

Collect Miscellaneous Deductions at Year-End

By Donna Laubscher, CPA
(480) 483-1170 ~ DonnaL@hhcpa.com



As the year quickly draws to a close, you may be looking to increase your itemized deductions to offset highly taxed ordinary income. What about those random expenses that often seem to fall through the cracks? If you qualify, you may be able to deduct a portion of your miscellaneous itemized expenses.

Miscellaneous expenses are generally not big-ticket items, but they can add up to a sizeable deduction at tax return time. The main hurdle is your annual deduction, limited to the excess above 2% of your adjusted gross income (AGI) for the year.

For simplicity, let's say that your AGI for 2011 is an even \$100,000 and you have incurred \$1,950 of miscellaneous expenses during the year. In that case, your deduction is zero because you don't clear the 2%-of-AGI mark.

Miscellaneous expenses are often referred to as a "hodgepodge" of deductible expenses. However, they are generally attributable to one of two categories: production-of-income expenses or employee business expenses.

Production-of-income expenses: This group includes expenses related to the production of income through investments, financial planning, retirement planning and tax assistance. Although this list is not all-inclusive, some common examples are safe deposit rentals to store nontax-exempt securities; accounting fees and legal fees to produce or preserve income; custodial fees for income-producing property and IRAs; fees paid to collect interest or dividends; hobby expenses (up to the amount of hobby income); fees for investment and tax counsel; appraisal fees for charitable contributions and casualty losses; and the cost of services, periodicals, manuals and other materials related to tax assistance. Note that the cost of having your tax return prepared by a professional is deductible as a miscellaneous expense.

Employee business expenses: The other main group of miscellaneous expenses consists of unreimbursed employee business expenses. It includes such expenses as dues paid to professional societies; union dues; employment-related education; malpractice insurance premiums; qualified home office expenses; subscriptions to professional journals and magazines; work clothes or uniforms; cellular

phones and home computers (when required as a condition of employment); and qualified travel and entertainment expenses (but only 50% of entertainment costs are eligible for the deduction).

Furthermore, the cost of seeking employment—for example, payment for employment agency fees and résumé services—may be deductible as a miscellaneous expense, even if you don't end up with the job.

As is usually the case with taxes, there are several exceptions to these general rules, so be sure to obtain expert tax advice. One huge caveat – if you are subject to alternative minimum tax (AMT), these expenses are not deductible against alternative minimum taxable income. Reminder: The cost of tax assistance itself is deductible as a miscellaneous expense, subject to the 2%-of-AGI limit.

Donna H. Laubscher, CPA, is a Partner at Henry & Horne, LLP. Her areas of expertise include individual taxation and accounting services for business entities. Contact Donna at (480) 483-1170 or DonnaL@hhcpa.com.



HENRY & HORNE, LLP
Certified Public Accountants

Tempe
2055 E. Warner Road
Suite 101
Tempe, AZ 85284
(480) 839-4900

Scottsdale
7098 E. Cochise
Suite 100
Scottsdale, AZ 85253
(480) 483-1170

Casa Grande
1115 E. Cottonwood
Suite 100
Casa Grande, AZ 85122
(520) 836-8201

www.henryandhorne.com