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Kevin Collins
Eagle KMC, LLC

Kevin,

The following information is in regard to the new tax laws and changes to individual tax filers.

Repeal of 2% Miscellaneous Itemized Deductions
New Law IRC Section 62, 67, and 212
Effective 2018-2025

-The new law suspends all miscellaneous itemized deductions that are subject to the two-percent floor under present law. Thus, under the provision, taxpayers may not claim the items as itemized deductions for the taxable years to which the suspension applies.

-The main category affected by this change is employee business expenses.

The employee business expense lost deduction is easily replaced by employers that set up accountable plans to reimburse employees. Particularly affected are employees such as truck drivers, railroad employees, ministers and outside salespeople with large employee business expense amounts.

Thank you

A handwritten signature in black ink, appearing to read 'MMK'.

Michael M. Katz

Repeal of 2% Miscellaneous Itemized Deductions

NEW LAW IRC SECTION 62, 67 and 212

Effective for years beginning after 12/31/2017 and before 1/1/2026

(Sec. 11045 of Act)

- The new law suspends all miscellaneous itemized deductions that are subject to the two-percent floor under present law. Thus, under the provision, taxpayers may not claim the items as itemized deductions for the taxable years to which the suspension applies.

COMMENTS AND CONCERNS

- There are 2 main categories affected by this change: ~~employee business expenses and investment and tax-prep expenses.~~
- The employee business expense lost deduction is easily replaced by employers that setup accountable plans to reimburse employees. Particularly affected are employees such as truck drivers, railroad employees, ministers and outside salespeople with large employee business expense amounts. We have been telling people for years that employers need to pay these folks through an accountable plan, and it has now become mandatory. Even for people not in this category, they should pressure employers to set up accountable expense plans to reimburse things like professional dues, licenses and education, malpractice insurance premiums, medical exam fees, passports, publications, uniforms and tools.
- As far as the deduction for investment expenses, there is not much that can be done here at the individual level. Look for financial institutions that do not charge for safe deposit boxes, investment types where the expenses are paid by the fund rather than the individual, IRA accounts without a separate trustee fee (or paid out of the IRA assets) reimbursement for job search expenses, and similar items.
- The deduction for tax preparation expenses does make it even more important to allocate bills to appropriate non-itemized schedules, and to have shareholders and partners seek reimbursement from entities for the additional cost of preparing returns with K-1's.
- This also makes it more important to turn hobby activities (deductions are 2% itemized) to for-profit businesses.