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M.B.A. Expenses Ruled Deductible

The taxpayer (S-C) earned a bachelor of science degree in nursing (BSN) from New York University in 1984. She became a registered nurse (RN) and for the next 24 years worked in various capacities for a number of hospitals, medical centers, and long-term care facilities.

From 1993 through 2004, S-C held various nursing management positions of increasing responsibility. From 2004 through 2008, she worked, sequentially, in three different hospitals. Though her titles were different, her tasks, duties, and activities were nearly identical, concentrating in a non-supervisory capacity as a "quality control coordinator". The three jobs she held from '04 through '08 were a "step-down" in both pay and status and a decrease in responsibilities because S-C wanted more time to focus on some personal matters.

S-C began taking courses at the University of Phoenix in March, 2005, graduating in April, 2008 with a M.B.A./HCM (health care management). S-C enrolled in the program "to become more effective in her then-present duties". She deducted on her 2005 Federal income tax return the expenses incurred in earning this degree. The I.R.S. disallowed the deductions and a lawsuit ensued in which S-C prevailed. See *Singleton-Clarke v. Commissioner*, T.C. Summ. Op. 2009-182.

Reg. Sec. 1.162-5 governs whether a taxpayer may deduct education expenses. A taxpayer may deduct education expenses as "ordinary and necessary" business expenses if--

- --the education "maintains or improves skills" required by the individual in his employment or other trade or business, or
- --meets the express requirements of the individual's employer, or the requirements of applicable law or regulations, imposed as a condition to the retention by the individual of an existing employment relationship, status, or rate of compensation.

Conversely, if the education qualifies the individual for a new trade or business, the expenses are not deductible. Whether the education qualifies the taxpayer for a new trade or business is an **objective inquiry** analyzing the tasks and activities the taxpayer was able to perform before the education in comparison to the tasks and activities the taxpayer was qualified to perform after the education. See *Glenn v. Commissioner*, 62 T.C. 270 (1974).

New Trade or Business?

The Service contended that the M.B.A./HCM qualified S-C for a new trade or business. The court disagreed.

The court observed that an M.B.A. degree is different from a degree that serves as "foundational qualification" to attain a professional license. An M.B.A., the court went on to note, is a "more general course of study" that does not lead to a professional license or certification.

The Tax Court has had different outcomes when deciding whether a taxpayer may deduct expenses related to pursuing an M.B.A. *The decisive factor is whether the taxpayer was already established in their trade or business*. The court noted that S-C is most unlike the student in *Link v. Commissioner*, 90 T.C. 460 (1988), who went straight from his undergraduate degree into an M.B.A. program, and the officer in *Schneider v. Commissioner*, T.C. Memo. 1983-753, who went straight from the Army into an M.B.A. program.

The Tax Court concluded that the instant taxpayer is "considerably closer" in circumstance to the taxpayers in *Sherman v. Commissioner*, T.C. Memo. 1977-301; *Allemeier v. Commissioner*, T.C. Memo. 2005-207; and *Blair v. Commissioner*, T.C. Memo. 1980-488, who had two years, three years, and one year, respectively, of experience performing tasks and activities in their chosen professions before beginning their M.B.A. programs.

The facts, here, are "even stronger" than those in the foregoing cases: S-C worked for one year as a quality control coordinator and had more than 20 years of directly related work experience. Here, the M.B.A. may have improved S-C's skill set but, objectively, she was already performing the tasks and activities of her trade or business before commencing the M.B.A. Accordingly, the M.B.A. did not qualify her for a new trade or business with the result that the sought-after tax deductions were awarded to her.

Thus, this case, admittedly a Tax Court Summary Opinion that, like a private letter ruling, cannot be cited as authority by any other taxpayer, is quite instructive. It stands for the proposition that (i) an M.B.A. degree is distinct from a "professional" degree in the sense that it does not set the groundwork for any sort of professional license or certification and (ii) the M.B.A. degree does not qualify a taxpayer for a new trade or business if the taxpayer has already established himself or herself in a trade or business to which he or she will return once the course of study is completed. That felicitous description encompasses most M.B.A. candidates that we have encountered. Accordingly, this latest Tax Court pronouncement on the deductibility of M.B.A. expenses should afford students a great deal of comfort as they ponder the issue of whether to claim a tax deduction for their educational outlays.

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