***Wassenaar v. Commissioner*, 72 T.C. 1195 (1979)**

Educational expenses are not deductible as ordinary and necessary business expenses if the education qualifies the taxpayer for a new trade or business, even if the education improves skills used in prior employment.

Summary

Paul Wassenaar, a recent law school graduate, sought to deduct the expenses of obtaining a Master of Laws in Taxation (LLM) as a business expense. He argued that his prior work experience, including law review and summer associate positions, constituted a trade or business, and the LLM enhanced his skills. The Tax Court disallowed the deduction, holding that Wassenaar was not yet engaged in the trade or business of practicing law when he pursued the LLM. The court reasoned that the LLM program was part of Wassenaar's education to qualify him for a new profession, and thus the expenses were not deductible.

Facts

Paul Wassenaar graduated from Wayne State University Law School in June 1972. During law school, he worked on law review and as a summer associate at a law firm, receiving compensation for both. After law school, he prepared for and passed the Michigan bar exam in October 1972, but was not formally admitted until May 1973. From September 1972 to May 1973, he attended New York University (NYU) and obtained an LLM in Taxation. Upon graduation from NYU, he began working for a law firm in Detroit.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in Wassenaar's 1973 federal income tax. Wassenaar petitioned the Tax Court, contesting the disallowance of deductions for his LLM expenses and moving expenses. The Tax Court ruled in favor of the Commissioner, disallowing both deductions.

Issue(s)

1. Whether the expenses incurred to obtain a Master of Laws in Taxation are deductible as ordinary and necessary business expenses under Section 162 of the Internal Revenue Code.
2. Whether such expenses are deductible under Section 212(3) of the Internal Revenue Code as ordinary and necessary expenses paid in connection with the determination of tax liability.
3. Whether the expenses incurred in moving to a new city to commence employment are deductible under Section 217 as moving expenses.

Holding

© 2025 SCOTUSreports.com. All rights reserved.

1. No, because at the time the expenses were incurred, Wassenaar was not yet engaged in the trade or business of practicing law; the LLM program qualified him for a new trade or business.
2. No, because the expenses were not reasonable in amount or reasonably related to the preparation of his tax return, and were considered expenses for "special courses or training" which are not deductible under Section 212.
3. No, because New York was not Wassenaar's principal residence prior to the move to Detroit.

Court's Reasoning

The court reasoned that to deduct educational expenses under Section 162, the education must maintain or improve skills required in the taxpayer's existing trade or business. The court stated, "*Moreover, the taxpayer must be established in the trade or business at the time he incurs an educational expense to be able to deduct such expense under section 162.*" Wassenaar was not engaged in the trade or business of practicing law while pursuing his LLM because he was not yet admitted to the bar and authorized to practice. His prior legal work was preparatory to becoming an attorney, not the practice of law itself. The court distinguished cases where professionals already established in their fields took courses to improve existing skills. Additionally, the court cited Treasury Regulation §1.162-5(b)(3), which disallows deductions for education that is part of a program of study that will qualify the taxpayer for a new trade or business. The LLM program was deemed to qualify Wassenaar for the new trade or business of practicing law, a profession he was not previously engaged in. Regarding Section 212(3), the court found the LLM expenses unreasonable in relation to tax preparation and disallowed them under Treasury Regulation §1.212-1(f) which specifically excludes expenses for "special courses or training." Finally, concerning moving expenses, Wassenaar conceded New York was not his principal residence, thus failing to meet the requirements of Section 217 and related regulations.

Practical Implications

Wassenaar clarifies that educational expenses are generally not deductible if they are incurred to qualify for a new profession, even if the taxpayer has some prior experience in the field. This case is frequently cited to deny deductions for advanced degrees pursued immediately after professional schooling. It emphasizes the distinction between maintaining or improving skills in an existing trade or business and becoming qualified for a new one. For legal professionals and others considering advanced degrees, this case highlights the importance of establishing oneself in a trade or business *before* incurring educational expenses to ensure deductibility. It also serves as a reminder that moving expense deductions require the move to be from a principal residence.

© 2025 SCOTUSreports.com. All rights reserved.