



# Individual Income Tax: Deductions Part 3

---

Course #31058B

Taxes

2 Credit Hours

Support@PacificCPE.com | (800) 787-5313

**PacificCPE.com**

# INDIVIDUAL INCOME TAX: DEDUCTIONS PART 3

---

This course reviews various itemized deductions that can reduce adjusted gross income. It also explains the Tax Cuts and Jobs Act (TCJA) rules for claiming the deduction for qualified business income (QBI).

## LEARNING ASSIGNMENTS AND OBJECTIVES

*As a result of studying each assignment, you should be able to meet the objectives listed below each individual assignment.*

### SUBJECTS

**Other Itemized Deductions**  
**Section 199A Pass-Through Income Deduction**

Study the course materials

Complete the review questions at the end of each chapter

Answer the exam questions 1 to 10

### Objectives:

- Identify types of other itemized deductions allowable to reduce adjusted gross income.
- Identify the rules in the TCJA related to claiming a deduction for “qualified business income.”

## **NOTICE**

Limit of Liability/Disclaimer of Warranty: While the publisher and author have used their best efforts in preparing this book, they make no representations or warranties with respect to the accuracy or completeness of the contents of this book and specifically disclaim any implied warranties or merchantability or fitness for a particular purpose. No warranty may be created or extended by sales representatives or written sales materials. The advice and strategies contained herein may not be suitable for your situation. You should consult with a professional where appropriate. Neither the publisher nor author shall be liable for any loss of profit or any other commercial damages, including but not limited to special, incidental, consequential, or other damages.

The End User shall be permitted to use the Licensed Content for internal purposes only and not for resale or distribution. The Licensed Content is provided on an “as is” basis and without any warranties of any kind, express or implied. CCH INCORPORATED AND ITS LICENSORS AND AFFILIATES DISCLAIM ALL WARRANTIES WITH RESPECT TO THE LICENSED CONTENT, EXPRESS OR IMPLIED, INCLUDING BUT NOT LIMITED TO, WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, NON-INFRINGEMENT, TITLE, QUIET ENJOYMENT AND INFORMATION COMPLETENESS, CURRENCY OR ACCURACY.

End User assumes all responsibilities and obligations with respect to the selection of the Licensed Content to achieve End User’s intended results. End User assumes all responsibilities and obligations with respect to any decision or advice made or given as a result of the use or application of the Licensed Content. CCH and its licensors and affiliates are not engaged in the rendering of legal, accounting, tax or other professional advice or services. If legal, accounting, tax or other expert assistance is required, the services of a competent professional should be sought.

This course is sold with the understanding that the publisher is not engaged in rendering legal, accounting, or other professional advice and assumes no liability whatsoever in connection with its use. Since laws are constantly changing, and are subject to differing interpretations, we urge you to do additional research and consult appropriate experts before relying on the information contained in this course to render professional advice.

© **Pacific CPE, LP 2025**

Program publication date **11/1/25**

## EXAM OUTLINE

- **TEST FORMAT:** The final exam for this course consists of 10 multiple-choice questions and is based specifically on the information covered in the course materials.
- **ACCESS FINAL EXAM:** Log in to your account and click Take Exam. A copy of the final exam is provided at the end of these course materials for your convenience, however you must submit your answers online to receive credit for the course.
- **LICENSE RENEWAL INFORMATION:** This course qualifies for **2** CPE hours.
- **PROCESSING:** You will receive the score for your final exam immediately after it is submitted. A score of 70% or better is required to pass.
- **CERTIFICATE OF COMPLETION:** Will be available in your account to view online or print. If you do not pass an exam, it can be retaken free of charge.

---



---

# TABLE OF CONTENTS

---

<b>Chapter 1: Other Itemized Deductions</b>	<b>1</b>
<b>I. What's New/Reminders</b>	<b>1</b>
<b>II. Introduction</b>	<b>1</b>
<b>III. Miscellaneous Itemized Deductions</b>	<b>2</b>
Unreimbursed Employee Expenses	2
Categories of Employment	2
Educator Expenses	3
Expenses You Cannot Deduct	4
<b>IV. Nondeductible Expenses</b>	<b>6</b>
List of Nondeductible Expenses	6
<b>V. Expenses You Can Deduct</b>	<b>12</b>
List of Deductions	12
<b>Chapter 1: Test Your Knowledge</b>	<b>16</b>
<b>Chapter 1: Solutions and Suggested Responses</b>	<b>17</b>
<b>Chapter 2: Section 199A Pass-Through Income Deduction</b>	<b>18</b>
<b>I. ¶4.01 Qualified Business Income</b>	<b>18</b>
Deduction for Qualified Business Income (QBI)	19
Income from REITs and PTPs	20
Income from Sources Other Than REITs and PTPs	22
Effectively Connected with Trade or Business within U.S.	23
Income Not Treated as Qualified Business Income	23
Taxable Income Threshold Rules	25
Separate Computation for Each Trade or Business	26
Specified Service Trade or Business Rules	28
Taxable Income Does Not Exceed Threshold	29
Taxable Income Exceeds Threshold Plus Phaseout	30
Taxable Income Exceeds Threshold but Is within Phaseout Range	31
Inapplicability of W-2 Wage or Qualified Property Limits	32
Other Trade or Business Rules	32
W-2 Wage Limitation	33
Limit Per Trade or Business	33
Taxable Income Exceeds Threshold Plus Phaseout	34
Wage and Property Limitation	35
Phase-In of W-2 and Qualified Property Limits	36
Effect of Qualified Business Loss	36

Overall Loss from Qualified Business Activities	37
Rules for S Corporations and Partnerships	37
Partnerships	37
S Corporations	38
Application to Cooperatives and Patrons	41
Effect on Partner or Shareholder Basis	41
Accuracy-Related Penalties on Underpayments	42
Effect of QBI Deduction on Other Taxes	43
<b>II. ¶4.02 Alternative Minimum Tax</b>	<b>43</b>
<b>III. ¶4.03 Repatriation of Foreign Earnings</b>	<b>44</b>
<b>IV. ¶4.04 Charitable Contributions and Foreign Taxes</b>	<b>44</b>
<b>V. ¶4.05 Taxes Paid on Income from Pass-Through Entities</b>	<b>46</b>
<b>Chapter 2: Test Your Knowledge</b>	<b>47</b>
<b>Chapter 2: Solutions and Suggested Responses</b>	<b>49</b>
<b>Glossary</b>	<b>50</b>
<b>Index</b>	<b>65</b>
<b>Final Exam Copy</b>	<b>66</b>

---

# CHAPTER 1: OTHER ITEMIZED DEDUCTIONS

---

## Chapter Objective

**After completing this chapter, you should be able to:**

- Identify types of other itemized deductions allowable to reduce adjusted gross income.

## I. WHAT'S NEW/REMINDERS

**No miscellaneous itemized deductions allowed.** You can no longer claim any miscellaneous itemized deductions. See *Miscellaneous Itemized Deductions*, later.

**Standard mileage rate.** The 2025 rate for business use of a vehicle is 70.0 cents per mile.

**Educator expenses.** Beginning in 2026, the OBBBA changes how K-12 educators can deduct unreimbursed employee expenses. In addition to the above-the-line \$300 annual above-the-line deduction, a deduction can be included on Schedule A. This portion of the educator deduction will be uncapped but is unavailable to taxpayers who take the standard deduction.

## II. INTRODUCTION

This chapter explains that you can no longer claim any miscellaneous itemized deductions, unless you fall into one of the qualified categories of employment claiming a deduction relating to unreimbursed employee expenses. Miscellaneous itemized deductions are those deductions that would have been subject to the 2% of adjusted gross income limitation. You can still claim certain expenses as itemized deductions on Schedule A (Form 1040), Schedule A (Form 1040-NR), or as an adjustment to income on Form 1040 or 1040-SR. This chapter covers the following topics.

- Miscellaneous itemized deductions.
- Expenses you cannot deduct.
- Expenses you can deduct.
- How to report your deductions.

## Tip



You must keep records to verify your deductions. You should keep receipts, canceled checks, substitute checks, financial account statements, and other documentary evidence.

### III. MISCELLANEOUS ITEMIZED DEDUCTIONS

You can no longer claim any miscellaneous itemized deductions that are subject to the 2% of adjusted gross income limitation, including unreimbursed employee expenses. However, you may be able to deduct certain unreimbursed employee business expenses if you fall into one of the following categories of employment listed under *Unreimbursed Employee Expenses*, next.

#### UNREIMBURSED EMPLOYEE EXPENSES

You can no longer claim a deduction for unreimbursed employee expenses unless you fall into one of the following categories of employment.

- Armed Forces reservists.
- Qualified performing artists.
- Fee-basis state or local government officials.
- Employees with impairment-related work expenses.

#### CATEGORIES OF EMPLOYMENT

You can deduct unreimbursed employee expenses only if you qualify as an Armed Forces reservist, qualified performing artist, fee-basis state or local government official, and employee with impairment-related work expenses.

***Armed Forces reservist (member of a reserve component).*** You are a member of a reserve component of the Armed Forces of the United States if you are in the Army, Navy, Marine Corps, Air Force, or Coast Guard Reserve; the Army National Guard of the United States; or the Reserve Corps of the Public Health Service.

***Qualified performing artist.*** You are a qualified performing artist if you:

1. Performed services in the performing arts as an employee for at least two employers during the tax year,
2. Received from at least two of the employers' wages of \$200 or more per employer,
3. Had allowable business expenses attributable to the performing arts of more than 10% of gross income from the performing arts, and
4. Had adjusted gross income of \$16,000 or less before deducting expenses as a performing artist.

***Fee-basis state or local government official.*** You are a qualifying fee-basis official if you are employed by a state or political subdivision of a state and are compensated, in whole or in part, on a fee basis.



**Employee with impairment-related work expenses.** Impairment-related work expenses are the allowable expenses of an individual with physical or mental disabilities for attendant care at his or her place of employment. They also include other expenses in connection with the place of employment that enable the employee to work.

**Allowable unreimbursed employee expenses.** If you qualify as an employee in one of the categories mentioned above, you may be able to deduct the following items as unreimbursed employee expenses.

Unreimbursed employee expenses for individuals in these categories of employment are deducted as adjustments to gross income. Qualified employees listed in one of the categories above must complete Form 2106 to take the deduction.

You can deduct only unreimbursed employee expenses that are:

- Paid or incurred during your tax year,
- For carrying on your trade or business of being an employee, and
- Ordinary and necessary.

An expense is ordinary if it is common and accepted in your trade, business, or profession. An expense is necessary if it is appropriate and helpful to your business. An expense does not have to be required to be considered necessary.

## EDUCATOR EXPENSES

If you were an eligible educator in 2025, you can deduct up to \$300 of qualified expenses you paid in 2025 as an adjustment to gross income on Schedule 1 (Form 1040), line 11, rather than as a miscellaneous itemized deduction. If you and your spouse are filing jointly and both of you were eligible educators, the maximum deduction is \$600. However, neither spouse can deduct more than \$300 of his or her qualified expenses.

### Note



Under the OBBBA in addition to this above-the-line deduction, for years after 2025, the educator expense deduction over \$300 is also allowed at an uncapped amount, but is only available to those taxpayers who itemize.

### Example



In 2026, Sandy, an eighth-grade teacher, pays \$1,100 for classroom supplies. Sandy deducts \$300 on Schedule 1 (above-the-line) and, because she itemizes, deducts the remaining \$800 on Schedule A. However, Sandy cannot deduct the additional \$800 if she uses the standard deduction.