

# Deducting Work-Related Educational Expenses



**H**ave you ever noticed how many working adults are in school for one reason or another? Many employers encourage employees to continue their education on an ongoing basis. For certain occupations, individuals are required by law to continually seek higher education. Sometimes company standards or laws even change the minimum requirements, forcing employees to return to school for the appropriate training.

Regardless of the situation, individuals in each of these situations can **deduct out-of-pocket educational expenses** as business expenses or exclude employer-provided education assistance benefits from their income.

## The Requirements

Work-related educational expenses may be deducted as business expenses or, if employer-provided, excluded from income if you meet three requirements. **You must:**

1. Be working;
2. Itemize your deductions, and
3. Meet *qualifying education* requirements.

When continuing education, you may take a single course or pursue an advanced degree. You can work while you continue your education or you may take a temporary leave of up to one year—you don't even need to return to the same job! You must, however, return to the same kind of work.

You may not deduct education expenses that are unrelated to the type of work you are performing while engaged in that educational program.

## Qualifying Education

Qualifying education satisfies the following criteria:

1. The education is required either by your employer or by law to maintain your present job, salary or status.
2. The education maintains or improves skills needed in your present work.

## Non-qualifying Education

Even if you have met the above two criteria, education will not qualify if:

1. It is needed to meet the minimum educational requirements of your present trade or business. These requirements may be determined by laws and regulations; standards of your profession, trade or business, and employer's requirements, or
2. It is part of a program of study that can qualify you for a new trade or business.

For example, if you met the minimum job requirements when hired, but your employer added additional requirements after you were hired, you may deduct the education you now must pursue. If you were applying for the same position and you did not meet these minimum requirements, you could not take a deduction for any education necessary to meet them.

Once you have satisfied minimum requirements, you do not have to meet them again. Therefore, if the requirements change after you are hired, any education you need to meet them will qualify. The situation for teachers is much more complex because of requirements of individual institutions, tenure and state certifications. Please consult with one of our professionals to find out if your continuing education expenses as a teacher qualify.

## Which Expenses are Deductible?

Generally, if your education meets the preceding requirements, you can deduct your educational expenses. You must itemize your deductions unless you are self-employed. The expenses that are deductible are:

1. Tuition, books, supplies, lab fees and similar items.
2. Certain transportation and travel costs.
3. Other educational expenses such as costs of research and typing when writing a paper as part of an educational program.

Educational expenses do not include personal or capital expenses. You cannot deduct the value of vacation time or annual leave you take to attend classes, for example.

Also, if your employer agrees to pay for your education expenses and you do not take the reimbursement to which you are entitled, you cannot deduct the expenses on your tax return\*.

## **Transportation Expenses**

You can deduct the costs of traveling directly from work or school—or, if you are regularly employed and go to school on a temporary basis (less than one year), you can deduct the round-trip costs between home and school.

Transportation expenses include the actual costs for bus, subway, cab or other fares; as well as the costs of using your car. If you use your car, you can deduct your actual expenses or use the standard mileage rate to figure out the amount you can deduct. Amounts spent for travel, meals or lodging while you are away from home overnight are travel expenses, not transportation expenses.

## **Travel Expenses**

You can deduct travel, meal and lodging expenses if:

1. You travel overnight to obtain qualified education, and
2. The main purpose of the trip is to attend a work-related course or seminar.

## **Tax-Exempt and Excluded Income**

Some educational assistance may be tax-exempt or excluded income that you are not required to report on your tax return. Please consult with one of our professionals to receive more information.

## **How to Treat Reimbursements**

The way in which you treat reimbursements you receive depends on the arrangement you have with your employer - an accountable plan or a non-accountable plan.

## **Accountable Plans**

If you are reimbursed under an accountable plan, your employer will not include any reimbursement in your income in Box 1 of your W-2 Form. You can claim a deduction on expenses in excess of reimbursements.

## **Non-accountable Plans**

Your employer will combine the amount of any reimbursement or other expense allowance paid to you with your wages, salary or other pay and report the total in Box 1 of your W-2 form. You then can deduct your expenses, and your reimbursements are included in your income.

Of course, the rules for either of these plans are much more complicated. Please consult with your employer and financial advisor for full details.

## **Deductions**

This deduction is subject to your 2%-of-adjusted-gross-income limit that applies to most miscellaneous itemized deductions.

If you are self-employed, you must report your qualified educational expenses like other business expenses on the appropriate form.

As you can see, there are many ways to maximize your educational assets while minimizing liabilities. Please contact one of our professionals to learn how you may be able to deduct your qualified educational expenses and the specific requirements for doing so. {05/09}

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For 35 years we have been providing full-service accounting solutions to the community.

Our professionals will consult with your business to provide you with  
technology solutions to fit your needs – and budget.

Call us today.

*Maximize Educational Assets and Decrease Liability*

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