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Miscellaneous Itemized Deductions
What You Can — and Can't — Deduct

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Most taxpayers are very familiar with itemized deductions related to home ownership, medical expenses and charitable donations. But many are less familiar with miscellaneous itemized deductions. If, for example, you must belong to a trade or professional association to carry out your job responsibilities, yet your employer doesn't cover the dues, you may be able to deduct the amount on your tax return. This is just one of a number of available miscellaneous itemized deductions.

Miscellaneous itemized deductions are divided into two broad categories. The first includes those that can be deducted to the extent the total exceeds 2% of your adjusted gross income (AGI). The other group, not surprisingly, consists of deductions that aren't subject to the 2% floor. Do you know what miscellaneous expenses you can deduct — and what you can't?

Deductions subject to the 2% floor

The IRS further classifies deductions subject to the 2% floor into three groups. One is unreimbursed employee expenses. To qualify for the deduction, the expenses must be ordinary and necessary, such as business liability insurance premiums and dues to chambers of commerce, trade and professional associations or civic organizations.

Home office expenses, such as telecommunication services, can also qualify, so long as the space is used regularly and exclusively for work and is a requirement of your employment. (Self-employed taxpayers can deduct qualified home office expenses directly from their self-employment income; the expenses aren't treated as a miscellaneous itemized deduction and thus aren't subject to the 2% floor.)

The second group of expenses subject to the 2% floor consists of fees for tax preparation and tax advice. You can deduct these expenses for the year in which you pay them. So, on your 2014 return, you can deduct fees paid in 2014 for preparing your 2013 return. This can include the costs of tax preparation software as well as any charges for filing your return electronically.

The third group that's subject to the 2% floor includes a variety of "other expenses." Among them are:

- Expenses you might have incurred to produce or collect the income that's included in your gross income,
- Costs incurred to determine, contest, pay or claim a refund of any tax,
- The cost of any help — whether professional or clerical — needed to care for your investments, and
- Any fees you were charged to collect interest and dividends.

Keep in mind that you'll need to keep track of such expenses in order to get a deduction on your tax return.

What's *not* subject to the 2% rule

There's a range of expenses that can be taken as miscellaneous itemized deductions regardless of whether they exceed 2% of your AGI. These expenses can include casualty and theft losses from income-producing properties, such as stocks, bonds, works of art and vacant lots.

They also include the federal estate tax attributable to "income in respect of a decedent." This is gross income a deceased person would have received if he or she hadn't passed away and that you, as a beneficiary, include in your gross income.

Expenses that can't be deducted

Some expenses that you might think would qualify as miscellaneous itemized deductions actually don't, such as:

- Adoption expenses,
- Brokers' commissions,
- Burial or funeral expenses,
- Commuting expenses,
- The cost of meals eaten while working late or with co-workers,
- Personal legal expenses, and
- Professional accreditation fees.

Some of these expenses may, however, make you eligible for other tax benefits. For instance, adoption expenses may qualify for a tax credit.

The best source for guidance

Determining which miscellaneous expenses *are* deductible and which *aren't* can get confusing. For instance, license and regulatory fees you pay to state and local governments for your trade, business or profession are deductible, subject to the 2% limit. However, professional accreditation fees, such as bar exam fees paid to secure initial admittance to the bar, aren't deductible.

Your tax advisor is the best source for guidance on what miscellaneous itemized deductions you may be eligible for.

Miscellaneous itemized deductions and the AMT

While most miscellaneous itemized deductions are welcomed by taxpayers who would like to hand over fewer dollars to Uncle Sam, they're not always useful. Taxpayers who end up owing the alternative minimum tax (AMT) generally won't get any federal tax benefit from the miscellaneous itemized deductions that are subject to the 2% floor. There may be situations, however, where the tax benefit is reduced without being completely eliminated. The AMT was established by Congress to prevent high-income taxpayers from escaping their responsibility to pay federal income tax by, among other tactics, taking very large amounts of deductions. Since its enactment in 1969, many taxpayers have had to run parallel calculations — one for the regular tax and one for the AMT — and pay whichever tax amount is higher. Because of the way the AMT is calculated, it's typically triggered not just by taxpayers' income levels, but also by the types and levels of income and deductions. And, in calculating AMT income, taxpayers are required to add back the deduction allowed under regular tax purposes for the miscellaneous itemized deductions subject to the 2% floor. Of course, even if a deduction isn't allowed for federal income tax purposes, it still may be allowed on your state tax return. Most (although not all) states don't have an AMT calculation.