



# Individual Income Tax: Deduction Part 3 (Pass-Through Income)

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Course #3118C

Taxes

2 Credit Hours

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# INDIVIDUAL INCOME TAX: DEDUCTION PART 3 (PASS-THROUGH INCOME)

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This course covers some of the deductions used to figure taxable income. Deductions discussed here include: section 199A pass-through income and other itemized deductions

## LEARNING ASSIGNMENTS AND OBJECTIVES

*As a result of studying each assignment, you should be able to meet the objectives listed below each individual assignment.*

### SUBJECTS

**Chapter 1: Other Itemized Deductions**

**Chapter 2: Section 199A Pass-Through Income Deduction**

Study the course materials from pages 1 to 54

Complete the review questions at the end of each chapter

Answer the exam questions 1 to 10

### Objectives:

- Identify types of other itemized deductions allowable to reduce adjusted gross income.
- Identify the rules in the TCJA related to claiming a deduction for “qualified business income.”

### **NOTICE**

All references to IRS forms and line numbers throughout this course are based on prior year or draft forms available from the IRS in late 2021. There is a possibility some of these references will change.

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## EXAM OUTLINE

- **TEST FORMAT:** The final exam for this course consists of 10 multiple-choice questions and is based specifically on the information covered in the course materials.
- **ACCESS FINAL EXAM:** Log in to your account and click Take Exam. A copy of the final exam is provided at the end of these course materials for your convenience, however you must submit your answers online to receive credit for the course.
- **LICENSE RENEWAL INFORMATION:** This course qualifies for **2** CPE hours.
- **PROCESSING:** You will receive the score for your final exam immediately after it is submitted. A score of 70% or better is required to pass.
- **CERTIFICATE OF COMPLETION:** Will be available in your account to view online or print. If you do not pass an exam, it can be retaken free of charge.

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# CHAPTER 1: OTHER ITEMIZED DEDUCTIONS

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## Chapter Objective

### After completing this chapter, you should be able to:

- Identify types of other itemized deductions allowable to reduce adjusted gross income.

## I. WHAT'S NEW/REMINDERS

**No miscellaneous itemized deductions allowed.** You can no longer claim any miscellaneous itemized deductions. See *Miscellaneous Itemized Deductions*, later.

**Standard mileage rate.** The 2021 rate for business use of a vehicle is 56 cents a mile.

## II. INTRODUCTION

This chapter explains that you can no longer claim any miscellaneous itemized deductions, unless you fall into one of the qualified categories of employment claiming a deduction relating to unreimbursed employee expenses. Miscellaneous itemized deductions are those deductions that would have been subject to the 2% of adjusted gross income limitation. You can still claim certain expenses as itemized deductions on Schedule A (Form 1040), Schedule A (Form 1040-NR), or as an adjustment to income on Form 1040 or 1040-SR. This chapter covers the following topics.

- Miscellaneous itemized deductions.
- Expenses you cannot deduct.
- Expenses you can deduct.
- How to report your deductions.

## Tip



You must keep records to verify your deductions. You should keep receipts, canceled checks, substitute checks, financial account statements, and other documentary evidence.

### III. MISCELLANEOUS ITEMIZED DEDUCTIONS

You can no longer claim any miscellaneous itemized deductions that are subject to the 2% of adjusted gross income limitation, including unreimbursed employee expenses. However, you may be able to deduct certain unreimbursed employee business expenses if you fall into one of the following categories of employment listed under *Unreimbursed Employee Expenses*, next.

#### UNREIMBURSED EMPLOYEE EXPENSES

You can no longer claim a deduction for unreimbursed employee expenses unless you fall into one of the following categories of employment.

- Armed Forces reservists.
- Qualified performing artists.
- Fee-basis state or local government officials.
- Employees with impairment-related work expenses.

#### CATEGORIES OF EMPLOYMENT

You can deduct unreimbursed employee expenses only if you qualify as an Armed Forces reservist, qualified performing artist, fee-basis state or local government official, and employee with impairment-related work expenses.

***Armed Forces reservist (member of a reserve component).*** You are a member of a reserve component of the Armed Forces of the United States if you are in the Army, Navy, Marine Corps, Air Force, or Coast Guard Reserve; the Army National Guard of the United States; or the Reserve Corps of the Public Health Service.

***Qualified performing artist.*** You are a qualified performing artist if you:

1. Performed services in the performing arts as an employee for at least two employers during the tax year,
2. Received from at least two of the employers' wages of \$200 or more per employer,
3. Had allowable business expenses attributable to the performing arts of more than 10% of gross income from the performing arts, and
4. Had adjusted gross income of \$16,000 or less before deducting expenses as a performing artist.

***Fee-basis state or local government official.*** You are a qualifying fee-basis official if you are employed by a state or political subdivision of a state and are compensated, in whole or in part, on a fee basis.



***Employee with impairment-related work expenses.*** Impairment-related work expenses are the allowable expenses of an individual with physical or mental disabilities for attendant care at his or her place of employment. They also include other expenses in connection with the place of employment that enable the employee to work.

**Allowable unreimbursed employee expenses.** If you qualify as an employee in one of the categories mentioned above, you may be able to deduct the following items as unreimbursed employee expenses.

Unreimbursed employee expenses for individuals in these categories of employment are deducted as adjustments to gross income. Qualified employees listed in one of the categories above must complete Form 2106 to take the deduction.

You can deduct only unreimbursed employee expenses that are:

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

An expense is ordinary if it is common and accepted in your trade, business, or profession. An expense is necessary if it is appropriate and helpful to your business. An expense does not have to be required to be considered necessary.

## **EDUCATOR EXPENSES**

If you were an eligible educator in 2021, you can deduct up to \$250 of qualified expenses you paid in 2021 as an adjustment to gross income on Schedule 1 (Form 1040), line 10, rather than as a miscellaneous itemized deduction. If you and your spouse are filing jointly and both of you were eligible educators, the maximum deduction is \$500. However, neither spouse can deduct more than \$250 of his or her qualified expenses.

## **EXPENSES YOU CANNOT DEDUCT**

Because of the suspension of miscellaneous itemized deductions, there are two categories of expenses you cannot deduct: Miscellaneous itemized deductions subject to the 2% AGI limitation, and those expenses that are traditionally nondeductible under the Internal Revenue Code. Both categories of deduction are discussed next.

### **Miscellaneous Deductions Subject to 2% AGI**

Unless you fall into one of the qualified categories of employment under *Unreimbursed Employee Expenses*, earlier, miscellaneous itemized deductions that are subject to the 2% of adjusted gross income limitation can no longer be claimed. For expenses not related to unreimbursed employee expenses, you generally cannot deduct the following expenses, even if you fall into one of the qualified categories of employment listed earlier.