



# Military Employee Business Expenses



## Introduction

This lesson will help you determine and claim qualified employee business expenses for members of the Armed Forces, such as uniforms, education and travel. These expenses, with one exception, may be reported on Form 2106 or Form 2106-EZ or may be deducted on Schedule A as a Miscellaneous Itemized Deduction subject to the 2% limit or in certain cases as an adjustment to income.

## Objectives

At the end of this lesson, using your resource tools, you will be able to:

- Determine if the taxpayer has military business expenses that can be deducted
- Identify which form to use to report military business expenses

## What are military employee business expenses?

Military employee business expenses are necessary work-related expenses incurred by active and reserve members of the U.S. Armed Forces. The U.S. Armed Forces includes commissioned officers, warrant officers, and enlisted personnel in all regular and reserve units under the control of the Secretaries of the Defense, Army, Navy, Air Force, and Coast Guard. It does not include members of the Merchant Marines or the American Red Cross.

## What are qualified uniform expenses?

Qualified uniform expenses are the cost and upkeep of uniforms and certain articles that are:

- Specifically required as a condition of employment and
- Not adaptable to general use as regular clothing

Members of the Armed Forces are required to wear uniforms when they are on duty, and they are generally allowed to wear their uniforms in place of regular civilian clothing when they are off duty. In this case, members of the military cannot claim a deduction for the uniform cost and upkeep.

However, when military regulations *prohibit* off-duty wear of certain uniforms, service members can deduct the cost and upkeep of those uniforms. Service members must reduce the deductible expenses by any nontaxable uniform allowance or reimbursement they receive.

In addition, costs for required items, such as insignia of rank, corps devices, epaulets, aiguillettes, and swords, can be deducted.



Although the intake and interview sheet does not list military employee business expenses, service members should take advantage of deductions to which they are entitled. Ask taxpayers if they had any unreimbursed military work-related expenses.

### What do I need?

- Intake and Interview Sheet
- Publication 4012, Volunteer Resource Guide
- Publication 3
- Publication 4491-W
- Form 2106
- Form 2106-EZ
- Schedule A

#### **Optional:**

- Publication 463
- Publication 970
- Form 2106 Instructions



The same rules apply for active duty personnel and reservists.

## Are professional dues deductible?

Dues paid to professional societies that are directly related to their trade or business can be deducted by service members.

However, service members cannot deduct amounts paid to an officers' club or a noncommissioned officers' club.

### example

Lt. Walker, an electrical engineer at Maxwell Air Force Base, can deduct professional dues paid to the American Society of Electrical Engineers.



## EXERCISES

Answers are after the lesson summary.

**Question 1:** Which of the following expenses can be deducted?

- A. The cost of a dress blue uniform (without shoulder boards or gold stripe on pants), including cape; off-duty wear allowed
- B. The cost of a full Army green uniform (without braid) that can be worn anytime
- C. The cost of battle dress uniforms and utility uniforms that can be worn only while on duty or while traveling to and from duty
- D. None of the above

**Question 2:** Which of the following expenses can be deducted?

- A. Cost of epaulets
- B. Cost and upkeep of a reservist's uniform that can be worn off duty (no uniform allowance received)
- C. All of the above

**Question 3:** Lt. Edwards is on active duty for the U.S. Navy. He specializes in the installation and maintenance of sonar detection systems on Navy ships. As a volunteer, he also draws illustrations and cartoons for his base's internal newsletter. He receives no compensation for his illustrations. Is the membership fee he pays to the Professional Illustrators' Society a deductible expense?  Yes  No

## Can service members claim work-related educational expenses?

Service members can claim educational expenses as an employee business expense if the education:

- Is required by their employer, the law, or regulations to keep their current salary, status, or job if these requirements serve a business purpose of the employer or
- Maintains or improves the skills required in their present work

These expenses are deductible whether or not the education may lead to a degree.



This section relates only to expenses that may be deductible on Schedule A subject to the 2% AGI limitation. Service members can determine whether the expenses also qualify as an education credit, then claim them where they are most beneficial.

However, service members cannot claim an employee business expense for education that is:

- Needed to meet the minimum educational requirements for their trade or business or
- Part of a program of study that will qualify them for a new trade or business

**example**

Col. Wilson, an Army pilot, incurred educational expenses to obtain an accounting degree. He cannot deduct his accounting degree expenses on Schedule A because the degree will qualify him for a new trade or business.



**EXERCISES** (continued)

**Question 4:** True or False? For educational expenses to be claimed as an employee business expense deduction, the education must help the service member qualify for a degree.

True  False

**Question 5:** Which of the following can be classified as a work-related education expense?

- A. Cost of a laptop and desk lamp for studying
- B. Expenses incurred by a flight operations officer to take an advanced piloting course
- C. Cost of civilian clothes to wear to a course taken off base
- D. Expenses incurred by a Navy disbursing clerk to learn television repair

**What about travel and transportation expenses incurred for educational expenses?**

Service members who have qualified deductible educational expenses may deduct the cost of travel and transportation for that education. This includes the cost of going from work to school, or travel expenses if the service member travels overnight mainly to obtain work-related education. Service members cannot deduct the round-trip cost of going from home to school unless they are regularly employed and go to school on a temporary basis (not reasonably expected to last more than one year) for work-related education.



See Publication 970 for additional information regarding Educational Expenses.



Service members cannot deduct the cost of travel that is itself a form of education, even if it is directly related to their duties.



**EXERCISES** (continued)

**Question 6:** Major Manchester is stationed in Manila. On weekends, she drives to Taal to take lessons in traditional Philippine dance. Can Major Manchester deduct these travel expenses?  Yes  No

## What are travel expenses?

Travel expenses are unreimbursed work-related expenses incurred while service members are traveling away from home. They must be ordinary and necessary expenses such as airfare, car rental, taxi fare, lodging, and meals. Expenses for personal travel, leave, or liberty cannot be deducted.

### When are travel expenses deductible?

For travel expenses to be deductible:

- There must be a work-related purpose for the travel
- They must be deemed as the “ordinary and necessary” costs of traveling away from home
- The expenses must be greater than the total of any advances, allowances, or reimbursements service members received

#### TIP

If Armed Forces members do not claim reimbursement for expenses they are entitled to, no deduction for those expenses may be claimed.

### What is meant by “away from home”?

“Away from home” has a slightly different meaning for military than for civilian taxpayers. For service members, “home” is the duty station to which they are permanently assigned, which can be a ship or a base. It includes the entire city or general area where the post of duty is located.

Service personnel are considered to be away from home if they are away from their permanent duty stations for a period substantially longer than an ordinary day’s work. Service members may deduct business-related travel expenses incurred while traveling away from home.

#### TIP

For Navy personnel assigned to permanent duty aboard a ship that has regular eating and living facilities, the ship is considered to be “home” for travel expense purposes.

Examples of work-related travel expenses for members of the Armed Forces include:

- Expenses incurred while on temporary duty (**TDY**) or temporary additional duty (**TAD**) if “away from home” (i.e., ship, base, or station)
- Expenses of a reservist away from home overnight to attend drills
- Meals and lodging of a reservist temporarily called to active duty
- Travel expenses, including meals and lodging, incurred in connection with deductible educational activities
- Travel expenses incurred when carrying on official business while on “no cost” (to the government) orders



### EXERCISES (continued)

**Question 7:** Which of the following individuals is entitled to deduct travel expenses?

- A. Sgt. Bullock, who commutes from his home to his permanent post of duty in the same city
- B. Capt. Hinds, who takes a taxi to work from his home to his permanent post of duty
- C. Major Forrest, a reservist who is called to temporary duty and must attend an overnight meeting away from home
- D. PFC Jenkins, who is assigned to permanent duty aboard a ship that provides meals and lodging

## What are temporary active duty reservists' expenses?

Military reservists temporarily called to active duty who must remain away from home to perform their duties may claim unreimbursed travel expenses such as meals and lodging. This applies:

- As long as the duty occurred under competent orders and
- Whether or not the reservist was compensated

To claim unreimbursed travel expenses, reservists must:

- Be stationed away from the general area of their job or business and
- Return to their regular jobs once released

Expenses are deductible only if the reservists pay for meals and lodging at their official military post and only to the extent the expenses exceed Basic Allowance for Housing (BAH) and Basic Allowance for Subsistence (BAS).

## What is the 100-mile rule for reservists?

### TIP

Military reservists include members of the U.S. Armed Forces (i.e., Army, Navy, Marine Corps, Air Force, and Coast Guard Reserve), the U.S. Army National Guard, the U.S. Air National Guard, or the Reserve Corps of the U.S. Public Health Service.

Military reservists who must travel more than 100 miles away from home and stay overnight to attend a drill or reserve meeting may be able to deduct their travel expenses as an adjustment to income rather than as a miscellaneous itemized deduction. The amount of expenses that can be deducted is limited to the:

- Federal rate for per diem (for lodging, meals, and incidental expenses)
- Standard mileage rate (for car expenses) plus any parking fees, ferry fees, and/or tolls

Any expense in excess of the standard mileage rate and expenses that do not qualify for the adjustment to gross income deduction can be claimed only as a miscellaneous itemized deduction subject to the 2% limit.

### TIP

The 100-mile rule is an exception to Form 2106 requirements and qualifies as an adjustment to income, which is an above-the-line deduction.

### example

Mary is in the Army Reserve. She lives in a town that is 120 miles from Base A, where she normally reports for Reserve drills or meetings. During the current tax year, she occasionally traveled to Base B, which was only 40 miles from her home.

Mary may claim the travel expenses she incurred going to Base A as an adjustment to income. Mary's remaining expenses for travel to Base B may qualify as an itemized deduction on Schedule A. This deduction will be subject to the 2% AGI limitation.



**Tax Software Hint:** For software entries, go to the Volunteer Resource Guide, Deductions tab.

## What is the deduction for meals?

U.S. service personnel can deduct the cost of meals and business-related entertainment incurred during business travel away from their permanent duty station.

Meals and entertainment expenses are figured separately from other business travel expenses. They are multiplied by a percentage: 50% for most taxpayers and 80% for those subject to Department of Transportation hours of service.

Taxpayers may report the actual amounts for meals, entertainment, and incidental expenses or they may use a standard amount to claim meals and incidental expenses. In either case, the service member must provide records to prove the time, place, and business purpose of the travel.

For service personnel who are fully reimbursed by the government for meals under an accountable plan that excludes reimbursement from gross income, there is no amount to deduct and, therefore, no amount subject to the 50% limit.

### TIP

For information on using the standard meal allowance instead of actual expenses, see Publication 463, Travel, Entertainment, Gift, and Car Expenses.

## What are local transportation expenses?

Local transportation expenses are typically defined as the ordinary and necessary costs incurred in getting from one place to another to perform work-related duties while *not* traveling away from home. This can include traveling from one job to another. However, the expenses of getting to and from the taxpayer's regular place of work are not deductible.

Allowable local transportation expenses include:

- The cost of driving and maintaining one's own vehicle
- Travel by rental cars, bus, rail, or taxi

### TIP

The standard mileage rate can be found on Form 2106, Part II, Section B, and Form 2106-EZ, Part II.

## Are car expenses deductible?

Service personnel who use their own vehicles to travel for work are entitled to deduct actual expenses or the standard mileage rate to figure the deductible costs of operating their vehicles for business purposes.

Actual expenses include the cost of gas, oil, repairs, insurance, and depreciation on the vehicle. If a taxpayer chooses to use actual expenses instead of the standard mileage rate, refer them to a professional tax preparer.



## EXERCISES (continued)

**Question 8:** Which of the following costs are considered to be a local transportation expense?

- A. Daily meals taken during a week-long training session while on duty
- B. Gasoline used to drive to and from one's regular place of work
- C. Taxi fare to travel while on duty to a local work-related convention
- D. Elaborate lunch to treat top-ranking military official visiting base

## Are expenses related to temporary work locations deductible?

Expenses incurred while commuting to work are not deductible. However, service members who are on temporary assignments in the same trade or business as their regular place of business can deduct the expenses of the daily round trip between their home and the temporary location, if not reimbursed by their employer.

Service members can deduct ordinary and necessary costs of traveling to temporary work assignments:

- Traveling from one workplace to another within the city or general area that is their tax home
- Visiting clients or customers
- Going to a business meeting away from their regular workplace

Expenses incurred while traveling away from home overnight are deductible as travel expenses, not local transportation expenses.

### example

Sgt. Purdue attended a meeting of an Armed Forces reserve unit. The meeting is considered to be a second place of business because it is held on one of Sgt. Purdue's regular work days. He can deduct the expense of traveling from his home and regular work location to the meeting location.

## Who needs to complete Form 2106?

If the service member has job-related travel, meals, or local transportation expenses, or other expenses that are greater than reimbursements, Form 2106 must be used to calculate the itemized deduction.

Form 2106 is not required if the taxpayer is claiming only job-related expenses for uniforms, professional dues, or education, and no reimbursement was received.

To determine whether service members need to complete Form 2106, consider the following factors:

- Did the service member have work-related travel, meals, or local transportation expenses?
- Did the service member receive an allowance or a reimbursement from the military?
- Did the amount of travel expenses exceed the amount of the reimbursement or allowance?

For service members who are not required to file Form 2106, enter miscellaneous deductions subject to 2% of AGI directly on Schedule A.

### TIP

Form 2106-EZ can only be used by employees who received no reimbursement from their employer and who use the standard mileage rate. In most cases, military members with work-related travel expenses will have received reimbursement and will need to use Form 2106.

### example

Capt. Glendale traveled from his duty station in California to Washington, DC, for a conference. He was away for five days. The Army advanced \$700 to Capt. Glendale for the trip. His actual expenses were \$625. When he filed his travel voucher with the Army, he returned the extra \$75. He does not have to complete Form 2106.

## Taxpayer Interview and Tax Law Application

Let's see how a volunteer helps Mary, an Army Reservist, determine how to deduct her employee business expenses.

### SAMPLE INTERVIEW

#### VOLUNTEER SAYS...

*You were in the Reserves, as well as working your full-time civilian job. Did you have any expenses associated with that?*

*Oh, good. The expenses you have for traveling more than 100 miles away as a reservist can be deducted, even if you can't itemize. Did you have to pay for lodging or meals or parking?*

*Did you get any reimbursement?*

*The most we'll be able to deduct on the meals is 50%, but you can take all of the lodging, plus your mileage.*

*It's different for the drills at the other base, since they're not as far from your home. I have two questions about these trips: when did you make them, and did you leave from your regular job to go to Baker, or was it on a day off?*

*Since you are driving from one job to another, that's deductible too. But only if you can itemize, and it's over 2% of your AGI. Did you have any other work-related expenses?*

*Did you get reimbursed for any part of that?*

*Then you'll be able to deduct the \$100 you paid out of pocket—but only if you can itemize and exceed that 2% limit.*

*All right, the expenses for traveling more than 100 miles for reserve duties adds up to \$1,296, along with the hotel rooms at \$720, and half the meals at \$100 totals \$2,116. We'll deduct that right on the front of the return.*

*The other mileage from trips to Baker add up to \$216, and the \$100 out of pocket for the class will give you a total of \$316 for your Schedule A if you can itemize. Now let me ask you some questions about your car so I can complete this form...*

[On Mary's intake and interview sheet, indicate that you've addressed these items.]

#### MARY RESPONDS...

Well, my unit usually meets at Anderson, which is about 120 miles from here. I had ten round trips during the year, plus we met at Baker five times. That's only 40 miles away. Here's my mileage record.

I paid \$72 for a hotel room each time, and I ate at the mess for about \$20 each trip.

No, I have to pay for it myself.

No, those were short meetings on week-nights, so I just drove straight from work.

I'm a trauma nurse, and I have to take continuing education courses each year to stay certified. The classes cost \$500 once I paid for the books.

The military gave me an allowance, but that only covered \$400.

## Summary

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This lesson explained business expense deductions of special interest to the military and how to claim them.

Travel expenses must be ordinary and necessary expenses of temporarily traveling away from home for a person's job and must be greater than the total of any advances, allowances, and reimbursements received for such expenses.

- Travel and transportation expenses can be taken as miscellaneous itemized deductions on Schedule A, subject to the 2% AGI limit.
- Travel expenses for meals, lodging, and incidentals are only deductible if they are incurred while temporarily away from home on business. Assignments that last, or are realistically expected to last, more than one year are not considered temporary.
- Commuting and other personal expenses are not deductible.
- Travel costs associated with deductible educational expenses are treated like other business travel costs.

Form 2106 and Schedule A are used to figure and claim the itemized deductions for employee business expenses that exceed reimbursement. Service members are required to file Form 2106 to claim job-related travel, transportation, meals, or entertainment expenses, or when they have been paid by their employer for any expenses being deducted on Schedule A.

National Guard and Reserve members who travel more than 100 miles away from home and stay overnight to attend drill or reserve meetings can deduct travel expenses as an adjustment to income. All other deductible miscellaneous itemized deductions discussed in this lesson are deducted on Schedule A as a Miscellaneous Itemized Deduction, subject to the 2% AGI limit.

To claim these expenses, a service member must itemize using Form 1040, Schedule A, Itemized Deductions.

### **What situations are out of scope for the VITA/TCE programs?**

The following is out of scope for this lesson. While this list may not be all inclusive, it is provided for your awareness only.

- Taxpayers who choose to use actual expenses instead of the standard mileage rate (vehicle-related deductions)



## TAX LAW APPLICATION USING THE WORKBOOK

To gain a better understanding of the tax law, complete the comprehensive problem or practice exercise(s) for your course of study in Publication 4491-W.

For practice using the tax preparation software, complete the scenarios using the Practice Lab on L&LT.



## EXERCISE ANSWERS

**Answer 1:** C. The cost of battle dress uniforms and utility uniforms that can be worn only while on duty or while traveling to and from duty.

**Answer 2:** A. The cost of items not replacing regular clothing such as insignia of rank and epaulets are deductible.

**Answer 3:** No. Lt. Edwards' illustrations are not part of his official duties and cannot be deducted as an employee business expense.

**Answer 4:** False. The education does not have to lead to a degree as long as it helps maintain or improve skills or knowledge needed for the taxpayer's current job.

**Answer 5:** B. Educational expenses may be claimed as miscellaneous itemized deductions if the education improves the skills used in the service member's current job.

**Answer 6:** No. Major Manchester cannot deduct the cost of traveling to Taal on weekends because the travel is not work-related.

**Answer 7:** C. Only Major Forrest can deduct the costs of traveling overnight to attend a reservists' meeting.

**Answer 8:** C. Taxi fare to travel on work-related business while not away from home is an allowable local transportation expense.