

Instructions for Schedule A

Do not include on Schedule A items deducted elsewhere, such as on Schedule C, C-EZ, E, F or Kentucky Schedule M.

You may itemize your deductions for Kentucky even if you do not itemize for federal purposes. Generally, if your deductions exceed \$2,100, it will benefit you to itemize. If you do not itemize, a standard deduction of \$2,100 is allowed.

Special Rules for Married Couples—If one spouse itemizes deductions, the other must also itemize. Married couples filing a joint federal return and who wish to file separate returns or a combined return for Kentucky may: (a) file separate Schedules A showing the specific deductions claimed by each, or (b) file one Schedule A and divide the total deductions between them based on the percentage of each spouse's income to total income.

Limitations on Itemized Deductions for High-Income Taxpayers—If your adjusted gross income on Form 740, Line 9, exceeds \$159,950 (\$79,975 if married filing separately on a combined return or separate returns), your itemized deductions are limited. See the Itemized Deductions Limitation Schedule on page 2, Part II, Schedule A (Form 740).

Lines 1 through 3—Medical and Dental Expenses

You may deduct only your medical and dental expenses that exceed 7.5 percent of Line 9, Form 740. Include all amounts you paid during 2008 but **do not** include amounts which have been previously deducted; paid by hospital, health or accident insurance; or paid by your employer. Federal rules apply for reimbursement.

When you compute your deduction, you may include medical and dental bills you paid for:

- Yourself.
- All dependents you claim on your return.
- Your child whom you do not claim as a dependent because of the rules for Children of Divorced or Separated Parents.
- Any person that you could have claimed as a dependent on your return if that person had not received \$3,500 or more of gross income or had not filed a joint return.

Examples of Medical and Dental Payments You MAY Deduct

To the extent you were not reimbursed, you may deduct what you paid for:

- Medicines and drugs that required a prescription, or insulin.
- Medical doctors, dentists, eye doctors, chiropractors, osteopaths, podiatrists, psychiatrists, psychologists, physical therapists, acupuncturists and psychoanalysts (medical care only).
- Medical examinations, X-ray and laboratory services, insulin treatment and whirlpool baths your doctor ordered.

Nursing help. If you paid someone to do both nursing and housework, you may deduct only the cost of the nursing help.

Hospital care (including meals and lodging), clinic costs and lab fees.

Medical treatment at a center for drug or alcohol addiction.

Medical aids such as hearing aids (and batteries), false teeth, eyeglasses, contact lenses, braces, crutches, wheelchairs, guide dogs and the cost of maintaining them.

Lodging expenses (but not meals) paid while away from home to receive medical care in a hospital or a medical care facility that is related to a hospital. Do not include more than \$50 a night for each eligible person.

Ambulance service and other travel costs to get medical care. If you used your own car, you may claim what you spent for gas and oil to go to and from the place you received the care; or you may claim mileage. The mileage rate is 27 cents per mile. Add parking and tolls to the amount you claim under either method.

The supplemental part of Medicare insurance (Medicare B). To claim these expenses, see instructions for Schedule M, Line 13.

Surgery to improve vision including radial keratotomy or other laser eye surgery.

Examples of Medical and Dental Payments You MAY NOT Deduct

You may not deduct payments for the following:

- Elective cosmetic surgery.
- Hospital, medical and extra Medicare B insurance. To claim these expenses, see instructions for Schedule M, Line 13.
- The basic cost of Medicare insurance (Medicare A). (**Note:** If you are 65 or over and not entitled to Social Security benefits, you may deduct premiums you voluntarily paid for Medicare A coverage.)
- Life insurance or income protection policies.
- Long-term care insurance premiums. To claim, see instructions for Schedule M, Line 12.
- The hospital insurance benefits (Medicare) tax withheld from your pay as part of the Social Security tax or paid as part of Social Security self-employment tax.
- Nursing care for a healthy baby.
- Illegal operations or drugs.
- Medicines or drugs you bought without a prescription.
- Travel your doctor told you to take for rest or change.
- Funeral, burial or cremation costs.

See federal Publication 502 for more information on allowable medical and dental expenses including deductions for capital expenditures and special care for persons with disabilities.

Lines 4 through 8—Taxes

Taxes You MAY Deduct

Line 4, Local Income Taxes—Enter the total amount of local occupational (payroll) tax paid. **Do not include state or federal income taxes paid or withheld; they are not deductible.**

Line 5, Real Estate Taxes—Enter the amount of local and state property taxes you paid on real estate owned by you. Do not report real estate taxes here that were paid in connection with a business or profession and have been deducted on Schedule C, E or F.

Line 6, Personal Property Taxes—Enter property taxes paid on automobiles, intangible property (accounts receivable, bonds, etc.) or other personal property.

Line 7, Other Taxes—Enter other taxes that are deductible. Do not deduct on Schedule A taxes paid in connection with a business or profession which are deductible on Schedule C, E or F.

Taxes You MAY NOT Deduct

- Foreign income taxes paid.
- Sales and use taxes.
- Usage taxes on motor vehicles.
- State or federal income taxes.
- State or federal inheritance or estate taxes.
- State gasoline taxes.
- Federal excise taxes on your personal expenditures, such as taxes on theater admissions, furs, jewelry, cosmetics, tires, telephone service, airplane tickets, etc.
- Federal Social Security taxes.
- Hunting, fishing or dog licenses.
- Auto inspection fees.
- Auto license fees.
- Cigarette or liquor taxes.
- Taxes paid by you for another person.
- Motorboat registration fees.
- Drivers' license fees.
- Sewer assessments.
- School taxes based on electric, water, sewer, gas and telephone bills.
- Local or state insurance premiums taxes or surcharges.

Lines 9 through 14—Interest Expense

You may deduct interest that you have paid during the taxable year on a home mortgage. You may not deduct interest paid on credit or charge card accounts, a life insurance loan, an automobile or other consumer loan, delinquent taxes or on a personal note held by a bank or individual.

Interest paid on business debts should be deducted as a business expense on the appropriate business income schedule.

You may not deduct interest on an indebtedness of another person when you are not legally liable for payment of the interest. Nor may you deduct interest paid on a gambling debt or any other nonenforceable obligation. Interest paid on money borrowed to buy tax-exempt securities or single premium life insurance is not deductible.

Line 9—List the interest and points (including “seller-paid points”) paid on your home mortgage to financial institutions and reported to you on federal Form 1098.

Line 10—List other interest paid on your home mortgage and not reported to you on federal Form 1098. Show name and address of individual to whom interest was paid.

Line 11—List points (including “seller-paid points”) not reported to you on federal Form 1098. Points (including loan origination fees) charged only for the use of money and paid with funds other than those obtained from the lender are deductible over the life of the mortgage. However, points may be deducted in the year paid if all three of the following apply: (1) the loan was used to **buy, build or improve your main home**, and was secured by that home, (2) the points did not exceed the points usually charged in the area where the loan was made, and were figured as a percentage of the loan amount, and (3) if the loan was used to **buy or build** the home, you must have provided funds (see below) at least equal to the points charged. If the loan was used to **improve** the home, you must have paid the points with funds other than those obtained from the lender.

Funds provided by you include down payments, escrow deposits, earnest money applied at closing, and other amounts actually paid at closing. They do not include amounts you borrowed as part of the overall transaction.

Seller-Paid Points—If you are the buyer, you may be able to deduct points the seller paid in 2008. You can do this if the loan was used to buy your main home and the points meet item 2 above. You must reduce your basis in the home by those points, even if you do not deduct them.

If you are the seller, you **cannot** deduct the points as interest. Instead, include them as an expense of the sale.

This generally does not apply to points paid to refinance your mortgage. Federal rules apply. See federal Publication 936 for more information.

Line 12, Qualified Mortgage Insurance Premiums—Premiums that you pay or accrue for “qualified mortgage insurance” during 2008 in connection with home acquisition debt on your qualified home are deductible as home mortgage insurance premiums. Qualified mortgage insurance is mortgage insurance provided by the Veterans Administration, the Federal Housing Administration, or the Rural Housing Administration, and private mortgage insurance. Mortgage insurance premiums you paid or accrued on any mortgage insurance contract issued before

January 1, 2007, are not deductible.

Limit on amount you can deduct. You cannot deduct your mortgage insurance premiums if the amount on Form 740, line 9, is more than \$109,000 (\$54,500 if married filing separately on a combined return or separate returns). If the amount on Form 740, line 9, is more than \$100,000 (\$50,000 if married filing separately on a combined return or separate returns), your deduction is limited and you must use the worksheet below to figure your deduction.

Qualified Mortgage Insurance Premiums Deduction Worksheet

See the instructions for Line 12 above to see if you must use this worksheet to figure your deduction.

	A. Spouse	B. Yourself (or Joint)
1. Enter the total premiums you paid in 2008 for qualified mortgage insurance for a contract entered into on or after January 1, 2007.....	1. _____	1. _____
2. Enter the amount from Form 740, Line 9	2. _____	2. _____
3. Enter \$100,000 (\$50,000 if married filing separately on a combined return or separate returns).....	3. _____	3. _____
4. Is the amount on Line 2 more than the amount on Line 3? <input type="checkbox"/> No. Your deduction is not limited. Enter the amount from Line 1 above on Schedule A, Line 12. <input type="checkbox"/> Yes. Subtract Line 3 from Line 2. If the result is not a multiple of \$1,000 (\$500 if married filing separately on a combined return or separate returns), increase it to the next multiple of \$1,000 (\$500 if married filing separately on a combined return or separate returns). For example, increase \$425 to \$1,000, increase \$2,025 to \$3,000; or if married filing separately on a combined return or separate returns, increase \$425 to \$500, increase \$2,025 to \$2,500, etc.....	4. _____	4. _____
5. Divide Line 4 by \$10,000 (\$5,000 if married filing separately on a combined return or separate returns). Enter the result as a decimal. If the result is 1.0 or more, enter 1.0	5. _____	5. _____
6. Multiply Line 1 by Line 5	6. _____	6. _____
7. Qualified mortgage insurance premiums deduction. Subtract Line 6 from Line 1.....	7. _____	7. _____
8. Add Line 7, Columns A and B. Enter here and on Schedule A, Line 12	8. _____	8. _____

Line 13, Interest on Investment Property—Investment interest is interest paid on money you borrowed that is allocable to property held for investment. It does not include any interest allocable to a passive activity or to securities that generate tax-exempt income.

(c) you have no disallowed investment interest expense from 2007.

Complete and attach federal Form 4952, Investment Interest Expense Deduction, to figure your deduction.

For more details, see federal Publication 550, Investment Income and Expenses.

Exception. You do not have to file federal Form 4952 if all three of the following apply:

Lines 15 through 19—Contributions

- (a) your investment interest is not more than your investment income from interest and ordinary dividends,
- (b) you have no other deductible investment expenses, and

You may deduct what you actually gave to organizations that are religious, charitable, educational, scientific or literary in purpose. You may also deduct what you gave to organizations that work to prevent cruelty to children or animals. In general, contributions deductible for federal income tax purposes are also deductible for Kentucky.

Examples of qualifying organizations are:

Churches, temples, synagogues, Salvation Army, Red Cross, CARE, Goodwill Industries, United Way, Boy Scouts, Girl Scouts, Boys and Girls Clubs of America, etc.

Fraternal orders if the gifts will be used for the purposes listed above.

Veterans' and certain cultural groups.

Nonprofit schools, hospitals and organizations whose purpose is to find a cure for, or help people who have arthritis, asthma, birth defects, cancer, cerebral palsy, cystic fibrosis, diabetes, heart disease, hemophilia, mental illness or retardation, multiple sclerosis, muscular dystrophy, tuberculosis, etc.

Federal, state and local governments if the gifts are solely for public purposes.

If you contributed to a qualifying charitable organization and also received a benefit from it, you may deduct only the amount that is more than the value of the benefit you received.

Contributions You MAY Deduct

Contributions may be in cash, property or out-of-pocket expenses you paid to do volunteer work for the kinds of organizations described above. If you drove to and from the volunteer work, you may take 14 cents a mile or the actual cost of gas and oil. Add parking and tolls to the amount you claim under either method. (Do not deduct any amounts that were repaid to you.)

Note: You are required to maintain receipts, cancelled checks or other reliable written documentation showing the name of the organization and the date and amount given to support claimed deductions for charitable contributions.

Separate contributions of \$250 or more require written substantiation from the donee organization in addition to your proof of payment. It is your responsibility to secure substantiation. A letter or other documentation from the qualifying charitable organization that acknowledges receipt of the contribution and shows the date and amount constitutes a receipt. **This substantiation should be kept in your files. Do not send it with your return.**

See federal Publication 526 for special rules that apply if:

- your total deduction for gifts of property is over \$500, you gave less than your entire interest in the property,
- your cash contributions or contributions of ordinary income property are more than 30 percent of Line 9, Form 740,
- your gifts of capital gain property to certain organizations are more than 20 percent of Line 9, Form 740, or
- you gave gifts of property that increased in value, made bargain sales to charity, or gave gifts of the use of property.

You MAY NOT Deduct as Contributions

Travel expenses (including meals and lodging) while away from home unless there was no significant element of personal pleasure, recreation or vacation in the travel.

Political contributions.

Dues, fees or bills paid to country clubs, lodges, fraternal orders or similar groups.

Value of any benefit, such as food, entertainment or merchandise that you received in connection with a contribution to a charitable organization.

Cost of raffle, bingo or lottery tickets.

Cost of tuition.

Value of your time or service.

Value of blood given to a blood bank.

The transfer of a future interest in tangible personal property (generally, until the entire interest has been transferred).

Gifts to:

Individuals.

Foreign organizations.

Groups that are run for personal profit.

Groups whose purpose is to lobby for changes in the laws.

Civic leagues, social and sports clubs, labor unions and chambers of commerce.

Line 15—Enter all of your contributions paid by cash or check (including out-of-pocket expenses).

Line 16—Enter your contributions of property. If you gave used items, such as clothing or furniture, deduct their fair market value at the time you gave them. Fair market value is what a willing buyer would pay a willing seller when neither has to buy or sell and both are aware of the conditions of the sale. If your total deduction for gifts of property is more than \$500, you must complete and attach federal Form 8283, Noncash Charitable Contributions. If your total deduction is over \$5,000, you may also have to obtain appraisals of the values of the donated property. See federal Form 8283 and its instructions for details.

Also include the value of a leasehold interest property contributed to a charitable organization to provide temporary housing for the homeless. Attach Schedule HH.

Recordkeeping—If you gave property, you should keep a receipt or written statement from the organization you gave the property to, or a reliable written record, that shows the organization's name and address, the date and location of the gift and a description of the property. You should also keep reliable written records for each gift of property that include the following information:

- (a) How you figured the property's value at the time you gave it. (If the value was determined by an appraisal, you should also keep a signed copy of the appraisal.)
- (b) The cost or other basis of the property if you must reduce it by any ordinary income or capital gain that would have resulted if the property had been sold at its fair market value.
- (c) How you figured your deduction if you chose to reduce your deduction for gifts of capital gain property.
- (d) Any conditions attached to the gift.
- (e) If the gift was a "qualified conservation contribution" under IRC Section 170(h), the fair market value of the underlying property before and after the gift, the type of legal interest donated and the conservation purpose furthered by the gift.

Line 17—Enter artistic charitable contributions. A deduction is allowed for “qualified artistic charitable contributions” of any literary, musical, artistic or scholarly composition, letter or memorandum, or similar property.

An amount equal to the fair market value of the property on the date contributed is allowable as a deduction. However, the deduction is limited to the amount of the taxpayer’s artistic adjusted gross income for the taxable year.

The following requirements for a deduction must be met:

- (a) The property must have been created by the personal efforts of the taxpayer at least one year prior to the date contributed. The creation of this property cannot be related to the performance of duties while an officer or employee of the United States, any state or political subdivision thereof.
- (b) A written appraisal of the fair market value of the contributed property must be made by a qualified independent appraiser within one year of the date of the contribution. A copy of the appraisal must be attached to the tax return.
- (c) The contribution must be made to a qualified organization as described in this section.

Line 18—Enter any carryover of contributions that you were not able to deduct in an earlier year because they exceeded your adjusted gross income limit. See federal Publication 526 for details on how to figure your carryover.

Lines 20 through 22—Casualty and Theft Losses

Line 20—Enter casualty or theft losses of property that is not trade, business, rent or royalty property. Attach federal Form 4684, Casualties and Thefts, or a similar statement to figure your loss.

Losses You MAY Deduct

You may be able to deduct all or part of each loss caused by theft, vandalism, fire, storm, and car, boat and other accidents or similar causes. You may also be able to deduct money you had in a financial institution but lost because of the insolvency or bankruptcy of the institution.

You may deduct nonbusiness casualty or theft losses only to the extent that:

- (a) the amount of **each** separate casualty or theft loss is more than \$100, and
- (b) the total amount of **all** losses during the year is more than 10 percent of Line 9, Form 740.

Special rules apply if you had both gains and losses from nonbusiness casualties or thefts. See federal Form 4684 for details.

Losses You MAY NOT Deduct

Money or property misplaced or lost.

Breakage of china, glassware, furniture and similar items under normal conditions.

Progressive damage to property (buildings, clothes, trees, etc.) caused by termites, moths, other insects or disease.

Deduct the costs of proving you had a property loss as a miscellaneous deduction on Line 25, Schedule A. (Examples of these costs are appraisal fees and photographs used to establish the amount of your loss.)

For more details, see federal Publication 547, Nonbusiness Disasters, Casualties, and Thefts. It also gives information about federal disaster area losses.

Lines 23 through 28—Miscellaneous Deductions

Most miscellaneous deductions cannot be deducted in full. You must subtract 2 percent of your adjusted gross income from the total. Compute the 2 percent limit on Line 27.

Generally, the 2 percent limit applies to job-related expenses you paid for which you were not reimbursed (Line 23). The limit also applies to certain expenses you paid to produce or collect taxable income (Line 25). See the instructions for Lines 23 and 25 for examples of expenses to claim on these lines.

The 2 percent limit does not apply to certain other miscellaneous expenses that you may deduct. These expenses can be deducted in full on Line 29. The Line 29 instructions describe these expenses. Included are deductible gambling losses (to the extent of winnings) and certain job expenses of disabled employees. See federal Publication 529, Miscellaneous Deductions, for more information.

Expenses You MAY NOT Deduct

Political contributions.

Personal legal expenses.

Lost or misplaced cash or property (but see casualty and theft losses).

Expenses for meals during regular or extra work hours.

The cost of entertaining friends.

Expenses of going to or from your regular workplace.

Education needed to meet minimum requirements for your job or that will qualify you for a new occupation.

Travel expenses for employment away from home if that period of employment exceeds one year.

Expenses of:

- (a) Travel as a form of education.
- (b) Attending a seminar, convention or similar meeting unless it is related to your employment.
- (c) Adopting a child, including a child with special needs.

Fines and penalties.

Expenses of producing tax-exempt income.

Amounts paid to organizations or establishments which have been found to practice discrimination.

Expenses Subject to the 2 Percent Limit

Important: The increase in first-year luxury automobile depreciation caps, the 30 percent and **the 50 percent** special depreciation allowance, the additional New York Liberty Zone Section 179 deduction for property placed in service after September 10, 2001, and **the increased Section 179 deduction limits and thresholds for property placed in service after December 31, 2002**, are not allowable for Kentucky tax purposes. For passenger automobiles purchased after September 10, 2001, you must compute Kentucky depreciation in accordance with the IRC in effect on December 31, 2001. **Create a Kentucky Form 2106** by entering **Kentucky** at the top center of a federal Form 2106, Employee Business Expenses. Complete Section D—Depreciation of Vehicles in accordance with the IRC in effect on December 31, 2001. **Attach a copy of the federal Form 2106 filed for federal income tax purposes if no adjustments are required.**

Line 23—Use this line to report job-related expenses you paid for which you were not reimbursed. You **MUST** first fill out Form 2106, Employee Business Expenses, or Form 2106-EZ, Unreimbursed Employee Business Expenses, if you claim any unreimbursed travel, transportation, meal or entertainment expenses for your job; or your employer paid you for any of your job-related expenses reportable on Line 23.

Enter the amount of unreimbursed employee business expense from Form 2106 or 2106-EZ on Line 23 of Schedule A.

If you do not have to fill out Form 2106 or 2106-EZ, list the type and amount of your expenses in the space provided. If you need more space, attach a statement showing the type and amount of the expense. Enter one total on Line 23.

Examples of expenses to include on Line 23 are:

Travel, transportation, meal or entertainment expense.

(**Note:** If you have any of these expenses, you must use Form 2106 or 2106-EZ for all of your job-related expenses.)

Union dues.

Safety equipment, small tools and supplies required for your job.

Uniforms required by your employer, which you may not usually wear away from work.

Protective clothing, required in your work, such as hard hats and safety shoes and glasses.

Physical examinations required by your employer.

Dues to professional organizations and chambers of commerce.

Subscriptions to professional journals.

Fees to employment agencies and other costs to look for a new job in your present occupation, even if you do not get a new job.

Business use of part of your home but only if you use that part exclusively and on a regular basis in your work and for the convenience of your employer. For details, including limits that apply, see federal Publication 587, Business Use of Your Home.

Education expenses you paid that were required by your employer, or by law or regulations, to keep your salary or job. In general, you may also include the cost of keeping or improving skills you must have in your job. For more details, see federal Publication 508, Educational Expenses. Some education expenses are not deductible. See "Expenses You MAY NOT Deduct."

Line 24—Use this line to report tax return preparation fees paid during the taxable year including fees paid for filing your return electronically.

Line 25—Use this line for amounts you paid to produce or collect taxable income and manage or protect property held for earning income. List the type and amount of each expense in the space provided. If you need more space, attach a statement showing the type and amount of each expense. Enter one total on Line 25. Examples of these expenses are:

Safe deposit box rental.

Certain legal and accounting fees.

Clerical help and office rent.

Custodial (e.g., trust account) fees.

Your share of the investment expenses of a regulated investment company.

Certain losses on nonfederally insured deposits in an insolvent or bankrupt financial institution. For more information (including limits on the amount you can deduct), see federal Publication 529.

Deduction for repayment of amounts under a claim of right if \$3,000 or less.

Expenses related to an activity not engaged in for profit. These expenses are limited to the income from the activity that you reported on federal Form 1040, Line 21. See Not-for-Profit Activities in federal Publication 535, Business Expenses, for details on how to figure the amount to deduct.

Line 29—Other Miscellaneous Deductions

Use this line to report miscellaneous deductions that are **NOT** subject to the 2 percent adjusted gross income limit. Only the expenses listed below can be deducted on Line 29.

Expenses NOT Subject to the 2 Percent Limit

Gambling losses to the extent of gambling winnings. Gambling winnings must be included in federal adjusted gross income (Form 740, Line 5). (**Note:** Gambling losses must be verified by supplemental records. These include a diary and unredeemed tickets, payment slips and winning statements.)

Federal estate tax on income in respect of a decedent.

Amortizable bond premium on bonds acquired before October 23, 1986.

Deduction for repayment of amounts under a claim of right if more than \$3,000. See federal Publication 525.

Unrecovered investment in a pension.

Impairment-related work expenses of a disabled person.

Casualty and theft losses of income-producing property.

List the type and amount of each expense. Enter one total on Line 29. For more information on these expenses, see federal Publication 529.

Note: A credit for tax paid to another state on gambling income may be allowed if the income is taxed by **both** Kentucky and the other state. However, if you have paid tax on gambling income in another state **and** you claimed an itemized deduction on your Kentucky Schedule A for losses, the allowable credit may be reduced or eliminated.

Line 30, Total Itemized Deductions

If the amount on Form 740, Line 9, exceeds \$159,950 (\$79,975 if married filing separately on a combined return or separate returns), skip Part I and complete Part II on page 2.

Dividing Deductions Between Spouses—Married taxpayers who are filing separate returns or a combined return but using only one Schedule A must divide the itemized deductions. Complete page 2, Part I, Lines 1 through 5. If one spouse is not required to file a Kentucky return, total deductions may be divided between them based on the percentage of each spouse's income to total income or separate Schedules A may be filed.