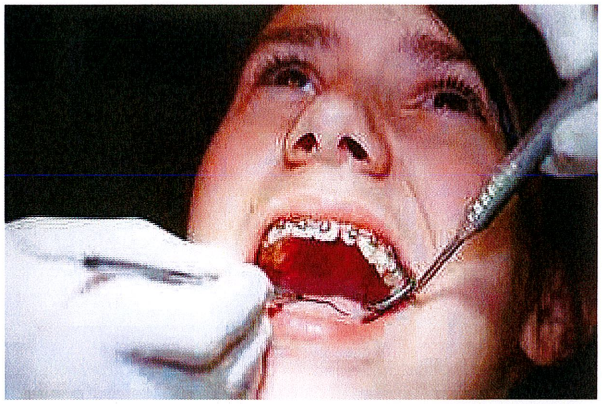
Deducting Dental Specialty Program Expenses



Generally, education that qualifies you for a new trade or business is not deductible. For example, the cost of dental school leading to a DDS is not deductible. Subsequent education while on the job to maintain your competency is continuing education and is deductible. When you obtain education to qualify you for the one of the dental specialties such as orthodontist, endodontist, periodontist, pediatric dentist, prosthodontist, or oral surgeon, does that education "qualify you for a new trade or business" or is it "continuing education?"

IRS Revenue Ruling 74-78 describes a dentist in general practice who went back to school full-time, **while continuing his practice on a part-time basis**, and became an orthodontist. Section 1.162-5 of the Income Tax Regulations provides, in part,

> "that expenditures made by a taxpayer for his education may be deductible as ordinary and necessary business expenses even though the education may lead to a degree if the education
>
> (1) maintains or improves skills required by the taxpayer in his employment or other trade or business, or
>
> (2) meets the express requirements of the taxpayer's employer, or the requirements of applicable law or regulations imposed as a condition to the retention of an established employment relationship, status, or rate of compensation."

The ruling concluded, "…..the expenditures by the taxpayer for postgraduate studies in orthodontics were not incurred in connection with qualifying him for a new trade or business but were expenditures in connection with improving his skills as a dentist. Accordingly, such expenditures are deductible as ordinary and necessary expenditures."

So if your facts are similar to those in the ruling then you are likely to be treated the same as the dentist who prompted the ruling in the first place. In this case the dentist **continued to practice dentistry in his general practice while enrolled in the orthodontic program.** If you are not in a general practice and go straight from graduating dental school into a specialty program, will you also be able to deduct the expenses? The law is not clear. There are no other rulings or court cases to clarify the issue. Therefore, the risk that your deductions may be disallowed are certainly greater.

Attachments:

1. Revenue Ruling 74-78, 1974-1 C.B. 44
2. Computation of tax benefits by deducting dental specialty education expenses

REV. RUL. 74-78, 1974-1 C.B. 44

Educational expenses; dentist; postgraduate orthodontic study. Expenditures incurred in taking postgraduate studies in orthodontics by a dentist engaged in general practice who returned to dental school on a full-time basis while continuing his practice on a part-time basis and, after completing his training, limited his practice to orthodontic patients are deductible under section 162 of the Code.

26 CFR 1.162-5: Expenses for education.

Advice has been requested whether, under the circumstances described below, expenditures incurred by a dentist in taking postgraduate studies in orthodontics are deductible for Federal income tax purposes.

The taxpayer, a dentist engaged in general dental practice, returned to dental school for postgraduate study in orthodontics. He attended dental school on a full-time basis continuing his dental practice on a part-time basis. Upon completion of his postgraduate training he became an orthodontist and limited his practice to orthodontic patients.

Section 162 of the Internal Revenue Code of 1954 provides for the deduction of all the ordinary and necessary expenses paid or incurred during the taxable year in carrying on any trade or business.

Section 1.162-5 of the Income Tax Regulations provides, in part, that expenditures made by a taxpayer for his education may be deductible as ordinary and necessary business expenses even though the education may lead to a degree if the education (1) maintains or improves skills required by the taxpayer in his employment or other trade or business, or (2) meets the express requirements of the taxpayer's employer, or the requirements of applicable law or regulations imposed as a condition to the retention of an established employment relationship, status, or rate of compensation. Expenses incurred for education which fall within either of the foregoing tests are deductible provided the education is not part of a program of study being pursued by the taxpayer leading to his qualification in a new trade or business or is not required of him in order to meet the minimum educational requirements for qualification in his employment or other trade or business.

As an example of a change in duty that is not a new trade or business, section 1.162-5(3)(ii), Example (4), of the regulations provides, "C, while engaged in the private practice of psychiatry, undertakes a program of study and training at an accredited psychoanalytic institute which will lead to qualifying him to practice psychoanalysis. C's expenditures for such study and training are deductible because the study and training maintains or improves skills required by him in his trade or business and does not qualify him for a new trade or business."

In the instant case the expenditures by the taxpayer for postgraduate studies in orthodontics were not incurred in connection with qualifying him for a new trade or business but were expenditures in connection with improving his skills as a dentist. Accordingly, such expenditures are deductible as ordinary and necessary expenditures under section 162 of the Code.

University of California San Francisco
Dental Specialty Programs
Total Costs (A)

	Endodontics	Orthodontics	Pediatrics	Periodontology	Oral and Maxillofacial Surgery
Year 1	55,385	67,845	64,385	72,585	66,976
Year 2	54,035	64,370	63,035	68,535	67,430
Year 3	54,035	63,370	63,035	60,785	77,979
Year 4					75,199
Year 5 (B)					71,896
Year 6 (B)					71,896
Total	163,455	195,585	190,455	201,905	431,376
Financed (C.)	248,279	297,083	289,291	306,682	655,236

(A) Student services fees and tuition, loan fee, books and supplies, cost of living
(B) Estimated
(C.) Total cost if financed over 15 years, 6%

Source: https://finaid.ucsf.edu/application-process/student-budget
12/7/2016

Tuition and student services fees are subject to change without notice. Does not include non-resident supplemental tuition which is $12,245

University of California San Francisco
Dental Specialty Programs
Deductible Costs (A)

	Endodontics	Orthodontics	Pediatrics	Periodontology	Oral and Maxillofacial Surgery
Year 1	23,729	36,189	32,729	40,929	40,596
Year 2	22,379	32,714	31,379	36,879	40,498
Year 3	22,379	31,714	31,379	29,129	44,099
Year 4					44,285
Year 5 (B)					42,370
Year 6 (B)					42,370
Total	68,487	100,617	95,487	106,937	254,217
Tax Savings - Varies depending upon person's tax bracket and filing status					
15%	10,273	15,093	14,323	16,041	38,133
25%	17,122	25,154	23,872	26,734	63,554
28%	19,176	28,173	26,736	29,942	71,181
33%	22,601	33,204	31,511	35,289	83,892
35%	23,970	35,216	33,420	37,428	88,976
39.6%	27,121	39,844	37,813	42,347	100,670

(A) Student services fees and tuition, loan fee, books and supplies

(B) Estimated

Source: https://finaid.ucsf.edu/application-process/student-budget
12/7/2016

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