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A FEW WORDS FROM JOHN...

Rollins College Tax Court Issue

Many of our clients have children attending college or know of someone who is, so we would like to share this tax court case with you because we rarely get tax court cases so close to us for consideration. This case involves an employee obtaining an MBA degree at Rollins College in Winter Park. Although the facts and circumstances may not be relevant to everyone, they may help interpret the IRS position on advanced education costs, especially if the taxpayer is employed. The case brings to light the elements of consideration we evaluate prior to rendering an opinion as to the deductibility of education costs.

Tax Court Rules against Deduction of MBA Tuition

In a recent Tax Court case in December 2013, the court ruled against a business student who tried to deduct the cost of tuition for his Masters of Business Administration program, a case that could have major implications for other MBA students who hope to make their tuition more affordable. In the ruling, Tax Court Judge Kathleen Kerrigan decided against Adam Edward Hart and his wife Lisa Denning Hart. Adam Hart enrolled in an MBA program with a concentration in finance at Rollins College in January 2009. That year, he was employed by Priority Healthcare Distribution, and later after brief periods of unemployment for ADP TotalSource and Walgreens, but none of his employers required him to attend MBA courses. He now works for McKesson as a drug sales representative.

He received a Form 1098-T tuition statement for 2009 reporting qualified tuition expenses of \$18,600. When he and his wife filed a joint tax return for that year, they claimed the same amount as an itemized deduction for unreimbursed business expenses on Schedule A, noting that it was for "MBA tuition." They also applied the threshold of 2 percent of adjusted gross income to the itemized deduction, reducing the amount to \$17,138. However, the IRS disallowed the deduction. Hart claimed that he was in the business of selling pharmaceuticals and that the MBA classes enabled him to obtain employment in 2009. The IRS contended he was not established in a trade or business in 2009, and his employers did not require him to enroll in an MBA program.

The court noted that under Tax Code and IRS regulations, a taxpayer must be established in a trade or business before any expenses can be deductible. The IRS argued that Hart was not established in a trade or business before he entered the MBA program at Rollins. Hart claimed that he was in a trade or business because he focused on the specialized field of selling cancer pharmaceuticals. After reviewing the case and despite an effective pro se representation, the court found the petitioner husband was not established in a trade or business before enrolling in the MBA program, and therefore his expenses are not deductible.

Hart told Reuters that he plans to ask the Tax Court to reconsider his case after presenting new evidence that he had more work experience before he began the MBA program. If he loses the appeal, he could end up owing the IRS up to \$10,000.

Sometimes making decisions can be tough.

*At MFM, our objective is to always minimize your taxes by our decisions...
 The result... is to always keep you out of tax court by rendering them.*

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