



Itemized Deductions

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Miscellaneous itemized deductions are generally deductible to the extent the expenses exceed 2% of adjusted gross income (AGI). Some miscellaneous itemized deductions are not subject to this rule.

Expenses Subject to 2% AGI

<i>Deductible</i>	<i>Nondeductible</i>
<ul style="list-style-type: none"> • Appraisal fees for a casualty loss or a charitable contribution. • Education expenses. • Excess deductions allowed a beneficiary on termination of estate or trust, including administrative expenses. • Fees to determine, contest, pay, or claim a refund of any tax. • Hobby expenses, limited to hobby income. • Investment fees and expenses. • Job expenses. • Legal fees. • Loss on traditional IRA or Roth IRA. • Loss on after-tax basis of a qualified retirement plan distributed in a lump-sum distribution. • Loss on the basis in a nonqualified refund annuity. • Miscellaneous deductions from Schedule K-1. 	<ul style="list-style-type: none"> • Adoption expenses. • Club dues. • Commuting expenses. • Cost to attend stockholder's meetings. • Disability insurance premiums. • Fees for personal checking account, even if interest bearing. • Fines and penalties. • Funeral expenses. • Home repairs, insurance, rent, unless allocated to an office-in-home. • Licenses and fees, such as a driver's or marriage license. • Life insurance premiums. • Loss from sale of home, furniture, car, or any item that is not used in a business or investment activity. • Lost cash or property. • Meals, even with coworkers, during regular or extra work hours. Exception: Meals while traveling away from home on business. • Personal legal, living, or family expenses. • Political contributions and lobbying expenses. • Professional accreditation fees. • Residential or first telephone line into a home. • Seminar or convention fees, unless related to taxpayer's employment. • Tax-exempt income related expenses.

Expenses Subject to 2% AGI continued

<i>Deductible</i>	<i>Nondeductible</i>
<ul style="list-style-type: none"> • Repayments of income, if \$3,000 or less. • Repayments of Social Security benefits. • Tax preparation fees. 	<ul style="list-style-type: none"> • Travel expenses as a form of education, for another individual, or for employment away from home for more than a year. • Voluntary unemployment benefits fund contributions. • Wages never received or lost vacation time.

Miscellaneous Itemized Deductions Subject to the 2% AGI Limitation

Most miscellaneous itemized deductions are deductible to the extent they exceed 2% of AGI.

Tax Preparation Fees

The cost of tax preparation and advice is deductible, including the cost of tax preparation software programs and books on tax preparation. Deductible costs also include fees paid for electronic filing.

Credit card convenience fees associated with the payment of federal tax, including the payment of estimated tax, can be included as miscellaneous itemized deductions, subject to the 2% AGI limitation.

Note: The portion of the fees to prepare tax schedules related to self-employment, rental property, and farming operation are deductible as business expenses on the tax forms used to report income and expenses for these businesses rather than as a miscellaneous itemized deduction.



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Investment Expenses

Deductible investment expenses, such as separately-billed IRA trustee fees, are amounts paid to produce, manage, or protect property held for earning income. Personal expenses are not deductible.

Loss on Traditional IRA or Roth IRA

Losses on traditional IRAs and Roth IRAs are not deductible unless the entire account balance of all traditional IRAs, or all Roth IRAs, are distributed and the taxpayer has unrecovered basis left in the traditional or Roth IRAs. Distribution of the entire account balance applies separately to all traditional IRAs and Roth IRAs.

Example: Ron owns three separate traditional IRAs and one Roth IRA. He has a \$6,000 basis in his traditional IRAs. His Roth IRA has a basis of \$4,000. Assume one of his traditional IRAs goes belly up and Ron loses all the money in that account. In order for Ron to claim a loss, he has to have all funds distributed from his other two IRAs. The Roth IRA does not have to be distributed. Assume the total account balance of his other two traditional IRAs equals \$7,000. Ron does not have a deductible loss because total distributions from all traditional IRAs exceed his basis.

Legal Expenses

Legal fees related to producing or collecting taxable income or getting tax advice is deductible.

Deductible Legal Expenses	Nondeductible Legal Expenses
<ul style="list-style-type: none"> The cost of either doing or keeping a job, such as expenses paid to defend against criminal charges arising from the taxpayer's job. The cost of tax advice related to a divorce if the bill specifies how much is for tax advice and it is determined in a reasonable way. The cost of collecting taxable alimony. 	<ul style="list-style-type: none"> Custody of children. Breach of promise to marry. Civil or criminal charges resulting from a personal relationship. Damages for personal injury. Preparation, defense, or perfection of a title. Preparation of a will. Property claims or property settlement in a divorce.

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Miscellaneous Deductions Not Subject to the 2% AGI Limitation

The following expenses are not limited by 2% of AGI.

- Casualty and theft losses of income-producing property.
- Deduction for federal estate tax paid on income in respect of the decedent.
- Amortizable bond premium on taxable bonds acquired before October 23, 1986.
- Deduction for repayment of amounts under a claim of right if over \$3,000.
- Deduction for unrecovered investment in a pension or annuity contract.

Gambling Losses

The full amount of gambling winnings for the year is reported as income. Gambling losses are deducted as an itemized deduction up to the total amount reported as income. Taxpayers claiming losses must keep an accurate diary or similar record of losses and winnings.

Impairment-Related Work Expenses

Taxpayers with physical or mental disabilities who limit employment or substantially limit one or more major life activities, such as performing manual tasks, walking, speaking, breathing, learning, and working, can claim a deduction for impairment-related work expenses. Expenses must be ordinary and necessary for the employee who is disabled to perform work satisfactorily.

Unrecovered Investment in an Annuity

A retiree who contributed to the cost of an annuity 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 tax free, any unrecovered investment can be deducted on the retiree's final income tax return.

Contact Us

There are many events that occur during the year that can affect your tax situation. Preparation of your tax return involves summarizing transactions and events that occurred during the prior year. In most situations, treatment is firmly established at the time the transaction occurs. However, negative tax effects can be avoided by proper planning. Please contact us in advance if you have questions about the tax effects of a transaction or event, including the following:

- Pension or IRA distributions.
- Significant change in income or deductions.
- Job change.
- Marriage.
- Attainment of age 59½ or 70½.
- Sale or purchase of a business.
- Sale or purchase of a residence or other real estate.
- Retirement.
- Notice from IRS or other revenue department.
- Divorce or separation.
- Self-employment.
- Charitable contributions of property in excess of \$5,000.