



POSITION STATEMENT

Tax Incentives for Continuing Education

*Adopted by the IEEE-USA
Board of Directors, 25 June 2010*

Easier access to lifelong learning is essential, if scientific and technical professionals are to meet changing performance requirements, and their employers are to remain competitive in an increasingly technology-based global economy. For these reasons, IEEE-USA:

- Advocates continuing education for all scientific and technical professionals
- Encourages U.S. IEEE members to assume full responsibility for developing their professional careers, and provides educational materials, meetings, conferences, technical publications and self-study courses to help them meet this responsibility
- Urges employers to support employee efforts to maintain professional and technical competence

Because lifelong learning is so important, the federal government -- in partnerships with employer organizations, educational institutions, labor unions, professional societies and other stakeholders -- has a critical role to play in promoting and financing the continuing education investments that employers and their employees need. The Internal Revenue Code should include the following five amendments to enable engineers and other technology professionals to meet lifelong learning requirements for jobs in technology-based occupations:

1. Increase the income eligibility limits for the educational tuition and fee deduction to enable scientific and technical professionals to qualify for the deduction; and a broadening of the definition of eligible educational institutions, to include professional societies that provide continuing education
2. Increase the income eligibility limits for the lifetime learning credit
3. Expand the income tax exclusion for employer-provided educational assistance

4. Create a new tax credit for employer-incurred education and training expenses
5. Create a new tax-favored savings account to help reimburse individual taxpayers for job- and career-related education expenses

This statement was developed by the IEEE-USA Career & Workforce Policy Committee and represents the considered judgment of a group of U.S. IEEE members with expertise in the subject field. IEEE-USA advances the public good and promotes the careers and public-policy interests of the more than 210,000 engineers, scientists and allied professionals who are U.S. members of the IEEE. Positions taken by IEEE-USA do not necessarily reflect the views of the IEEE, or its other organizational units.

BACKGROUND

The Need for Additional Tax Incentives for Lifelong Learning

The U.S. Department of Labor reports that average job tenure for all workers is less than seven years. The typical product development team in the high-technology sector stays together for 18 to 36 months. The useful life of most software application packages is three years. As a result, engineers and other technical professionals must continually upgrade their knowledge and skills to remain employable. The alternative is technological obsolescence, job loss for younger workers, and displacement or early retirement for older workers.

Employers and employees recognize the critical importance of continuing education, or lifelong learning. Many large employers routinely provide or pay for instructional opportunities for their workers. Most mid-sized and smaller firms do not -- either because they can't afford to, or because they fear losing trained employees to their competitors. Firms should be eligible for a tax credit for investments in human capital.

At the federal level, the Internal Revenue Code contains some financial incentives for employers and employees who invest in continuing education. These incentives include tax deductions, tax credits, and exclusions from income for certain kinds of educational expenses.

The Educational Tuition and Fees Deduction

Within stringent income limits, individuals may deduct certain educational expenses from taxable income. Individual taxpayers can deduct up to \$4,000 for qualifying tuition and fee expenses, if their modified adjusted gross income (MAGI) is not more than \$80,000 (\$160,000 for married taxpayers filing jointly). [1]

For purposes of the tuition and fees deduction, qualified education expenses include tuition and related expenses required for enrollment or attendance at an eligible educational institution. An eligible educational institution is any college, university, vocational school, or postsecondary educational institution that is eligible to participate in student aid programs administered by the U.S. Department of Education. This

definition includes virtually all accredited, public, nonprofit and proprietary, postsecondary educational institutions.

The tuition and fees deduction could be enhanced and made more useful to technical professionals by:

- Adding professional societies and associations that offer continuing education courses to the list of eligible educational institutions
- Making the cost of obtaining and maintaining a credential (certification, licensing, registration, and related continuing education) required by states to practice certain professions, such as engineering, a qualified education expense

Lifetime Learning Tax Credits

Lifelong Learning Tax Credits are available to taxpayers, subject to stringent income limitations that reduce their usefulness for high-tech professionals.

A tax credit reduces the amount of income tax that individuals must pay. Unlike a deduction, which reduces the amount of income subject to tax, a credit directly reduces the amount of the tax itself.

The Lifetime Learning Credit is 20 percent of qualified expenses, up to a maximum of \$2,000 per tax return (\$4,000 if a student resides in a Midwestern disaster area). To qualify, a taxpayer must have Adjusted Gross Income (AGI) under \$60,000 (\$120,000, if married and filing jointly). A phase-out (reduction in the amount of the credit) occurs for modified adjusted gross incomes ranging from \$50,000 to \$60,000 (\$100,000 to \$120,000 for joint filers). No credit is allowed for taxpayers who are married but filing separately. The Lifetime Learning Credit is available only for qualified education expenses paid to an eligible educational institution (generally an accredited college or university). [2]

This credit is nonrefundable. It is available for all years of postsecondary education and for courses needed to acquire or improve job skills. Students do not need to be pursuing a degree or other recognized educational credential. Continuing education costs for courses (including distance learning) taken under the auspices of a professional association do not qualify for the credit.

Tax Exclusion for Employer-Provided Educational Assistance

Section 127 of the Internal Revenue Code allows taxpayers to exclude up to \$5,250 a year in reimbursements or direct payments from their employers for non-job related educational expenses from their taxable income. [3]

Unfortunately, the current exclusion is limited to educational expenses incurred at accredited educational institutions. It should be expanded to cover reimbursements or payments by employers for tutorials and short courses offered by public and private

education providers, including professional societies and trade associations, which will enable recipients to become or remain proficient in new and emerging technologies.

Tax Credits for Education Costs Incurred by Employers

Because the willingness and ability of employers to pay for continuing education varies so considerably, IEEE-USA recommends that the Internal Revenue Code be amended to provide tax credits to encourage more employers to underwrite continuing education expenses for their professional, technical and support personnel. Employers that spend in excess of two percent of sales or other revenues for instructional purposes should be eligible for the proposed tax credits.

Tax Favored Individual Education Accounts (IEAs)

Continuing education is fast becoming a mandatory investment for individuals who wish to maintain their employability, or make job or career transitions in most engineering, computer science, health care, and other technology-based occupations. To help individuals make such investments, IEEE-USA also recommends that the Internal Revenue Code be amended to include an IRA-like Individual Education Account (IEA). The purpose of such an account should be to enable eligible individuals to save up to 5 percent of their pre-tax income (up to \$3,000 a year, indexed for inflation) in tax-favored savings accounts that can be used to help pay for certain lifelong learning expenses.

Qualifying expenses should include:

- The cost of education required to maintain professional or technical proficiency in a current job, including the cost of preparing for certification, licensing or registration examinations, and costs for continuing education (Professional Development Hours) to maintain such certification, licensing or registration
- The cost of specialized education required to transition from one job or career field to another; and the cost of the specialized instruction needed to develop or enhance critical competencies – including communications, managerial and team-building skills – that may be required to function effectively, or to assume additional responsibilities.
- The cost of tuition, books and other instructional materials or equipment; registration fees; career counseling; skills assessment; and travel between an eligible individual's home or work and the facility at which instruction is provided

If contributions to IEAs are used to pay for qualifying education expenses, no federal income or employment taxes should be imposed on the amounts contributed, or on interest earned on amounts held in such accounts.

Amounts contributed to IEAs that are spent for other purposes prior to age 59 1/2 should be subject to applicable income and employment taxes. After eligible individuals reach age 59 1/2, IEA account balances should be transferable to an Individual Retirement Account, or other qualified retirement or health savings account, without tax or penalty. Taxability thereafter should be governed by applicable withdrawal and distribution rules.

END NOTES

1. IRS Publication 970, Chapter 7: Tuition and Fees Deduction, pp. 49-55
2. IRS Publication 970, Chapter 4: Lifetime Learning Credit, pp. 31-40
3. IRS Publication 970, Chapter 12; Employer-Provided Educational Assistance, p.76

ADDITIONAL REFERENCES

Congressional Joint Committee on Taxation, Present Law and Analysis Relating to Tax Benefits for Higher Education (JCX-35-08) – 29 April 2008
<http://www.jct.gov/x-35-08.pdf>

Department of the Treasury/Internal Revenue Service, Tax Benefits for Education (IRS Publication 970) – 25 January 2010
<http://www.irs.gov/pub/irs-pdf/p970.pdf>