



Department
of the
Treasury

Internal
Revenue
Service

Publication 529
Cat. No. 150560

Miscellaneous Deductions

For use in preparing
1995 Returns

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Important Reminders

Limit on itemized deductions. For 1995, if your adjusted gross income is more than \$114,700 (\$57,350 if married filing separately), you may have to reduce the amount of certain itemized deductions, including your miscellaneous deductions. For more information, see the Form 1040 instructions.

Form 2106-EZ. You may be able to report your unreimbursed employee business expenses on Form 2106-EZ instead of on Form 2106. For more information, see *Form 2106* and *Form 2106-EZ* under *How To Report*, later.

Introduction

This publication explains what 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 publication identifies:

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

It also describes how to report your deductions.

Expenses in each category are presented in a list followed by information about those items that need more explanation.

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



Useful Items

You may want to see:

Publication

- 463** Travel, Entertainment, and Gift Expenses
- 525** Taxable and Nontaxable Income
- 534** Depreciating Property Placed in Service Before 1987
- 535** Business Expenses
- 587** Business Use of Your Home (Including Use By Day-Care Providers)
- 917** Business Use of a Car
- 946** How To Depreciate Property

Form (and Instructions)

- 2106** Employee Business Expenses
- 2106-EZ** Unreimbursed Employee Business Expenses

Other publications. Information on certain other itemized deductions can be found in the following publications:

Medical and Dental Expenses	Publication 502
Home Mortgage Interest Deduction	Publication 936
Charitable Contributions	Publication 526
Nonbusiness Disasters, Casualties, and Thefts	Publication 547

Ordering publications and forms. To order free publications and forms, call 1-800-TAX-FORM (1-800-829-3676). If you have access to TDD equipment, you can call 1-800-829-4059. See your tax package for the hours of operation. You can also write to the IRS Forms Distribution Center nearest you. Check your income tax package for the address.

If you have access to a personal computer and a modem, you can also get many forms and publications electronically. See *How To Get Forms and Publications* in your income tax package for details.

Asking tax questions. You can call the IRS with your tax question Monday through Friday during regular business hours. Check your telephone book or your tax package for the local number or you can call 1-800-829-1040 (1-800-829-4059 for TDD users).

Deductions Subject to the 2% Limit

You can deduct the following expenses only 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 (Form 1040) by subtracting 2% of your adjusted gross income from the total amount of these expenses. You can find your adjusted gross income on line 31, Form 1040.

Generally, you apply the 2% limit after you apply any other deduction limit (such as the 50% limit on business-related meals and entertainment). See the example under *How To Report*, later, for more information on applying the limit.

Deductions subject to the 2% limit are discussed in the two general categories that are shown on Schedule A (Form 1040): unreimbursed employee expenses and other expenses. See *How To Report*, later, for more information on reporting your employee expenses.

Exception for performing artists. If you are a qualified performing artist, you may be able to deduct your employee business expenses as an adjustment to income rather than as a miscellaneous itemized deduction. See *Performing Artists* under *Deductions Not Subject to the 2% Limit*, later.

Exception for impairment-related work expenses. If you have a physical or mental disability, certain expenses you incur that allow you to work may not be subject to the 2% limit. See *Impairment-Related Work Expenses* under *Deductions Not Subject to the 2% Limit*, later.

Unreimbursed Employee Expenses

To be deductible, an unreimbursed employee expense must be:

- 1) Paid or incurred during the taxable year,
- 2) For carrying on your trade or business of being an employee, and
- 3) An ordinary and necessary expense.

An expense is **ordinary** if it is common and accepted in that type of trade or business. An expense is **necessary** if it is appropriate and helpful to your trade or business.

The following unreimbursed expenses that meet these requirements are deductible.

- Business bad debt of employee
- Business liability insurance premiums
- Damages paid to former employer for breach of employment contract
- Depreciation on a computer or cellular telephone your employer requires you to use in your work
- Dues to chamber of commerce if membership helps you do your job
- Dues to professional societies
- Education that is employment related
- Home office or part of home used regularly and exclusively in work
- Job search expenses in your present occupation
- Laboratory breakage fees
- Malpractice insurance premiums
- Medical examinations required by employer
- Occupational taxes you paid
- Passport for business trip

- Repayment of income aid payment
- Research expenses of a college professor
- Subscriptions to professional journals and trade magazines related to your work
- Tools and supplies used in your work
- Travel, transportation, entertainment, and gift expenses related to your work
- Union dues and expenses
- Work clothes and uniforms if required and not suitable for everyday use

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 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 dominant 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. Your dominant motive in making the loan was to preserve your job. You have a business bad debt as an employee.

For more information on business bad debts, see Chapter 14 in Publication 535. For information on nonbusiness bad debts, see *Nonbusiness Bad Debts* 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 Cellular Telephones

If you purchased a computer or cellular telephone, you can claim a depreciation deduction if you meet the two tests explained below.

Employee use of a computer or cellular telephone. If you are an employee and you use your computer or cellular telephone in connection with your work, its use generally must be:

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

“For the convenience of your employer” means that your use of the computer or cellular telephone is for a substantial business reason of your employer. All facts must be considered in making this determination. The use of

your computer or cellular 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" means that you cannot properly perform your duties without it. Whether or not you can properly perform your duties without the computer or cellular telephone depends on all the facts and circumstances. It is not necessary that your employer explicitly requires you to use your computer or cellular telephone. But neither is it sufficient that your employer merely states that your use of these items 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 deduction.

Which depreciation method you can use. If you meet the two tests above, and also predominantly (more than 50%) use your home computer or cellular telephone in your work, you can claim an accelerated depreciation deduction using the General Depreciation System (GDS) and a section 179 deduction.

If you meet the above two tests, but do not predominantly use your home computer or cellular telephone in your work, you must depreciate these items using the straight line method over the Alternative Depreciation System (ADS) recovery period and you cannot take a section 179 deduction. Depreciation deductions using GDS and ADS and the section 179 deduction are explained in Publication 946.

Computer used in home office. All of the above rules on depreciation do not apply to your computer if part of your home is treated as a regular business establishment and you use the computer exclusively in that part. To be treated as a regular business establishment, that part of your home must meet the requirements described under *Home Office*, later. If all these requirements are met, see *Business Furniture and Equipment* in Publication 587 for information on depreciation or electing a section 179 deduction for your computer.

Nonemployee use of a computer. If you use your computer to produce income other than from a business, such as from investments, see *Depreciation on Home Computer* under *Other Expenses*, later.

The time you use your computer for investments does not count as business-use time in determining predominant use. However, you can combine the business/investment time to figure your depreciation deduction.

Reporting and recordkeeping. To claim the depreciation deduction for your cellular telephone or your home computer not used exclusively in your home office, you must complete

Part V of Form 4562, *Depreciation and Amortization*, and attach the form to your tax return. If you are claiming a section 179 deduction, also complete Part I of Form 4562.

You must maintain records to prove your percentage of business use.

To claim the depreciation deduction and/or section 179 deduction for a home computer you placed in service during 1995 and used exclusively in your home office, do not complete Parts III, V, or VI of Form 4562. Complete all other Parts of Form 4562 that apply. See *Business Furniture and Equipment* in Publication 587 for more details.

To claim a depreciation deduction for a home computer you placed in service before 1995 and used exclusively in your home office, do not complete Form 4562. See Publication 946 for more information on depreciating this property.

Note. Report any depreciation and/or section 179 deduction on line 20 of Schedule A (Form 1040) after completing Form 4562 if required.

Dues to Chamber of Commerce and Professional Societies

You may be able to deduct dues paid to a chamber of commerce, similar organizations, and professional societies, if membership helps you carry out the duties of your job. Similar organizations include:

- 1) Boards of trade,
- 2) Business leagues,
- 3) Civic or public service organizations,
- 4) Professional associations such as bar associations and medical associations,
- 5) Real estate boards, and
- 6) Trade associations.

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 to provide members or their guests with access to entertainment facilities. You may not be able to deduct that part of your dues that is allocable to certain lobbying and political activities. See *Dues* under *Lobbying Expenses*, later. Dues paid for membership in any club organized for business, pleasure, recreation, or any other social purpose are generally not deductible. See *Club Dues* under *Non-deductible Expenses* for more information.

Note. Dues paid to airline, hotel, and luncheon clubs are no longer deductible.

Education That Is Employment Related

You can deduct expenses you have for education, even though the education may lead to a degree, if the education:

- 1) Is required by your employer, or the law, to keep your salary, status, or job, and serves a business purpose of your employer, or

- 2) Maintains or improves skills required in your present work.

If your education meets these requirements, you can deduct expenses for tuition, books, supplies, laboratory fees, and similar items, and certain transportation costs.

Nondeductible educational expenses. You cannot deduct expenses you have for education, even though the preceding requirements are met, if the education:

- 1) Is needed to meet the minimum educational requirements to qualify you in your work or business, or
- 2) Will lead to qualifying you in a new trade or business.

If the education qualifies you in a new trade or business, you cannot deduct the educational expenses even if you do not intend to enter that trade or business.

You cannot deduct the cost of travel that in itself constitutes a form of education. For example, a French teacher who travels to France to maintain general familiarity with the French language and culture cannot deduct those expenses.

Get Publication 508, *Educational Expenses*, for a complete discussion of education expenses.

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 and depreciation expenses on your home. You cannot deduct any part of your personal expenses that are for family household purposes.

Requirements for employees claiming the deduction. You may deduct certain expenses for operating a part of your home only if that part of your home is used **regularly** and **exclusively** as:

- 1) Your principal place of business for any trade or business in which you engage, or
- 2) A place to meet or deal with your patients, clients, or customers in the normal course of your trade or business.

You may also deduct certain expenses of operating a separate structure not attached to your home, if you use it regularly and exclusively for 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.

If you claim a home office deduction based on meeting with patients, clients, or customers, you must physically meet with them on your premises, and your meetings with them must be substantial and integral to the conduct of your business. Occasional meetings and telephone calls are insufficient.

You cannot deduct any operating or depreciation expenses for the use of your home if the use is not in a trade or business. For example, you cannot deduct these expenses if you

use a part of your home, even though regularly and exclusively, to read financial periodicals and reports, clip bond coupons, and perform similar investment activities on your own behalf, because these activities are not a trade or business.

The use of a part of your home for both personal and business purposes does not meet the exclusive use test, and you cannot deduct expenses for business use. For example, you are an attorney and use the den of your home to write legal briefs and prepare client tax returns, as well as for personal purposes, you cannot deduct any expenses for the business use of that part of your home.

How to figure the deduction. To figure the percentage of your home used for business, you may compare the square feet of space used for business to the total square feet in your home. Or, if the rooms in your home are approximately the same size, you may compare the number of rooms used for business to the total number of rooms in your home. You may also use any other reasonable method. Generally, you figure the business part of your expenses by applying the percentage to the total of each expense.

Limit on the deduction. The deduction for the business use of your home is limited to the gross income from that business use minus the sum of:

- 1) The business percentage of the otherwise deductible mortgage interest, real estate taxes, and casualty and theft losses, and
- 2) The expenses for your business that are not attributable to the use of your home (for example, union dues or supplies).

Repairs. You can deduct the cost of painting and repairing rooms that are used only for business purposes, subject to the limit. You cannot deduct the costs of painting and repairing rooms used for other purposes.

You can deduct part of the cost of painting the outside of your home or repairing the roof based on the percentage of your home used for business. However, you cannot deduct expenses for lawn care and landscaping.

Own your home. You can deduct depreciation on the part of your home used for business subject to the limit on the deduction as discussed above.

Rent your home. If you rent, rather than own, a home and meet the requirements for business use of a home, you can deduct part of the rent you pay. To figure your deduction, multiply your rent payments by the percentage of your home used for business.

Home leased to employer. If you lease any part of your home to your employer, you cannot claim a home office deduction for that part for any period you use that part of your home to perform services for your employer. However, you may want to see Publication 527, *Residential Rental Property*, for information on deducting rental expenses.

How to report. If you are an employee, you generally report your expenses for the business use of your home (insurance, maintenance, utilities, depreciation) on Form 2106 or Form 2106-EZ. You then carry over your total expenses to line 20 of Schedule A (Form 1040). If you are not required to file Form 2106 or Form 2106-EZ, enter the amount directly on line 20 of Schedule A (Form 1040).

Include the home office expenses for mortgage interest, real estate taxes, and casualty and theft losses on the appropriate lines of Schedule A (Form 1040), along with your deductible nonbusiness expenses in those categories.

Records. You should keep records that will give the information needed to figure the deduction according to these rules. Also keep canceled checks or account statements and receipts of the expenses paid to prove the deductions you claim.

Additional information. For more information on this deduction, see Publication 587.

Job Search Expenses

You may be able to 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 these expenses if you are looking for a job in a new occupation, even if you get the job.

If you are unemployed, the kind of work you did for your past employer is your occupation. If there is a substantial break between the time of your past job and your looking for a new one, you cannot deduct your expenses.

You cannot deduct your expenses if you are seeking employment for the first time, even if you get the job.

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.

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 to the extent of your tax benefit in the earlier year (which is explained under *Recoveries* in Publication 525. If your employer pays the fees directly to the employment agency and you were not responsible for them, you do not include them in your gross income.

Resumé. You can deduct amounts you spend for typing, printing, and mailing copies of a resumé to prospective employers if you spent the amounts in 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. To be deductible, the trip must be 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 to look for a new job.

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

If you use the standard mileage rate to figure your car expenses, use 30 cents per mile. See Publication 463 for more information on travel expenses, and Publication 917 for more information on car expenses. If your job search expenses include travel and transportation expenses, you must file Form 2106 or Form 2106-EZ, as discussed later under *How To Report*.

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, occupational taxes can be claimed only as a miscellaneous deduction subject to the 2% limit; they cannot be claimed as a deduction for taxes elsewhere on your return.

Repayment of Income Aid Payment

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. An "income aid payment" is one that is received under an employer's plan to aid employees who lose their jobs due to lack of work.

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. The research must be undertaken as a means of carrying out the duties expected of a professor and without expectation of profit apart from salary. However, no deduction is allowed for travel as a form of education.

Tools Used in Your Work

Generally, amounts you spend for tools used in your work are deductible expenses if the tools wear out and are thrown away within 1 year from the date of purchase. The cost of tools expected to last more than a year can be depreciated. For more information about depreciation, get Publication 946.

Travel, Transportation, Meal, Entertainment, and Gift Expenses

If you are an employee and have ordinary and necessary business-related expenses for travel away from home, local transportation, entertainment, and gifts, you may be able to deduct these expenses. Generally, you must file Form 2106 or Form 2106-EZ to claim these expenses. See *How To Report*, later.

Travel expenses. Travel expenses are those incurred while traveling away from home for your employer. The assignment or job must be temporary, that is, expected to end within a

fixed and reasonably short time. Travel expenses paid or incurred in connection with an indefinite work assignment are generally not deductible.

If your employment away from home in a single location is realistically expected to last (and does in fact last) for 1 year or less, the employment is generally temporary. If your employment away from home in a single location is realistically expected to last for more than 1 year or there is no realistic expectation that the employment will last for 1 year or less, the employment is indefinite, regardless of whether it actually exceeds 1 year. If your employment away from home in a single location initially is realistically expected to last for 1 year or less, but at some later date the employment is realistically expected to exceed 1 year, that employment will be treated generally as temporary until the date that your realistic expectation changes.

Travel expenses include the cost of getting to and from your business destination (air, rail, bus, etc.), meals and lodging while away from home, and other expenses, such as taxi fares, baggage charges, and cleaning and laundry expenses.

Local transportation expenses. Local transportation expenses are the expenses of getting from one work place to another when you are not traveling away from home. They include the cost of transportation by air, rail, bus, taxi, and the cost of using your car.

If you work at two places in a day, whether or not for the same employer, you can generally deduct the expenses of getting from one workplace to the other.

You can deduct your transportation expenses incurred in going between your residence and a temporary work location outside the metropolitan area where you live and normally work. However, your expenses incurred in going between your residence and a temporary work location within that metropolitan area are nondeductible commuting expenses, unless one of the following apply.

- 1) If you have one or more regular work locations away from your residence, you can deduct your transportation expenses incurred in going between your residence and a temporary work location in the same trade or business regardless of the distance.
- 2) If your residence is your principal place of business, you can deduct your transportation expenses incurred in going between your residence and another work location in the same trade or business, regardless of whether the other work location is regular or temporary and regardless of the distance.

A temporary work location is a place at which you perform services on an irregular or short-term (generally a matter of days or weeks) basis.

Entertainment. Entertainment expenses (including entertainment-related meals) generally must be directly related to the active conduct of your trade or business. However, the expense only needs to be associated with the active conduct of your trade or business if it directly precedes or follows a substantial and bona fide business-related discussion.

You can deduct only 50% of your entertainment expenses unless the expenses meet certain exceptions. This 50% limit is applied before the 2%-of-adjusted-gross-income limit.

Gift expenses. You can generally deduct up to \$25 of business gifts you give to any one individual during the year. The \$25 limit does not apply to generally distributed items costing \$4 or less which display your name, or to signs, racks, and promotional materials to be displayed by the recipient.

For more information on travel, meals, entertainment, and gift expenses and reimbursements, get Publication 463. For information on car expenses, get Publication 917.

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 such contributions.

You may not be able to deduct amounts you pay to the union that are allocable to certain lobbying and political activities. See *Dues* under *Lobbying Expenses*, later.

Work Clothes and Uniforms

You can deduct the cost and upkeep of work clothes only if you must wear them as a condition of your employment and they are not suitable for everyday wear. To qualify for the deduction, both conditions must be met. It is not enough that you wear distinctive clothing; the clothing must be specifically required by your employer. Nor is it enough that you do not in fact wear your work clothes away from work; the clothing must not be suitable for taking the place of your regular clothing.

Examples of workers who may be required to wear uniforms that qualify 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.

If you are a student at an armed forces academy, you cannot deduct the cost of your uniforms if they replace regular clothing. However, you can deduct the cost of insignia, shoulder boards, and related items.

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

Other Expenses

You can deduct certain other expenses as miscellaneous itemized deductions subject to the 2%-of-adjusted-gross-income limit. These are 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.

Any expenses you pay for the purposes in (1) and (2) above must be reasonably and closely related to these purposes.

These other expenses include:

- Appraisal fees for a casualty loss or charitable contribution
- Clerical help and office rent in caring for investments
- Depreciation on home computers to the extent used for investments
- Excess deductions (including administrative expenses) allowed a beneficiary on termination of an estate or trust
- Fees to collect interest and dividends
- Hobby expenses, but generally not more than hobby income
- Indirect miscellaneous deductions of pass-through entities

- Investment fees and expenses
- Legal fees related to producing or collecting taxable income, doing or keeping your job, or getting tax advice
- Loss on deposits in an insolvent or bankrupt financial institution
- Repayments of income
- Repayments of social security benefits
- Safe deposit box rental
- Service charges on dividend reinvestment plans
- Tax advice and preparation fees, including fees for electronic filing
- Trustee's fees for your IRA, if separately billed and paid

If the expenses you pay produce income that is only partially taxable, see *Tax-Exempt Income Expenses*, later, under *Nondeductible Expenses*.

Appraisal Fees

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

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.

Depreciation on Home Computer

You can deduct depreciation on your home computer to the extent you use it to produce income (for example, managing your investments that produce taxable income). If you work as an employee and use the computer in that work, see *Depreciation on Home Computers or Cellular Telephones* under *Unreimbursed Employee Expenses*, earlier. For more information on depreciation, see Publications 946 and 534.

Excess Deductions of an Estate

If the deductions in the estate's last tax year (other than deductions for personal exemptions and charitable contributions) are more than the estate's gross income for that year, the beneficiaries succeeding to the estate's property can claim such excess as a miscellaneous deduction. 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. For more information, see Publication 559, *Survivors, Executors, and Administrators*.

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 unless you are a dealer in securities. You must offset the fee against the selling price.

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. See *Not-for-Profit Activities* in Chapter 1 of Publication 535.

Indirect Deductions of Pass-Through Entities

Pass-through entities include partnerships, S corporations, and mutual funds. Deductions of pass-through entities are passed through to the partners or shareholders. If the deductions are miscellaneous itemized deductions, they are generally subject to the 2% limit.

Information returns. You should receive information returns from pass-through entities. Partnerships and S corporations issue Schedule K-1, which lists the items and amounts you must report, and identifies the tax return schedules and lines to use.

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. You should receive a copy of Schedule K-1 (Form 1065), *Partner's Share of Income, Credits, Deductions, Etc.*

Allocated expenses of mutual funds. The allocable investment expenses of nonpublicly offered mutual funds are subject to the 2% limit. Publicly offered mutual funds do not pass investment expenses through to shareholders.

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. You can claim the expenses only as a miscellaneous itemized deduction subject to the 2% limit.

Publicly offered mutual funds. These funds will send you a Form 1099-DIV, 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. A "publicly offered" mutual fund is one that 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.

Contact your mutual fund if you are not sure if your fund is publicly offered.

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.
- 3) To collect taxable alimony.

Expenses allocated to 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) are deductible on the appropriate schedule. The expenses allocated to resolving nonbusiness tax issues are deductible on Schedule A (Form 1040). See *Tax Preparation Fees*, later.

Loss on Deposits in an Insolvent or Bankrupt Financial Institution

If you have a loss on your deposit in a qualified financial institution because of the bankruptcy or insolvency of the institution, and you can reasonably estimate your loss, you can choose to treat the amount as a current:

- 1) Casualty loss on Form 4684 (see Publication 547), or
- 2) Ordinary loss (miscellaneous itemized deduction on Schedule A (Form 1040)).

Or, you can wait until the year of final determination of the actual loss and treat that amount as a nonbusiness bad debt (short-term capital loss on Schedule D (Form 1040)). See Publication 550, *Investment Income and Expenses* for information on claiming the loss as a nonbusiness bad debt.

If you choose to report your loss as an ordinary loss, the maximum amount you can claim for each financial institution is \$20,000 (\$10,000 if you are married filing separately) reduced by any expected state insurance proceeds. The deduction is subject to the 2%-of-adjusted-gross-income limit.

You cannot choose to claim an ordinary loss if:

- 1) Any part of the deposit is federally insured,
- 2) You own at least 1% of the financial institution,

- 3) You are an officer of the financial institution, or
- 4) You are related to such an owner or officer.

If you claim an ordinary loss, clearly indicate the name of the financial institution on line 22, Schedule A (Form 1040), and write "Insolvent Financial Institution." Also include the calculation of the reasonably estimated loss claimed.

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 is more than \$3,000, see *Repayments Under Claim of Right*, later.

Repayments of Social Security Benefits

If the sum of the amounts shown in box 5 of all of your Forms SSA-1099 and Forms RRB-1099 is a negative figure and all or part of this negative figure is for benefits you included in gross income in an earlier year, you can take a miscellaneous deduction for the amount of the negative figure that represents those benefits. However, if the deduction is more than \$3,000, you will have to use a special computation to figure your tax. Get Publication 915, *Social Security and Equivalent Railroad Retirement Benefits*, for additional information.

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 or other personal items or for 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.

Tax Preparation Fees

You can usually deduct tax preparation fees in the year you pay them. Thus, on your 1995 return, you can deduct fees paid in 1995 for preparing your 1994 return. These fees include the cost of tax preparation software programs and tax publications. It also includes any fee you paid for electronic filing of your return.

Expenses allocated to preparing tax schedules relating to profit or loss from business (Schedule C or C-EZ), rentals or royalties (Schedule E), or farm income and expenses (Schedule F) are deductible on the

appropriate schedule. The expenses allocated to preparing the remainder of the return are deductible on line 21, Schedule A (Form 1040).

Trustee's Administrative Fees for IRA

You can deduct an IRA trustee's administrative fees that are billed separately and that you paid in connection with your individual retirement arrangement (IRA). These expenses must be ordinary and necessary. You cannot separately deduct disguised IRA contributions or capital expenditures such as brokers' commissions that you must add to the cost of securities you buy through brokers. Deductible trustee's fees are not subject to the annual dollar limit on contributions you can make to an IRA. Deduct them as a miscellaneous deduction, not with your IRA deduction. For more information about IRAs, get Publication 590, *Individual Retirement Arrangements (IRAs)*.

Deductions Not Subject to the 2% Limit

The following expenses are deductible as miscellaneous itemized deductions. However, they are not subject to the 2% limit. Report these expenses on line 27, Schedule A (Form 1040).

List of Deductions

- Amortizable premium on taxable bonds
- Federal estate tax on income in respect of a decedent
- Gambling losses to the extent of gambling winnings
- Impairment-related work expenses of persons with disabilities
- Repayments under a claim of right if more than \$3,000
- Unrecovered investment in a pension

Amortizable Premium on Taxable Bonds

Bond premium is the amount you pay for bonds that is greater than the face value of the bonds. You can choose to amortize the premium on taxable bonds.

For a bond purchased before October 23, 1986, the amortization of the premium is a miscellaneous itemized deduction not subject to the 2% limit.

For a bond acquired after October 22, 1986, and before January 1, 1988, the amortization of the premium is investment interest expense subject to the investment interest limit, unless you choose to treat it as an offset to interest income on the bond.

For a bond acquired after December 31, 1987, the amortization of the premium is an offset to interest income on the bond rather than a separate interest deduction item.

For more information, see *Bond Premium Amortization* in Chapter 3 of Publication 550.

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. Get Publication 559, *Survivors, Executors, and Administrators*, for information about figuring the amount of this deduction.

Gambling Losses to the Extent of Gambling Winnings

You must report the full amount of your gambling winnings on line 21, Form 1040. You deduct your gambling losses on line 27, Schedule A (Form 1040). You cannot deduct gambling losses that are more than your winnings.

Note. 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. Only gambling losses incurred during the year can be deducted on Schedule A.

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, and
- 4) The amount(s) you won or lost.

Proof of winnings and losses. In addition to your diary, you should also have documentation. You can generally prove your winnings and losses through Form W-2G, *Certain Gambling Winnings*, Form 5754, *Statement by Person(s) Receiving Gambling Winnings*, wagering tickets, canceled checks, credit records, bank withdrawals, and statements of actual winnings or payment slips provided to you by the gambling establishment.

For specific wagering transactions, you can use the following items to support your winnings and losses.

Keno: Copies of the keno tickets you purchased that were validated by the gambling establishment, copies of your casino credit records, and copies of your casino check cashing records.

Slot machines: A record of the machine number and of all winnings by date and time the machine was played.

Table games (twenty-one (blackjack), craps, poker, baccarat, roulette, wheel of fortune, etc.): The number of the table at which you were playing. Casino credit card data indicating whether the credit was issued in the pit or at the cashier's cage.

Bingo: A record of the number of games played, cost of tickets purchased and amounts collected on winning tickets. Supplemental records include any receipts from the casino, parlor, etc.

Racing (horse, harness, dog, etc.): A record of the races, amounts of wagers, amounts collected on winning tickets and amounts lost on losing tickets. Supplemental records include unredeemed tickets and payment records from the racetrack.

Lotteries: A record of ticket purchases, dates, winnings and losses. Supplemental records include unredeemed tickets, payment slips and winnings statements.

Note. These recordkeeping suggestions are intended as general guidelines to help you establish your winnings and losses. They are not all inclusive. Your tax liability depends on your particular facts and circumstances.

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, your impairment-related work expenses are deductible.

Impairment-related work expenses are allowable 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.

If you are an employee, you enter impairment-related work expenses on Form 2106 or Form 2106-EZ. From the amount on line 10 of Form 2106, or line 6 of Form 2106-EZ, you enter the amount that is related to your impairment on line 27, Schedule A (Form 1040), and the amount that is unrelated to your impairment on line 20, Schedule A (Form 1040).

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. See *Repayments* in Publication 525 for more information.

Unrecovered Investment in Pension

If a retiree had contributed to the cost of a pension or annuity, a part of each payment received can be excluded from income as a tax-free return of the retiree's investment. If the retiree dies before the entire investment is recovered, any unrecovered investment is allowed as a deduction on the retiree's final income tax return. Get Publication 575, *Pension and Annuity Income (Including Simplified General Rule)*, for more information about the tax treatment of pensions and annuities.

Performing Artists

If you are a performing artist, you may qualify to deduct your employee business expenses as an adjustment to income rather than as a miscellaneous itemized deduction. To qualify, you must meet all of the following requirements.

- 1) During the tax year, you perform services in the performing arts for at least two employers.
- 2) Your related performing-arts business expenses are more than 10% of your gross income from the performance of such services.
- 3) Your adjusted gross income is not more than \$16,000 before deducting these business expenses.

You are not considered to have performed services for an employer unless that employer paid you \$200 or more.

Special rules for married persons. If you are married, you must file a joint return unless you lived apart from your spouse at all times during the tax year.

If you file a joint return, you must figure requirements (1) and (2) separately for both you and your spouse. However, requirement (3) applies to your and your spouse's combined adjusted gross income.

Where to report. If you meet all of the above requirements, you should first complete Form 2106 or Form 2106-EZ. Then you include your performing-arts related expenses from line 10 of Form 2106 or from line 6 of Form 2106-EZ in the total on line 30 of Form 1040. Write "QPA" and the amount of your performing-arts related expenses on the dotted line next to line 30 (Form 1040).

If you do not meet all of the above requirements, you do not qualify to deduct your expenses as an adjustment to gross income and the expenses are subject to the 2% limit. Deduct your employee business expenses as described under *How To Report*, later.

Nondeductible Expenses

You cannot deduct the following expenses.

List of Expenses

- Adoption expenses
- Burial or funeral expenses, including the cost of a cemetery lot
- Campaign expenses
- Capital expenses
- Check-writing fees
- Certain club dues (see *Club Dues* later)
- Commuting expenses
- Fees and licenses, such as car licenses, marriage licenses, and dog tags
- Fines and penalties, such as parking tickets
- Health spa expenses
- Hobby losses
- Home repairs, insurance, and rent
- Illegal bribes and kickbacks—See *Bribes and kickbacks* in Chapter 16 of Publication 535
- Investment-related seminars
- Life insurance premiums
- Lobbying expenses
- Losses from the sale of your home, furniture, personal car, etc.
- Lost or misplaced cash or property—See Publication 547
- Lunches with co-workers
- Meals while working late
- Personal disability insurance premiums
- Personal legal expenses
- Personal, living, or family expenses
- Political contributions
- Professional accreditation fees
- Professional reputation, expenses to improve
- Relief fund contributions
- Residential telephone line
- Stockholders' meeting, expenses of attending
- Tax-exempt income expenses
- Travel expenses for another individual
- Voluntary unemployment benefit fund contributions
- Wristwatches

Adoption Expenses

You cannot deduct the expenses you paid to adopt a child.

Campaign Expenses

Campaign expenses of a candidate for any office, even if the candidate is running for reelection to the office, are not deductible. 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.

Capital Expenses

You cannot currently deduct amounts paid to buy property that has a useful life of more than 1 year or amounts paid to increase the value or prolong the life of property. If you use such property in your work, you may be able to take a depreciation deduction. Get Publication 946. If the property is a car used in your work, also get Publication 917.

Check-Writing Fees

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, and hotel clubs. For exceptions, see *Dues to Chamber of Commerce and Professional Societies* under *Unreimbursed Employee Expenses*, earlier.

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, etc., in your car to and from work, you can deduct only additional costs, such as renting a trailer that you tow with your vehicle.

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.

Homeowners' Insurance Premiums

You cannot deduct insurance premiums that you pay or that are placed in escrow for your home, such as fire and liability or mortgage insurance.

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. Premiums you pay on life insurance policies assigned to your ex-spouse may be deductible as alimony. See Publication 504 for information on alimony.

Lobbying Expenses

You 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 such officials.

Include, as part of these expenses, any amount paid or incurred for research, preparation, planning, or coordination of that activity.

Covered executive branch official. A covered executive branch official includes:

The President,

The Vice President,

Any officer or employee of the White House Office of the Executive Office of the President, and the two most senior level officers of each of the other agencies in the Executive Office, and

Any individual serving in a position in Level I of the Executive Schedule under Section 5312 of Title 5, United States Code, any other individual designated by the President as having Cabinet-level status, and any immediate deputy of such individual.

Dues. You cannot deduct that portion of your dues or other amounts you pay to a tax-exempt organization that notifies you that such amounts are allocable to nondeductible lobbying expenses.

Exceptions. The following expenses are exceptions to the disallowance rule.

- 1) Expenses for attempting to influence the legislation of any local council or similar

governing body (local legislation). An Indian tribal government shall be treated as a local council or similar governing body.

- 2) Any in-house expenses for influencing legislation or communicating directly with a covered executive branch official if such expenses for the tax year do not exceed \$2,000 (excluding overhead expenses).
- 3) Expenses incurred by taxpayers engaged in the trade or business of lobbying (professional lobbyists) on behalf of another person. (The disallowance rule applies to payments by the other person to the lobbyist for lobbying activities.)

Lunches with Co-Workers

You cannot deduct the expenses of lunches with co-workers, except while traveling away from home on business. See Publication 463 for information on these deductible expenses.

Meals While Working Late

You cannot deduct the cost of meals while working late. However, you may be able to claim a deduction if it is a deductible entertainment expense, or you are traveling away from home. See Publication 463 for information on these deductible expenses.

Personal Legal Expenses

You cannot deduct personal legal expenses such as those for the following:

- 1) Custody of children,
- 2) Breach of promise (to marry) suit,
- 3) Civil or criminal charges resulting from a personal relationship,
- 4) Damages for personal injury,
- 5) Preparation of a title (or to defend or perfect title),
- 6) Preparation of a will, and
- 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.

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, and
- 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 allocate the expenses 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 expenses of \$500 during the year. If you cannot identify the amount of each expense item that is for each income item, you must allocate 80% (\$4,800/\$6,000) of the expense to taxable interest and 20% (\$1,200/\$6,000) to 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 an employee) on business travel. See Publication 463 for more information on deductible travel expenses.

Voluntary Unemployment Benefit Fund Contributions

You cannot deduct voluntary unemployment benefit fund contributions you make to a union fund or a private fund. However, contributions are deductible 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.

How To Report

You must itemize deductions on Schedule A (Form 1040) to be able to claim miscellaneous deductions.

Where to report on Schedule A. Report your miscellaneous deductions on the appropriate lines of Schedule A (Form 1040).

Line 20. If you have to file Form 2106 or Form 2106-EZ, you should carry over the amount of unreimbursed employee business expenses from line 10 of Form 2106, or line 6 of Form 2106-EZ, to line 20 of Schedule A (Form 1040). Attach the completed Form 2106 or Form 2106-EZ to Form 1040.

If you don't have to fill out Form 2106 or Form 2106-EZ, just list the type and amount of your unreimbursed employee business expenses on the dotted line next to line 20. If you need more space, attach a statement showing the type and amount of the expense. Enter one total on line 20.

Line 21. Deduct your tax preparation fees that are not deducted on another schedule on line 21.

Line 22. Any other miscellaneous deductions subject to the 2% limit should be claimed on line 22 of Schedule A (Form 1040). List the type and amount of each expense on the dotted line for line 22. If you need more space, attach a statement showing the type and amount of each expense. Enter one total on line 22.

Line 27. If you have miscellaneous deductions not subject to the 2% limit, you should claim these amounts on line 27 of Schedule A (Form 1040). List the type and amount of each expense on the dotted line for line 27. If you need more space, attach a statement showing the types and amount of each expense.

Form 2106. To report employee business expenses, you must file Form 2106 (see *Form 2106-EZ*, later) if any of the following apply:

- 1) You were not reimbursed by your employer for your expenses (amounts included in box 1 of your Form W-2 are not considered reimbursements) and:
 - a) You are claiming job-related travel, transportation, meal, or entertainment expenses,
 - b) You are a qualified performing artist (see *Performing Artists*, earlier), or
 - c) You are an individual with a disability and are claiming impairment-related work expenses (see *Impairment-Related Work Expenses under Deductions Not Subject to the 2% Limit*, earlier).
- 2) You were reimbursed for your expenses by your employer, and your deductible expenses are more than your reimbursements. (Count only reimbursements your

employer did not include in box 1 of your Form W-2.)

- 3) You were reimbursed for your expenses by your employer, you used a car or other vehicle in your job in 1995 and used the same vehicle in a prior year for business purposes, and:
 - a) You used the actual expense method in the first year you used the vehicle for business, or
 - b) You used a depreciation method other than straight line for this vehicle in any prior year.

Do not file Form 2106 if none of your expenses are deductible because of the 2% limit; that is, the amount on Schedule A (Form 1040), line 26, is zero.

Form 2106-EZ. You can use Form 2106-EZ if you were not reimbursed for your expenses or, if you were reimbursed, the reimbursement was included in box 1 of your Form W-2, and if you claim car expenses, you use the standard mileage rate.

Statutory employee. If you are a statutory employee, deduct the business expenses related to being a statutory employee on Schedule C or C-EZ (Form 1040) instead of Schedule A (Form 1040).

You may be a statutory employee if:

- 1) You are an agent of your employer or you are paid on commission and a driver who:
 - a) Distributes meat, vegetable, fruit, or bakery products,
 - b) Distributes beverages (other than milk), or
 - c) Picks up and delivers laundry or dry cleaning.
- 2) You are a full-time life insurance sales agent whose principal business activity is selling life insurance or annuity contracts, or both, primarily for one life insurance company.
- 3) You work at home on materials or goods furnished by your employer. Your employer must furnish specifications for the work to be done and the work must be returned to your employer or a person named by your employer.
- 4) As a full-time traveling or city salesperson, you turn in orders to your employer from wholesalers, retailers, contractors, or operators of hotels, restaurants, or other similar establishments. The goods sold must be merchandise for resale or supplies for use in the buyer's business operation. This work must be your principal business activity.

If you are a statutory employee, you will receive a Form W-2 from your employer with the box in box 15 checked to indicate "Statutory employee."

Example

Debra Smith is employed as a salesperson. Her adjusted gross income is \$40,000 and she did not receive any reimbursement for her expenses. She has the following qualifying miscellaneous deductions:

Entertainment expenses	\$ 500
Transportation expenses	\$ 500
Home office expenses	\$1,100
Tax return preparation	\$ 200
Investment counseling	\$ 300
Gambling losses (reported \$200 as income)	\$ 200

Her filled-in Form 2106-EZ and part of her Schedule A – Itemized Deductions are shown

on the next page. Of Debra's deductions, only gambling losses are not subject to the 2%-of-adjusted-gross-income limit. She enters the gambling losses on line 27 of Schedule A (Form 1040). The other items are subject to the 2% limit and are shown on line 20, 21 or 22 of Schedule A (Form 1040).

Debra completes Part II of Form 2106-EZ. She enters the transportation expenses of \$500 on line 2. The home office expenses (\$1,100) are entered on line 4. The entertainment expenses (\$500) are subject to the 50% limit and are entered on line 5. She then completes the rest of the form. The total expenses

(\$1,850) shown on line 6 (Form 2106-EZ) are entered on line 20 of Schedule A (Form 1040).

Debra's expenses for tax return preparation are entered on line 21. Her expenses for investment counseling are entered on line 22, Schedule A (Form 1040). She then totals the amounts on lines 20, 21 and 22 and enters this total (\$2,350) on line 23. She enters \$40,000, her adjusted gross income, on line 24. She multiplies this amount by 2% (.02) and enters the result (\$800) on line 25. She subtracts the amount on line 25 from the amount on line 23 and enters \$1,550, her allowable deduction, on line 26.

Unreimbursed Employee Business Expenses

1995

Attachment Sequence No. **54A**

Department of the Treasury
Internal Revenue Service

▶ See instructions on back.

▶ Attach to Form 1040 or Form 1040-T.

Your name <i>Debra Smith</i>	Social security number <i>111 00 1111</i>	Occupation in which expenses were incurred <i>Sales person</i>
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Part I General Information

You May Use This Form ONLY if All of the Following Apply:

- You are an employee deducting expenses attributable to your job.
- You do not get reimbursed by your employer for any expenses (amounts your employer included in box 1 of your Form W-2 are not considered reimbursements).
- If you are claiming vehicle expense,
 - a You own your vehicle, and
 - b You are using the standard mileage rate for 1995 and also used it for the year you first placed the vehicle in service.

Part II Figure Your Expenses

1	Vehicle expense using the standard mileage rate. Complete Part III and multiply line 8a by 30¢ (.30)	1	
2	Parking fees, tolls, and transportation, including train, bus, etc., that did not involve overnight travel	2	<i>500</i>
3	Travel expense while away from home overnight, including lodging, airplane, car rental, etc. Do not include meals and entertainment	3	
4	Business expenses not included on lines 1 through 3. Do not include meals and entertainment	4	<i>1,100</i>
5	Meals and entertainment expenses: \$ <i>500</i> x 50% (.50)	5	<i>250</i>
6	Total expenses. Add lines 1 through 5. Enter here and on line 20 of Schedule A (Form 1040), or Form 1040-T, Section B, line n. (Qualified performing artists and individuals with disabilities, see the instructions for special rules on where to enter this amount.)	6	<i>1,850</i>

SCHEDULES A&B
(Form 1040)

Schedule A—Itemized Deductions

1995

Attachment Sequence No. **07**

Department of the Treasury
Internal Revenue Service

(Schedule B is on back)

▶ Attach to Form 1040. ▶ See instructions for Schedules A and B (Form 1040).

Job Expenses and Most Other Miscellaneous Deductions	20	Unreimbursed employee expense—job travel, union dues, job education, etc. If required, you MUST attach Form 2106 or 2106-EZ. (See page A-5.) ▶	<i>1,850</i>
	21	Tax preparation fees	<i>200</i>
(See page A-5 for expenses to deduct here.)	22	Other expenses—investment, safe deposit box, etc. List type and amount ▶ <i>investment counseling</i>	<i>300</i>
	23	Add lines 20 through 22	<i>2,350</i>
	24	Enter amount from Form 1040, line 32. <i>24 40,000 </i>	
	25	Multiply line 24 above by 2% (.02)	<i>800</i>
	26	Subtract line 25 from line 23. If line 25 is more than line 23, enter -0-	<i>1,550</i>
Other Miscellaneous Deductions	27	Other—from list on page A-5. List type and amount ▶ <i>gambling losses</i>	<i>200</i>

