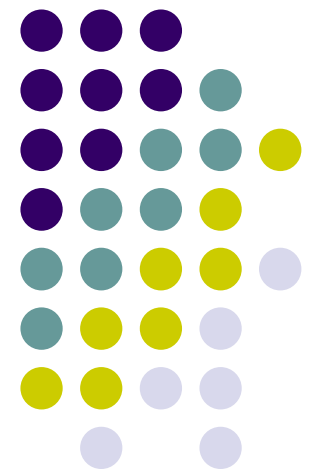


TAX DEDUCTIONS, CREDITS, AND TUITION/FEE DEDUCTION



Introduction



- Tax Credit vs. Tax Deduction
- There are 3 ways a taxpayer can deduct educational costs
 - Tax Credits
 - American Opportunity Tax Credit (a.k.a. Hope Credit) or Lifetime Learning Credit
 - Tuition and fees deductions
 - Itemized deductions – unreimbursed business expenses
- Fairly recent Court Cases
- Miscellaneous

Tax Credit vs. Deduction



- A tax **credit** will reduce income tax liability dollar for dollar
- A tax **deduction** will lower taxable income

3 ways a taxpayer can deduct education costs



- Tax credits (American Opportunity Tax Credit a.k.a. Hope Credit or Lifetime Learning)
 - Qualified tuition costs can be used to compute tuition tax credits. A tax credit is a direct reduction of tax liability.
- Tuition and fees deduction (Flat \$4K deduction)
 - Qualified costs are deductible from gross income subject to limitations.
- Itemized deduction of entire tuition (unreimbursed business expense)
 - Qualified MBA tuition costs *may* be deductible from your personal income taxes as unreimbursed costs on form 1040 Schedule A Line 23. A tax deduction reduces taxable income.



Tax Credits (first method)

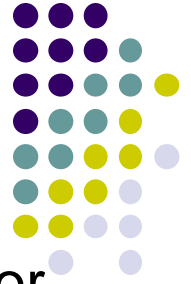
- American Opportunity Tax Credit (a.k.a. Hope Credit)
 - Max credit is \$2,500 per student for the first student and 25% of the next \$2,000 for each additional student
 - Usually for undergraduates



Tax Credits, con't.

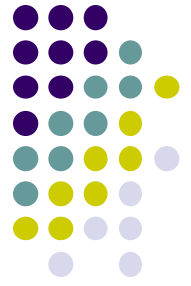
- Lifetime Learning Credit
 - For graduate school and professional degrees
 - Up to 20% of the first \$10,000 in qualified costs or \$2,000
 - Only allowable for taxpayers with income less than \$61K and double for those married (if married, must file jointly to claim the credit)

Tax Credits, con't.



- Columbia University will issue a 1098-T form in February for all students showing qualified tuition and related costs. Credits are computed on Form 8863
- To retrieve your 1098-T, go to www.1098T.com.
 - For any issues, call Karen at 877-829-1098 option 3. You will need to log in with your SS# or Columbia ID C# and Date of Birth
- Student loans are deemed as payments to an institution by a taxpayer in the year of borrowing
 - Due to the fact that they are almost impossible to discharge
 - Case – Lockhart vs. US affirmed unanimously by Supreme Court (12/05) that Social Security benefits can be garnished (67 year old and disabled – 15%) to repay student loans.

Tuition & Fees – Income Deduction (second method)



- “Above the Line” deduction to arrive at AGI (adjusted gross income)
- Maximum allowable deduction is \$4,000 for taxpayers with AGI less than \$65K
- Allowable deduction reduced to \$2,000 when AGI exceeds \$65K but less than \$80K
- Incomes are doubled for married filing jointly
- No tuition & fees deduction is permitted if the Lifetime Learning or Hope credit is taken (pick one!)
- Reported on Line 34 of Form 1040 Page 1 with supporting form 8917

Student Loan Interest – Income Deduction



- Amounts must be paid and NOT accrued in order to take deduction
- Maximum allowable deduction from income - \$2,500 per year
- Allowable deduction reduced when income exceeds \$60K and eliminated at \$75K and doubled for married taxpayers
- Reported on Line 33 of Form 1040 Page 1

Claiming MBA costs as unreimbursed business expenses (third method)



- Non-deductible costs are those that qualify an individual for a new trade or business
- You must be in the field already. A change of duties is not a new trade or business if the new duties and the taxpayer's employment involve the same general work.
- The MBA must improve your skills
- The MBA must be the expressed requirement of employer or law/regulations
- Self-employed individuals – unless you have been actively engaged as a self-employed individual, you should not attempt to deduct education costs on Schedule C (profit/loss from business).
- *The IRS generally challenges MBA program deductions due to generality of course load – more and more people are being audited!! Cases are being sent to tax court and students are using any savings toward legal fees!*

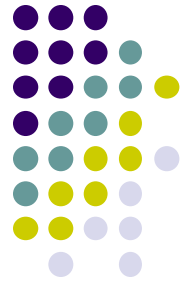
Claiming MBA costs as unreimbursed business expenses (con't)



- We know many of you have questions regarding whether or not you can claim tuition expenses as a unreimbursed business expense.
- Deducting your tuition expenses as an MBA is risky. You may have solid business reasoning behind claiming the deduction. However, if the IRS audits you may have to pay back taxes, plus interest and penalties.
- You may have read [the article in the Journal](#) where a University of Phoenix graduate won in her case against the IRS. Please keep in mind this woman went to school part-time (on the internet) and stayed working in the same field throughout the process.
- It is generally understood that those people who receive an MBA have an eye on a new trade, or job, and that disqualifies you for the deduction.

Claiming MBA costs as unreimbursed business expenses (con't)

- The Court enforces a *commonsense approach*. Under this standard, if the education qualifies the individual to perform significantly different tasks and activities than previously, the education qualifies the individual for a new trade or business.
- It does not matter if you enter into a position after your MBA in which you are performing tasks different than your prior job, but rather, are you **qualified** to perform different tasks? An MBA may have no intention or desire to move into another position with significantly different tasks and activities, the point is that the Court believes that the MBA label *qualifies* him/her to do significantly new things and to move on to a significantly new job.
- In IRS audits, they will literally go through your class schedule, dissect what skills you have acquired and how they are relevant to your current position. For example, you may not need that Marketing course, and you may not ever use a Break-even analysis or a Lifetime Value analysis, but the fact is that you are now qualified for a Marketing position, and therefore, you may not deduct the expenses so please research this thoroughly before taking the deduction.





Court Cases/Citations

- Galligan – Law Librarian
- Lewis – Telecommunications Exec
 - Per Lewis, he was called upon to negotiate increasingly complex contracts for a variety of clients. The tax court ruled that this was not specific enough. Lewis became eligible for a new trade/business
- Zheng – Overall improvement in skill level. No deduction
- Weyts – Columbia JD/MBA student
 - Summer Associate in employee directory
 - Unable to prove same pay scale as full-time
 - Not assigned the same work
 - Earned three credits
 - Court denied deduction by stating that the petitioner had “an uninterrupted continuity in his legal education”.
- Singleton-Clarke vs. U.S. – the recent case. Tax court summary opinion 2009-182 – Deduction granted.
- It is necessary to break the education cycle and engage in a trade/business before deducting educational expenses. The fact that the break is only for a short period of time will not necessarily deny the deduction. An actual break must occur!



Miscellaneous Items

- Education Assistance Programs from Employers
 - Up to \$5,250 received by an employee for qualified educational expenses may be excluded from gross income under and EAP
 - See publication 15-B pages 7-8
- Forgiveness of Debt
 - Pursuant to certain student loan agreements, if timely payments are made, a percentage of loan debt may be forgiven. Forgiveness of debt is taxable in the year the debt is forgiven unless taxpayer is in bankruptcy. You will get a 1099 from the lender
- Job Search Costs
 - Job search costs incurred in seeking employment in the trade or business are allowable as a unreimbursed business expense.
 - Not contingent upon job offer or acceptance
 - Subject to a 2% AGI discount
- More details or have questions? Go to www.irs.gov Publication 970 Tax Benefits of Education and contact a competent tax advisor