

Deducting Employee Business Expenses

If you work for a business, you might incur certain expenses that are related to your job. In some cases, those expenses can be substantial. Beginning in 2018, you will no longer be able to count such expenses as itemized deductions the effects of the Act of Tax Reform. That said, you may be able to deduct such expenses incurred last year when you file your 2017 federal income tax return.

The process of claiming this deduction for employee business expenses might not be simple. You must go through several steps, and you'll need relevant records to substantiate the deduction if you're challenged by the IRS.

The Broad Look

In general terms, here is an explanation of how to arrive at an employee business expense deduction. First, you need to see how much you have spent on items that are ordinary and necessary for your role at work. These must be outlays that were not reimbursed in some manner. Therefore, the amounts you hope to deduct must be your actual out-of-pocket costs.

Once you calculate this number, it is incorporated as a miscellaneous itemized deduction on Schedule A of your tax return. If you take the standard deduction instead of itemizing on Schedule A, you can't deduct your employee business expenses.

Other costs also go into the category of miscellaneous deductions. They might include tax preparation and investment fees. Once you have a total of miscellaneous items, that amount is deductible on Schedule A to the extent it exceeds 2% of adjusted gross income (AGI).

Example: Al and Bonnie Carson are both employees at different companies. Al has no unreimbursed employee expenses, but Bonnie had \$2,500 of such costs in 2017. Together, the Carsons' miscellaneous items total \$4,100 for last year.

On their 2017 joint tax return, the Carsons report AGI of \$110,500. In this example, 2% of AGI is \$2,210. Subtracting \$2,210 from \$4,100 leaves \$1,890, the amount of miscellaneous deductions they can claim on Schedule A.

What's Allowed

The most common unreimbursed miscellaneous deductions may be vehicle costs, overnight travel, and business meals and entertainment. The deduction for business meals and entertainment generally is 50% of their total cost.

Beyond those items, the IRS lists many others as acceptable employee business expenses, from business liability insurance premiums to work-related education. They must have a genuine business purpose and be unreimbursed.

What's Not Allowed

Along with a lengthy list of possible qualified deductions, the IRS also has a list of things that don't belong in this category. Commuting costs are prominent on the do-not-deduct list, which also includes club dues, residential phones, and travel expenses for another individual. If you are going to claim business use of your car here, you'll need good records to show how much the car was used for commuting to and from work versus its use for business trips.

Preparing the Paperwork

Generally, employees who claim this deduction use IRS Form 2106, "Employee Business Expenses," to tabulate the total amount for the year, presented in several categories. The total for this form goes onto Schedule A under miscellaneous deductions. A simpler version, Form 2106-EZ, may be used if you have no employer reimbursements and if any vehicle expense claim uses the standard mileage rate—53.5 cents per business mile in 2017.