

The Deduction for Out-of-Pocket Teacher Expenses

December 19, 2017 (IN10021)

Related Authors

- [Molly F. Sherlock](#)
 - [Margot L. Crandall-Hollick](#)
-

Molly F. Sherlock, Specialist in Public Finance (msherlock@crs.loc.gov, 7-7797)
Margot L. Crandall-Hollick, Specialist in Public Finance (mcrandallhollick@crs.loc.gov, 7-7582)

While both the House and Senate tax reform proposals proposed changing the above-the-line deduction for out-of-pocket teacher expenses, the Conference Report to accompany [H.R. 1](#) ultimately retains the current law deduction. The House proposal, the Tax Cuts and Jobs Act ([H.R. 1](#)), would have repealed the deduction. In contrast, the Senate proposal would have temporarily increased the deduction to \$500, through 2025. The Joint Committee on Taxation (JCT) estimated that repealing the deduction (the House proposal) would have [increased revenues by \\$2.1 billion](#) between 2018 and 2027, while doubling the deduction (the Senate proposal) would have [decreased revenues by \\$1.5 billion](#) over the same 10-year budget window.

Background

Currently, teachers are allowed an [above-the-line deduction](#) of up to \$250 for unreimbursed out-of-pocket supply costs, including books, computer equipment, software, and other supplemental classroom materials. From 2002 through 2014, this deduction was a temporary tax provision, routinely extended on a short-term basis, often retroactively. The provision was modified and made permanent by [the Protecting Americans from Tax Hikes \(PATH\) Act](#).

In addition to extending the provision permanently, the PATH Act made two changes to the deduction that went into effect in 2016. First, the maximum amount of the deduction—\$250—was indexed annually for inflation. Second, the definition of eligible expenses was expanded to include expenses for the educator's professional development. [JCT estimated that the cost of the modification and permanent extension of this deduction would be \\$2.9 billion over 10 years](#) (between 2016 and 2025).

Teachers regularly spend money out-of-pocket on classroom materials. AdoptAClassroom, a nonprofit organization devoted to providing teachers with additional classroom materials, reports that for the [2015-2016 school year, surveyed teachers spent nearly \\$600 out of pocket on supplies](#). An earlier report by the National School Supply and Equipment Association, a trade association for educational product companies, estimated that teachers spent [\\$1.6 billion on classroom supplies during the 2012-2013 school year](#). On average, this amounted to \$485 per teacher of unreimbursed spending on classroom supplies.

History of the Provision

The deduction was first introduced as part of the Job Creation and Worker Assistance Act of 2002 ([P.L. 107-147](#)). When enacted, the deduction was available for the 2002 and 2003 tax years, with an [estimated cost of \\$409 million](#). The deduction was subsequently extended six times as part of "[tax extenders](#)" legislation before being modified and made permanent in the PATH Act.

Policy Considerations

If the purpose of the deduction is to reimburse some portion of classroom spending, a deduction is not a particularly fair way to provide this type of refund. Deductions are worth more to taxpayers in higher tax brackets. If a teacher is in a higher tax bracket (the 35% bracket, perhaps due to his or her spouse's income, for example) spending \$100 on supplies could result in a reduction in tax liability of \$35. For a teacher in a lower tax bracket, like the 15% bracket, spending \$100 on supplies could result in tax savings of \$15. Thus, although each teacher spends the same amount on classroom supplies in the preceding example, one teacher's tax savings is more than twice that of the other. Hence, policymakers may be concerned with the equity of this tax benefit, since the deduction does not equitably compensate teachers in different tax brackets for their out-of-pocket classroom-related expenditures.

The deduction also may create confusion for some taxpayers, as there are multiple ways in which teachers might deduct classroom-related spending. Generally, taxpayers who itemize deductions may be able to deduct certain educator-related expenses as [unreimbursed employee expenses](#)—but only to the extent that these expenses are above 2% of adjusted gross income. Confusion with the teacher expense deduction may contribute to a belief that only up to \$250 can be deducted for educator expenses. It is possible, however, that the ability to deduct unreimbursed employee expenses also changes as part of tax reform.

In the past, having the deduction available as a temporary provision raised some additional concerns. Currently, the deduction is a permanent part of the tax code. The Senate proposal, however, would make the \$500 amount temporary. If the goal of the deduction is to support

teacher spending on classroom materials, teachers need to know that the deduction will be available when making purchasing decisions. If the \$500 deduction amount expires in 2025, there may be some uncertainty in 2026 about whether the \$500 deduction amount would be reinstated. Retroactive reinstatements of the deduction, in the past, served to reward teachers for classroom expenditures that they chose to make without being sure that the deduction would be available.

Previous retroactive extensions of tax provisions also created complexity in administering the tax code and potentially contributed to confusion among taxpayers. The retroactive extension for the 2006 tax year was passed at such a late date that the deduction for [educator expenses did not appear on the 2006 Form 1040](#). In other years in which the deduction has been available, [line 23 of Form 1040](#) is labeled "educator expenses." It is possible to imagine that taxpayers who had claimed the deduction before 2006 might have been confused, perhaps even believing that the deduction was not available, when they did not see line 23 for educator expenses on their 2006 tax form. By making the educator deduction permanent, some of the administrative complexity may have been reduced. Temporary enhancements to the deduction, while beneficial for certain taxpayers, could reintroduce administrative complexity.