

# Deductions

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Many clients ask me what they can deduct, so I am providing the following lists of possible deductions. The lists are only meant to give you ideas, or steer you in the right direction. They are not all-inclusive and not all items are deductible all the time. Many are subject to limitations, may only apply in certain situations or are governed by other rules. Please keep careful records and save your receipts for 3 years in case of audit.

- Schedule A Expenses
  - Business Expenses
  - Medical Expenses
  - Expenses you Cannot Deduct
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## Schedule A Expenses

### Taxes You Paid

- State and local income taxes or general sales tax
- Foreign income tax
- Estimated tax payments
- Prior year's state and local income tax you paid during the tax year (do not include penalties).
- Disability insurance tax (some states)
- Occupational taxes
- Real estate tax (state, local or foreign).
- Portion of condo and coop maintenance that includes real estate tax.
- Personal property taxes based on value. This includes auto registration or licensing fees, but only the portion based on value, and only if charged on a yearly basis. Varies by state.

### Interest You Paid

- Mortgage interest
- Late payment charge on mortgage payment
- Mortgage prepayment penalties
- Points on principal residence financing
- Mortgage insurance premiums

### Gifts to Charity

- Charitable contributions (cash and non-cash) made to qualified U.S. charities and certain charities in Mexico, Canada and Israel.
- Mileage to donate goods to charity or to perform charitable services.

### Other Expenses

- Casualty and theft Losses
- Investment expenses:
  - Fees for tax return preparation
  - Investment counsel and advisory fees
  - Certain legal fees
  - Safe deposit box rental
  - Interest on margin accounts

## Business Expenses

### Employees (Form 2106):

Includes expenses for your job for which you weren't reimbursed, but you only get the amount in excess of 2% of your AGI (adjusted gross income), and only if you can itemize. For instance, if your AGI is \$100,000, you must have at least \$2,000 in employee business expenses/miscellaneous expenses before you will begin to benefit from the deduction.

### Self-Employed (Schedule C):

You are allowed to deduct most business expenses in full. Meals are deducted at 50%.

See [IRS Publication 535](#) for more information.

## **Advertising and Promotion Expenses (Self-employed)**

### **Books and Publications**

- Books, trade journals, newspapers and publications for your trade or profession

### **Dues and Fees:**

- Dues to a professional organization for people in your profession
- Union dues, initiation fees, and assessments for benefit payments to unemployed union members.
- Regulatory fees for your profession
- Dues to chambers of commerce and similar organizations if the membership helps you carry out your job duties (see exceptions).
- Licenses paid to state or local governments

### **Education and Research**

- Educational expenses related to your present work that maintains or improves your skills.
- Research expenses

### **Equipment and Supplies**

- Business use of computer. Employees: Must be for the convenience of your employer and required as a condition of your employment.
- Supplies and tools you use in your work

### **Home Office**

- Expenses for an office in your home IF part of the home is used regularly and exclusively for your work. Employees: the use of your home office must also be for the convenience of your employer.
- For more information, see [IRS Publication 587](#)

### **Internet**

- Employees: Must be for the convenience of your employer and required as a condition of your employment.

### **Job hunting expenses (Employees)**

*To deduct job hunting expenses, you must be looking for a job in your present line of work (i.e., you're not changing professions or looking for your first job). Expenses include:*

- Resume preparation (drafting, typing, printing, mailing, faxing)
- Employment agency fees
- Executive recruiters' fees
- Portfolio preparation costs
- Career counseling to assist you in improving your position
- Legal and accounting fees you pay in connection with employment contract negotiations and preparation
- Advertising
- Transportation costs to job interviews
- Long distance calls to prospective employers
- Newspapers you purchase to read the employment ads
- Other business publications you purchase to read the employment ads
- Half of your meals you pay for that are directly related to your job search
- If you take a trip away from home to look for a new job, your expenses for traveling, lodging, meals (50% of the cost), etc. are deductible only if the primary purpose of your trip is to look for a job. To substantiate the purpose of your trip, keep a daily log of your interviews, application efforts, etc.

### **Meals and Entertainment**

- Meals and entertaining costs with a clear business purpose (i.e., meeting with clients) (only 50% of the cost is deductible). Keep a record of the date, place, amount of expenses, people present, business purpose, and business discussed. Also keep receipts for expenses in excess of \$75.
- For more information, see [IRS Publication 463](#)

### **Telephone Charges**

- Business use of cellular phone.
- Cost of long-distance business calls charged to home phone
- Separate business telephone (home phone line is not deductible)

### **Travel and Transportation**

- Traveling costs incurred while away from home on business
- Traveling costs paid in connection with a temporary work assignment
- Transportation between your home and a temporary work location if you have no regular place of work but you ordinarily work in the metropolitan area where you live and the temporary work location is outside that area
- Transportation between your home and a temporary work location if you have at least one regular workplace for this employment. It doesn't matter how far away the temporary location is in this case.
- Transportation from one job to another if you work two places in one day
- If you are self-employed and your home is your principal place of business, all business travel is deductible.
- For more information, see [IRS Publication 463](#)

### **Uniforms and Gear**

- Protective clothing and gear
- Uniforms (except if you're full-time active duty in the armed forces)
- Dry cleaning costs for your uniforms or protective clothing (not for your everyday clothing, though)
- Specialized clothing designed for your job, as long as it's not suitable for everyday wear
- Safety equipment, such as hard hats, safety glasses, safety boots, and gloves

### **Miscellaneous**

- Gifts, but only up to \$25 per recipient
- Passport if needed for business travel
- Postage
- Office supplies
- Printing and copying
- Legal and professional services (tax preparation fee)
- Medical exams required by your employer
- Occupational taxes if they're charged at a flat rate by your city or other local government for the privilege of working in that area
- Business liability insurance premiums
- Job dismissal insurance premiums
- Damages you pay to a former employer for a breach of employment contract
- Employee contributions to state disability funds

### **Self-Employed Only**

- Interest on business loans
  - Self-Employed health insurance (partial)
  - Commissions and fees
  - Business insurance
  - Keogh or SEP contributions
  - Rental of business property
  - Office rent and utilities
  - Repairs and maintenance
  - Business taxes and licenses
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## Qualified Medical Expenses

Generally, you can only deduct the excess over 10% of Adjusted Gross Income (7.5% if over 65), and then only if you can itemize on Schedule A. This means that if you make \$100,000, you can only deduct the amount of medical expenses you spent over \$10,000. Please also refer to [IRS Publication 502: Medical Expenses](#).

- Acupuncture
- Air conditioner necessary for relief from allergies or other respiratory problems
- Alcoholism treatment
- Analysis
- Artificial limbs
- Artificial teeth
- Birth control pills prescribed by a doctor
- Braille books and magazines used by a visually-impaired person
- A clarinet and lessons to treat the improper alignment of a child's upper and lower teeth
- Contact lenses
- Cosmetic surgery to improve a deformity
- Dental fees and supplies
- Diet, special. When prescribed by a doctor, you can deduct the extra cost of purchasing special food to alleviate a specific medical condition.
- Doctor or physician expenses
- Drug addiction treatment
- Elastic hosiery to treat blood circulation problems
- Exercise program if recommended by doctor to treat a specific condition
- Extra rent/utilities for a larger apartment required in order to provide space for a nurse/attendant
- Eye surgery, when it is not for cosmetic purposes only
- Fertility treatment: Limited to procedures such as *in vitro* fertilization (including temporary storage of eggs or sperm) and surgery, including an operation to reverse prior surgery that prevented the person operated on from having children.
- Guide dog
- Hospital care
- Household help for nursing care services only
- Insurance premiums for medical care coverage
- Laboratory fees
- Lead-based paint removal where a child has or had lead poisoning
- Legal fees paid to authorize treatment for mental illness
- Lifetime care advance payments
- Lodging expenses while away from home to receive medical care in a hospital or medical facility
- Long-term care insurance and long term care expenses (with limitations)
- Mattresses and boards bought specifically to alleviate an arthritic condition
- Medical aids. This includes wheelchairs, hearing aids and batteries, eyeglasses, contact lenses, crutches, braces, and guide dogs (including costs paid for their care).
- Medical conference admission costs and travel expenses for a chronically ill person or a parent of a chronically ill child to learn about new medical treatments.
- Medicines and prescription drugs
- Nursing care.
- Nursing home expenses if the there to obtain medical care.
- Oxygen and oxygen equipment.
- Reclining chair bought on a doctor's advice by a person with a cardiac condition.
- Special education tuition of mentally impaired or physically disabled person.
- Smoking cessation programs.
- Swimming costs, if therapeutic and prescribed by a physician.
- Telephone cost, repair and equipment for a hearing-impaired person.
- Television equipment to display the audio part of a TV program for hearing-impaired persons.
- Transplants of an organ, but not hair transplants.
- Transportation costs for obtaining medical care.
- Travel expenses for parents visiting their child in a special school for children with drug problems, where the visits are part of the medical treatment.
- Weight loss program, if it is recommended by a doctor to treat a specific medical condition or to cure any specific ailment or disease
- Whirlpool baths prescribed by a doctor.

- Wig for the mental health of a patient who lost his or her hair due to a disease.
- X-ray services.

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## Expenses You Cannot Deduct

People commonly hope to deduct some of the following expenses, but unfortunately they are not deductible.

### Non-Deductible Miscellaneous Expenses:

- Expenses that were reimbursed by your employer.
- Clothing that is adaptable to everyday wear (this includes suits, evening wear, etc.).
- Commuting costs (subways and rail fares, and vehicle use including tolls, gasoline, and parking). Exception if qualified as being away from home on business or as part of Temporary Living Expenses.
- Dues to country clubs, golf and athletic clubs, and airline and hotel clubs.
- Job hunting expenses if you're looking for your first job, or changing professions.
- Dry cleaning and laundry (unless you're on a business trip)
- Immigration visa expenses, such as for obtaining a Green Card or H-1B visa.
- Moving expenses that were not associated with your job.
- Moving expenses if you are claiming temporary living expenses.
- Meals, unless for business meetings, or while away from home on business. Also, allowable as part of Temporary Living Expenses.
- Lunch on the job.
- Personal expenses, such as grooming and maintenance (gym membership) unless they are directly related to your business (e.g., models, actors).
- Any other personal expenses for which there is no provision for a deduction in the Tax Code.
- Interest on personal loans.
- Support of family members, with the exception of specific expenses, such as dependent care, for qualifying dependents.
- Personal vacations.
- Cosmetic surgery to improve personal appearance
- Contributions made to individuals or foreign charities.
- Student loan interest if adjusted gross income is greater than \$75,000 (single) or \$150,000 (married).
- Student loan principal.

### Nondeductible Home Expenses. Some exceptions for rental properties.

- Mortgage principal payments
- Homeowner's association fees.
- Apartment rent, unless qualified to claim away from home expenses for a business trip expected to last one year or less (Temporary Living Expenses), or if a portion is used as a home office (special rules apply to both cases). Also, may be deductible if maintained for the sole purpose of going to school if your education expenses qualify for the business deduction. Exception: Some states provide a deduction for rent (e.g., New Jersey and Massachusetts).
- Insurance (other than mortgage insurance premiums), including fire and comprehensive coverage, and title insurance.
- Wages you pay for domestic help.
- Depreciation.
- The cost of utilities, such as gas, electricity, or water.
- Most settlement fees, closing costs, and legal fees involved in purchasing a property
- Forfeited deposits, down payments, or earnest money.
- Home phone line

### Nondeductible Taxes and Fees.

- Fees for taking an exam to qualify you in a profession (e.g., Bar Exam, GRE, etc.)
- Personal purpose license fees (e.g., marriage, driver's license, dog, etc.)
- Employment taxes. This includes social security, Medicare, and railroad retirement taxes withheld from your pay. However, one-half of self-employment tax you pay is deductible. In addition, the social security and other employment taxes you pay on the wages of a household worker may be included in medical expenses that you can deduct or child care expenses that allow you to claim the child and dependent care credit.
- Estate, inheritance, legacy, or succession taxes. However, you can deduct the estate tax attributable to income in respect of a decedent if you, as a beneficiary, must include that income in your gross income. In that case, deduct the estate tax as a miscellaneous deduction that is not subject to the 2%-of-adjusted-gross-income limit.

- Federal income taxes. This includes income taxes withheld from your pay.
- Fines and penalties. You cannot deduct fines and penalties paid to a government for violation of any law, including related amounts forfeited as collateral deposits.
- Gift taxes.
- Per capita taxes. You cannot deduct state or local per capita taxes.