

Deducting out-of-pocket classroom-related expenses of elementary or secondary school teachers

Before 2004, if an elementary or secondary school teacher such as yourself paid for any classroom materials out of your own pocket, the only tax break you got was that you could treat the expenditure as an un-reimbursed employee business expense. This type of expense is deductible, but only if you itemize your deductions. Moreover, un-reimbursed employee business expenses are among the “miscellaneous itemized deductions” that are deductible only to the extent your total miscellaneous itemized deductions exceed 2% of your adjusted gross income (AGI). For a teacher earning, say, \$45,000, this means you get no deduction unless your total miscellaneous itemized deductions exceed \$900.

Under current law, however, regardless of whether you itemize your deductions or not, and regardless of the 2%-of-AGI limit, if you qualify as an “eligible educator,” you will be allowed a “classroom expense deduction” of up to \$250 for expenses that you pay in connection with books, certain supplies, computer equipment (including related software and services), other equipment, and supplementary materials that you use in the classroom. (Additional requirements, discussed further below, must also be satisfied.) An eligible educator is an individual who is a kindergarten through 12th grade teacher, instructor, counselor, principal, or aide in a school for at least 900 hours during a school year, and a school is any school which provides elementary education or secondary education (kindergarten through 12th grade), as determined under state law.

To be deductible—under both the classroom expense deduction rule and the un-reimbursed employee business expense rule—expenses must be “ordinary and necessary expenses” that you pay in connection with doing your job as a teacher. This means that the expenses must be customary and usual for teachers in your type of school located in your area, and must be appropriate or helpful (but not necessarily essential) to doing your job properly. In other words, if you're a public elementary school teacher, and if it's not out of the ordinary for public elementary school teachers in your area to buy books, supplies and materials for their classes, and if the things you actually buy are useful and helpful in performing your job as a teacher, the expenses pass this “ordinary and necessary” test.

In addition, the expenses must not be reimbursable. This means that if you have a right or expectation of reimbursement from your employer for these expenses, you can't deduct them.

For example, say that you're a 3rd grade teacher in a public elementary school who qualifies as an eligible educator. You spend \$200 on chalk, crayons, paints, paper and various other supplies for use by your pupils in the classroom. You can't get reimbursed by your school, and many public elementary school teachers in your area pay for these types of supplies for their pupils out of their own pockets. You're entitled to deduct that \$200 under the classroom expense deduction rule. If you spent \$400 instead of \$200, you could deduct \$250 of the \$400 under the classroom expense deduction rule. But the remaining \$150 could only be deducted as an un-reimbursed employee business expense. And note that if you took your pupils to a local museum and spent \$56 in the museum cafeteria for snacks for them, you couldn't deduct the \$56 under the classroom expense deduction rule, because you spent that money for an activity outside the classroom, rather than for classroom books, supplies or materials.

In order to claim a deduction for classroom expenses—either under the classroom expense deduction rule or the un-reimbursed employee business expense rule—you must

be able to prove that you paid the expenses, when you paid them, and what the expenses were for. Receipts for the items purchased showing the date and amount of the purchase, and identifying the specific items purchased, will usually do the trick. A note on the receipt (or in some "classroom expense" log) indicating the classroom activities for which the items will be used is also helpful. Make these notes (or keep up the log entries) at or near the time you make the purchase. If your purchase includes both items you're buying for your classroom and items for your (or your family's) personal use, you should identify the classroom items on the receipt. And if the classroom items can be used for both classroom and personal purposes—for example, children's books when you yourself have children, or general purpose computer software—you should be able to prove that you bought those items for classroom use. Photographs of the items in the classroom would be helpful in this regard.

In addition to these requirements, the up-to-\$250 classroom expense deduction is subject to one further limitation: the deduction is allowed for expenses only to the extent the amount of those expenses exceeds the sum of the following amounts that are excluded from gross income for the tax year:

- redemption proceeds from U.S. savings bonds redeemed to pay for qualified higher education expenses;
- certain amounts distributed from so-called "qualified tuition programs" for the financing of qualified higher education expenses; and
- certain amounts distributed from Coverdell education savings accounts for qualified education expenses.

However, what this rule means in practice is not entirely clear.