Reisinger v. Commissioner, 71 T. C. 568 (1979)

Educational expenses that qualify an individual for a new trade or business are not deductible under Section 162(a) of the Internal Revenue Code.

Summary

In Reisinger v. Commissioner, the court ruled that Patricia Reisinger's educational expenses at Johns Hopkins for a physician's assistant program were not deductible. Reisinger, previously a licensed practical nurse (LPN) who had been unemployed for several years, argued her education maintained her nursing skills. However, the court found she was not engaged in the LPN trade or business at the time of her studies and that the program qualified her for the new profession of physician's assistant. This decision underscores that to deduct educational expenses under Section 162(a), the taxpayer must be currently engaged in the relevant trade or business, and the education must not qualify them for a new one.

Facts

Patricia Reisinger worked as an LPN until 1969. After moving to Maryland in 1972, she was unable to find LPN work due to a fully staffed local hospital and did not seek employment in nearby Baltimore. In 1974, she enrolled in Johns Hopkins' Health Associates program, which trained her to become a physician's assistant. During her studies, she was not employed but worked without pay at a surgical practice for experience. After graduating in 1976, she worked briefly as a physician's assistant before becoming unemployed again.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in the Reisingers' 1975 federal income tax and disallowed Patricia's educational expense deductions. The Reisingers filed a petition with the United States Tax Court challenging this determination. The Tax Court held that the educational expenses were not deductible because Patricia was not engaged in the LPN trade or business and the education qualified her for a new trade or business.

Issue(s)

1. Whether Patricia Reisinger was engaged in the trade or business of practical nursing during 1975 when she enrolled in the Johns Hopkins Health Associates program.
2. Whether the educational expenses incurred by Patricia Reisinger at Johns Hopkins qualified her for a new trade or business.

Holding

1. No, because Patricia Reisinger had not worked as an LPN since 1969 and did not

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actively seek employment in that field after moving to Maryland, indicating she had abandoned the trade or business.
2. Yes, because the Johns Hopkins program qualified Patricia Reisinger for the new trade or business of physician's assistant, which has distinct duties and responsibilities from those of an LPN.

Court's Reasoning

The court applied Section 162(a) of the Internal Revenue Code, which allows deductions for ordinary and necessary business expenses, and the regulations under Section 1. 162-5, which specify that educational expenses are deductible if they maintain or improve skills required in the taxpayer's current trade or business but not if they qualify the taxpayer for a new trade or business. The court found Patricia Reisinger was not engaged in the LPN trade or business because she had been unemployed for several years and did not actively seek LPN work, citing cases like *Canter v. United States* and *Furner v. Commissioner* to support this conclusion. Furthermore, the court determined that the Johns Hopkins program qualified her for the new profession of physician's assistant, as evidenced by the distinct job duties and legal classifications under Maryland law. The court emphasized a commonsense approach to differentiate trades or businesses, referencing *Davis v. Commissioner* and *Glenn v. Commissioner*.

Practical Implications

This decision impacts how taxpayers claim educational expense deductions under Section 162(a). It establishes that for such deductions to be valid, the taxpayer must be actively engaged in the trade or business related to the education at the time the expenses are incurred. Additionally, it clarifies that education leading to a new trade or business is not deductible, even if it builds on existing skills. Legal practitioners must advise clients to carefully document their current engagement in a trade or business when seeking educational expense deductions. This ruling also influences the healthcare industry by distinguishing the roles of LPNs and physician's assistants, affecting how educational programs for these professions are structured and perceived. Subsequent cases, such as *Zimmerman v. Commissioner*, have reinforced the principles established in Reisinger regarding the deductibility of educational expenses.

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