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

Educational expenses incurred before entering a trade or business are not deductible as business expenses under Section 162(a) or for tax preparation under Section 212(3) of the Internal Revenue Code.

Summary

Paul Wassenaar sought to deduct expenses for a master's degree in taxation from New York University, arguing they were business expenses under Section 162(a) or related to tax preparation under Section 212(3). The Tax Court ruled against him, holding that since Wassenaar had not yet begun practicing law when he incurred these expenses, they were not deductible under Section 162(a). Furthermore, the expenses were deemed too substantial to be considered ordinary and necessary for tax preparation under Section 212(3). Additionally, Wassenaar's moving expenses from New York to Detroit were not deductible because New York was not his principal residence.

Facts

Paul Wassenaar graduated from law school in 1972 and immediately enrolled in a master's program in taxation at New York University, completing it in May 1973. He was admitted to the Michigan bar in May 1973 and began working as an attorney in Detroit shortly thereafter. Wassenaar incurred $2,781 in educational expenses at NYU and sought to deduct them on his 1973 tax return. He also claimed a moving expense deduction for his move from New York to Detroit to start his job.

Procedural History

The Commissioner of Internal Revenue disallowed Wassenaar's deductions, leading to a deficiency notice. Wassenaar petitioned the United States Tax Court, which upheld the Commissioner's determination, ruling that the educational and moving expenses were not deductible.

Issue(s)

1. Whether Wassenaar's educational expenses for his master's degree in taxation are deductible as ordinary and necessary business expenses under Section 162(a)?
2. Whether such educational expenses are deductible under Section 212(3) as expenses incurred in connection with the determination of tax liability?
3. Whether Wassenaar's moving expenses from New York to Detroit are deductible under Section 217 as a moving expense?

Holding

1. No, because Wassenaar had not yet entered the practice of law when he incurred these expenses, and they were part of his education leading to qualification in a new

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trade or business.
2. No, because the expenses were not reasonable in amount or closely related to tax preparation, and they were classified as special courses or training under the regulations.
3. No, because Wassenaar conceded that New York was not his principal residence before the move, which is required for a moving expense deduction under Section 217.

Court's Reasoning

The Tax Court applied Section 162(a) and Section 212(3) of the Internal Revenue Code, along with their respective regulations, to determine the deductibility of Wassenaar's expenses. For Section 162(a), the court emphasized that the taxpayer must be engaged in a trade or business at the time the educational expenses are incurred. Wassenaar's expenses at NYU were part of his education to qualify as a lawyer, a profession he had not yet entered. The court cited cases like *Baker v. Commissioner* and *Jungreis v. Commissioner* to support this reasoning. Under Section 212(3), the court found that the expenses were not reasonable or closely related to tax preparation and were classified as non-deductible special courses under the regulations. The court also noted that Wassenaar's moving expenses did not qualify under Section 217 because New York was not his principal residence, as required by the regulations.

Practical Implications

This decision clarifies that educational expenses incurred before entering a profession are not deductible as business expenses under Section 162(a). It also sets a precedent that such expenses cannot be claimed under Section 212(3) if they are not reasonable in amount or closely related to tax preparation. Legal professionals and students should be aware that expenses for education leading to qualification in a new profession are generally non-deductible. Additionally, the case reinforces the requirement that moving expenses must relate to a principal residence to be deductible under Section 217. This ruling has been cited in subsequent cases involving similar issues, such as *Diaz v. Commissioner*, to guide the analysis of educational expense deductions.

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