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Drug Dealer Can't Deduct MBA

In HBO's phenomenal series [The Wire](#), drug kingpin '[Stringer Bell](#)' (played by Idris Elba) takes business courses at the local college to learn how best to exploit his market and grow his drug operation. He views drug dealing as a business, and for a time, Bell thrives. He may even have inspired more legit entrepreneurs to hit the books.



Stringer Bell (Photo credit: Wikipedia)

Viewers aren't told whether Stringer Bell files tax returns or what he reports to the IRS if he does. But would his business classes be tax deductible? It's not a silly question. People from all walks of life try to deduct educational expenses. The law has had an especially hard time dealing with MBA degrees.

The general rule is that education expenses are deductible if they maintain or improve skills required in your business or employment, or if your employer (or law) requires you to do it to keep your job or your current status with your employer. Conversely, you get no deduction if the education:

- Is needed to meet the minimum requirements for your present or intended employment or business;
- Is undertaken to fulfill general education goals or for other personal reasons;
- or
- Is part of a program that qualifies you for a new trade or business.

The rule that you can't expense education that qualifies you for a new career is key. For that reason, going to law school, med school or nursing school? Not tax deductible. With an MBA, it depends, but usually it's not deductible.

The recent case of Adam Hart, [T.C. Memo. 2013-289](#), holds the line. The Tax Court held that Mr. Hart, who was engaged in legitimate pharmaceutical sales, could not deduct his MBA. On the facts, he wasn't established in a trade or business **before** he enrolled in the MBA program, so his expenses were nondeductible.

Mr. Hart graduated from college in 2007, and in 2009 he enrolled in an MBA program. His employment was spotty, but none of his employers **required** him to attend MBA courses. He deducted \$17,138 for his MBA education, which the IRS disallowed. In Tax Court, Hart said he was in the business of selling pharmaceuticals and his MBA classes enabled him to obtain employment.

The IRS countered that Hart was not established in a trade or business and that his employers did not require him to enroll. The Tax Court agreed with the IRS and ruled there was no deduction. Because the Tax Court found he wasn't carrying on a trade or business, it didn't have to consider whether the MBA qualified him for a new trade or business.

But do MBA deductions **ever** succeed? Sometimes. A good example is [Lori Singleton-Clarke v. Commissioner](#). Lori had a nursing degree and worked as a nurse or medical administrator for 24 years. Already working in a managerial job, she boosted her skills with an online MBA. She deducted it, the IRS disagreed and she went to Tax Court.

The IRS argued that Lori's MBA qualified her for a new job—in fact, she got one! But the Tax Court believed her when she said she got the MBA to become more effective in her present duties. Besides, she said, she switched jobs only to work closer to home. She even showed she would have gotten the new job anyway—with or without the MBA! See [St. Mary's nurse challenges findings of IRS audit, and wins](#).

You can reach me at Wood@WoodLLP.com. This discussion is not intended as legal advice, and cannot be relied upon for any purpose without the services of a qualified professional.