximum deduction of \$150 per year, without regard to the 3 percent limitation.

Deductibility of child and dependent care expenses.—Deductions for a limited amount of expenditures for the care of children under 13 or incapacitated dependents to enable the taxpayer to work are permitted under certain circumstances.

Deductibility of casualty losses.—Taxpayers may deduct as an itemized nonbusiness deduction the amount in excess of \$100 for each loss due to fire, theft, or other casualty to the extent not compensated by insurance.

Standard deduction.—Individuals may itemize deductions for certain personal nonbusiness expenditures, including charitable contributions, interest payments, and medical and drug expenses above a stated percent of income, and certain other items referred to earlier. The taxpayer is also given the option of deducting—instead of this itemization—standard deduction of 10 percent of adjusted gross income or \$1,000 (\$500 if married and filing separately), whichever is less.