
Introduction

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

- Deductions subject to the 2% limit.
- Deductions not subject to the 2% limit.
- Expenses you cannot deduct.
- How to report your deductions.

Some of the deductions previously discussed in this publication are adjustments to income rather than miscellaneous deductions. These include certain employee business expenses that must be listed on Form 2106 or 2106-EZ and some that are entered directly on Form 1040. Those deductions, which are discussed in Publication 463, Travel, Entertainment, Gift, and Car Expenses, include employee business expenses of officials paid on a fee basis and performing artists.

Note. Generally, nonresident aliens are allowed miscellaneous itemized deductions to the extent they are directly related to effectively connected income.



You must keep records to verify your deductions. You should keep receipts, canceled checks, substitute checks, financial account statements, and other documentary evidence. For more information on recordkeeping, see Publication 552, Recordkeeping for Individuals.

Comments and suggestions. We welcome your comments about this publication and your suggestions for future editions.

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Useful Items

You may want to see:

Publication

- 463** Travel, Entertainment, Gift, and Car Expenses
- 525** Taxable and Nontaxable Income
- 535** Business Expenses
- 587** Business Use of Your Home (Including Use by Daycare Providers)
- 946** How To Depreciate Property

Form (and Instructions)

- Schedule A (Form 1040)** Itemized Deductions
- 2106** Employee Business Expenses
- 2106-EZ** Unreimbursed Employee Business Expenses

See *How To Get Tax Help* near the end of this publication for information about getting these publications and forms.

Deductions Subject to the 2% Limit

You can deduct certain expenses as miscellaneous itemized deductions on Schedule A (Form 1040 or Form 1040NR). 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, line 38, or Form 1040NR, line 36.

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 (discussed later under *Travel, Transportation, Meals, Entertainment, Gifts, and Local Lodging*) before you apply the 2% limit.

Deductions subject to the 2% limit are discussed in the following three categories.

- Unreimbursed employee expenses (Schedule A (Form 1040), line 21 or Schedule A (Form 1040NR), line 9).

- Tax preparation fees (Schedule A (Form 1040), line 22 or Schedule A (Form 1040NR), line 10).
- Other expenses (Schedule A (Form 1040), line 23 or Schedule A (Form 1040NR), line 11).

Unreimbursed Employee Expenses

Generally, the following expenses are deducted on Schedule A (Form 1040), line 21, or Schedule A (Form 1040NR), line 9.

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.

You may be able to deduct the following items as unreimbursed employee expenses.

- Business bad debt of an employee.
- Business liability insurance premiums.
- Damages paid to a former employer for breach of an employment contract.
- Depreciation on a computer or cell phone your employer requires you to use in your work.
- Dues to a chamber of commerce if membership helps you do your job.
- Dues to professional societies.
- Educator expenses that are more than you can deduct as an adjustment to income.
- Home office or part of your home used regularly and exclusively in your work.
- Job search expenses in your present occupation.
- Laboratory breakage fees.
- 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.
- Repayment of an income aid payment received under an employer's plan.
- Research expenses of a college professor.
- Rural mail carriers' vehicle expenses.

- Subscriptions to professional journals and trade magazines related to your work.
- Tools and supplies used in your work.
- Travel, transportation, meals, entertainment, gifts, and local lodging related to your work.
- Union dues and expenses.
- Work clothes and uniforms if required and not suitable for everyday use.
- Work-related education.

Business Bad Debt

A business bad debt is a loss from a debt created or acquired in your trade or business. Any other worthless debt is a business bad debt only if there is a very close relationship between the debt and your trade or business when the debt becomes worthless.

A debt has a very close relationship to your trade or business of being an employee if your main motive for incurring the debt is a business reason.

Example. You make a bona fide loan to the corporation you work for. It fails to pay you back. You had to make the loan in order to keep your job. You have a business bad debt as an employee.

More information. For more information on business bad debts, see chapter 10 in Publication 535. For information on nonbusiness bad debts, see chapter 4 in Publication 550, Investment Income and Expenses.

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 if the damages are attributable to the pay you received from that employer.

Depreciation on Computers or Cell Phones

You can claim a depreciation deduction for a computer or cell phone that you use in your work as an employee if its use is:

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

For the convenience of your employer. This means that your use of the computer or cell phone is for a substantial business reason of your employer. You must consider all facts in making this determination. Use of your computer or cell phone during your regular working hours to carry on

your employer's business is generally for the convenience of your employer.

Required as a condition of your employment. This means that you cannot properly perform your duties without the computer or cell phone. Whether you can properly perform your duties without it depends on all the facts and circumstances. It is not necessary that your employer explicitly requires you to use your computer or cell phone. But neither is it enough that your employer merely states that your use of the item is a condition of your employment.

Example. You are an engineer with an engineering firm. You occasionally take work home at night rather than work late at the office. You own and use a computer that is similar to the one you use at the office to complete your work at home. Since your use of the computer is not for the convenience of your employer and is not required as a condition of your employment, you cannot claim a depreciation deduction for it.

Which depreciation method to use. The depreciation method you use depends on whether you meet the more-than-50%-use test.

More-than-50%-use test met. You meet this test if you use the computer or cell phone more than 50% in your work. If you meet this test, you can claim accelerated depreciation under the General Depreciation System (GDS). In addition, you may be able to take the section 179 deduction for the year you place the item in service.

More-than-50%-use test not met. If you do not meet the more-than-50%-use test, you are limited to the straight line method of depreciation under the Alternative Depreciation System (ADS). You also cannot claim the section 179 deduction. (But if you use your computer in a home office, see the exception below.)

Investment use. Your use of a computer or cell phone in connection with investments (described later under *Other Expenses*) does not count as use in your work. However, you can combine your investment use with your work use in figuring your depreciation deduction.

Exception for computer used in a home office. The more-than-50%-use test does not apply to a computer used only in a part of your home that meets the requirements described later under *Home Office*. You can claim accelerated depreciation using GDS for a computer used in a qualifying home office, even if you do not use it more than 50% in your work. You also may be able to take a section 179 deduction for the year you place the computer in service. See *Computer used in a home office* under *How To Report*, later.

More information. For more information on depreciation and the section 179 deduction for computers and other items used in a home office, see *Business Furniture and Equipment* in Publication 587. Publication 946 has detailed information about the section 179 deduction and depreciation deductions using GDS and ADS.

Reporting your depreciation deduction. See *How To Report*, later, for information about reporting a deduction for depreciation.



You must keep records to prove your percentage of business and investment use.

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 *Lobbying Expenses* under *Non-deductible Expenses*, later.

Educator Expenses

If you were an eligible educator in 2008, you can deduct up to \$250 of qualified expenses you paid in 2008 as an adjustment to gross income on Form 1040, line 23, rather than as a miscellaneous itemized deduction. If you file Form 1040A, you can deduct these expenses on line 16. If you and your spouse are filing jointly and both of you were eligible educators, the maximum deduction is \$500. However, neither spouse can deduct more than \$250 of his or her qualified expenses.

Eligible educator. An eligible educator is a kindergarten through grade 12 teacher, instructor, counselor, principal, or aide in a school for at least 900 hours during a school year.

Qualified expenses. Qualified expenses include ordinary and necessary expenses paid in connection with books, supplies, equipment, (including computer equipment, software, and services), and other materials used in the classroom. An ordinary expense is one that is common and accepted in your educational field. A necessary expense is one that is helpful and appropriate for your profession as an educator. An expense does not have to be required to be considered necessary.

Qualified expenses do not include expenses for home schooling or for nonathletic supplies for courses in health or physical education. You must reduce your qualified expenses by the following amounts.

- Excludable U.S. series EE and I savings bond interest from Form 8815.
- Nontaxable qualified state tuition program earnings.