



DEDUCTING YOUR **MBA**

Tamara L. Berges, CPA, CFP, MBT

Financial Assistance is Shrinking

- **Employer Tuition Reimbursement is disappearing**
- **Student Loans options are shrinking**
- **More Students are seeking alternative options to finance their MBA degree**
- **Can the IRS come to the rescue?**

The Tax Formula

GROSS INCOME

- FOR A.G.I. DEDUCTIONS

ADJUSTED GROSS INCOME

- FROM A.G.I. DEDUCTIONS → Standard vs. Itemized
- EXEMPTIONS

TAXABLE INCOME

x TAX RATE → 10% to 39.6%

PRELIMINARY TAX DUE

- TAX CREDITS

+ ALTERNATIVE MINIMUM TAX

FINAL TAX DUE



The Tax Formula

GROSS INCOME

- FOR A.G.I. DEDUCTIONS

ADJUSTED GROSS INCOME

- FROM A.G.I. DEDUCTIONS → Standard v. Itemized
- EXEMPTIONS

TAXABLE INCOME

x TAX RATE → 10% to 39.6%

PRELIMINARY TAX DUE

- TAX CREDITS
+ ALTERNATIVE MINIMUM TAX

FINAL TAX DUE



The Tax Formula

GROSS INCOME

- **FOR A.G.I. DEDUCTIONS**

ADJUSTED GROSS INCOME

- FROM A.G.I. DEDUCTIONS → Standard v. Itemized

- EXEMPTIONS

TAXABLE INCOME

x TAX RATE → 10% to 39.6%

PRELIMINARY TAX DUE

- TAX CREDITS

+ ALTERNATIVE MINIMUM TAX

FINAL TAX DUE



The Tax Formula

GROSS INCOME

- FOR A.G.I. DEDUCTIONS

ADJUSTED GROSS INCOME

- **FROM A.G.I. DEDUCTIONS** → Standard v. Itemized

- EXEMPTIONS

TAXABLE INCOME

x TAX RATE → 10% to 39.6%

PRELIMINARY TAX DUE

- TAX CREDITS

+ ALTERNATIVE MINIMUM TAX

FINAL TAX DUE



The Tax Formula

GROSS INCOME

- FOR A.G.I. DEDUCTIONS

ADJUSTED GROSS INCOME

- FROM A.G.I. DEDUCTIONS → Standard v. Itemized
- EXEMPTIONS

TAXABLE INCOME

x TAX RATE → 10% to 39.6%

PRELIMINARY TAX DUE

- **TAX CREDITS**

+ ALTERNATIVE MINIMUM TAX

FINAL TAX DUE



The Tax Formula

GROSS INCOME

- FOR A.G.I. DEDUCTIONS

ADJUSTED GROSS INCOME

- FROM A.G.I. DEDUCTIONS → Standard v. Itemized
- EXEMPTIONS

TAXABLE INCOME

x TAX RATE → 10% to 39.6%

PRELIMINARY TAX DUE

- TAX CREDITS

+ ALTERNATIVE MINIMUM TAX

FINAL TAX DUE



Student Loan Interest

For AGI Expense

- Maximum \$2,500 per year
- Based on amount paid not amount accrued
- Income \$65 -80K (\$130-160K MFJ)

Gross Income Exclusions

- SCHOLARSHIPS
- EMPLOYER-PAID EDUCATION
(*Maximum of \$5,250*)
- SERIES EE & I BONDS
- EDUCATION IRA/COVERDELL ESA



Gross Income Exclusions

EMPLOYER-PAID EDUCATION

Taxable to taxpayer if $> \$5,250$



Unless:

- A “working condition fringe benefit” (then fully excludable)
 - Translation: The employee could have deducted it had he paid for it
 - Treas. Reg. §. 1.132-5 (a)
 - Your employer can also fully deduct the benefits

But, the Boss won't play ball



- You got a W-2 from your Employer
- It includes Tuition Reimbursement!
- Can you directly reduce the W-2 income by the tuition?
 - NO you can't but...
 - Form 2106 (2017 & Prior) & Lifetime Learning Credit to the rescue!

A screenshot of the IRS Form 2106, Employee Business Expenses. The form is titled "2106 Employee Business Expenses" and includes a "60" in the top right corner. The form is divided into several sections, with the "Deductions" section highlighted in red. The "Deductions" section includes a table with columns for "Type of Expense", "Amount", and "Limitation". The table is currently empty.

Federal Education Tax Credits

From AGI Deductions

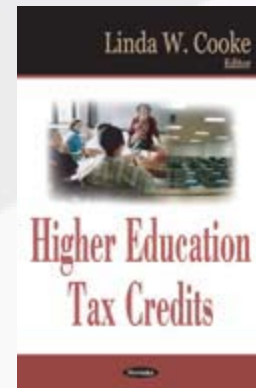
Hope Tax Credit:

- Not applicable to MBA
- 1st and 2nd year of college only

Lifetime Learning Credit:

- 20% of Tuition
- Maximum of \$ 2,000 per year
- Non allowed for Non U.S. Residents
- Phase out: \$ 56-66K (or \$ 112-132K) in 2017

But no “double dipping” with Higher Education Deduction



Self-Employed Individuals

For AGI Deductions

- **“Business” Expense Under Schedule C**

- ✓ “Improves existing job skills in pre established profession”
- ✓ “Does not qualify you for new position”

- Not Affected by AMT

- LLC and S Corp can still deduct if it has an “educational assistance plan”



What about the Employee?

Unreimbursed Employee Expense

- Miscellaneous Itemized Deduction
- Must “improve existing job skills”
- Cannot “prepare you for a new job”
- 2% AGI Floor
- AMT takes it away
- Available only in 2017
Cut by 2018 tax law reform

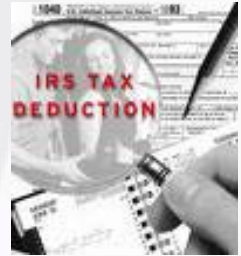


Continuing Education **related to Profession**



- Improve existing skills required in an ongoing established profession
- ***Not Allowed if:***
 - Education is required to perform profession by law, employer or standards of trade
 - Studies will qualify you for a new trade

What Expenses Qualify as Professional Continuing Education



- Pre enrollment Expenses – GMAT, applications
- Tuition paid by check, cc, loan or employer and in wages
- Supplies – Computer (must use deprec. rules) books, organizer, computer software
- Travel for class or between school and work (commuting may be limited)
- Business organization Dues & Job Search Expenses

Combine savings but don't count an expense **twice**

- The Schedule C or Form 2106 deduction can be combined with the Lifetime Learning Credit.
- Don't use same \$ in both places
- These expenses can create a loss that can be used in other years



Example of Splitting Expenses

Joe, an employee of PRG Consulting paid \$50,000 of tuition in 2017.

He gets a \$5,000 scholarship. Assuming his AGI is under the required thresholds he can:

- Take \$45,000 (\$50,000 less \$5,000 scholarship) on Form 2106
- Take a \$2,000 Lifetime Learning Credit ($\$10,000$ of expense x 20%) and expense the remaining \$35,000 on Form 2106

Show me the Money

How much do I get and when

- Deduct in year University is paid – this may not match with your 1098-T from the school as it shows the year University bills you.
i.e. Winter Quarter is billed in December 2017 but often not paid until January 2018
- Factors such as AMT can effect your tax savings but a general calculation which computes the savings using tax laws, expense amount and typical tax rates for an MBA can be found in “2017 MBA handout” at www.Spectrum-CPA.com



Will my Audit Risk Increase?

- Yes, Audit risk increases as this is a very large tax savings and expenses relative to your income fall out of the “typical” taxpayer range.
- Reduce risk by making sure your return is prepared correctly – use a tax professional

The Courts to the Rescue

The MBA is deductible

Allemeier v. Commissioner (2005)

- Dental products sales & marketing rep.
- Enrolled at Pepperdine for Part Time MBA
- Promoted to Marketing Manger during program
- Deducted MBA costs as Itemized Deduction
- IRS: MBA qualified Allemeier for “new job”.
- COURT: MBA improved “existing job skills” and did not qualify TP for “new job”



The Courts to the Rescue

The MBA is deductible

Long v. Commissioner (2016)

- Senior Research Analyst
- Prior design engineer & product marketing manager
- Enrolled in MBA at University of Pennsylvania
- Deducted MBA costs on Schedule C - (as related to real estate activity)
- IRS: MBA qualified Long for “new job”.
- COURT: MBA improved “existing job skills” and did not qualify TP for “new job”.
- REPORTING: Deductible on Schedule A as Unreimbursed Employee Expenses (not related to real estate activity)

The Courts to the Rescue

The MBA is deductible

- *Blair v. Commissioner (1980)*

MBA improved personnel manager's skills

- *Beatty v. Commissioner (1980)*

MBA provided broad “general background in management” improving skills of engineer/project manager TP

The Courts to the Rescue

The MBA is deductible

Kopaigora v. Commissioner (2016)

- Senior Assistant Hotel Controller
- Enrolled in MBA Program at BYU
- Employment was terminated but continued working on MBA until graduation.
- Hired as VP of Finance by a financing company.
- IRS: The taxpayer didn't carry on a trade or business because he was unemployed.
- Court: He was established in the business of corporate finance before starting his MBA and got a finance job after completing the degree (not a new profession)

The MBA is *non-deductible*

Foster v. Commissioner (2008)



- MBA is not deductible for an Engineer Project Manager who...
 - Went to Harvard B-School full time
 - Then took on a marketing job
- So Project Managers...stay on the job!

The MBA is non-deductible

Creigh v. Commissioner (2017)

- Software engineer & Project manager for a consulting unit from 1993 to 2007
- Unemployed from 2007 to 2010
- Enrolled in EMBA program at UCLA
- Deduct EMBA costs on Schedule C
- Court: There was little overlap between the EMBA courses and TP's prior employment. EMBA program qualified TP for a new trade or business. EMBA expenses are not deductible

Looking forward

2018 tax law changes on MBA Deductions

- Unreimbursed Employee Expenses deductions are **GONE**
- Planning under 2018 Tax Reform:
 - ✓ Employers to pay tuition directly to school
 - ✓ Negotiate independent contractor working conditions & status
- Other deductions survived:
 - ✓ Student loan interest
 - ✓ Lifetime learning credit

Q & A