**8509. What is adjusted gross income?**

Adjusted gross income is broadly defined as gross income minus certain specifically deductible items allowed by the Code. Deductions from gross income also referred to as above the line deductions are the most tax beneficial type of deductions because they tend to be dollar per dollar with fewer limitations than what are known as below-the-line or itemized deductions. Additionally, as a measuring rod adjusted gross income is important because many thresholds upon which tax benefits phase out or taxes phase in are directly tied to adjusted gross income (for example, subject to the taxpayer being able to itemize, medical expenses are deductible only to the extent that they exceed 10% of adjusted gross income for the tax year).

The Code specifically designates which deductions are subtracted from adjusted gross income as above the line deductions. Following is a list of deductions permitted by the Code:

1. expenses directly incurred in carrying on a trade, business or profession (not as an employee – see Q 8518);
2. the deduction allowed for contributions made by a self-employed individual to a qualified pension, annuity, or profit sharing plan, or a simplified employee pension or SIMPLE IRA plan;
3. certain reimbursed expenses of an employee in connection with employment, provided the reimbursement is included in gross income (if the employee accounts to his employer and reimbursement does not exceed expenses, reporting is not required;
4. deductions related to property held for the production of rents and royalties (within limits);
5. deductions for depreciation and depletion by a life tenant, an income beneficiary of property held in trust, or an heir, legatee or devisee of an estate;
6. deductions for losses from the sale or exchange of property ;
7. the deduction allowed for amounts paid in cash by an eligible individual to a traditional individual retirement account (IRA), or individual retirement annuity;
8. the deduction allowed for amounts forfeited as penalties because of premature withdrawal of funds from time savings accounts;
9. alimony payments made to the taxpayer’s spouse;
10. certain reforestation expenses;
11. certain jury duty pay remitted to the taxpayer’s employer;
12. moving expenses permitted by IRC Sec. 217;
13. the deduction for Archer Medical Savings Accounts under IRC Section 220(i);
14. the deduction for interest on education loans;
15. the deduction for qualified tuition and related expenses;
16. the deduction for contributions (within limits) to Health Savings Accounts;
17. the deduction for attorneys’ fees involving discrimination suits; and
18. the deduction for certain expenses of elementary and secondary school teachers up to $250 (made retroactively effective for 2012 and 2013 by the American Taxpayer Relief Act of 2012, this provision has yet to be extended for 2014 and beyond).