PacificCPE

COURSE
31058C

Individual Income Tax: Deductions Part 3

Rounding out itemized deductions, this course examines miscellaneous deductions, nondeductible expenses, and what remains deductible under current law. It then takes a deeper dive into the Section 199A qualified business income deduction for pass-through entities, covering QBI calculation concepts, alternative minimum tax considerations, repatriation of foreign earnings, charitable contributions in the pass-through context, and taxes paid on pass-through income. Relevant for practitioners serving clients with business ownership or self-employment income.

CREDIT HOURS 2 | FIELD OF STUDY TAXES | EXAM QUESTIONS 10

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LEARNING ASSIGNMENTS AND OBJECTIVES

Assignment

- Study the full course materials included here.
- Complete the review questions after each chapter.
- Answer 10 final exam questions.
- Final exam is scored immediately, 70% or better passes.
- Certificate of completion is available in your account.
- Failed exams can be retaken free of charge.

Course 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."

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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

Underthe OBBBA inadditi onto this above-the-line deduction, for years after2025, 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.

EXPENSES YOU CANNOT DEDUCT

Because of the suspension of miscellaneous itemized deductions, there are two categories of expenses you cannot deduct: Miscellaneous itemized deductions subject to the 2% AGI limitation, and those expenses that are traditionally nondeductible under the Internal Revenue Code. Both categories of deduction are discussed next.

Miscellaneous Deductions Subject to 2% AGI

Unless you fall into one of the qualified categories of employment under Unreimbursed Employee Expenses, earlier, miscellaneous itemized deductions that are subject to the 2% of adjusted gross income limitation can no longer be claimed. For expenses not related to unreimbursed employee expenses, you generally cannot deduct the following expenses, even if you fall into one of the qualified categories of employment listed earlier.

Appraisal Fees

Appraisal fees you pay to figure a casualty loss or the fair market value of donated property are miscellaneous itemized deductions and can no longer be deducted.

Casualty and Theft Losses

Damaged or stolen property used in performing services as an employee is a miscellaneous deduction and can no longer be deducted. For other casualty and theft losses, see Chapter 2 of course 31057N.

Clerical Help and Office Rent

Office expenses, such as rent and clerical help, you pay in connection with your investments and collecting taxable income on those investments are miscellaneous itemized deductions and are no longer deductible.

Credit or Debit Card Convenience Fees

The convenience fee charged by the card processor for paying your income tax (including estimated tax payments) by credit or debit card is a miscellaneous itemized deduction and is no longer deductible.

Depreciation on Home Computer

If you use your home computer to produce income (for example, to manage your investments that produce taxable income), the depreciation of the computer for that part of the usage of the computer is a miscellaneous itemized deduction and is no longer deductible.

Fees to Collect Interest and Dividends

Fees you pay to a broker, bank, trustee, or similar agent to collect your taxable bond interest or dividends on shares of stock are miscellaneous itemized deductions and can no longer be deducted.

Hobby Expenses

Ahobby is not a business because it is not carried on to make a profit. Hobby expenses are miscellaneous itemized deductions and can no longer be deducted.

Indirect Deductions of Pass-Through Entities

Pass-through entities include partnerships, S corporations, and mutual funds that are not publicly offered. Deductions of pass-through entities are passed through to the partners or shareholders. The partners or shareholders share of passed-through deductions for investment expenses are miscellaneous itemized deductions and can no longer be deducted.

Nonpublicly offered mutual funds. These funds will send you a Form 1099-DIV, Dividends and Distributions, or a substitute form, showing your share of gross income and investment expenses. The investment expenses reported on Form 1099-DIV are a miscellaneous itemized deduction and are no longer deductible.

Investment Fees and Expenses

Investment fees, custodial fees, trust administration fees, and other expenses you paid for managing your investments that produce taxable income are miscellaneous itemized deductions and are no longer deductible.

Legal Expenses

You usually can deduct

legal expenses that you incur in attempting to produce or collect taxable income or that you pay in connection with the determination, collection, or refund of any tax. Legal expenses that you incur in attempting to produce or collect taxable income, or that you pay in connection with the determination, collection, or refund of any tax are miscellaneous itemized deductions and are no longer deductible.

You can deduct expenses of resolving tax issues relating to profit or loss from business (Schedule C), rentals or royalties (Schedule E), or farm income and expenses (Schedule F) on the appropriate schedule. Expenses for resolving nonbusiness tax issues are miscellaneous itemized deductions and are no longer deductible.

Loss on Deposits

For information on whether, and if so, how, you may deduct a loss on your deposit in a qualified financial institution, see Loss on Deposits in Chapter 2 of course 31057N.

Repayments of Income

Generally, repayments of amounts that you included in income in an earlier year is a miscellaneous itemized deduction and can no longer be deducted. If you had to repay more than $3,000 that you included in your income in an earlier year, you may be able to deduct the amount. See Repayments Under Claim of Right, later.

Repayments of Social Security Benefits

For information on how to deduct your repayments of certain social security benefits, see Repayments More Than Gross Benefits in Chapter 3 of course 31052N.

Safe Deposit Box Rent

Rent you pay for a safety deposit box you use to store taxable income-producing stocks, bonds, or investment related papers is a miscellaneous itemized deduction and can no longer be deducted. You cannot deduct the rent if you use the box only for jewelry, other personal items, or tax-exempt securities.

Service Charges on Dividend Reinvestment Plans

Service charges you pay as a subscriber in a dividend reinvestment plan are a miscellaneous itemized deduction and can no longer be deducted. These service charges include payments for:

- Holding shares acquired through a plan,
- Collecting and reinvesting cash dividends, and
- Keeping individual records and providing detailed statements of accounts.

Tax Preparation Fees

Tax preparation fees on the return for the year in which you pay them are a miscellaneous itemized deduction and can no longer be deducted. These fees include the cost of tax preparation software programs and tax publications. They also include any fee you paid for electronic filing of your return.

Trustee’s Administrative Fees for IRA

Trustee’s administrative fees that are billed separately and paid by you in connection with your IRA are a miscellaneous itemized deduction and can no longer be deducted. For more information about IRAs, see Chapter 1 of course 31054N.

IV. NONDEDUCTIBLE EXPENSES

In addition to the miscellaneous itemized deductions discussed earlier, you cannot deduct the following expenses.

LIST OF NONDEDUCTIBLE EXPENSES

- Adoption expenses.
- Broker’s commissions.
- Burial or funeral expenses, including the cost of a cemetery lot.
- Campaign expenses.
- Capital expenses.
- Check-writing fees.
- Club dues.
- Commuting expenses.
- Fees and licenses, such as car licenses, marriage licenses, and dog tags.
- Fines or penalties.
- Health spa expenses.
- Hobby losses, but see Hobby Expenses, earlier.