

Educational Expenses for Writing Doctoral Thesis Not Deductible

Cross References

- *Czarnecki*, U.S. Court of Federal Claims, October 13, 2017

The taxpayer earned a Bachelor's of Science degree in engineering in 1994. He then earned a Master's degree in applied mathematics in 1995. After obtaining his Master's degree, he began his engineering career working as a plant engineer. In 1996 he worked as a research engineer where he worked on the design and programming of machines to achieve certain gear tooth geometries.

In 1998, he enrolled in a Ph.D. program in structural engineering where he took courses, sat for his doctoral examinations, and presented his dissertation research project.

During the period 2001 to 2006 he worked as a research engineer in Berlin, Germany. He returned to the U.S. in 2007 and began work as a general engineer for the U.S. Navy where he performed structural engineering work for submarine design.

In 2008, the taxpayer became a licensed professional engineer in the State of New York. In 2009, he began work as an engineer at the Navy Surface Warfare Center located in Crane, Indiana. In this position, he focused on how batteries in submarines withstood shocks and vibrational disturbances when the batteries are mounted in a vehicle.

In 2010, the Navy certified the taxpayer as a Systems Engineer Level 3, which involves oversight of the design and manufacture of complex equipment and military hardware. During this period of time, the taxpayer also conducted research and writing in connection with his doctoral thesis for a Ph.D. program in structural engineering at the Massachusetts Institute of Technology. At the time, he was not licensed as a structural engineer.

In 2011, the taxpayer left his employment with the Navy and began working for the Institute for Defense Analyses as a research engineer. In 2014, he began working in his current position as an engineer. In 2014, he ceased work on his doctoral thesis without having obtained a degree.

The taxpayer filed his 2010 tax return claiming an educational expense deduction under IRC section 162 related to required professional development. The IRS disallowed the deduction.

The regulations for IRC section 162 state that a taxpayer may deduct educational expenses as an ordinary and necessary business expense 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.

The regulations go on to say that even if one of the above requirements are met, education expenses are not deductible if the education is part of a program of study which will lead to the taxpayer qualifying for a new trade or business. This is true even though the taxpayer's studies may be required by the taxpayer's employer and the taxpayer does not intend to enter a new field of endeavor. In this regard, courts have analyzed the tasks and activities that the taxpayer was able to perform before the education, in comparison to the tasks and activities that the taxpayer was qualified to perform afterward, to determine whether an educational course qualifies the taxpayer for a new trade or business. The taxpayer's subjective intent in undertaking the education and whether the taxpayer actually becomes employed in a new trade or business are not relevant.

The IRS argued that the taxpayer's educational expenses that he incurred during 2010 for his doctoral studies would allow him to qualify for a new trade or business. The Ph.D. would give him the ability to be employed as a university professor or a licensed structural engineer.

The taxpayer argued that his doctoral studies maintained or improved his skills because these studies satisfied the continuing educational requirements for registered professional engineers.

The court said even if such expenses are required by the taxpayer's employer and the taxpayer does not intend to enter a new field of endeavor, educational expenses which are part of a program of study which leads to qualifying the taxpayer for a new trade or business are not deductible [Reg. §1.162-5(b)(3)(i)]. The doctoral studies would satisfy a significant requirement for a new career as a university professor because many universities require that professors hold a Ph.D. degree.

The taxpayer argued that holding a Ph.D. degree alone is insufficient to qualify for employment as a university professor. The court disagreed. Holding a Ph.D. degree is an important qualification for becoming a university professor. Courts have ruled that even if other requirements are involved, the fact that the education could lead to qualifying him for a job as a professor is sufficient in itself to find that the taxpayer is not entitled to the tax deduction. The court ruled the taxpayer was not entitled to an educational expense deduction.