

**Subject** Unreimbursed employee expense deduction

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## Overview

Prior to the passage of the Tax Cuts and Jobs Act (TCJA) in 2017, individual income taxpayers who itemized their deductions were allowed a group of itemized deductions that the Internal Revenue Code called “miscellaneous itemized deductions.” To claim the deduction, a taxpayer would add together this group of itemized deductions, and was only allowed to deduct the combined amount in excess of 2% of the taxpayer’s adjusted gross income. Minnesota taxpayers who claimed these deductions federally also benefited from the deductions on their state income taxes.

There are three main sub-categories of miscellaneous itemized deductions – unreimbursed employee business expenses, tax preparation expenses, and other miscellaneous deductions.

Unreimbursed employee expenses were the “ordinary and necessary expenses paid or incurred during the taxable year in carrying on any trade or business.” A list of expenses qualifying for this deduction is provided at the bottom of this summary.

TCJA repealed miscellaneous itemized deductions subject to the 2% AGI floor, including the deduction for unreimbursed employee expenses. Minnesota has not yet conformed to the changes in TCJA, meaning that miscellaneous deductions are still allowed for the purposes of Minnesota income taxes.

H.F. 1122 updates the definition of “net income” for the purposes of the Minnesota individual income tax. The bill effectively proposes incorporating the changes in the federal TCJA for the purposes of the state’s net income definition, except it would retain the itemized deduction for unreimbursed employee expenses.

### **Examples of Unreimbursed Employee Expenses (from the 2017 IRS Publication 529):**

- Damages paid to a former employer for breach of an employment contract.
- Depreciation on a computer your employer requires you to use in your work.
- Dues to a chamber of commerce if membership helps you do your job.
- Dues to professional societies.

- Educator expenses.
- Home office or part of your home used regularly and exclusively in your work.
- Job search expenses in your present occupation.
- Laboratory breakage fees.
- Legal fees related to your job.
- Licenses and regulatory fees.
- Malpractice insurance premiums.
- Medical examinations required by an employer.
- Occupational taxes.
- Passport for a business trip.
- Repayment of an income aid payment received under an employer's plan.
- Research expenses of a college professor.
- Rural mail carriers' vehicle expenses.
- Subscriptions to professional journals and trade magazines related to your work.
- Tools and supplies used in your work.
- Travel, transportation, meals, entertainment, gifts, and local lodging related to your work.
- Union dues and expenses.
- Work clothes and uniforms if required and not suitable for everyday use.
- Work-related education.

<https://www.irs.gov/pub/irs-prior/p529--2017.pdf>



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