HB 2154 STAFF MEASURE SUMMARY

House Committee On Revenue

Prepared By: Kyle Easton, Economist
Meeting Dates: 2/18

WHAT THE MEASURE DOES:

Applicable to tax years 2019 through 2025, allows subtraction from taxable income equal to amount of substantiated business expenses, if expenses are unreimbursed by the taxpayer's employer and allowed as under section 162 of the Internal Revenue Code as in effect on December 31, 2017. Applicable to tax years 2019 through 2025, limits itemized deductions allowed for purposes of personal income taxation as described under section 68 of the Internal Revenue Code as in effect on December 31, 2017.

ISSUES DISCUSSED:

EFFECT OF AMENDMENT:

No amendment.

BACKGROUND:

Section 162 of the Internal Revenue Code (IRC) provides an itemized deduction for employee paid unreimbursed ordinary and necessary business expenses. An ordinary expense is one that is common and accepted in your field of trade, business, or profession. A necessary expense is one that is helpful and appropriate for your business. An expense does not have to be required to be considered necessary. Passed in December of 2017, the federal Tax Cuts and Jobs Act temporarily eliminated the itemized deduction for job expenses and certain miscellaneous expenses for tax years 2018 through 2025.

Commonly referred to as the Pease limitation, section 68 of the IRC places an overall limitation on itemized deductions. Under the Pease limitation, otherwise allowable total itemized deductions are reduced by 3% of amount by which taxpayer's AGI exceeds specified applicable threshold (up to 80% of otherwise allowable itemized deductions). Passed in December of 2017, the federal Tax Cuts and Jobs Act temporarily eliminated the Pease limitation on itemized deductions for tax years 2018 through 2025.