

## Writing Off an MBA

If your continuing education is aimed at maintaining or improving skills in your current profession, then it's a deductible business expense

by [Karen E. Klein](#)

**I do IT consulting through my S corporation. I have been reading about MBA expense deductions and I was wondering if you could advise me about them. I'd like to get the MBA to further my company's success, but it will cost around \$40,000.**

—G.M., Ft. Lauderdale, Fla.

You can indeed receive tax benefits if you choose to further your education. However, there's a general principle you need to remember in order to maximize your benefit. "If your education expense is for the purpose of maintaining or improving your skills in your current profession, then it's deductible," says Paul Dailey, tax principal at [Rothstein, Kass & Co.](#) in New York City. To the extent that an educational expense enables you to start a new career or gets you into a new field, it's not a deductible business expense, he says.

In other words, "a lawyer cannot deduct costs to become a lawyer, but she can deduct costs for continuing education classes she takes to keep practicing as a lawyer," says [Ronald Morgan, CPA at Stern, Kory, Sreden & Morgan in Stevenson Ranch, Calif.](#) So if you want to get a computer science degree—something that you ostensibly need prior to becoming an information technology consultant in the first place—that would not likely be deductible. And if you're getting an MBA in order to change careers and become a stockbroker, that might also mean trouble at tax time.

### CONSULT YOUR ACCOUNTANT

So it wouldn't hurt to talk to your accountant to get a specific opinion on your situation, and to make sure you can justify the MBA degree as an enhancement of what you're already doing as an IT consultant.

Many firms offer tuition reimbursement for employees improving their skills so they will do a better job for the firm. As long as the employees provide proof that they are enrolled and succeeding in their course work, the company pays the employee back for their tuition outlay and deducts the costs as a business expense.

### HOW TO DEDUCT

There are a few different ways to get tax benefits for your education, but you can't use more than one of them on your tax return. Morgan outlines them, in descending order of desirability, as:

- Take a full deduction for the educational expense in your S corporation, assuming you can justify the fact that you need an MBA to enhance your IT business. "Keep in mind that you need to show that the educational expenses were 'ordinary and necessary' for your business," Morgan says.
- Take the Lifetime Learning Credit, which entitles you to take 20% of the educational costs with a maximum annual credit of \$2,000. "The credit is phased out for high adjusted-gross-income taxpayers," Morgan explains.

The phase-out begins at \$90,000 Adjusted Gross Income (AGI) for married couples filing jointly, and \$45,000 for singles.

- The tuition and fees deduction is available through 2007, but may be extended through legislation. "The maximum deduction, before calculating AGI, is \$4,000 and it's phased out beginning at \$130,000 for joint-filing taxpayers and \$65,000 for single taxpayers," Morgan says.

- If you have employees, you can offer all of them an "education assistance program." Under this plan you can provide up to \$5,250 annually per employee and get a deduction for these expenses. The benefit is not counted as part of your employees' taxable income. "Because you are an S corporation, not more than 5% of the amount paid under this plan can benefit you, your spouse, or your children," Morgan says. "Because of these limitations, you probably won't benefit much under this program."

Assuming you pick the first option and have your S corporation pay your tuition and then deduct the cost on its corporate tax return, you might want to include an explanation with your return. "If the tuition expense is \$40,000 and the S-corp makes a lot of money, that one expense might not stick out," Dailey says. But if your firm is not earning much income and a \$40,000 expense is likely to raise a red flag with the IRS, it would be a good idea to explain what the expense relates to. "Just include a rider with your return saying that the cost is for an MBA. If you're questioned about it later by the tax authorities, you can at least say that you adequately disclosed it at the time," he notes (see BusinessWeek.com, 3/20/06, "[Is the MBA Overrated?](#)").

*[Karen E. Klein](#) is a business journalist who covers small-business issues for several national publications. She writes her Smart Answers [column](#) twice a week.*

---

Copyright 2000-2007 by The McGraw-Hill Companies Inc. All rights reserved.

**The McGraw-Hill Companies**