

Tax Incentives for Continuing Education and Training

**Draft Update of June 1998 Statement
October 6, 2004**

The Institute of Electrical and Electronics Engineers - United States of America (IEEE-USA) advocates continuing education and training for all technical professionals. In addition, IEEE-USA actively encourages IEEE members to assume full responsibility for the development of their professional careers and provides educational materials, conference programs, technical publications and self-study courses to help them meet this responsibility.

IEEE-USA also encourages employers to support efforts by employees to maintain their professional and technical competence. And because lifelong learning is so important, the federal government -- in partnerships with businesses, educational institutions, labor unions, professional societies, and trade associations -- has a critical role to play in the promotion and financing of needed investments in continuing education and training. Easier access to lifelong learning is essential, if technical professionals, including engineers and scientists, are to assume more responsibility for their own career development, and their employers are to remain competitive in an increasingly technology-based global economy.

Need for Additional Tax Incentives for Lifelong Learning

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

Educational expenses incurred by individual taxpayers to keep a present job are deductible, but only to the extent that they exceed two percent of adjusted gross income. Non-job related educational expenses that are paid for by employers, may be excludable from the income of individual taxpayers up to a current maximum of \$5,280 a year, but only for undergraduate courses offered by accredited educational institutions. The costs of preparing for state credentialing (certification, licensing or registration) examinations that are required in order to practice certain professions, including engineering, are not currently deductible.

Hope and Lifetime Learning Credits are available to taxpayers, but with stringent limitations that reduce their usefulness for high-tech professionals:

- a. The lifetime learning credit is 20% of qualified expenses, with the maximum credit being \$2,000 per tax return. To qualify, a taxpayer must have Adjusted Gross Income under \$103,000 if married filing jointly. Phaseout (reduction of credit) occurs for modified adjusted gross income between \$83,000 and \$130,000.

For single taxpayers, the income limitation is under \$51,000 if single. No credit is allowed for taxpayers who are married but filing separately. (Form 8863)
<http://www.irs.gov/pub/irs-pdf/p970.pdf>

- b. The maximum Lifetime Learning Credit is limited to \$2,000.
- c. The credit is available only for qualified expenses paid to an eligible educational institution (generally private colleges and universities); continuing education costs for courses (including distance learning) taken under the auspices of a professional association do not qualify.
- d. Hope credits (up to \$1,500 credit per eligible student) do not apply beyond the first two years of post-secondary education.

Recommendations

Four modifications to the Code are needed to enable high-tech professional and other workers to meet lifelong learning requirements for jobs in technology-based occupations. These include:

- 1. An expansion of the current income tax exclusion for employer-provided educational assistance;
- 2. The provision of tax credits for employers that offer training in cutting-edge technologies;
- 3. Increased earnings limits for Lifetime Learning Credits, and a broadening of the definition of eligible education institution to include professional associations; and
- 4. The creation of tax-favored savings accounts to help pay for job- and career-related education and training expenses incurred by individual taxpayers.

Background

The 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, after which members are likely to join a new team, or need have to find other employment. The useful life of most software application packages is three years. As a result, 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 and training or lifelong learning. Most large employers routinely provide or fund instructional opportunities for their workers. Many mid-sized and smaller firms do not, either because they can't afford to or because they fear losing trained employees to their competitors.

Expansion of the Tax Exclusion for Employer-Provided Educational Assistance

Section 127 of the Internal Revenue Code allows workers to receive up to \$5,280 a year in reimbursements or direct payments from their employers for non-job related educational expenses on a tax-free basis.

Unfortunately, the current exclusion is limited to undergraduate level educational expenses. It should be expanded to cover reimbursements or payments by employers, for graduate-level programs and short courses offered by public and private training providers that will enable engineers and scientists to become or remain proficient in new and emerging technologies.

Tax Credits for Training Costs Incurred by Employers

Because the willingness and ability of employers to pay for worker education and training varies so considerably, IEEE-USA recommends that the Internal Revenue Code be amended to provide tax credits that will encourage more employers, of all sizes, to underwrite continuing education and training 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 Training Accounts

Short-term training is fast becoming a mandatory investment for individuals who wish to maintain their employability or make job or career transitions in engineering, computer science, health care, or other technology-based occupations. To help individuals pay for such training, IEEE-USA also recommends that an IRA-like Individual Training Account be established as part of the Internal Revenue Code.

The purpose of such an account should be to enable eligible individuals to save as much as 5 percent of their pretax income, up to \$3,000 a year (indexed for future years), in tax-favored savings accounts that can be used to help pay for certain lifelong learning expenses. Covered expenses should include:

1. the cost of education and training required to maintain professional or technical proficiency in a current job, including the cost of preparing for certification, licensing or registration examinations;
2. the cost of the specialized education and training required to transition from one job or career field to another; and
3. the cost of the specialized instruction needed to develop or enhance critical competencies - including administrative, communications, managerial, and team-

building skills - required to function more effectively or to assume additional responsibilities in a current position.

4.

Qualifying education and training expenses should include 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 ITAs are used to pay for qualifying education and training 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 ITAs that are spent for other purposes prior to age 59 1/2 should be subject to applicable federal income and employment taxes. After eligible individuals reach 59 1/2, any funds remaining in their ITA should be transferable to an Individual Retirement Account or other qualified retirement savings account without tax or penalty. Taxability thereafter will be governed by applicable withdrawal and distribution rules.

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