

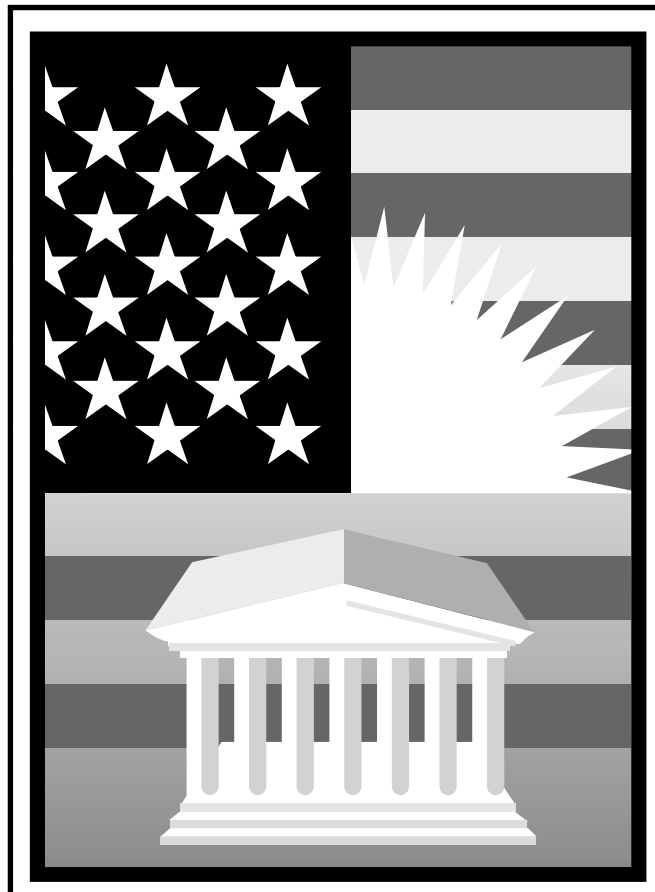


Department of the Treasury
Internal Revenue Service

Publication 529
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Miscellaneous Deductions

For use in preparing
1999 Returns



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Important Change for 1999

Photographs of missing children. The Internal Revenue Service is a proud partner with the National Center for Missing and Exploited Children. Photographs of missing children selected by the Center may appear in this publication on pages that would otherwise be blank. You can help bring these children home by looking at the photographs and calling **1-800-THE-LOST (1-800-843-5678)** if you recognize a child.

Important Reminder

Limit on itemized deductions. For 1999, if your adjusted gross income is more than \$126,600 (\$63,300 if married filing separately), you may have to reduce the amount of certain itemized deductions, including your miscellaneous deductions. For more information and a worksheet, see the instructions for line 28 of Schedule A (Form 1040).

Introduction

This publication 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 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.



You must keep records to verify your deductions. You should keep receipts, canceled 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, Gift, and Car Expenses
- 525** Taxable and Nontaxable Income
- 535** Business Expenses
- 587** Business Use of Your Home (Including Use By Day-Care Providers)
- 946** How To Depreciate Property

Form (and Instructions)

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

See *How To Get More Information* 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). 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 34.

Generally, you apply the 2% limit after you apply any other deduction limit. For example, the 50% (or 55%) limit on business-related meals and entertainment (discussed later under *Travel, Transportation, Meal, Entertainment, and Gift Expenses*) is applied before you subtract 2% of your adjusted gross income.

Deductions subject to the 2% limit are discussed in the two general categories that are shown on Schedule A: **unreimbursed employee expenses** and **other expenses** (including tax preparation fees).

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.

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.

State and local government officials paid on a fee basis. If you performed services as an employee of a state or local government and you were paid in whole or in part on a fee basis, you can claim your trade or business expenses in performing those services as an adjustment to gross income, rather than as a miscellaneous deduction. See *Officials Paid on a Fee Basis* under *Deductions Not Subject to the 2% Limit*, later.

Unreimbursed Employee Expenses

You can deduct only 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 business expenses.

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

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 cellular telephone 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
- Education that is employment related
- Home office or part of your home used regularly and exclusively in your work
- Job search expenses in your present occupation
- Laboratory breakage fees
- 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
- 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 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 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

You can claim a depreciation deduction for a computer or cellular telephone 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.

For the convenience of your employer. This means that your use of the computer or cellular telephone is for a substantial business reason of your employer. You must consider all facts in making this determination. 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. This means that you cannot properly perform your duties without the computer or cellular telephone. 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 cellular telephone. 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. You generally must depreciate your computer or cellular telephone using the straight line method over the Alternative Depreciation System (ADS) recovery period. You cannot take a section 179 deduction for the item or claim an accelerated depreciation deduction using the General Depreciation System (GDS) unless you meet the more-than-50%-use test. (But if you use your computer in a home office, see the exception below.) The section 179 deduction and depreciation deductions using GDS and ADS are explained in Publication 946.

More-than-50%-use test. You meet this test if you use the computer or cellular telephone more than 50% in your work. If you meet this test, you can take a section 179 deduction for the item and you can claim accelerated depreciation using GDS.

Your use of a computer or cellular telephone 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.

For more information, see *Predominant Use Test* in chapter 4 of Publication 946.

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 take a section 179 deduction and 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.

For more information on depreciation and section 179 deductions for computers and other items used in a home office, see *Business Furniture and Equipment* in Publication 587.

Reporting your depreciation deduction. Use Part V of Form 4562, *Depreciation and Amortization*, to claim the depreciation deduction for a cellular telephone or for a computer that you did not use only in your home office. Complete Part I of Form 4562 if you are claiming a section 179 deduction.

Computer used in a home office. Use Part II of Form 4562 to claim the depreciation deduction for a computer you placed in service during 1999 and used only in your home office. Complete Part I of Form 4562 if you are claiming a section 179 deduction.

Do not use Form 4562 to claim the depreciation deduction for a computer you placed in service before 1999 and used only in your home office, unless you are

otherwise required to file Form 4562. Instead, report the depreciation directly on the appropriate form. (See *How To Report*, later.) But if you are otherwise required to file Form 4562, report the depreciation in Part III.



You must maintain 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:

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

You **cannot** deduct dues paid to an organization if one of its main purposes is to:

- 1) Conduct entertainment activities for members or their guests, or
- 2) Provide members or their guests with access to entertainment facilities.

Dues paid to airline, hotel, and luncheon clubs are not deductible. See *Club Dues* under *Nondeductible Expenses*, later.

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 *Nondeductible Expenses*, later.

Work-Related Education

You can deduct expenses you have for education, even if the education may lead to a degree, if the education meets at least one of the following two tests.

- 1) The education maintains or improves skills required in your present work.
- 2) The education is required by your employer or the law to keep your salary, status, or job, and the requirement serves a business purpose of your employer.

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



You cannot deduct any qualified education expenses to the extent they were taken into account in determining the amount of an education tax credit or any other tax benefit for education. See *Publication 970, Tax Benefits for Higher Education*.

Nondeductible educational expenses. You cannot deduct expenses you have for education, even though one or both of the preceding tests 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 for a new trade or business, you cannot deduct the educational expenses even if you do not intend to enter that trade or business.

Travel as education. 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 the cost of the trip as an educational expense.

More information. Get *Publication 508, Tax Benefits for Work-Related Education*, for a complete discussion of the deduction for work-related educational 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 expenses and depreciation of your home.

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** 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 can also claim this deduction for a separate structure not attached to your home (even if neither (1) nor (2) above applies) 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.

Principal place of business. If you have more than one place of business, the business part of your home is your principal place of business if:

- 1) You use it for administrative or management activities of your trade or business, and
- 2) You have no other fixed location where you conduct substantial administrative or management activities of your trade or business.

Otherwise, the location of your principal place of business generally depends on the relative importance of the activities performed at each location and the time spent at each location.

More information. Get Publication 587 for more detailed information and a worksheet for figuring the deduction.



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.

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 these expenses if:

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



You cannot deduct your expenses if you are seeking employment 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. See *Recoveries* in Publication 525.

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.

Résumé. You can deduct amounts you spend for typing, printing, and mailing copies of a résumé 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.

If you use the standard mileage rate to figure your car expenses, use 32.5 cents per mile through March 31, 1999, and 31 cents per mile thereafter. See Publication 463 for more information on travel and 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 your research expenses, including travel expenses, for teaching, lecturing, or writing and publishing on subjects that relate directly to the field of your teaching duties. You 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. 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 2106-EZ to claim these expenses.

Travel expenses. Travel expenses are those incurred while traveling away from home for your employer. You can deduct travel expenses paid or incurred in connection with a temporary work assignment. Generally, you cannot deduct travel expenses paid or incurred in connection with an indefinite work assignment.

Travel expenses may include:

- The cost of getting to and from your business destination (air, rail, bus, car, etc.),
- Meals and lodging while away from home,

- Taxi fares,
- Baggage charges, and
- Cleaning and laundry expenses.

Travel expenses are discussed more fully in chapter 1 of Publication 463.

Temporary work assignment. A temporary work assignment is one that is expected to end within a fixed and reasonably short time. If your assignment or job away from home in a single location is realistically expected to last (and does in fact last) for 1 year or less, it is generally temporary.

Indefinite work assignment. If your assignment or job away from home in a single location is realistically expected to last for more than 1 year, it is indefinite, whether or not it actually lasts for more than 1 year.



Employment that is initially temporary may become indefinite due to changed circumstances.

Federal crime investigation and prosecution. If you are a federal employee participating in a federal crime investigation or prosecution, you are not subject to the 1-year rule for deducting temporary travel expenses. This means that you may be able to deduct travel expenses even if you are away from your tax home for more than one year.

To qualify, the Attorney General must certify that you are traveling:

- 1) For the federal government,
- 2) In a temporary duty status, and
- 3) To investigate, prosecute, or provide support services for the investigation or prosecution of a federal crime.

Local transportation expenses. Local transportation expenses are the expenses of getting from one workplace 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.

Work at two places in a day. 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.

Temporary workplace. You can deduct expenses incurred in going between your home and a temporary workplace if at least one of the following applies.

- 1) The workplace is **outside** the metropolitan area where you live and normally work.
- 2) You have at least one **regular** workplace (other than your home) for the same trade or business. (If this applies, the distance between your home and the temporary workplace does not matter.)

For this purpose, a workplace is generally considered temporary if your work there is realistically expected to last (and does in fact last) for 1 year or less. It is not temporary if your work there is realistically expected to last for more than 1 year, even if it actually

lasts for 1 year or less. If your work there initially is realistically expected to last for 1 year or less, but later is realistically expected to last for more than 1 year, the workplace is generally considered temporary until the date your realistic expectation changes and not temporary after that date. For more information, see chapter 4 of Publication 463.



This definition of a temporary workplace is the result of a change made in February 1999. Under the former definition, “temporary” meant irregular or short term (generally a matter of days or weeks). Because of this change, expenses that were considered nondeductible commuting expenses when you filed prior-year tax returns may now be deductible. See chapter 4 of Publication 463 for information about amending returns affected by this change.

Home office. You can deduct expenses incurred in going between your home and a workplace if your home is your **principal place of business** for the same trade or business. (In this situation, whether the other workplace is temporary or regular and its distance from your home do not matter.) See *Home Office*, earlier, for a discussion on the use of your home as your principal place of business.

Meals and entertainment. Generally, you can deduct entertainment expenses (including entertainment-related meals) only if they are **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 business-related meal and entertainment expenses unless the expenses meet certain exceptions. You apply this 50% limit before you apply the 2%-of-adjusted-gross-income limit.

Meals when subject to “hours of service” limits. You can deduct 55% of your business-related meal expenses if you consume the meals during or incident to any period subject to the Department of Transportation’s “hours of service” limits. You apply this 55% limit before you apply the 2%-of-adjusted-gross-income limit.

This limit is 60% for 2000 and 2001, and it gradually increases to 80% by 2008.

Gift expenses. You can generally deduct up to \$25 of business gifts you give to any one individual during the year. The following items do not count toward the \$25 limit.

- Identical, widely distributed items costing \$4 or less that have your name clearly and permanently imprinted.
- Signs, racks, and promotional materials to be displayed on the business premises of the recipient.

Additional information. Get Publication 463 for more information on travel, transportation, meal, entertainment, and gift expenses, and reimbursements for these expenses.

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 *Non-deductible 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.



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 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 that 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 fig-

uring 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.

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

These other expenses include:

- Appraisal fees for a casualty loss or charitable contribution,
- Casualty and theft losses from property used in performing services as an employee,
- Clerical help and office rent in caring for investments,
- Depreciation on home computers 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, and
- 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.

Certain Casualty and Theft Losses

You can deduct casualty and theft losses on property used in performing services as an employee from Form 4684, *Casualties and Thefts*, lines 32 and 38b, or Form 4797, *Sales of Business Property*, line 18b(1). For casualty and theft losses on income-producing property, see *Certain Casualty and Theft Losses*, under *Deductions Not Subject to the 2% Limit*, later. For other casualty and theft losses, see Publication 547, *Casualties, Disasters, and Thefts*.

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 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. But if you work as an employee and also use the computer in that work, see *Depreciation on Computers or Cellular Telephones under Unreimbursed Employee Expenses*, earlier. For more information on depreciation, see Publication 946.

Excess Deductions of an Estate

If the total deductions in the estate's last tax year are more than the estate's gross income for that year, the beneficiaries succeeding to the estate's property can claim the excess as a miscellaneous deduction. Do not include deductions for personal exemption and charitable contributions when figuring the 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. 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. You can use the fee only to figure gain or loss from the sale. See the instructions for columns (d) and (e) of Schedule D (Form 1040) 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. 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).

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.

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.

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.

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). See *Tax Preparation Fees*, later.

Loss on Deposits in an Insolvent or Bankrupt Financial Institution

If you lose money you have on deposit in a qualified financial institution because of the insolvency or bankruptcy of the institution, how you treat your loss depends upon whether you can reasonably estimate its amount. If you can reasonably estimate the amount of your loss, see *Treating your loss as an itemized deduction*, next. If you cannot, or if you would simply prefer to wait until the year the loss is finally determined, see *Treating your loss as a bad debt*, later.

Treating your loss as an itemized deduction. If you can reasonably estimate the amount of your loss, you can claim it in the current year as:

- 1) A miscellaneous deduction subject to the 2% limit, or
- 2) A casualty loss.

Maximum amount you can claim as a miscellaneous deduction. If you can claim the loss as a miscellaneous deduction, 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.

When you cannot claim the loss as a miscellaneous deduction. You cannot claim the loss as a miscellaneous deduction 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.

Final loss less than estimated loss. If the actual loss is less than the amount deducted as an estimated loss, you must include in income in the final determination year the excess loss claimed. See *Recoveries* in Publication 525.

Treating your loss as a bad debt. If you cannot reasonably estimate the amount of your loss, or if you would just rather wait until the loss is finally determined, or if the actual loss that is finally determined is more than the amount you deducted as an estimated loss, you can claim the excess loss as a bad debt in the year the amount of your loss is finally determined.

How to report the loss. If you can claim the loss as a miscellaneous deduction, report it on Schedule A (Form 1040), line 22. It is subject to the 2%-of-adjusted-gross-income limit. Indicate the name of the financial institution on line 22, and write "Insolvent Financial Institution." Also attach a page showing how you calculated your estimated loss.

If you claim the loss as a casualty loss, report it on Form 4684 and Schedule A (Form 1040). See Publication 547 for more information.

If you claim the loss as a nonbusiness bad debt, report it as a short-term capital loss on Schedule D (Form 1040). See Publication 550 for more information.

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 total of the amounts in box 5 (net benefits for 1999) of all your Forms SSA-1099, *Social Security Benefit Statement*, and Forms RRB-1099, *Payments By the Railroad Retirement Board*, is a negative figure (a figure in parentheses), you may be able to take a miscellaneous deduction. The amount you can deduct is the part of the negative figure that represents an amount you included in gross income in an earlier year.

The amount in box 5 of Form SSA-1099 or RRB-1099 is the net amount of your benefits for the year. It will be a negative figure if the amount of benefits you repaid in 1999 (box 4) is more than the gross amount of benefits paid to you in 1999 (box 3).



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, 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.

Tax Preparation Fees

You can usually deduct tax preparation fees in the year you pay them. Thus, on your 1999 return, you can deduct fees paid in 1999 for preparing your 1998 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.

Deduct expenses of 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) on the appropriate schedule. Deduct expenses of preparing the remainder of the return on line 21, Schedule A (Form 1040).

Trustee's Administrative Fees for IRA

Trustee's administrative fees that are billed separately and paid by you in connection with your IRA are deductible (if they are ordinary and necessary). They are deductible as a miscellaneous deduction on Schedule A (Form 1040). See Publication 590, *Individual Retirement Arrangements (IRAs)*, for more information.

Deductions Not Subject to the 2% Limit

You can deduct the expenses listed below as miscellaneous itemized deductions. 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
- 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
- Repayments of more than \$3,000 under a claim of right
- Unrecovered investment in a pension

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.

Deduction for excess premium. On certain bonds (such as bonds that pay a variable rate of interest or that provide for an interest-free period), the amount of bond premium allocable to a period may exceed the amount of stated interest allocable to the period. If this occurs, treat the excess as a miscellaneous itemized deduction that is not subject to the 2-percent floor. However, the amount deductible is limited to the amount by which your total interest inclusions on the bond in prior periods exceed the total amount you treated as a bond premium deduction on the bond in prior periods. If any of the excess bond premium cannot be deducted because of the limit, this amount is carried forward to the next period and is treated as bond premium allocable to that period.

Pre-1998 election to amortize bond premium. Generally, if you first elected to amortize bond premium before 1998, the above treatment of the premium does not apply to bonds you acquired before 1998.

Bond acquired before October 23, 1986. The amortization of the premium is a miscellaneous itemized deduction not subject to the 2% limit.

Bond acquired after October 22, 1986, and before 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.

More information. For more information on bond premium, see *Bond Premium Amortization* in chapter 3 of Publication 550.

Certain Casualty and Theft Losses

You can deduct casualty and theft losses on income-producing property from Form 4684, lines 32 and 38b, or Form 4797, line 18b(1). For casualty and theft losses on property used in performing services as an employee, see *Certain Casualty and Theft Losses*, under *Other Expenses*, earlier. For other casualty and theft losses, see Publication 547.

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, for information about figuring the amount of this deduction.

Gambling Losses Up to the Amount 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. Only gambling losses incurred during the year can be deducted on Schedule A (Form 1040).



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.



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.

Proof of winnings and losses. In addition to your diary, you should also have other 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 all winnings by date and time the machine was played.

Table games (twentyone (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.



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, 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.

Where to report. If you are an employee, you enter impairment-related work expenses on Form 2106 or 2106-EZ. Enter on line 27, Schedule A (Form 1040) that part of the amount on line 10 of Form 2106, or line 6 of Form 2106-EZ, that is related to your impairment. Enter 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, the retiree 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, any unrecovered investment can be deducted on the retiree's final income tax return. Get Publication 575, *Pension and Annuity Income*, 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 to deduct your expenses as an adjustment to income, you must meet all three of the following requirements.

- 1) You perform services in the performing arts for at least two employers during your tax year. (You are considered to have performed services in the performing arts for an employer only if that employer paid you \$200 or more.)
- 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.

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.

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 on line 32 of Form 1040. Then write "QPA" and the amount of your performing-arts related expenses on the dotted line next to line 32 (Form 1040).

Officials Paid on a Fee Basis

If you are a fee-basis official, you can claim your expenses in performing services in that job as an adjustment to income rather than as a miscellaneous itemized deduction. To qualify as a fee-basis official, you must be employed by a state or local government and be paid in whole or in part on a fee basis.

Where to report. If you qualify as a fee-basis official, you should first complete Form 2106 or Form 2106-EZ. Then you include your expenses in performing services in that job from line 10 of Form 2106 or from line 6 of Form 2106-EZ on line 32 of Form 1040. Then write "FBO" and the amount of those expenses on the dotted line next to line 32 (Form 1040).

Nondeductible Expenses

You cannot deduct the following expenses.

List of 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
- Campaign expenses
- Capital expenses
- Check-writing fees
- Certain club dues
- 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
- Home security system
- 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
- Lunches with coworkers
- Meals while working late
- Medical expenses as business expenses.
- 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 of earning or collecting
- The value of wages never received or lost vacation time
- Travel expenses for another individual
- Voluntary unemployment benefit fund contributions

- Wristwatches

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.

Capital Expenses

You cannot currently deduct amounts paid to buy property that has a useful life substantially beyond the tax 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 463.

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, and hotel clubs. For exceptions, see *Dues to Chambers 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, 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. See *Home Office*, earlier, and Publication 587.

Homeowners' Insurance Premiums

You cannot deduct premiums that you pay or that are placed in escrow for insurance on 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. You may be able to deduct, as alimony, premiums you pay on life insurance policies assigned to your former spouse. See Publication 504, *Divorced or Separated Individuals*, for information on alimony.

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 such officials.

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

Covered executive branch official. A covered executive branch official is any of the following officials.

- 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.
- 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 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.

Exceptions. You can deduct certain lobbying expenses.

- 1) You can deduct expenses for attempting to influ-

ence the legislation of any local council or similar governing body (local legislation). An Indian tribal government is considered a local council or similar governing body.

- 2) You can deduct in-house expenses for influencing legislation or communicating directly with a covered executive branch official if such expenses for the tax year are not more than \$2,000 (not counting overhead expenses).
- 3) If you are a professional lobbyist, you can deduct the expenses you incur in the trade or business of lobbying on behalf of another person. Payments by the other person to you for lobbying activities cannot be deducted.

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. See Publication 547.

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 coworkers, except while traveling away from home on business. See Publication 463 for information on deductible expenses while traveling away from home.

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 if you are traveling away from home. See Publication 463 for information on deductible entertainment expenses and expenses while traveling away from home.

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 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.

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, you calculate that 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 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, 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.

How To Report

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

- Report your miscellaneous deductions subject to the 2% limit on lines 20 through 22 and the total on line 23.
- Report your miscellaneous deductions not subject to the 2% limit on line 27.

See *Instructions for Schedule A* in your Form 1040 instruction booklet for more information.

Form 2106 and Form 2106-EZ. If you have deductible employee business expenses, you usually must file either Form 2106 or Form 2106-EZ.

You must file Form 2106 or Form 2106-EZ if any of the following apply.

- 1) You are claiming job-related travel, transportation, meal, or entertainment expenses.
- 2) You are a qualified performing artist claiming performing-artist-related expenses. (See *Performing Artists*, earlier.)
- 3) You are a fee-basis state or local government official claiming expenses in performing that job. (See *Officials Paid on a Fee Basis*, earlier.)
- 4) 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.)

When not to file Form 2106 or Form 2106-EZ.

Do not file Form 2106 or Form 2106-EZ if:

- 1) None of your expenses are deductible because of the 2% limit on miscellaneous itemized deductions, or

- 2) Line 4 of Form 2106 or Form 2106-EZ (expenses for business gifts, education, home office, trade publications, etc.) is your only entry.

If (1) above does not apply, but (2) does, enter the expenses directly on line 20 of Schedule A (Form 1040).



This does not apply if you are a qualified performing artist claiming performing-artist-related business expenses or an individual with a disability claiming impairment-related work expenses or a fee-basis state or local government official claiming expenses in performing that job.

Who can use Form 2106-EZ. You can use the shorter Form 2106-EZ instead of Form 2106 if both of the following apply.

- 1) 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.)
- 2) Either:
 - a) You are not claiming vehicle expense, or
 - b) You are using the standard mileage rate for your vehicle.

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).

You are a statutory employee if you meet one of the following four descriptions.

- 1) You are a driver who is either an agent of your employer or paid on commission and you:
 - a) Distribute meat, vegetable, fruit, or bakery products,
 - b) Distribute beverages (other than milk), or
 - c) Pick up and deliver 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) You are a full-time traveling or city salesperson and 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 (Form 1040) are shown. 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. The other items are subject to the 2% limit and are shown on lines 20, 21, and 22 of Schedule A.

Debra completes Part I of Form 2106-EZ. She enters the transportation expenses of \$500 on line 2. The home office expenses of \$1,100 are entered on line 4. The entertainment expenses of \$500 are subject to the 50% limit and are entered on line 5. She then completes the rest of the form. The total expenses of \$1,850, shown on line 6, are entered on line 20 of Schedule A.

Debra's expenses for tax return preparation are entered on line 21 of Schedule A. Her expenses for investment counseling are entered on line 22. She then totals the amounts on lines 20, 21, and 22 and enters this total of \$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 of \$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.

How To Get More Information

You can order free publications and forms, ask tax questions, and get more information from the IRS in several ways. By selecting the method that is best for you, you will have quick and easy access to tax help.

Free tax services. To find out what services are available, get Publication 910, *Guide to Free Tax Services*. It contains a list of free tax publications and an index of tax topics. It also describes other free tax information services, including tax education and assistance programs and a list of TeleTax topics.



Personal computer. With your personal computer and modem, you can access the IRS on the Internet at www.irs.gov. While visiting our web site, you can select:

- *Frequently Asked Tax Questions* (located under *Taxpayer Help & Ed*) to find answers to questions you may have.
- *Forms & Pubs* to download forms and publications or search for forms and publications by topic or keyword.

- *Fill-in Forms* (located under *Forms & Pubs*) to enter information while the form is displayed and then print the completed form.
- *Tax Info For You* to view Internal Revenue Bulletins published in the last few years.
- *Tax Regs in English* to search regulations and the Internal Revenue Code (under *United States Code (USC)*).
- *Comments & Help* to e-mail us with comments about the site or with tax questions.
- *Digital Dispatch* and *IRS Local News Net* (both located under *Tax Info For Business*) to receive our electronic newsletters on hot tax issues and news.
- *Small Business Corner* (located under *Tax Info For Business*) to get information on starting and operating a small business.

You can also reach us with your computer using File Transfer Protocol at [ftp.irs.gov](ftp://ftp.irs.gov).



TaxFax Service. Using the phone attached to your fax machine, you can receive forms and instructions by calling **703-368-9694**. Follow the directions from the prompts. When you order forms, enter the catalog number for the form you need. The items you request will be faxed to you.



Phone. Many services are available by phone.

- *Ordering forms, instructions, and publications.* Call **1-800-829-3676** to order current and prior year forms, instructions, and publications.
- *Asking tax questions.* Call the IRS with your tax questions at **1-800-829-1040**.
- *TTY/TDD equipment.* If you have access to TTY/TDD equipment, call **1-800-829-4059** to ask tax questions or to order forms and publications.
- *TeleTax topics.* Call **1-800-829-4477** to listen to pre-recorded messages covering various tax topics.

Evaluating the quality of our telephone services. To ensure that IRS representatives give accurate, courteous, and professional answers, we evaluate the quality of our telephone services in several ways.

- A second IRS representative sometimes monitors live telephone calls. That person only evaluates the IRS assistor and does not keep a record of any taxpayer's name or tax identification number.
- We sometimes record telephone calls to evaluate IRS assistants objectively. We hold

Unreimbursed Employee Business Expenses

1999

Attachment
Sequence No. **54A**

Department of the Treasury
Internal Revenue Service

▶ **Attach to Form 1040.**

Your name <p style="text-align: center;">Debra Smith</p>	Occupation in which you incurred expenses <p style="text-align: center;">Salesperson</p>	Social security number <p style="text-align: center;">111 : 00 : 1111</p>
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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, you are using the standard mileage rate for 1999.

Caution: You can use the standard mileage rate for 1999 **only if:** (a) you owned the vehicle and used the standard mileage rate for the first year you placed the vehicle in service, **OR** (b) you leased the vehicle and used the standard mileage rate for the portion of the lease period after 1997.

Part I Figure Your Expenses

1 Vehicle expense using the standard mileage rate. Complete Part II and then go to line 1a below.			
a Multiply business miles driven before April 1, 1999, by 32½¢ (.325)	1a		
b Multiply business miles driven after March 31, 1999, by 31¢ (.31)	1b		
c Add lines 1a and 1b	1c		
2 Parking fees, tolls, and transportation, including train, bus, etc., that did not involve overnight travel or commuting to and from work	2	500	
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	1,100	
5 Meals and entertainment expenses: \$ <u>500</u> x 50% (.50) (Employees subject to Department of Transportation (DOT) hours of service limits: Multiply meal expenses by 55% (.55) instead of 50%. For more details, see instructions.)	5	250	
6 Total expenses. Add lines 1c through 5. Enter here and on line 20 of Schedule A (Form 1040). (Fee-basis state or local government officials, qualified performing artists, and individuals with disabilities: See the instructions for special rules on where to enter this amount.) . . .	6	1,850	

Schedule A—Itemized Deductions

1999

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).**

Attachment
Sequence No. **07**

Job Expenses and Most Other Miscellaneous Deductions	20 Unreimbursed employee expenses—job travel, union dues, job education, etc. You MUST attach Form 2106 or 2106-EZ if required. (See page A-5.) ▶		20	1,850	
21 Tax preparation fees	21	200			
22 Other expenses—investment, safe deposit box, etc. List type and amount ▶ <u>investment counseling</u>	22	300			
23 Add lines 20 through 22	23	2,350			
24 Enter amount from Form 1040, line 34. 24 <u>40,000</u>	24				
25 Multiply line 24 above by 2% (.02)	25	800			
26 Subtract line 25 from line 23. If line 25 is more than line 23, enter -0-	26				1,550
Other Miscellaneous Deductions	27 Other—from list on page A-6. List type and amount ▶ <u>gambling losses</u>		27		200

these recordings no longer than one week and use them only to measure the quality of assistance.

- We value our customers' opinions. Throughout this year, we will be surveying our customers for their opinions on our service.



Walk-in. You can walk in to many post offices, libraries, and IRS offices to pick up certain forms, instructions, and publications. Also, some libraries and IRS offices have:

- An extensive collection of products available to print from a CD-ROM or photocopy from reproducible proofs.
- The Internal Revenue Code, regulations, Internal Revenue Bulletins, and Cumulative Bulletins available for research purposes.



Mail. You can send your order for forms, instructions, and publications to the Distribution Center nearest to you and receive a response within 10 workdays after your request is received. Find the address that applies to your part of the country.

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- **Central part of U.S.:**

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Richmond, VA 23261-5074



CD-ROM. You can order IRS Publication 1796, *Federal Tax Products on CD-ROM*, and obtain:

- Current tax forms, instructions, and publications.
- Prior-year tax forms, instructions, and publications.
- Popular tax forms which may be filled in electronically, printed out for submission, and saved for recordkeeping.
- Internal Revenue Bulletins.

The CD-ROM can be purchased from National Technical Information Service (NTIS) by calling **1-877-233-6767** or on the Internet at **www.irs.gov/cdorders**. The first release is available in mid-December and the final release is available in late January.

IRS Publication 3207, *Small Business Resource Guide*, is an interactive CD-ROM that contains information important to small businesses. It is available in mid-February. You can get one free copy by calling **1-800-829-3676**.

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