



Individual Income Tax: Deductions Part 3

Course #31058B

Taxes

2 Credit Hours

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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

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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.

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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.