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Employee's MBA Expenses Were Job-Related Educational Expenses

The U.S. Tax Court has ruled that the expenses incurred by a nurse in obtaining a Master's degree in Business Administration (MBA) were deductible, job-related educational expenses because the MBA was not a prerequisite for her job and did not qualify her for a new trade or business [*Singleton-Clarke v. Commissioner*, T.C. Summary Op. 2009-182, No. 27975-07S (12-2-09)].

Background

After obtaining a Bachelor's degree in Nursing, Lori Singleton-Clarke worked as a registered nurse (RN) for 24 years. From 1993 to 2004, she held various nursing management positions, eventually serving as nursing director of a long-term care facility.

From 2004 to 2008, Singleton-Clarke worked at three hospitals as a quality control coordinator:

- From 2004 to 2007, she worked for Civista Medical Center. Civista required candidates for her position to have a Bachelor of Science degree in Nursing or other equivalent education and experience, along with a current RN license in Maryland. Additionally, candidates with one year of experience in quality assurance, risk management, or nursing management were preferred.

- From 2007 to 2008, she worked for Children's National Medical Center (CNMC). CNMC required an employee in Singleton-Clarke's position to have a Bachelor's degree in Nursing or a health-related field, and preferably a Master's degree in Public Health. Additionally, preference was given to candidates with two years of quality improvement experience in a hospital and three years of clinical experience.

- On September 8, 2008, she began working at St. Mary's Hospital with duties similar to her previous responsibilities at Civista and CNMC.

In 2005, Singleton-Clarke began taking courses at the University of Phoenix; she graduated in April 2008 with an MBA degree and a specialization in Health Care Management (MBA/HCM). None of Singleton-Clarke's employers had a reimbursement policy for the MBA/HCM program, so she paid for her MBA degree personally. When she deducted her MBA-related expenses, the IRS disallowed the deduction.

WHAT THE LAW SAYS – Under IRS regulations (26 C.F.R. §1.162-5(a)(1),(2)), a taxpayer may deduct education expenses as ordinary and necessary business expenses if the education: (1) maintains or improves skills required by the individual in his employment or other trade or business, or (2) 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 established employment relationship, status, or rate of compensation. However, if the education qualifies the individual for a new trade or business, then the education expenses are not deductible because the education is a personal expense or constitutes an accumulation of personal capital (26 C.F.R. §1.162-5(b)(3)).

Note: One of the most popular benefits provided by employers is employer-paid educational assistance, whereby the employer pays for or reimburses the cost of



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educational courses attended by an employee. Different taxation rules apply depending on whether the courses are job-related. Employer-paid education that is related to an employee's current job is excluded from income as a working condition fringe benefit under certain conditions, with no dollar limit. On the other hand, employer-paid education that is non job-related is excluded from income only up to \$5,250 a year through 2010. The IRS has generally taken the position that courses leading to a graduate-level degree such as an MBA are non job-related (see *The Payroll Source*®, pp. 3-37 and 3-38).

Prerequisite for new job

The job description for Singleton-Clarke's position at St. Mary's Hospital required a Bachelor's degree in Health Care Administration, and preferably a Master's degree. The IRS argued that without receiving the MBA/HCM degree in April 2008, Singleton-Clarke would never have qualified for this position because she did not previously have education in this field.

The Tax Court disagreed. The court said that, though the titles of the jobs varied, Singleton-Clarke's three positions since 2004 required an RN license or a Bachelor's degree in Nursing, with clinical or risk management experience – credentials that she possessed. The first two employers, Civista and CNMC, hired her without an MBA/HCM, and St. Mary's "would have gladly hired [her] ... even without [it]." Singleton-Clarke had won multiple awards, including recognition from the Governor of Maryland and other prominent organizations. She had worked her way up to serving as a director of nursing responsible for 110 nurses plus additional technicians. All three quality control positions were a voluntary step down in status and pay from her former duties. The MBA/HCM might have been a helpful addition to Singleton-Clarke's qualifications, but it was not an essential prerequisite for her to secure the position at St. Mary's.

Qualifying for a new trade or business

The court explained that an MBA degree is different from a degree that serves as a foundational qualification to obtain a professional license, such as a law degree. An MBA is a more general course of study that does not lead to a professional license or certification, so the deductibility of the educational expenses incurred in pursuing an MBA degree depends on the facts and circumstances of each case, with the decisive factor being whether the taxpayer was already established in his or her trade or business.

Here, Singleton-Clarke had been working for a year as a quality control coordinator and had more than 20 years of directly related work experience with extensive clinical and managerial knowledge in acute and subacute health care settings, before beginning the MBA/HCM program. She had already been performing the tasks and activities of her trade or business before commencing her MBA studies. Accordingly, the MBA did not qualify her for a new trade or business. She could deduct her education expenses.