

[Advanced Degrees as Qualified Education Expenses](#)



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Two recent tax court cases highlight the difficulty in deducting advanced degrees as qualified education expenses. The rule is quite simple, but the application is quite challenging. The tax code allows you to deduct qualified education expenses when the education a) improves your current work skills or b) is required as a part of your profession (such as continuing education credits for attorneys, accountants, physicians, etc.).

The qualified education expense deduction will change with the elimination of itemized miscellaneous deductions such as Form 2106 (Employee Business Expenses) subject to 2% AGI limits. Those are gone thanks to the Tax Cuts and Jobs Act of 2017. However... and this is a big however... many professionals run small businesses either as a sole proprietor or as an LLC or PC [taxed as an S Corp](#).

So... while the Form 2106 expenses are virtually gone (except for performing arts, certain government officials and military... above the line deduction) the ability to deduct advanced education as a business expense is still very viable and can be a legitimate deduction. But be careful. Knowing the rules and positioning yourself is 95% of the battle. The other 5% is facts and circumstances based. Here we go-

Mary Colliver v. Commissioner, Tax Court Summary Opinion 2017-93

Mary held a Bachelor's degree in speech pathology and was offered a position with a hospital doing similar work. The hospital position required Mary to obtain her Master's degree in speech pathology, but the hospital allowed her to complete her studies while performing the tasks of the position. Specifically the Master's degree allowed her to be a medical speech pathologist.

Mary subsequently deducted about \$8,500 in qualified education expenses, and upon examination the IRS disallowed the deduction. The Tax Court also agreed and [their summary](#) concluded that the tasks and activities before and after the additional education were different enough to qualify as a new trade or business. In other words, Mary could not work in hospitals without the Master's degree, and her education allowed her to do so. The Court found this convincing enough to deny the qualified education expense deduction.

Our take is that this is certainly splitting hairs. Mary was a speech pathologist before and after, and she simply improved her current work skills as a speech pathologist to become a better one. It wasn't like she was a high school counselor who wanted to become a medical speech pathologist. So, be wary that the Tax Court is creating very low thresholds for making the leap of "new trade or business."

Here's another, similar crummy deal in our opinion-

Czarnecki v. U.S., 120 AFTR 2d 2017-5372

Jerry Czarnecki was an engineer for most of his adult life and held a Bachelor's degree in engineering and a Master's degree in applied mathematics. In 1998 he started a Doctoral program at MIT. Yeah, total nerd, ridiculously smart and probably super rich. Calm down ladies, we're sure he had a third eye and was married with a gaggle of unruly children who would drive you nuts.



In 2007 he started to work for the U.S. Navy as a [Systems Engineer Level 3](#) ensuring that submarines wouldn't crumple under water and to study the effects of submarine vibration on batteries. Again, super high tech stuff. During 2010 he was a licensed professional engineer but was not as a structural engineer. Jerry deducted \$8,712 in qualified education expenses on his 2010 amended tax return (first mistake... give an IRS human a reason to say, "yeah right.").

His second mistake was not demonstrating how his Doctoral studies improved his current work skills. The Court said it was not enough to simply make the assertion as a global argument; the Court wanted very specific links between what Jerry did today and how his education improved his current set of skills. As a result his deduction was disallowed.

Jason Watson, CPA is the Managing Partner of WCG (formerly Watson CPA Group), a business consultation and tax preparation firm, and is the author of [Taxpayer's Comprehensive Guide on LLC's and S Corps](#) which is available online.