

you steal it unless in the same year, you return it to its rightful owner.

Transporting school children. Don't include in your income a school board mileage allowance for taking children to and from school if you aren't in the business of taking children to school. You can't deduct expenses for providing this transportation.

Union benefits and dues. Amounts deducted from your pay for union dues, assessments, contributions, or other payments to a union can't be excluded from your income.

For tax years beginning after 2017, you can no longer deduct job-related expenses or other miscellaneous itemized deductions subject to the 2%-of-adjusted-gross-income floor.

Strike and lockout benefits. Benefits paid to you by a union as strike or lockout benefits, including both cash and the FMV of other property, are usually included in your income as compensation. You can exclude these benefits from your income only when the facts clearly show that the union intended them as gifts to you.

Reimbursed union convention expenses. If you're a delegate of your local union chapter and you attend the annual convention of the international union, don't include in your income amounts you receive from the international union to reimburse you for expenses of traveling away from home to attend the convention. You can't deduct the reimbursed expenses, even if you're reimbursed in a later year. If you're reimbursed for lost salary, you must include that reimbursement in your income.

Utility rebates. If you're a customer of an electric utility company and you participate in the utility's energy conservation program, you may receive on your monthly electric bill either:

- A reduction in the purchase price of electricity furnished to you (rate reduction), or
- A nonrefundable credit against the purchase price of the electricity.

The amount of the rate reduction or nonrefundable credit isn't included in your income.

Whistleblower's award. If you receive a whistleblower's award from the IRS, you must include it in your income. Any deduction allowed for attorney fees and court costs paid by you, or on your behalf, in connection with the award are deducted as an adjustment to income, but can't be more than the amount included in income for the tax year.

Repayments

If you had to repay an amount that you included in your income in an earlier year, you may be able to deduct the amount repaid from your income for the year in which you repaid it. Or, if the amount you repaid is more than \$3,000, you may be able to take a credit against your tax for the year in which you repaid it. In most cases, you can claim a deduction or credit only if the repayment qualifies as an expense or loss incurred in your trade or business or in a for-profit transaction.

Type of deduction. The type of deduction you're allowed in the year of repayment depends on the type of income you included in the earlier year. In most cases, you deduct the repayment on the same form or schedule on which you previously reported it as income. For example, if you reported it as self-employment income, deduct it as a business expense on Schedule C (Form 1040) or Schedule F (Form 1040). If you reported it as a capital gain, deduct it as a capital loss as explained in the Instructions for Schedule D (Form 1040). If you reported it as wages, unemployment compensation, or other nonbusiness income, you may be able to deduct it as an other itemized deduction if the amount repaid is over \$3,000.



For tax years beginning after 2017, you can no longer claim any miscellaneous itemized deductions; so, if the amount repaid was \$3,000 or less, you aren't able to deduct it from your income in the year you repaid it.

Repaid social security benefits. If you repaid social security or equivalent railroad retirement benefits, see Pub. 915.

Repayment over \$3,000. If the amount you repaid was more than \$3,000, you can deduct the repayment as an other itemized deduction on Schedule A (Form 1040), line 16, if you included the income under a claim of right. This means that at the time you included the income, it appeared that you had an unrestricted right to it. However, you can choose to take a credit for the year of repayment. Figure your tax under both methods and compare the results. Use the method (deduction or credit) that results in less tax.



When determining whether the amount you repaid was less than \$3,000, consider the total amount being repaid on the return. Each instance of repayment isn't considered separately.

Method 1. Figure your tax for the year of repayment claiming a deduction for the repaid amount.

Method 2. Figure your tax for the year of repayment claiming a credit for the repaid amount. Follow these steps.

1. Figure your tax for the year of repayment without deducting the repaid amount.
2. Refigure your tax from the earlier year without including in income the amount you repaid in the year of repayment.
3. Subtract the tax in (2) from the tax shown on your return for the earlier year. This is the credit.
4. Subtract the answer in (3) from the tax for the year of repayment figured without the deduction (step 1).

If method 1 results in less tax, deduct the amount repaid. If method 2 results in less tax, claim the credit figured in (3) above on Form 1040 or 1040-SR. (If the year of repayment is 2019, and you're taking the credit, enter the credit on Schedule 3 (Form 1040), line 12, and see the instructions for it.)

Example 40. For 2019, you filed a return and reported your income on the cash method. In 2020, you repaid \$5,000 included in your 2019 income under a claim of right. Your filing status in 2020 and 2019 is single. Your income and tax for both years are as follows:

	2019	
	With Income	Without Income
Taxable Income	\$15,000	\$10,000
Tax	\$1,609	\$1,009
	2020	
	Without Deduction	With Deduction
Taxable Income	\$49,950	\$44,950
Tax	\$6,785	\$5,685

Your tax under method 1 is \$5,685. Your tax under method 2 is \$6,185, figured as follows.

Tax previously determined for 2019	\$1,609
Less: Tax as refigured	- 1,009
Decrease in 2019 tax	\$ 600
Regular tax liability for 2020	\$6,785
Less: Decrease in 2019 tax	- 600
Refigured tax for 2020	\$6,185

You pay less tax using method 1, so you should take a deduction for the repayment in 2020.

Repaid wages subject to social security and Medicare taxes. If you had to repay an amount that you included in your wages or compensation in an earlier year on which social security, Medicare, or tier 1 RRTA taxes were paid, ask your employer to refund the excess amount to you. If the employer refuses to refund the taxes, ask for a statement indicating the amount of the overcollection to support your claim. File a claim for refund using Form 843.

Repaid wages subject to Additional Medicare Tax. Employers can't make an adjustment or file a claim for refund for Additional Medicare Tax withholding when there is a repayment of wages received by an employee in a prior year because the employee determines liability for Additional Medicare Tax on the employee's income tax return for the prior year. If you had to repay an amount that you included in your wages or compensation in an earlier year, and on which Additional Medicare Tax was paid, you may be able to recover the Additional Medicare Tax paid on the amount. To recover Additional Medicare Tax on the repaid wages or compensation, you must file Form 1040-X for the prior year in which the wages or compensation were originally received. See the Instructions for Form 1040-X.

Repayment rules don't apply. This discussion doesn't apply to:

- Deductions for bad debts;
- Deductions for theft losses due to criminal fraud or embezzlement in a transaction entered into for profit;
- Deductions from sales to customers, such as returns and allowances, and similar items; or
- Deductions for legal and other expenses of contesting the repayment.