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# Educational Expenses

For use in preparing  
**1997** Returns



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## Important Changes for 1997

**Standard mileage rate.** Generally, if you use your car for transportation to school, you can deduct 31.5 cents per mile. For more information, see *Using Your Car* under *What Educational Expenses Are Deductible*.

**Limit on itemized deductions.** If your adjusted gross income is more than \$121,200 (\$60,600 if you are married filing separately), your itemized deductions may be limited. See the instructions for Form 1040, Schedule A, line 28.

**Employer-provided educational assistance.** The exclusion from income of up to \$5,250 of employer-provided educational assistance benefits, which expired for tax years beginning after May 31, 1997, has been reinstated retroactively and extended. It will now expire for courses beginning after May 31, 2000. See *Employer-Provided Educational Assistance*, later.

## Important Changes for 1998

**Education incentives.** Beginning in 1998, a number of tax breaks will be available to help you pay for the cost of higher education.

- 1) **HOPE scholarship credit.** Generally, you can claim a credit of up to \$1,500 per student for tuition and related expenses for each of the first 2 years of the student's post-secondary education.
- 2) **Lifetime learning credit.** Generally, you can claim a yearly credit of 20 percent of up to \$5,000 of qualified tuition and related expenses that you pay for one or more students. However, you cannot take the HOPE credit and the lifetime learning credit for the same student in the same year.
- 3) **Student loan interest deduction.** Generally, you may deduct up to \$1,000 of

interest paid during 1998 on any qualified education loan.

For more detailed information on these items and to see what other education benefits (including the new Education IRA) are available, get Publication 553, *Highlights of 1997 Tax Changes*.

## Introduction

This publication discusses work-related educational expenses. You may be able to deduct these expenses on your tax return as business expenses. To deduct these expenses you must:

- 1) Be working,
- 2) Itemize your deductions on Schedule A (Form 1040) if you are an employee, and
- 3) Meet the requirements discussed under *Qualifying Education*.

Educational expenses that are not work related, such as costs of sending children to college, are personal expenses that you cannot deduct.

This publication also explains the exclusion of employer-provided educational assistance benefits.

## Useful Items

You may want to see:

### Publication

- 463** Travel, Entertainment, Gift, and Car Expenses
- 520** Scholarships and Fellowships
- 535** Business Expenses

### Form (and Instructions)

- 1040** U.S. Individual Income Tax Return
- 2106** Employee Business Expenses
- 2106-EZ** Unreimbursed Employee Business Expenses
- Schedule A (Form 1040)** Itemized Deductions

## Qualifying Education

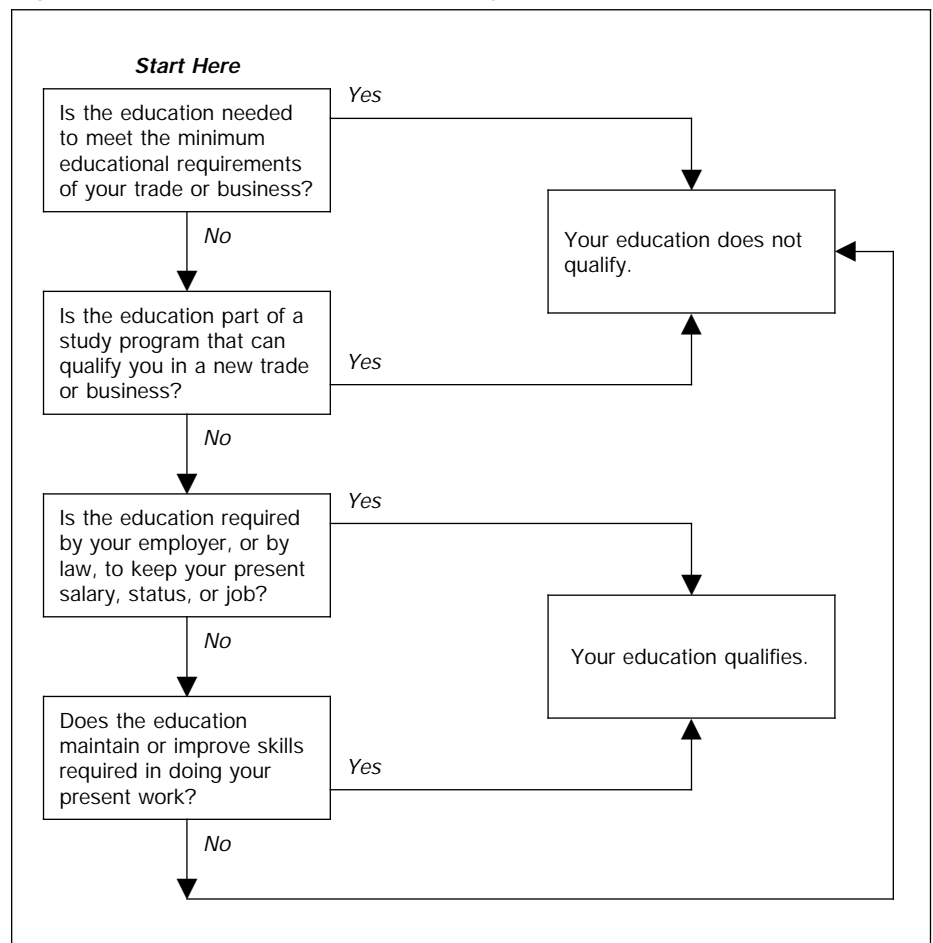
You can deduct educational expenses only if they are for qualifying education. This is education that meets at least one of the following tests:

- 1) The education is required by your employer or the law to keep your present salary, status, or job (and serve a business purpose of your employer), or
- 2) The education maintains or improves skills needed in your present work.

You can deduct the expenses for qualifying education even if the education could lead to a degree.

**Education that does not qualify.** Even if the education meets one of the tests under *Qualifying Education*, it does not qualify if it:

Figure A. Does Your Education Qualify?



- 1) Is needed to meet the minimum educational requirements of your present trade or business, or
- 2) Is part of a program of study that can qualify you for a new trade or business, even if you do not plan to enter that trade or business.

You can use Figure A as a quick check to see if your education qualifies.

## Education Required by Employer or by Law

Once you have met the minimum educational requirements for your job, your employer or the law may require you to get more education. This additional education must be required for you to keep your present salary, status, or job. It must serve a business purpose of your employer and not be part of a program that will qualify you for a new trade or business.

When you get more education than your employer or the law requires, the additional education is qualifying only if it maintains or improves skills required in your present work. See *Education To Maintain or Improve Skills*.

**Example.** You are a teacher who has satisfied the minimum requirements for teaching. Your employer requires you to take an additional college course each year to keep your teaching job. You take a course and pay for it yourself. This is qualifying education even if you eventually receive a master's degree and an increase in salary because of this extra education.

## Education To Maintain or Improve Skills

If your education is not required by your employer or a law, it must maintain or improve skills needed in your work. Education to maintain or improve skills includes refresher courses, courses on current developments, and academic or vocational courses. However, courses you take that are needed to meet the minimum educational requirements for your work or to qualify you for a new trade or business are not qualifying education.

**Example.** You repair televisions, radios, and stereo sets for XYZ Store. To keep up with the latest changes, you take special courses in radio and stereo service. These courses maintain and improve skills required in your work.

**Present work.** Education that relates to work you may enter in the future is not qualifying education. Education that prepares you for a future occupation includes any education that keeps you up-to-date for a return to work or that qualifies you to reenter a job you had in the past.

**Temporary absence.** If you stop work for a year or less and then go back to the same kind of work, your absence is ordinarily considered temporary. Education during a vacation, temporary leave, or other temporary absence from your job is considered related to your present job. However, after your temporary absence you must return to the same kind of work.

**Example.** You quit your biology research job to become a full-time biology graduate student for one year. If you return to work in biology research after completing the courses, the education is related to your present work. You may even choose to take a similar job with another employer.

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## Nonqualifying Education

You cannot deduct the costs of nonqualifying education, even if it meets one of the tests described earlier for qualifying education. Nonqualifying education is education that:

- 1) Is needed to meet the minimum educational requirements of your present trade or business, or
- 2) Is part of a program of study that can qualify you for a new trade or business.

## Education To Meet Minimum Requirements

Education needed to meet the minimum educational requirements for your present trade or business is nonqualifying education. The minimum education necessary is determined by:

- 1) Laws and regulations,
- 2) Standards of your profession, trade, or business, and
- 3) Your employer's requirements.

Once you have met the minimum educational requirements that were in effect when you were hired, you do not have to meet minimal educational requirements again. This means that if the minimum requirements change after you were hired, any education you need to meet the new requirements is qualifying education.



*You have not necessarily met the minimum educational requirements of your trade or business simply because you are already doing the work.*

**Example 1.** You are a full-time engineering student. You work part time as an engineer for a firm that will employ you after you finish college as a full-time engineer. Although your college engineering courses improve your skills in your present job, you have not met the minimum job requirements for a full-time engineer. The education is nonqualifying education.

**Example 2.** You are an accountant and you have met the minimum educational requirements of your employer. Your employer later changes the minimum educational requirements and requires you to take college courses to keep your job. These additional courses are not minimum requirements because you have already satisfied the initial minimum requirements. The education is qualifying education.

However, a new accountant coming into the firm has to satisfy these new minimum requirements. The education the new accountant needs to meet the new minimum requirements would be nonqualifying education.

## Requirements for Teachers

This discussion applies to teachers and others employed by educational organizations. The state or school district usually sets the minimum educational requirement for teachers. It is the minimum number of college hours or college degree usually required of a person hired for that position.

If no requirements exist, you will have met the minimum educational requirement when you become a faculty member. You generally will be considered a faculty member when one of the following occurs:

- 1) You have tenure,
- 2) Your years of service count toward obtaining tenure,
- 3) You have a vote in faculty decisions, or
- 4) Your school makes contributions for you to a retirement plan other than social security or a similar program.

**Example 1.** Your state law requires beginning secondary school teachers to have a bachelor's degree, including ten professional education courses. In addition, to keep the job, a teacher must complete a fifth year of training within 10 years from the date of hire. If the employing school certifies to the state Department of Education that qualified teachers cannot be found, the school may hire persons with only 3 years of college. However, to keep their job, these teachers must get a bachelor's degree and the required professional education courses within 3 years.

Under these facts, the bachelor's degree, whether or not it includes the ten professional education courses, is considered the minimum educational requirement for qualification as a teacher in your state.

If you have all the required education except the fifth year, you have met the minimum educational requirements. The fifth year of training is qualifying education unless it is part of a program of study that will qualify you for a new trade or business.

**Example 2.** Assume the same facts as in Example 1 except that you have a bachelor's degree and only six professional education courses. The additional four education courses are qualifying education. Although you do not have all the required courses, you have already met the minimum educational requirements.

**Example 3.** Assume the same facts as in Example 1 except that you are hired with only 3 years of college. The courses you take that lead to a bachelor's degree (including those in education) are nonqualifying education. They are needed to meet the minimum educational requirements for employment as a teacher.

**Example 4.** You have a bachelor's degree and you work as a temporary instructor at a university. At the same time, you take graduate courses toward an advanced degree. The rules of the university state that you may become a faculty member only if you get a graduate degree. Also, you may keep your job as an instructor only as long as you show satisfactory progress toward getting this degree. You have not met the minimum educational requirements to qualify you as a faculty member. The graduate courses are nonqualifying education.

**Certification in a new state.** Once you have met the minimum educational requirements for teachers for your state, you are considered to have met the minimum educational requirements in a new state. This is true even if you must get additional education to be certified in the new state. Any additional education you need is qualifying education.

**Example.** You hold a permanent teaching certificate in State A and are employed as a teacher in that state for several years. You move to State B and are promptly hired as a teacher. You are required, however, to complete certain prescribed courses to get a permanent teaching certificate in State B. These additional courses are qualifying education because the teaching position in State B involves the same general kind of work for which you were qualified in State A. You have already met the minimum requirements for teaching and have not entered a new trade or business.

## Education That Qualifies You for a New Trade or Business

Education that is part of a program of study that can qualify you for a new trade or business is nonqualifying education. This is true even if you are not seeking a new job.

If you are an employee, a change of duties is not a new trade or business if the new duties involve the same general work you did in your old job.

**Example 1.** You are an accountant. Your employer requires you to get a law degree at your own expense. You register at a law school for the regular curriculum that leads to a law degree. Even if you do not intend to become a lawyer, the education is nonqualifying because the law degree will qualify you for a new trade or business.

**Example 2.** You are a general practitioner of medicine. You take a 2-week course to review developments in several specialized fields of medicine. The course does not qualify you for a new profession. It is qualifying education because it maintains or improves skills required in your present profession.

**Example 3.** While working in the private practice of psychiatry, you enter a program to study and train at an accredited psychoanalytic institute. The program will lead to qualifying you to practice psychoanalysis. The psychoanalytic training does not qualify you for a new profession. It is qualifying education because it maintains or improves skills required in your present profession.

## Bar or CPA Review Course

Review courses to prepare for the bar examination or the certified public accountant (CPA) examination are nonqualifying education. These are personal expenses that qualify you for a new profession.

## Qualifications for Teachers

All teaching and related duties are considered the same general kind of work. A change in duties in any of the following ways is not considered a change to a new business.

- 1) Elementary school teacher to secondary school teacher.
- 2) Teacher of one subject, such as biology, to teacher of another subject, such as art.
- 3) Classroom teacher to guidance counselor.
- 4) Classroom teacher to school administrator.

## What Educational Expenses Are Deductible?

If your education meets the requirements described earlier under *Qualifying Education*, you can generally deduct your educational expenses. If you are not self-employed, you must itemize your deductions. However, see *Expenses Relating to Tax-Exempt and Excluded Income*, later.

**Deductible expenses.** The following educational expenses can be deducted.

- 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.

**Nondeductible expenses.** Educational expenses do not include personal or capital expenses. For example, you cannot deduct the dollar value of vacation time or annual leave you take to attend classes. This amount is a personal expense.

**Unclaimed reimbursement.** If you do not claim reimbursement that you are entitled to receive from your employer, you cannot deduct the expenses that apply to the reimbursement. For example, your employer agrees to pay your educational expenses if you file a voucher showing your expenses. You do not file a voucher, and you do not get reimbursed. Because you did not file a voucher, you cannot deduct the expenses on your tax return.

## Transportation Expenses

If your education qualifies, you can deduct local transportation costs of going directly from work to school. If you are regularly employed and go to school on a **temporary basis**, you can also deduct the costs of returning from school to home. A temporary basis is irregular or short-term attendance, generally a matter of days or weeks.

If you are regularly employed and go directly from home to school on a temporary basis, you can deduct the round-trip costs of transportation in going from your home to school to home. This is true regardless of the location of the school, the distance traveled, or whether you attend school on nonwork days.

Transportation expenses include the actual costs of bus, subway, cab, or other fares, as well as the costs of using your own car.

Transportation expenses do not include amounts spent for travel, meals, or lodging while you are away from home overnight.

**Example 1.** You regularly work in Camden, New Jersey, and go directly from work to home. You also attend school every night for 3 weeks to take a course that improves your job skills. Since you are attending school on a temporary basis, you can deduct your daily round-trip transportation expenses in going between home and school. This is true regardless of the distance traveled.

**Example 2.** Assume the same facts as in Example 1 except that on certain nights you go directly from work to school and then home. You can deduct your transportation expenses from your regular work site to school and then home.

**Example 3.** Assume the same facts as in Example 1 except that you attend the school for six consecutive Saturdays, non-work days. Since you are attending school on a temporary basis, you can deduct your round-trip transportation expenses in going between home and school.

**Example 4.** Assume the same facts as in Example 1 except that you attend classes twice a week for one year. Since your attendance in school is not considered temporary, you cannot deduct your transportation expenses in going between home and school. If you go directly from work to school, you can deduct the one-way transportation expenses of going from work to school. If you go from work to home to school and return home, your transportation expenses cannot be more than if you had gone directly from work to school.

**Using your car.** If you use your car for transportation to school, you can deduct your actual expenses or use the standard mileage rate to figure the amount you can deduct. The standard mileage rate for 1997 is 31.5 cents per mile. Whichever method you use, you may also deduct parking fees and tolls. See Publication 463 for information on deducting your actual expenses of using a car.

## Travel Expenses

You can deduct expenses for travel, meals (subject to the 50% limit), and lodging 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.

Travel expenses for qualifying education are treated the same as travel expenses for other employee business purposes. For more information, see Publication 463.



*You cannot deduct expenses for personal activities, such as sightseeing, visiting, or entertaining.*

**Mainly personal travel.** If your travel away from home is mainly personal, you cannot deduct all of your expenses for travel, meals, and lodging. However, during the time you attend the qualified educational activities, you can deduct your expenses for lodging and 50% of your expenses for meals.

Whether a trip's purpose is mainly personal or educational depends upon the facts

and circumstances. An important factor is the comparison of time spent on personal activities with time spent on educational activities. If you spend more time on personal activities, the trip is considered mainly educational only if you can show a substantial nonpersonal reason for traveling to a particular location.

**Example 1.** John works in Newark, New Jersey. He traveled to Chicago to take a deductible one-week course at the request of his employer. While there, he took a sightseeing trip, entertained some friends, and took a side trip to Pleasantville for a day. Since the trip was mainly for business, he can deduct his round-trip airfare to Chicago, but he cannot deduct his transportation expenses of going to Pleasantville. He can deduct only the meals and lodging connected with his educational activities.

**Example 2.** Sue works in Boston. She went to a university in Michigan to take a qualifying course for work. She took one course, which is one-fourth of a full course load of study. She spent the rest of the time on personal activities. Her trip is mainly personal because three-fourths of her time is considered personal time and her reasons for taking the course in Michigan were all personal. She cannot deduct the cost of her round-trip train ticket to Michigan. She can deduct one-fourth of the meals (subject to the 50% limit) and lodging costs for the time she attended the university.

**Example 3.** Dave works in Nashville and recently traveled to California to take a deductible 2-week seminar. While there, he spent an extra 8 weeks on personal activities. The facts, including the extra 8-week stay, show that his main purpose was to take a vacation. He cannot deduct his round-trip airfare or his meals and lodging for the 8 weeks. He can deduct only his expenses for meals and lodging for the 2 weeks he attended the seminar.

**Cruises and conventions.** Certain cruises and conventions offer seminars or courses as part of their itinerary. Even if these are work related, your deduction for travel may be limited. This applies to:

- 1) Travel by ocean liner, cruise ship, or other form of luxury water transportation, and
- 2) Conventions outside the North American area.

For a discussion of the limits on travel expense deductions that apply to cruises and conventions, see *Luxury Water Travel and Conventions* in Publication 463.

## Meal Expenses

If your educational expenses qualify for deduction, you can deduct the cost of meals that qualify as travel expenses.

**50% limit.** You can deduct only 50% of your qualifying business-related meals if you were not reimbursed by your employer. This includes meals while traveling away from home to obtain your education.

Employees must use Form 2106-EZ or 2106 to apply the 50% limit. See the instructions for Form 2106-EZ or 2106 to figure the 50% limit.

## Travel as Education

You cannot deduct the cost of travel that is a form of education if it is even directly related to your duties in your work or business.

**Example.** You are a French language teacher. While on sabbatical leave granted for travel, you traveled through France to improve your knowledge of the French language. You chose your itinerary and most of your activities to improve your French language skills. You cannot deduct your travel expenses as educational expenses. This is true even if you spent most of your time learning French by visiting French schools and families, attending movies or plays, and engaging in similar activities.

## Expenses Relating to Tax-Exempt and Excluded Income

Some educational assistance you receive may be tax-exempt or excluded income. This is income you receive that you are not required to report on your tax return.

The following discussions illustrate how to treat qualified educational expenses that are related to tax-exempt or excluded income from several sources: scholarships, veterans' educational assistance, and the education savings bond program.

### Scholarships

If you receive a tax-exempt scholarship, you must subtract the amount of the scholarship from your qualified educational expenses.

**Example.** Your tuition for qualifying education is \$8,000. You receive a tax-exempt scholarship of \$6,000 to help pay the tuition. You can include only \$2,000 (\$8,000 – \$6,000) as qualified educational expenses.

**Part of scholarship is tax exempt.** If only part of your scholarship is tax exempt, you subtract only the tax-exempt part from your qualified educational expenses.

**Example.** Your tuition for qualifying education is \$8,000. You receive a \$6,000 scholarship of which \$4,000 is tax exempt and \$2,000 is taxable. You can include only \$4,000 (\$8,000 – \$4,000) as qualified educational expenses.

**Part of tuition qualifies.** If only part of your tuition is for qualifying education, you subtract only part of the tax-exempt scholarship from the qualified educational expenses.

**Example.** Your total tuition is \$8,000. The tuition for the courses that are qualifying education is \$3,200. Your tax-exempt scholarship is \$6,000. To determine the part of the scholarship that must be subtracted from the qualified educational expenses, multiply the scholarship (\$6,000) by a fraction.

The top number of the fraction is the tuition for qualifying education, \$3,200, and the bottom number is the total tuition, \$8,000. The result, \$2,400, is the amount of the scholarship you must subtract from your qualified educational expenses. You can include \$800 (\$3,200 – \$2,400) as qualified educational expenses.

**More information.** For more information on scholarships, see Publication 520.

## Veterans

Any educational assistance payment you receive from the Department of Veterans Affairs (VA) is tax exempt. This includes payments for living expenses.

**VA programs that pay educational expenses only.** If you receive payments under a VA program that pays only for educational expenses, such as tuition, books, and similar expenses, you must subtract the part of the VA payment that applies to qualifying education from your qualified educational expenses.

**Example.** Your tuition is \$1,000 and all classes are qualifying education. You receive a \$780 educational assistance payment from the VA that is solely for educational expenses. You can include only \$220 (\$1,000 – \$780) as qualified educational expenses.

**VA programs that pay living expenses and educational expenses.** If you receive payments under a VA program that pays for both living expenses and educational expenses, you must subtract only the educational expense part of the VA payment that applies to qualifying education from your qualified educational expenses.

Generally, 50% of the VA payments are for subsistence or living expenses. For married veterans, the percentage is higher.

**Example.** Your tuition is \$1,000 and all classes are qualifying education. You receive a \$780 educational assistance payment from the VA. Under this program, \$390 of the payment is for living expenses and \$390 is for educational expenses. You can include \$610 (\$1,000 – \$390) as qualified educational expenses.

**VA payments used for both qualifying and nonqualifying education.** If you use a VA payment for educational expenses to pay for both qualifying and nonqualifying education, you must subtract only part of the payment from qualified educational expenses. To find out what part of the VA payment to subtract, multiply the VA payment by a fraction. The numerator (top number) is the cost of the qualifying education. The denominator (bottom number) is the total cost of your qualifying and nonqualifying education.

**Example.** Your tuition and fees for three courses are \$1,500. Only two of the three courses are qualifying education. The two courses cost \$1,000. You receive a \$780 educational assistance payment from the VA under a program that covers tuition and fees only. The payment does not include any amount for living expenses. Since two-thirds (\$1,000/\$1,500) of the total expenses are for qualifying education, subtract two-thirds of the VA payment ( $2/3 \times \$780 = \$520$ ) from the \$1,000 cost of the qualifying education. You can include \$480 (\$1,000 – \$520) as qualified educational expenses.

## Education Savings Bond Program

You may be able to exclude from income all or part of the interest you received on the redemption of qualified Series EE U.S. Savings Bonds during the year if you pay qualified higher educational expenses during the same year. This exclusion is known as the *Education Savings Bond Program*. If you excluded interest under the Education Savings Bond

Program, you must subtract the excluded interest from your qualified educational expenses. See chapter 1 in Publication 550, *Investment Income and Expenses*, for more information on excluding the savings bond interest.

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## How To Report Reimbursements and Educational Expenses

This section explains how to treat any reimbursements you received for educational expenses and where to deduct your educational expenses.

If you are self-employed, you can skip the sections on reimbursements and go to the rules for reporting your deduction. Those rules are explained later under *Where To Deduct Expenses*.

If you are an employee, you must take into account any reimbursement you receive. How you treat the reimbursement is explained next.

## How To Treat Reimbursements

How you treat any reimbursements you receive depends on the arrangement you have with your employer.

**No separate reimbursement.** If you are paid a salary or commission with the understanding that you will pay your own expenses, then you are not reimbursed or given an allowance for your expenses. All of your salary or commission is included on Form W-2 and must be reported as income.

**Types of reimbursement arrangements.** There are two basic types of reimbursement arrangements — **accountable plans** and **nonaccountable plans**. You can tell the type of plan you are reimbursed under by the way the reimbursement is reported on your Form W-2.

### Accountable Plans

If you are reimbursed under an accountable plan, your employer should not include any reimbursement in your income in box 1 of your Form W-2. To be an accountable plan, your employer's reimbursement arrangement must require you to meet the following rules:

- 1) Your expenses must be business related,
- 2) You must adequately account to your employer within a reasonable period of time, and
- 3) You must return any excess reimbursement or allowance within a reasonable period of time.

Any part of your reimbursement that does not meet one of these three rules is considered paid under a nonaccountable plan.

**Expenses equal reimbursement.** If your expenses equal your reimbursement, you do not complete Form 2106 or Form 2106-EZ.

Because your expenses and reimbursements are equal, you do not have a deduction.

**Excess expenses.** If your expenses are more than your reimbursement, you can deduct your excess expenses. This is discussed later under *Where To Deduct Expenses*.

**Allocating your reimbursements for meals.** Because your excess meal expenses are subject to the 50% deduction limit, you must figure them separately from other expenses. If your employer paid you a single amount to cover both meals and other expenses, you must allocate the reimbursement as follows:

- 1) Divide your meal expenses by your total expenses.
- 2) Multiply your total reimbursement by the result from (1). This is the allocated reimbursement for your meal expenses.
- 3) Subtract the amount figured in (2) from your total reimbursement. The difference is the allocated reimbursement for your other qualified educational expenses.

**Example.** Your employer paid you an expense allowance of \$2,000 under an accountable plan. The allowance was to cover all of your expenses of traveling away from home to take a 2-week training course for work. There was no indication of how much of the reimbursement was for each type of expense. Your actual expenses equal \$2,500 (\$425 for meals + \$700 lodging + \$150 transportation expenses + \$1,225 for books and tuition).

You allocate the reimbursement between the meal expenses and other expenses. The allocated reimbursement for meals is \$340 and the allocated reimbursement for other expenses is \$1,660, figured in the following steps.

- 1) You divide \$425 (your meal expenses) by \$2,500 (your total expenses). The result is .17.
- 2) You multiply \$2,000 (your reimbursement) by .17. The \$340 result is the allocated reimbursement for your meal expenses.
- 3) You subtract \$340 from \$2,000. The \$1,660 difference is the allocated reimbursement for your other qualified educational expenses.

## Nonaccountable Plans

Your employer will combine the amount of any reimbursement or other expense allowance paid to you under a nonaccountable plan with your wages, salary, or other pay and report the total in box 1 of your Form W-2.

You can deduct your expenses regardless of whether they are more than, less than, or equal to your reimbursement. This is discussed later under *Where To Deduct Expenses*. An example of a filled-in Form 2106 illustrating a nonaccountable plan is shown later.

**Reimbursements for nondeductible expenses.** Reimbursements you received for nondeductible expenses are treated as paid under a nonaccountable plan. You must include them in your income. For example, you must include in your income reimbursements your employer gave you for expenses of education that:

- 1) You need to meet the minimum educational requirements for your job, or
- 2) Are part of a program of study that can qualify you for a new trade or business.

## Where To Deduct Expenses

Self-employed persons and employees report their educational expenses differently.

The following information explains what forms you must use to deduct your qualified educational expenses.

### Self-Employed Persons

If you are self-employed, you must report your qualified educational expenses on the appropriate form used to report your business income and expenses (Schedule C, Schedule C-EZ, or Schedule F).

For example, if you use Schedule C, list and total your educational expenses for tuition, books, laboratory fees, and similar items in Part V and enter the total on line 27. Include educational expenses that are car and truck expenses on line 10. Include your travel expenses on line 24a. Include your meals on line 24b. For more information, see the instructions for the form that you file.

### Employees

If you are an employee, you can deduct qualified educational expenses only if they were not reimbursed by your employer or did not exceed your reimbursement. (Amounts your employer paid under a nonaccountable plan and included in box 1 of your Form W-2 are not considered reimbursements.)

Include your qualified educational expenses with your deduction for any other employee business expenses on line 20 of Schedule A (Form 1040). (A special rule for certain performing artists is explained later.) This deduction is subject to the 2%-of-adjusted-gross-income limit that applies to most miscellaneous itemized deductions.

**Form 2106 or Form 2106-EZ.** To figure your deduction for employee business expenses, including qualified educational expenses, you generally must complete Form 2106 or Form 2106-EZ.

**Form not required.** Do not complete either Form 2106 or Form 2106-EZ if:

- You were not reimbursed for any of your expenses, and
- You are not claiming travel, transportation, or meal expenses.

If you meet both these requirements, enter the expenses directly on line 20 of Schedule A. (A special rule for certain performing artists is explained later.)

**Using Form 2106-EZ.** This form is shorter and easier to use than Form 2106. Generally, you can use this form if:

- You were not reimbursed for any of your expenses, and
- You are claiming vehicle expenses and you are using the standard mileage rate.

If you do not meet both these requirements, use Form 2106.

**Performing artists.** If you are a qualified performing artist, include your qualified educational expenses with any other employee

business expenses on Form 1040, line 31. You do not have to itemize your deductions on Schedule A (Form 1040), and the deduction is not subject to the 2%-of-adjusted-gross-income limit. You must complete Form 2106 or 2106-EZ to figure your deduction even if you meet the requirements described earlier under *Form not required*.

For more information on qualified performing artists, see Publication 463.

**Impairment-related work expenses.** If you are disabled and have impairment-related work expenses that enable you to get qualifying education, they are not subject to the 2%-of-adjusted-gross-income limit. To deduct these expenses, you must complete Form 2106 or 2106-EZ even if you meet the requirements described earlier under *Form not required*.

For more information on impairment-related work expenses, see Publication 463.

## Employer-Provided Educational Assistance

If you received educational assistance benefits from your employer, all or part of the benefits may be tax exempt.

You can exclude up to \$5,250 of the benefits from income if you received them under a qualified educational assistance program. Your employer can tell you if the program is a qualified program. The education does not have to be work related for the benefits to be excluded.

The exclusion, which previously applied only to benefits you received in tax years beginning before June 1, 1997, for courses that began before July 1, 1997, has been reinstated retroactively and extended. It now applies to benefits you receive for courses that begin before June 1, 2000. However, the exclusion does not apply to benefits for graduate level courses (discussed later) that began after June 30, 1996.



*If you received more than \$5,250 of benefits for the year, the amount over \$5,250 is taxable and must be included in your income, unless it qualifies as a working condition fringe benefit. See Excludable fringe benefit, later.*

**Educational assistance benefits.** Educational assistance benefits include payments by your employer for tuition, fees and similar expenses, books, supplies, and equipment. It does not include payments for meals, lodging, transportation, or tools or supplies (other than textbooks) that you can keep after completing the course of instruction. It does not include payments for education involving sports, games, or hobbies unless the education:

- 1) Has a reasonable relationship to the business of your employer, or
- 2) Is required as part of a degree program.

**Graduate level course.** Educational assistance benefits do not include any payments by your employer for a graduate level course normally taken under a program leading to a law, business, medical, or other

advanced academic or professional degree if the course began after June 30, 1996.

**Expenses paid with benefits.** If you received tax-exempt benefits under your employer's qualified educational assistance program, you cannot take a deduction for qualified educational expenses.

**Excludable fringe benefit.** If your employer educational assistance is not excludable under the rules for qualified educational assistance program it is still excludable if it qualifies as a working condition fringe benefit. A working condition fringe benefit is a benefit which, if you had paid for it, you could have deducted as an employee business expense. For more information on fringe benefits, see Publication 535.

## Refund Procedures

The \$5,250 annual exclusion for employer-provided educational assistance benefits previously expired for tax years beginning after 1994. In 1996, the exclusion was reinstated retroactively and extended through tax years beginning before June 1, 1997, for courses beginning before July 1, 1997. Therefore, you are entitled to a refund of any income, social security, and Medicare taxes you paid on excludable benefits for 1995. You are also entitled to a refund of any social security and Medicare taxes you paid on these benefits for 1996.

On August 5, 1997, the exclusion was again reinstated retroactively and extended. Therefore, you are entitled to a refund of any social security and Medicare taxes you paid on these benefits for 1997.

**Income tax refund.** You are entitled to an income tax refund for 1995 if excludable benefits were included with your wages on your Form W-2. To get your refund, you need a Form W-2c from your employer showing the corrected wages for 1995.

Claim your refund by filing Form 1040X, *Amended U.S. Individual Income Tax Return*, with the IRS. To speed up processing of the Form 1040X, print "IRC 127" in the top margin. Next, enter your name, address, social security number, and tax year on the Form 1040X. Then sign the form and attach your Form W-2c. The IRS will figure the refund based on the W-2c information provided.



*If you exclude employer-provided educational assistance from your gross income, you cannot deduct educational expenses that were paid for by that assistance. If you claimed a deduction for educational expenses on your original return, you need to make an adjustment.*

**IRA deduction.** If you made nondeductible contributions to your individual retirement arrangement (IRA) for 1995, your reduced adjusted gross income due to correction of your wages may allow you to treat the contributions as deductible. To do this, enter the corrected nondeductible amount on a Form 8606 and attach it to the Form 1040X.

### Social security and Medicare taxes refund.

You are entitled to a refund of any social security and Medicare taxes withheld by your employer on excludable benefits in 1995, 1996, and 1997. Ask your employer to refund these taxes.

If you are not able to get a refund of these taxes from your employer, you can file Form 843 with the IRS. To speed up processing of the form, print "IRC 127" in the top margin. Attach a statement from your employer listing any taxes the employer refunded to you and any taxes the employer claimed as a refund, or was authorized by you to claim as a refund. If you cannot get this statement, you must make the same statement (to the best of your knowledge and belief) and explain why you could not get it from your employer.

## Recordkeeping



You must keep records as proof of any deduction claimed on your tax return. Generally, you should keep your records for 3 years from the date of filing the income tax return and claiming the deduction.

If you are an employee who is reimbursed for expenses and you give your records and documentation to your employer, you do not have to keep duplicate copies of this information. However, you should keep your records for a 3-year period if:

- 1) You claim deductions for expenses that are more than your reimbursement,
- 2) Your employer does not use adequate accounting procedures to verify expense accounts,
- 3) You are related to your employer, or
- 4) Your expenses are reimbursed under a nonaccountable plan.

**Examples of records to keep.** If any of the above cases apply to you, you must be able to prove that your expenses are deductible. You should keep adequate records or have sufficient evidence that will support your expenses. Estimates or approximations do not qualify as proof of an expense. Some examples of what can be used to help prove your expenses are:

- Documents such as transcripts, course descriptions, catalogs, etc., showing periods of enrollment in educational institutions, principal subjects studied, and descriptions of educational activity.
- Canceled checks and receipts to verify amounts you spent for tuition and books, meals and lodging while away from home overnight for educational purposes, travel and transportation, and other educational expenses.
- Statements from your employer explaining whether the education was necessary for you to keep your job, salary, or status; how the education helped maintain or improve skills needed in your job; how much educational expense reimbursement you received, identified by kind of expense; and the type of certificate and subjects taught, if you are a teacher.
- Complete information about any scholarship or fellowship grants, including amounts you received during the year.

## Example — Filled-In Form 2106

Victor Jones teaches math at a private high school in North Carolina. He was selected to attend a 3-week math seminar at a university in California. The seminar will improve his skills in his current job and is qualifying education. He was reimbursed for his expenses under his employer's nonaccountable plan, so his reimbursement of \$2,100 is included in the wages shown on his Form W-2. Victor will file Form 1040.

His actual expenses for the seminar are as follows:

Lodging .....	\$1,050
Meals .....	526
Airfare .....	550
Taxi fares .....	50
Tuition and books .....	400
<b>Total Expenses</b> .....	<b><u>\$2,576</u></b>

Victor files Form 2106 with his tax return. He shows his expenses for the seminar in Part I of the form under Step 1. He enters \$1,650 (\$1,050 + \$550 + \$50) on line 3 to account for his lodging, airfare, and taxi fares. He enters \$400 on line 4 for his tuition and books. On line 5, Victor enters \$526 for meal expenses.

Since his reimbursement was reported as wages on Form W-2 by his employer, he leaves Step 2 blank. He carries down the figures from Step 1 and completes the calculations required for Step 3. The filled-in form is shown on the next page.

▶ See separate instructions.

▶ Attach to Form 1040.

Your name Victor Jones	Social security number 123 : 00 : 4321	Occupation in which you incurred expenses Teaching
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**Part I Employee Business Expenses and Reimbursements**

	Column A Other Than Meals and Entertainment		Column B Meals and Entertainment	
<b>STEP 1 Enter Your Expenses</b>				
1 Vehicle expense from line 22 or line 29 . . . . .	1			
2 Parking fees, tolls, and transportation, including train, bus, etc., that <b>did not</b> involve overnight travel or commuting to and from work . . . . .	2			
3 Travel expense while away from home overnight, including lodging, airplane, car rental, etc. <b>Do not</b> include meals and entertainment . . . . .	3	1,650		
4 Business expenses not included on lines 1 through 3. <b>Do not</b> include meals and entertainment . . . . .	4	400		
5 Meals and entertainment expenses (see instructions). . . . .	5		526	
6 <b>Total expenses.</b> In Column A, add lines 1 through 4 and enter the result. In Column B, enter the amount from line 5 . . . . .	6	2,050		526

**Note:** If you were not reimbursed for any expenses in Step 1, skip line 7 and enter the amount from line 6 on line 8.

**STEP 2 Enter Reimbursements Received From Your Employer for Expenses Listed in STEP 1**

7 Enter reimbursements received from your employer that were <b>not</b> reported to you in box 1 of Form W-2. Include any reimbursements reported under code "L" in box 13 of your Form W-2 (see instructions) . . . . .	7				
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**STEP 3 Figure Expenses To Deduct on Schedule A (Form 1040)**

8 Subtract line 7 from line 6 . . . . .	8	2,050			526
<b>Note:</b> If <b>both columns</b> of line 8 are zero, <b>stop here</b> . If Column A is less than zero, report the amount as income on Form 1040, line 7.					
9 In Column A, enter the amount from line 8. In Column B, multiply the amount on line 8 by 50% (.50). If either column is zero or less, enter -0- in that column . . . . .	9	2,050			263
10 Add the amounts on line 9 of both columns and enter the total here. <b>Also, enter the total on Schedule A (Form 1040), line 20.</b> (Fee-basis state or local government officials, qualified performing artists, and individuals with disabilities: See the instructions for special rules on where to enter the total.) . . . . . ▶	10				2,313