Table of Contents

Chapter 1: Miscellaneous Deductions

I. Important .................................................................................................................................................. 2
II. Introduction .............................................................................................................................................. 2
III. Deductions Subject To The 2% Limit ..................................................................................................... 2
IV. Deductions Not Subject To The 2% Limit ............................................................................................. 8
V. Nondeductible Expenses ......................................................................................................................... 9

Chapter 2: Limit On Itemized Deductions ................................................................................................. 15

I. Introduction .............................................................................................................................................. 15
II. Are You Subject To The Limit? .................................................................................................................. 15
III. Which Itemized Deductions Are Limited? ............................................................................................. 15
IV. Which Itemized Deductions Are Not Limited? ..................................................................................... 15
V. How Do You Figure The Limit? .............................................................................................................. 15

FINAL EXAM .............................................................................................................................................. 17

NOTICE

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.
Chapter 1: Miscellaneous Deductions

Chapter Objective
After completing this chapter, you should be able to:

- Identify various miscellaneous itemized deductions that you may be able to claim on Schedule A to adjust taxable income.

I. Important

Standard mileage rate. The 2016 rate for business use of a vehicle is 54.0 cents per mile.

Deduction floor for medical expenses. In 2016, the floor for deducting medical expenses as an itemized deduction is 10% of adjusted gross income (AGI) if you and your spouse are under age 65 at the end of the year. If either you or your spouse is age 65 or older, expenses exceeding 7.5% of AGI may be claimed.

II. Introduction

This chapter explains which expenses you can claim as miscellaneous itemized deductions on Schedule A (Form 1040). You must reduce the total of most miscellaneous itemized deductions by 2% of your adjusted gross income. This chapter covers the following topics.

- Deductions subject to the 2% limit.
- Deductions not subject to the 2% limit.
- Expenses you cannot deduct.

III. Deductions Subject To The 2% Limit

You can deduct certain expenses as miscellaneous itemized deductions on Schedule A (Form 1040). You can claim the amount of expenses that is more than 2% of your adjusted gross income. You figure your deduction on Schedule A by subtracting 2% of your adjusted gross income from the total amount of these expenses. Your adjusted gross income is the amount on Form 1040. Generally, you apply the 2% limit after you apply any other deduction limit. For example, you apply the 50% (or 80%) limit on business-related meals and entertainment before you apply the 2% limit.

Deductions subject to the 2% limit are discussed in the three categories in which you report them on Schedule A.

1. Unreimbursed employee expenses.
2. Tax preparation fees.
3. Other expenses.

UNREIMBURSED EMPLOYEE EXPENSES

Generally, you can deduct on Schedule A (Form 1040) unreimbursed employee expenses that are:

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

An expense is ordinary if it is common and accepted in your type of 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.

Examples of unreimbursed employee expenses are listed next. The list is followed by discussions of additional unreimbursed employee expenses.

- Business bad debt of an employee.
• Education that is work related.
• Legal fees related to your job.
• Licenses and regulatory fees.
• Malpractice insurance premiums.
• Medical examinations required by an employer.
• Occupational taxes.
• Passport for a business trip.
• Subscriptions to professional journals and trade magazines related to your work.
• Travel, transportation, entertainment, and gifts related to your work.

**Business Liability Insurance**
You can deduct insurance premiums you paid for protection against personal liability for wrongful acts on the job.

**Damages for Breach of Employment Contract**
If you break an employment contract, you can deduct damages you pay your former employer that are attributable to the pay you received from that employer.

**Depreciation on Computers**
You can claim a depreciation deduction for a computer that you use in your work as an employee if its use is:

1. For the convenience of your employer, and
2. Required as a condition of your employment.

**Dues to Chambers of Commerce and Professional Societies**
You may be able to deduct dues paid to professional organizations (such as bar associations and medical associations) and to chambers of commerce and similar organizations, if membership helps you carry out the duties of your job. Similar organizations include:

- Boards of trade,
- Business leagues,
- Civic or public service organizations,
- Real estate boards, and
- Trade associations.

**Lobbying and political activities.** You may not be able to deduct that part of your dues that is for certain lobbying and political activities. See Dues used for lobbying under Lobbying Expenses, later.

**Educator Expenses**
If you were an educator in 2016 and you had qualified educator expenses that you cannot deduct as an adjustment to gross income, you can deduct the rest of those expenses that are ordinary and necessary as a miscellaneous itemized deduction subject to the 2% limit.

**Home Office**
If you use a part of your home regularly and exclusively for business purposes, you may be able to deduct a part of the operating expenses and depreciation of your home. You could also use the simplified method. See the Introduction section of this course.
You can claim this deduction for the business use of a part of your home only if you use that part of your home **regularly and exclusively**:
1. As your principal place of business for any trade or business,
2. As a place to meet or deal with your patients, clients, or customers in the normal course of your trade or business, or
3. In the case of a separate structure not attached to your home, in connection with your trade or business.

The regular and exclusive business use must be for the convenience of your employer and not just appropriate and helpful in your job.

**Job Search Expenses**
You can deduct certain expenses you have in looking for a new job in your present occupation, even if you do not get a new job.

You cannot deduct job search expenses if:

1. You are looking for a job in a new occupation,
2. There was a substantial break between the ending of your last job and your looking for a new one, or
3. You are looking for a job for the first time.

**Employment and outplacement agency fees.** You can deduct employment and outplacement agency fees you pay in looking for a new job in your present occupation.

**Employer pays you back.** If, in a later year, your employer pays you back for employment agency fees, you must include the amount you receive in your gross income up to the amount of your tax benefit in the earlier year.

**Employer pays the employment agency.** If your employer pays the fees directly to the employment agency and you are not responsible for them, you do not include them in your gross income.

**Resume.** You can deduct amounts you spend for preparing and mailing copies of a resume to prospective employers if you are looking for a new job in your present occupation.

**Travel and transportation expenses.** If you travel to an area and, while there, you look for a new job in your present occupation, you may be able to deduct travel expenses to and from the area. You can deduct the travel expenses if the trip is primarily to look for a new job. The amount of time you spend on personal activity compared to the amount of time you spend in looking for work is important in determining whether the trip is primarily personal or is primarily to look for a new job.

Even if you cannot deduct the travel expenses to and from an area, you can deduct the expenses of looking for a new job in your present occupation while in the area.

You can choose to use the standard mileage rate to figure your car expenses.

**Licenses and Regulatory Fees**
You can deduct the amount you pay each year to state or local governments for licenses and regulatory fees for your trade, business, or profession.

**Occupational Taxes**
You can deduct an occupational tax charged at a flat rate by a locality for the privilege of working or conducting a business in the locality. If you are an employee, you can claim occupational taxes only as a miscellaneous deduction subject to the 2% limit; you cannot claim them as a deduction for taxes elsewhere on your return.

**Repayment of Income Aid Payment**
An “income aid payment” is one that is received under an employer’s plan to aid employees who lose their jobs because of lack of work. If you repay a lump-sum income aid payment that you received and included in income in an earlier year, you can deduct the repayment.

**Research Expenses of a College Professor**
If you are a college professor, you can deduct research expenses, including travel expenses, for teaching, lecturing, or writing and publishing on subjects that relate directly to the field of your teaching duties.
must have undertaken the research as a means of carrying out the duties expected of a professor and without expectation of profit apart from salary. However, you cannot deduct the cost of travel as a form of education.

**Tools Used in Your Work**
Generally, you can deduct amounts you spend for tools used in your work if the tools wear out and are thrown away within 1 year from the date of purchase. You can depreciate the cost of tools that have a useful life substantially beyond the tax year.

**Union Dues and Expenses**
You can deduct dues and initiation fees you pay for union membership. You can also deduct assessments for benefit payments to unemployed union members. However, you cannot deduct the part of the assessments or contributions that provides funds for the payment of sick, accident, or death benefits. Also, you cannot deduct contributions to a pension fund, even if the union requires you to make the contributions.
You may not be able to deduct amounts you pay to the union that are related to certain lobbying and political activities. See Lobbying Expenses under Nondeductible Expenses, later.

**Work Clothes and Uniforms**
You can deduct the cost and upkeep of work clothes if the following two requirements are met:

1. You must wear them as a condition of your employment.
2. The clothes are not suitable for everyday wear.

Examples of workers who may be able to deduct the cost and upkeep of work clothes are: delivery workers, firefighters, health care workers, law enforcement officers, letter carriers, professional athletes, and transportation workers (air, rail, bus, etc.).

Musicians and entertainers can deduct the cost of theatrical clothing and accessories if they are not suitable for everyday wear.

However, work clothing consisting of white cap, white shirt or white jacket, white bib overalls, and standard work shoes, which a painter is required by his union to wear on the job, is not distinctive in character or in the nature of a uniform. Similarly, the costs of buying and maintaining blue work clothes worn by a welder at the request of a foreman are not deductible.

**Protective clothing.** You can deduct the cost of protective clothing required in your work, such as safety shoes or boots, safety glasses, hard hats, and work gloves.

Examples of workers who may be required to wear safety items are: carpenters, cement workers, chemical workers, electricians, fishing boat crew members, machinists, oil field workers, pipe fitters, steamfitters, and truck drivers.

**Military uniforms.** You generally cannot deduct the cost of your uniforms if you are on full-time active duty in the armed forces. However, if you are an armed forces reservist, you can deduct the unreimbursed cost of your uniform if military regulations restrict you from wearing it except while on duty as a reservist.

In figuring the deduction, you must reduce the cost by any nontaxable allowance you receive for these expenses.

If local military rules do not allow you to wear fatigue uniforms when you are off duty, you can deduct the amount by which the cost of buying and keeping up these uniforms is more than the uniform allowance you receive.

You can deduct the cost of your uniforms if you are a civilian faculty or staff member of a military school.

**TAX PREPARATION FEES**
You can usually deduct tax preparation fees in the year you pay them. Thus, on your 2016 return, you can deduct fees paid in 2016 for preparing your 2015 return. 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.

**OTHER EXPENSES**
You can deduct certain other expenses as miscellaneous itemized deductions subject to the 2% limit. On Schedule A (Form 1040) you can deduct expenses you pay:

1. To produce or collect income that must be included in your gross income,
2. To manage, conserve, or maintain property held for producing such income, or
3. To determine, contest, pay, or claim a refund of any tax.

You can deduct expenses you pay for the purposes in (1) and (2) above only if they are reasonably and closely related to these purposes. Some of these other expenses are explained in the following discussions.

**Appraisal Fees**
You can deduct appraisal fees if you pay them to figure a casualty loss or the fair market value of donated property.

**Casualty and Theft Losses**
You can deduct a casualty or theft loss as a miscellaneous itemized deduction subject to the 2% limit if you used the damaged or stolen property in performing services as an employee. First report the loss in Section B of Form 4684, Casualties and Thefts. You may also have to include the loss on Form 4797, Sales of Business Property, if you are otherwise required to file that form. Your deduction is the amount of the loss included on Form 4684 and Form 4797.

**Clerical Help and Office Rent**
You can deduct office expenses, such as rent and clerical help, that you have in connection with your investments and collecting the taxable income on them.

**Credit or Debit Card Convenience Fees**
You can deduct the convenience fee charged by the card processor for paying your income tax (including estimated tax payments) by credit or debit card. The fees are deductible in the year paid.

**Depreciation on Home Computer**
You can deduct depreciation on your home computer if you use it to produce income (for example, to manage your investments that produce taxable income). You generally must depreciate the computer using the straight line method over the Alternative Depreciation System (ADS) recovery period.

**Excess Deductions of an Estate**
If an estate’s total deductions in its last tax year are more than its gross income for that year, the beneficiaries succeeding to the estate’s property can deduct the excess. Do not include deductions for the estate’s personal exemption and charitable contributions when figuring the estate’s total deductions. The beneficiaries can claim the deduction only for the tax year in which, or with which, the estate terminates, whether the year of termination is a normal year or a short tax year.

**Fees to Collect Interest and Dividends**
You can deduct fees you pay to a broker, bank, trustee, or similar agent to collect your taxable bond interest or dividends on shares of stock. But you cannot deduct a fee you pay to a broker to buy investment property, such as stocks or bonds. You must add the fee to the cost of the property. You cannot deduct the fee you pay to a broker to sell securities. You can use the fee only to figure gain or loss from the sale. See the instructions on Form 8949 for information on how to report the fee.

**Hobby Expenses**
You can generally deduct hobby expenses, but only up to the amount of hobby income. A hobby is not a business because it is not carried on to make a profit.

**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 can deduct their share of passed-through deductions for investment expenses as miscellaneous itemized deductions subject to the 2% limit.

**Example:** You are a member of an investment club that is formed solely to invest in securities. The club is treated as a partnership. The partnership’s income is solely from taxable dividends, interest, and gains from sales of securities. In this case, you can deduct your share of the partnership’s operating expenses as miscellaneous itemized deductions subject to the 2% limit. However, if the investment club partnership has investments that also produce nontaxable income, you cannot deduct your share of the partnership’s expenses that produce the nontaxable income.

**Publicly offered mutual funds.** Publicly offered mutual funds do not pass deductions for investment expenses through to shareholders. A mutual fund is “publicly offered” if it is:

1. Continuously offered pursuant to a public offering,
2. Regularly traded on an established securities market, or
3. Held by or for at least 500 persons at all times during the tax year.

A publicly offered mutual fund will send you a Form 1099-DIV, Dividends and Distributions, or a substitute form, showing the net amount of dividend income (gross dividends minus investment expenses). This net figure is the amount you report on your return as income. You cannot further deduct investment expenses related to publicly offered mutual funds because they are already included as part of the net income amount.

**Information returns.** You should receive information returns from pass-through entities.

**Partnerships and S corporations.** These entities issue Schedule K-1, which lists the items and amounts you must report and identifies the tax return schedules and lines to use.

**Nonpublicly offered mutual funds.** These funds will send you a Form 1099-DIV, or a substitute form, showing your share of gross income and investment expenses. You can claim the expenses only as a miscellaneous itemized deduction subject to the 2% limit.

**Investment Fees and Expenses**

You can deduct investment fees, custodial fees, trust administration fees, and other expenses you paid for managing your investments that produce taxable income.

**Legal Expenses**

You can usually 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. You can also deduct legal expenses that are:

1. Related to either doing or keeping your job, such as those you paid to defend yourself against criminal charges arising out of your trade or business,
2. For tax advice related to a divorce if the bill specifies how much is for tax advice and it is determined in a reasonable way, or
3. To collect taxable alimony.

You can deduct expenses of resolving tax issues relating to profit or loss from business (Schedule C or C-EZ), rentals or royalties (Schedule E), or farm income and expenses (Schedule F) on the appropriate schedule. You deduct expenses of resolving nonbusiness tax issues on Schedule A (Form 1040).

**Repayments of Income**

If you had to repay an amount that you included in income in an earlier year, you may be able to deduct the amount you repaid. If the amount you had to repay was ordinary income of $3,000 or less, the deduction is subject to the 2% limit. If it was more than $3,000, see Repayments Under Claim of Right under Deductions Not Subject to the 2% Limit, later.
Safe Deposit Box Rent
You can deduct safe deposit box rent if you use the box to store taxable income-producing stocks, bonds, or investment-related papers and documents. 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
You can deduct service charges you pay as a subscriber in a dividend reinvestment plan. These service charges include payments for:

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

Trustee’s Administrative Fees for IRA
Trustee’s administrative fees that are billed separately and paid by you in connection with your individual retirement arrangement (IRA) are deductible (if they are ordinary and necessary) as a miscellaneous itemized deduction subject to the 2% limit.

IV. Deductions Not Subject To The 2% Limit
You can deduct the items listed below as miscellaneous itemized deductions. They are not subject to the 2% limit. Report these items on Schedule A (Form 1040).

LIST OF DEDUCTIONS
Each of the following items are discussed in detail after the list.

- Amortizable premium on taxable bonds.
- Casualty and theft losses from income-producing property.
- Federal estate tax on income in respect of a decedent.
- Gambling losses up to the amount of gambling winnings.
- Impairment-related work expenses of persons with disabilities.
- Loss from other activities from Schedule K-1 (Form 1065-B), box 2.
- Losses from Ponzi-type investment schemes.
- Repayments of more than $3,000 under a claim of right.
- Unrecovered investment in an annuity.

Amortizable Premium on Taxable Bonds
In general, if the amount you pay for a bond is greater than its stated principal amount, the excess is bond premium. You can elect to amortize the premium on taxable bonds. The amortization of the premium is generally an offset to interest income on the bond rather than a separate deduction item.

Part of the premium on some bonds may be a miscellaneous deduction not subject to the 2% limit.

Certain Casualty and Theft Losses of Income-Producing Property
You can deduct a casualty or theft loss as a miscellaneous itemized deduction not subject to the 2% limit if the damaged or stolen property was income-producing property (property held for investment, such as stocks, notes, bonds, gold, silver, vacant lots, and works of art). First report the loss in Section B of Form 4684. You may also have to include the loss on Form 4797 if you are otherwise required to file that form. Your deduction is the amount of the loss included on Form 4684 and Form 4797.
Federal Estate Tax on Income in Respect of a Decedent
You can deduct the federal estate tax attributable to income in respect of a decedent that you as a beneficiary include in your gross income. Income in respect of the decedent is gross income that the decedent would have received had death not occurred and that was not properly includible in the decedent’s final income tax return.

Gambling Losses Up to the Amount of Gambling Winnings
You must report the full amount of your gambling winnings for the year as other income on Form 1040. You deduct your gambling losses for the year on Schedule A (Form 1040). You cannot deduct gambling losses that are more than your winnings.

Caution! You cannot reduce your gambling winnings by your gambling losses and report the difference. You must report the full amount of your winnings as income and claim your losses (up to the amount of winnings) as an itemized deduction. Therefore, your records should show your winnings separately from your losses.

Records. Diary of winnings and losses. You must keep an accurate diary or similar record of your losses and winnings.
Your diary should contain at least the following information.

1. The date and type of your specific wager or wagering activity.
2. The name and address or location of the gambling establishment.
3. The names of other persons present with you at the gambling establishment.
4. The amount(s) you won or lost.

Impairment-Related Work Expenses
If you have a physical or mental disability that limits your being employed, or substantially limits one or more of your major life activities, such as performing manual tasks, walking, speaking, breathing, learning, and working, you can deduct your impairment-related work expenses.
Impairment-related work expenses are ordinary and necessary business expenses for attendant care services at your place of work and other expenses in connection with your place of work that are necessary for you to be able to work.
Self-employed. If you are self-employed, enter your impairment-related work expenses on the appropriate form (Schedule C, C-EZ, E, or F) used to report your business income and expenses.

Loss From Other Activities From Schedule K-1 (Form 1065-B), Box 2
If the amount reported in Schedule K-1 (Form 1065-B), box 2, is a loss, report it on Schedule A (Form 1040). It is not subject to the passive activity limitations.

Repayments Under Claim of Right
If you had to repay more than $3,000 that you included in your income in an earlier year because at the time you thought you had an unrestricted right to it, you may be able to deduct the amount you repaid or take a credit against your tax.

Unrecovered Investment in Annuity
A retiree who contributed to the cost of an annuity can exclude from income a part of each payment received as a tax-free return of the retiree’s investment. If the retiree dies before the entire investment is recovered tax free, any unrecovered investment can be deducted on the retiree’s final income tax return.

V. Nondeductible Expenses
Examples of nondeductible expenses are listed next. The list is followed by discussions of additional nondeductible expenses.

**LIST OF NONDEDUCTIBLE EXPENSES**

- Broker’s commissions that you paid in connection with your IRA or other investment property.
- Burial or funeral expenses, including the cost of a cemetery lot.
- Capital expenses.
- Fees and licenses, such as car licenses, marriage licenses, and dog tags.
- Hobby losses – but see Hobby Expenses, earlier.
- Home repairs, insurance, and rent.
- Illegal bribes and kickbacks.
- Losses from the sale of your home, furniture, personal car, etc.
- Personal disability insurance premiums.
- Personal, living, or family expenses.
- The value of wages never received or lost vacation time.

**Adoption Expenses**
You cannot deduct the expenses of adopting a child, but you may be able to take a credit for those expenses.

**Campaign Expenses**
You cannot deduct campaign expenses of a candidate for any office, even if the candidate is running for reelection to the office. These include qualification and registration fees for primary elections. **Legal fees.** You cannot deduct legal fees paid to defend charges that arise from participation in a political campaign.

**Check-Writing Fees on Personal Account**
If you have a personal checking account, you cannot deduct fees charged by the bank for the privilege of writing checks, even if the account pays interest.

**Club Dues**
Generally, you cannot deduct the cost of membership in any club organized for business, pleasure, recreation, or other social purpose. This includes business, social, athletic, luncheon, sporting, airline, hotel, golf, and country clubs.
You cannot deduct dues paid to an organization if one of its main purposes is to:
- Conduct entertainment activities for members or their guests, or
- Provide members or their guests with access to entertainment facilities.
Dues paid to airline, hotel, and luncheon clubs are not deductible.

**Commuting Expenses**
You cannot deduct commuting expenses (the cost of transportation between your home and your main or regular place of work). If you haul tools, instruments, or other items, in your car to and from work, you can deduct only the additional cost of hauling the items such as the rent on a trailer to carry the items.

**Fines or Penalties**
You cannot deduct fines or penalties you pay to a governmental unit for violating a law. This includes an amount paid in settlement of your actual or potential liability for a fine or penalty (civil or criminal). Fines
or penalties include parking tickets, tax penalties, and penalties deducted from teachers’ paychecks after an illegal strike.

**Health Spa Expenses**
You cannot deduct health spa expenses, even if there is a job requirement to stay in excellent physical condition, such as might be required of a law enforcement officer.

**Home Security System**
You cannot deduct the cost of a home security system as a miscellaneous deduction. However, you may be able to claim a deduction for a home security system as a business expense if you have a home office.

**Investment-Related Seminars**
You cannot deduct any expenses for attending a convention, seminar, or similar meeting for investment purposes.

**Life Insurance Premiums**
You cannot deduct premiums you pay on your life insurance. You may be able to deduct, as alimony, premiums you pay on life insurance policies assigned to your former spouse.

**Lobbying Expenses**
You generally cannot deduct amounts paid or incurred for lobbying expenses. These include expenses to:

1. Influence legislation,
2. Participate or intervene in any political campaign for, or against, any candidate for public office,
3. Attempt to influence the general public, or segments of the public, about elections, legislative matters, or referendums, or
4. Communicate directly with covered executive branch officials in any attempt to influence the official actions or positions of those officials.

Lobbying expenses also include any amounts paid or incurred for research, preparation, planning, or coordination of any of these activities.

*Dues used for lobbying.* If a tax-exempt organization notifies you that part of the dues or other amounts you pay to the organization are used to pay nondeductible lobbying expenses, you cannot deduct that part.

**Lost or Mislaid Cash or Property**
You cannot deduct a loss based on the mere disappearance of money or property. However, an accidental loss or disappearance of property can qualify as a casualty if it results from an identifiable event that is sudden, unexpected, or unusual.

**Example:** A car door is accidentally slammed on your hand, breaking the setting of your diamond ring. The diamond falls from the ring and is never found. The loss of the diamond is a casualty.

**Lunches with Coworkers**
You cannot deduct the expenses of lunches with co-workers, except while traveling away from home on business.

**Meals While Working Late**
You cannot deduct the cost of meals while working late. However, you may be able to claim a deduction if the cost of meals is a deductible entertainment expense, or if you are traveling away from home.

**Personal Legal Expenses**
You cannot deduct personal legal expenses such as those for the following.

2. Breach of promise to marry suit.
3. Civil or criminal charges resulting from a personal relationship.
4. Damages for personal injury, except for certain unlawful discrimination and whistleblower claims.
5. Preparation of a title (or defense or perfection of a title).
6. Preparation of a will.
7. Property claims or property settlement in a divorce.

You cannot deduct these expenses even if a result of the legal proceeding is the loss of income-producing property.

Political Contributions
You cannot deduct contributions made to a political candidate, a campaign committee, or a newsletter fund. Advertisements in convention bulletins and admissions to dinners or programs that benefit a political party or political candidate are not deductible.

Professional Accreditation Fees
You cannot deduct professional accreditation fees such as the following.

1. Accounting certificate fees paid for the initial right to practice accounting.
2. Bar exam fees and incidental expenses in securing admission to the bar.
3. Medical and dental license fees paid to get initial licensing.

Professional Reputation
You cannot deduct expenses of radio and TV appearances to increase your personal prestige or establish your professional reputation.

Relief Fund Contributions
You cannot deduct contributions paid to a private plan that pays benefits to any covered employee who cannot work because of any injury or illness not related to the job.

Residential Telephone Service
You cannot deduct any charge (including taxes) for basic local telephone service for the first telephone line to your residence, even if it is used in a trade or business.

Stockholders’ Meetings
You cannot deduct transportation and other expenses you pay to attend stockholders’ meetings of companies in which you own stock but have no other interest. You cannot deduct these expenses even if you are attending the meeting to get information that would be useful in making further investments.

Tax-Exempt Income Expenses
You cannot deduct expenses to produce tax-exempt income. You cannot deduct interest on a debt incurred or continued to buy or carry tax-exempt securities.

If you have expenses to produce both taxable and tax-exempt income, but you cannot identify the expenses that produce each type of income, you must divide the expenses based on the amount of each type of income to determine the amount that you can deduct.

Example: During the year, you received taxable interest of $4,800 and tax-exempt interest of $1,200. In earning this income, you had total expenses of $500 during the year. You cannot identify the amount of each expense item that is for each income item. Therefore, 80% ($4,800/$6,000) of the expense is for the taxable interest and 20% ($1,200/$6,000) is for the tax-exempt interest. You can deduct, subject to the 2% limit, expenses of $400 (80% of $500).
Travel Expenses for Another Individual
You generally cannot deduct travel expenses you pay or incur for a spouse, dependent, or other individual who accompanies you (or your employee) on business or personal travel unless the spouse, dependent, or other individual is an employee of the taxpayer, the travel is for a bona fide business purpose, and such expenses would otherwise be deductible by the spouse, dependent, or other individual.

Voluntary Unemployment Benefit Fund Contributions
You cannot deduct voluntary unemployment benefit fund contributions you make to a union fund or a private fund. However, you can deduct contributions as taxes if state law requires you to make them to a state unemployment fund that covers you for the loss of wages from unemployment caused by business conditions.

Wristwatches
You cannot deduct the cost of a wristwatch, even if there is a job requirement that you know the correct time to properly perform your duties.

CHAPTER 1: TEST YOUR KNOWLEDGE
The following questions are designed to ensure that you have a complete understanding of the information presented in the chapter (assignment). They are included as an additional tool to enhance your learning experience and do not need to be submitted in order to receive CE credit.
We recommend that you answer each question and then compare your response to the suggested solutions on the following page(s) before answering the final exam questions related to this chapter (assignment).

1. Membership dues may be deductible if paid to professional organizations, such as chambers of commerce and similar organizations, if such membership helps you carry out your job duties. Similar organizations would not include which of the following:
   A. boards of trade
   B. civic or public service organizations
   C. trade associations
   D. airline frequent flyer airport clubs

2. Legal expenses can generally be deducted if they are incurred in an attempt to collect or produce taxable income. Such efforts would not include which of the following:
   A. those to keep or to continue doing your job
   B. those to collect taxable alimony
   C. those incurred for adopting a child
   D. those to collect a tax refund due from state or federal authorities

CHAPTER 1: SOLUTIONS AND SUGGESTED RESPONSES
Below are the solutions and suggested responses for the questions on the previous page(s). If you choose an incorrect answer, you should review the pages as indicated for each question to ensure comprehension of the material.

1. 
   A. Incorrect. Generally, such an organization would have as its primary purpose to encourage business trade and therefore dues paid would likely be deductible.
   B. Incorrect. Dues paid to such an organization are likely deductible.
   C. Incorrect. Dues paid to a trade association are likely deductible.
D. **CORRECT.** Dues paid to airline, hotel, and luncheon clubs are not deductible. You cannot deduct dues paid to an organization if one of its main purposes is to conduct entertainment activities for members, or their guests, or provide members or their guest with access to entertainment facilities.

2.

A. Incorrect. You can deduct legal costs associated with defending yourself against criminal charges resulting from job related activities.

B. Incorrect. Legal fees paid in efforts to collect alimony due are deductible as such efforts usually yield taxable income.

C. **CORRECT.** Legal fees are generally only deductible if they are related to the determination, collection, or refund of income.

D. Incorrect. Legal expenses incurred to pursue or collect tax refunds due are generally tax deductible.
Chapter 2: Limit On Itemized Deductions

Chapter Objective
After completing this chapter, you should be able to:

• Recognize the limits on itemized deductions for the different filing statuses.

I. Introduction

The reduction to itemized deductions and the personal exemption phaseout for high-income taxpayers is in effect for 2016.

II. Are You Subject To The Limit?

You are subject to the limit on certain itemized deductions if your adjusted gross income (AGI) is more than $311,300 if married filing jointly or qualifying widow(er), $285,350 if head of household, $259,400 if single, or $155,650 if married filing separately. Your AGI is the amount on Form 1040, line 38.

III. Which Itemized Deductions Are Limited?

The following Schedule A (Form 1040) deductions are subject to the overall limit on itemized deductions.

• Taxes paid – line 9
• Interest paid – lines 10, 11, and 12
• Mortgage insurance premiums – line 13
• Gifts to charity – line 19
• Job expenses and certain miscellaneous deductions – line 27
• Other miscellaneous deductions – line 28, excluding gambling and casualty or theft losses.

IV. Which Itemized Deductions Are Not Limited?

The following Schedule A (Form 1040) deductions are not subject to the overall limit on itemized deductions. However, they are still subject to other applicable limits.

• Medical and dental expenses – line 4
• Investment interest expense – line 14
• Casualty and theft losses of personal use property – line 20
• Casualty and theft losses of income-producing property – line 28
• Gambling losses – line 28

V. How Do You Figure The Limit?

If your itemized deductions are subject to the limit, the total of all your itemized deductions is reduced by the smaller of:

• 80% of your itemized deductions that are affected by the limit. See Which Itemized Deductions Are Limited, earlier, or
• 3% of the amount by which your AGI exceeds $311,300 if married filing jointly or qualifying widow(er), $285,350 if head of household, $259,400 if single, or $155,650 if married filing separately.
Before you figure the overall limit on itemized deductions, you first must complete Schedule A (Form 1040), lines 1 through 28, including any related forms (such as Form 2106, Form 4684, etc.). The overall limit on itemized deductions is figured after you have applied any other limit on the allowance of any itemized deduction. These other limits include charitable contribution limits, the limit on certain meal and entertainment expenses, and the 2%-of-adjusted-gross-income limit on certain miscellaneous deductions.

**Itemized Deductions Worksheet.** After you have completed Schedule A (Form 1040) through line 28, you can use the Itemized Deductions Worksheet in the Instructions for Schedule A (Form 1040) to figure your limit. Enter the result on Schedule A (Form 1040), line 29. Keep the worksheet for your records.

**Tip:** You should compare the amount of your standard deduction to the amount of your itemized deductions after applying the limit. Use the greater amount when completing Form 1040, line 40. See chapter 20 for information on how to figure your standard deduction.

**CHAPTER 2: TEST YOUR KNOWLEDGE**

The following question is designed to ensure that you have a complete understanding of the information presented in the chapter (assignment). It is included as an additional tool to enhance your learning experience and does not need to be submitted in order to receive CE credit. We recommend that you answer the question and then compare your response to the suggested solution on the following page before answering the final exam question(s) related to this chapter (assignment).

1. Which of the following itemized deductions are limited for high-income taxpayers:
   A. medical and dental expenses
   B. mortgage insurance premiums
   C. investment interest expense
   D. gambling losses

**CHAPTER 2: SOLUTION AND SUGGESTED RESPONSES**

Below is the solution and suggested responses for the question on the previous page. If you choose an incorrect answer, you should review the page(s) as indicated for the question to ensure comprehension of the material.

1.  
   A. Incorrect. Although subject to other applicable limits, medical and dental expenses are not phased out for high-income taxpayers.
   B. **CORRECT.** Other itemized deductions subject to the overall limit include taxes paid, interest paid, gifts to charity, job expenses, and other miscellaneous deductions.
   C. Incorrect. Although subject to other applicable limits, investment interest expenses are not phased out for high-income taxpayers.
   D. Incorrect. Although subject to other applicable limits, gambling losses are not phased out for high-income taxpayers.
FINAL EXAM

The following exam is attached only for your convenience. To access the official exam for this self-study course, please log into your account online and take the Final Exam from the course details page. A passing score of 70 percent or better will receive course credit and a Certificate of Completion.

1. Which of the following is not a requirement for deducting unreimbursed employee expenses:
   A. the expenses must be paid or incurred during your tax year
   B. the expenses must be for carrying on your trade or business of being an employee
   C. the expenses must be greater than $100
   D. the expenses must be ordinary and necessary

2. A taxpayer can claim the home office deduction for the business use of a part of his or her home only if that part of the home is used how:
   A. regularly and exclusively
   B. ordinarily and necessarily
   C. reasonably and simply
   D. temporarily and inexpensively

3. Which of the following miscellaneous itemized deductions is subject to the 2% limit:
   A. tax preparation fees
   B. amortization premium on taxable bonds
   C. casualty and theft losses from income-producing property
   D. federal estate tax on income in respect of a decedent

4. You can generally deduct legal expenses that are incurred for which of the following purposes:
   A. to produce or collect taxable income
   B. to determine, collect or refund any tax
   C. to collect taxable alimony
   D. all of the above

5. In which of the following situations can job search expenses be deducted:
   A. if you are looking for a job in a new occupation
   B. if there was a substantial break between the ending or your last job and looking for a new one
   C. if you are looking for a job in your present occupation
   D. if you are looking for a job for the first time