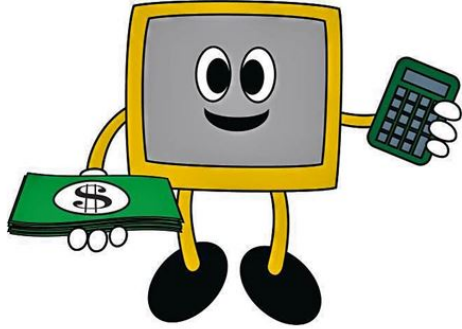


Itemized Deductions Education Expenses



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Education Expenses

Expenses for education are deductible even if the education leads to a degree, if it meets at least one of the following tests.

- 1) The education maintains or improves skills required for the taxpayer's present work.
- 2) The education is required by the taxpayer's employer or by law.

Exception: Education is not deductible, even though one or both of the above tests are met, if the education:

- 1) Is needed to meet the minimum educational requirements to qualify for the taxpayer's line of work, or
- 2) Will lead the taxpayer to qualify for a new line of work. This is true even if the taxpayer does not intend to enter that line of work.

Example #1: Lisa takes marketing classes at a community college that are part of a program providing education to help individuals attain a real estate license. Because the classes are part of a program that will qualify her for a new trade or business, the costs are not deductible, even though the education will improve her skill at her current position.

Example #2: Assume the same facts as Example #1, except the classes Lisa takes are separate courses and are not part of a program to become a real estate broker. The education will help Lisa market to retail customers and will improve her skills at her current job. The expenses are deductible.

Education Required By Employer or By Law

Once minimum educational requirements are met for a job, an employer or the law may require additional education. This additional education is deductible if all the following requirements are met.

- It is required to keep the taxpayer's present salary, status, or job.
- The requirement serves a business purpose of the employer.
- The education is not part of a program that will qualify the taxpayer for a new trade or business.

If a taxpayer receives more education than required by an employer or by law, the additional education can qualify as work-related education only if it maintains or improves skills required for a taxpayer's present line of work. This could include refresher courses, courses on current developments, and academic or vocational courses.

Absence From Work

If a taxpayer stops work for a year or less in order to get education to maintain or improve job skills, the absence is considered temporary and the education qualifies as deductible work-related education. If the taxpayer's absence from work exceeds one year, the cost of education is considered to qualify for a new trade or business and is nondeductible.

Deductible Costs

Education expenses include the cost of tuition, books, supplies, laboratory fees, transportation, and similar items.

No Double Benefit Allowed

Taxpayers cannot deduct education expenses as business expenses if either of the following apply.

- The taxpayer received a benefit for the expenses under another provision, such as a tuition and fees deduction or education credit, or



Itemized Deductions

Education Expenses

- The expenses were paid with funds from a tax-free scholarship, grant, or employer-provided educational assistance.

Transportation

If education expenses are deductible, the cost of local transportation between work and school is deductible. If the taxpayer is regularly employed and goes to school on a temporary basis, the cost of transportation from school to home is also deductible. This is true regardless of the distance to school, or whether school is attended on a non-work day. A temporary basis means attendance at school is expected to last one year or less. Temporary includes up to the point in time where the taxpayer determines that school initially expected to last one year or less will actually last more than one year.

Travel as Education

The cost of travel that in itself constitutes a form of education is not deductible.

Example: *Carla is a French teacher who travels to France to maintain general familiarity with the French language and culture. She cannot deduct the cost of her trip as an educational expense.*

Professional Accreditation Fees

Examples of nondeductible education include the following professional accreditation fees.

- Accounting certificate fees paid for the initial right to practice accounting.
- Bar exam fees in securing initial admission to the bar.
- Medical and dental license fees paid to get initial licensing.

Special rules for teachers. States or school districts usually set minimum educational requirements for teachers. If there are no requirements, a teacher meets the minimum requirement when he or she becomes a faculty member. A teacher is considered a faculty member when the teacher has tenure, when years of service count toward obtaining tenure, when the teacher has a vote in faculty decisions, or when the employer makes

contributions for the teacher to a retirement plan other than Social Security or a similar program.

Once a teacher has met minimum educational requirements for a state, the teacher is considered to have met the minimum requirements in all states. This is true even if the teacher must get additional education to be certified in another state. Additional education needed is qualifying work-related education. Teaching in another state is not considered a new trade or business.

All teaching and related duties are considered the same general kind of work. For example, a change in duties from a classroom teacher to a school administrator is not considered a new trade or business.

Educational Assistance Programs

Educational assistance provided by an employer may be tax free to an employee if certain criteria are met. Up to \$5,250 in nontaxable education benefits may be available for courses that have a reasonable relationship to the employer's business or are required as part of a degree program.

The education program must be a separate written plan that provides educational assistance to employees. The program qualifies only if all the following tests are met.

- The program benefits employees who qualify under rules that do not favor highly-compensated employees.
- The program does not provide more than 5% of its benefits during the year for shareholders or owners.
- The program does not allow employees to choose to receive cash or other benefits instead of the educational assistance.
- The employer gives reasonable notice of the program to employees.

Contact Us

There are many events that occur during the year that can affect your tax situation. Preparation of your tax return involves summarizing transactions and events that occurred during the prior year. In most situations, treatment is firmly established at the time the transaction occurs. However, negative tax effects can be avoided by proper planning. Please contact us in advance if you have questions about the tax effects of a transaction or event, including the following:

- Pension or IRA distributions.
- Significant change in income or deductions.
- Job change.
- Marriage.
- Attainment of age 59½ or 70½.
- Sale or purchase of a business.
- Sale or purchase of a residence or other real estate.
- Retirement.
- Notice from IRS or other revenue department.
- Divorce or separation.
- Self-employment.
- Charitable contributions of property in excess of \$5,000.

This brochure contains general information for taxpayers and should not be relied upon as the only source of authority. Taxpayers should seek professional tax advice for more information.

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