



NONPROFIT AND GOVERNMENT

IMPORTANT TAX BENEFIT FOR EDUCATORS

As you prepare for the new school year, we wanted to make you aware of a tax law change that directly impacts your teachers. The above-the-line deduction for certain classroom expenses of elementary and secondary school teachers has been a temporary provision in the IRS Code since 2002 and was renewed six times as an "extender" item, each time retroactively, until the Protecting Americans from Tax Hikes (PATH) Act of 2015 made it permanent for tax years 2015 and following. For tax years 2016 and following, the PATH Act also expanded the deduction to cover professional development expenditures and indexed its \$250 maximum amount for inflation. Thus, qualifying educators can now count on the deduction each year and potentially realize a greater benefit from it than previously.

Eligible Expenses

Eligible expenses include books, supplies (other than nonathletic supplies for courses of instruction in health or physical education), computer equipment (including related software and services) and other equipment and supplementary materials used by the educator in the classroom. Professional development must be for courses that relate to the curriculum in which the educator provides instruction or to the students for which the educator provides instruction. Teachers should keep all receipts and other documentation to substantiate their qualified expenses.

Eligible Educator

An eligible educator must be a kindergarten through 12th grade "teacher, instructor, counselor, principal, or aide" in a public or private elementary or secondary school. Married taxpayers filing jointly who are both eligible educators may each claim up to the maximum deduction (i.e., no more than \$250 per spouse). A taxpayer must also be an eligible educator for at least 900 hours during a school year. However, guidance is lacking on how to coordinate the school year with the tax year in certain situations. For instance, it is unclear whether the 900 hours can include summer classes, which are generally not considered part of a school year. Also, it is not clear that otherwise-eligible educators can take the deduction in the year they begin teaching but have not yet worked 900 hours by December 31 (as would be likely for a teacher starting at the beginning of the school year in August or September), even if they expect to meet the requirement by the end of the school year.

Limitations

The deduction for educator expenses is allowed only to the extent it exceeds the amount of excludable savings bond, nontaxable qualified state tuition program earnings, and nontaxable earnings from Coverdell education savings accounts. The amount is reduced by any employer reimbursements that were not reported to the teacher on Form W-2 (Box 1). Any unreimbursed educator expenses that exceed the \$250 ceiling may be claimed as miscellaneous itemized deductions subject to the 2%-of-adjusted-gross-income (AGI) floor.

Considerations

Quite often teachers will incur unreimbursed expenses in excess of the maximum allowable above-the-line deduction for the tax year. In this case, and if the school district wishes to encourage the behavior, the school district may want to accept donations from teachers and purchase the eligible items directly. In this manner, the teacher avoids the 2%-of-AGI floor for miscellaneous itemized deductions. However, as with all miscellaneous itemized deductions, any benefit from this option depends on the taxpayer's claiming itemized deductions rather than the standard deduction. Each individual's tax situation is different, so teachers should seek additional advice from their tax preparers.

Questions?

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