

Why your MBA may cost more than it used to

Tax Court's decision makes it more difficult to earn MBA tax break

By **CLAUDE SOLNIK**

Your MBA may have just got a little more expensive, even if tuition's exactly the same.

Although a Masters in Business Administration is a popular means of growing income and advancing professionally, a recent tax court ruling could increase the price tags for certain students.

In December, U.S. Tax Court Judge Kathleen Kerrigan ruled in favor of the IRS in a case where a student sought a tax deduction for his MBA tuition. Students often qualify for "miscellaneous education deductions" for MBAs and other degrees, if the degrees are deemed a necessary and ordinary business expense that improves their skills.

Kerrigan, however, denied Adam Edward Hart an \$18,600 deduction, based on tuition costs he ran up earning his MBA, on the grounds that he failed to prove that the degree benefited him in his career — primarily, because of his limited work experience and the amount of time he spent

unemployed.

The ruling could raise the bar when it comes to determining what students must do to prove a degree helps them perform or advance their careers.

At a time when unemployment remains a major concern, it also could mean that people will lose critical tax deductions — particularly if they've already lost their jobs.

The ability to prove professional necessity or career advancement could now "be subject to higher scrutiny," noted Heather Santonino, a tax services manager at Melville-based accounting firm Marcum LLP.

The IRS's legal victory comes as the federal government touts the benefits of education regarding job retention, professional retraining and overall employment opportunities. Despite the government's suggestion that advanced degrees are the ticket to a better professional life, the Hart case suggests clearly that people pursuing an MBA in hopes of furthering their careers may be

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Bob Gighione

HEATHER SANTONINO: Judge's ruling could hurt MBA enrollment.

left holding the bag.

"There are a lot of inconsistencies between stated public policies and the Internal Revenue code," said Eric Hananel, a tax partner at national accounting firm Grassi & Co., which maintains Long Island operations in Jericho.

The reason for those inconsistencies is clear, Hananel noted.

"It's a revenue issue," he said. "We don't want everybody running out and taking educational courses."

The Hart decision, which is being appealed, also comes at a time when MBAs are skyrocketing in popularity. Students obtained 126,214 Masters in Business

MBA

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Administration degrees in 2011, up 74 percent from a decade ago, according to the U.S. Department of Education.

"More people are enrolled in schools, because there are fewer jobs for young people," Santonino noted. "And one of the most highly sought-after masters is an MBA."

Students can still apply for the miscellaneous deduction for other degrees, if they show that the education relates to their business. But the MBA is by far the most common degree students cite when shooting for the tax break.

"Someone attending undergraduate education probably won't qualify," Hananel said. "When you're in an MBA program, you could be advancing your skills. That's the requirement."

Various schools contacted by LIBN declined to comment on any potential impact the ruling will have on MBA enrollment, but Santonino said "it potentially could hurt enrollment."

"If people were enrolling with the anticipation of the deduction and find they wouldn't qualify, it may cause them not to enroll," she said.

However, students may still qualify for other education-related tax benefits. The Lifetime Learning Credit, covering up to 20 percent of up to \$10,000 in educational expenses, could apply to MBAs, for instance – but that credit begins to phase out after students achieve certain income levels, starting at \$107,000 combined income for married couples.

Unless it's overturned on appeal, the Hart ruling could lead to more challenges of MBA deductions, but insiders say it's too soon to say how far the ripples will reach.

"The change will occur at the taxpayer level," Santonino said. "We'll have to be on the lookout for where it goes from here."

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