

Can You Deduct Employee Expenses?

Article Highlights:

- Condition of Employment
- Employer Reimbursements
- Miscellaneous Itemized Deductions
- Alternative Minimum Tax
- Home Office
- Computer
- Uniforms and Special Work Clothes
- Education
- Impairment-Related Work Expenses
- Job-Search Expenses

If you are an employee, you may be curious about which expenses relating to your employment are deductible on your tax return. This is a complicated area of tax law, and many expenses are deductible only if the expense is a "condition of employment" or is for the "convenience of the employer," two phrases that are effectively the same.

In addition, other factors affect an employee's ability to deduct expenses incurred as part of employment:

1. If an employer would have paid for or reimbursed the employee for an expense, but the employee chooses not to apply for or take advantage of that reimbursement, the employee cannot take a tax deduction for the expense.
2. Only those employees who itemize their deductions can benefit from business expense deductions. Thus, if you are using the standard deduction, you cannot receive any tax benefit for your job-related expenses. In addition, even when itemizing, miscellaneous itemized deductions must be reduced by 2% of your adjusted gross income (AGI). Employee business expenses fall into the miscellaneous itemized deduction category. As an example: if your AGI is \$80,000, the first \$1,600 (2% x AGI) of your miscellaneous deductions provide no benefit.
3. Miscellaneous deductions are not included in the itemized deductions allowed for computing the alternative minimum tax (AMT). Thus, if you are unlucky enough to be subject to the AMT, you will not benefit from your miscellaneous deductions for the extent of the AMT.

The following includes a discussion of the various expenses that an employee might feel they are entitled to deduct and the IRS's requirements for those deductions.

- **Home Office** – An employee can deduct a home office only if his or her use of the home office is for the convenience of the employer. According to the U.S. Tax Court, an employee's use of a home office is for the convenience of his employer only if the employee **must** maintain the home office as a condition of employment. In an audit, the auditor will require a letter from the employer to verify that fact. Most employers are reluctant to make a home office a condition of employment due to labor laws and liability. In addition, an employee would also have to comply with the IRS's strict usage requirements for home offices.
- **Computer** – An individual's property, such as computers, TVs, recorders, and so on, that is used in connection with his or her employment is eligible for

expense or depreciation deductions only if that property is required for the convenience of the employer and as a condition of employment. Even if the condition of employment requirement is satisfied, a computer's usage must be prorated for personal and business use.

- **Uniforms and Special Work Clothes** - The cost and maintenance of clothing is allowed if:
 - (1) The employee's occupation is one that specifically requires special apparel or equipment as a condition of employment and
 - (2) The special apparel or equipment isn't adaptable to general or continued usage (so as to take the place of ordinary clothing).

Generally, items such as safety shoes, helmets, fishermen's boots, work gloves, oil clothes, and so on are deductible if required for a job. However, other work clothing and standard work shoes aren't deductible—even if the worker's union requires them.

- **Education** - To qualify as job-related, courses must maintain or improve the skills required by the employee's trade or business (such as by helping the employee to meet professional continuing education requirements) or be required as a condition of employment. However, these courses must not be necessary to meet the minimum requirements of the job and must not qualify the employee for a new trade or promotion. If a course meets this definition, its cost is considered deductible as an ordinary and necessary business expense, and as such, it may be excluded from an employee's income if the employer reimburses the employee for its cost. Note: Some education expenses may qualify for more beneficial education credits or an above-the-line-deduction.
- **Impairment-Related Work Expenses** – Taxpayers who have a physical or mental disability that limits their activities can deduct impairment-related work expenses. For example, an allowable expense would be the cost of attendant care at the place of the taxpayer's work.
- **Job-Search Expenses** – Expenses related to looking for a new job in the taxpayer's current occupation are deductible even if a new job is not obtained. To be deductible, the expenses cannot be related to seeking a first job or a job in a new occupation. If there is a substantial time gap between the taxpayer's last job and the time when he or she looks for a new job, the expenses are not deductible.

Of course, all sorts of employee situations exist, including those in which the employee works at his or her local employer's office and those in which the employee lives and works in a remote location. The deductions available to each employee vary significantly based upon that individual's unique situation.

For more information related to employee expenses and what might be deductible in your situation, please give this office a call.