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Pilot Education Tax Deductions

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Thank you for the warm reception my previously published three articles in your last issue of Emery Pilots "Gear Up Magazine" (October 1999) has generated. Because of the positive feedback your Union Leadership and myself have received, I have been asked to expand the topic of tax deductions for pilots to include two new areas - what receipts are required and aviation-related education deductions. I will start with pilot education deductions.

With the now rapid increase in availability of used two pilot cockpit airplanes, the position of flight engineer is coming under more pressure to upgrade to the right seat. Let me discuss with you what is perhaps the most frustrating and confusing tax topic to any pilot: *the deductibility of aviation-related education*. I will begin by stating the obvious - - - learning to fly is expensive. I can't think of another hobby and/or occupation where the cost of acquiring a license can equal the cost of the equipment we are now licensed to operate.

As a practicing C.P.A. specializing in airline pilot tax returns and an active pilot myself, let me help you sort out what pilot education may be deductible and when to "bite the bullet" and "just say no" to this usually very large tax deduction. I will start by listing the two education rules which must be understood and followed by all taxpayers - - - even non-pilots!

- 1. *Educational costs are deductible if the education maintains or improves skills required by the taxpayer in the taxpayer's trade or business, including the trade or business of being an employee.***
- 2. *The education must not train you for a new occupation.***

One problem most pilots encounter when they talk about pilot-related tax deductions is finding someone familiar with both aviation and tax law. Finding the right tax preparer can become a challenge. Remember that far fewer less than one percent of all taxpayers will acquire a pilot's license. And perhaps only one in a ten thousand taxpayers will become a working commercial pilot. Therefore, statistically speaking, most tax accountants have never prepared a return for any pilot.

Another obstacle placed in front of many pilots by their tax preparer's focusing on personal pleasure potentially derived by the taxpayer. What seems to make most tax

preparers nervous about any pilot education is this direct association with the element of personal pleasure derived from flying airplanes and the intended mere functionality of continuing education. These same preparers would not have any difficulty taking an education deduction for a physician taking a refresher course in new surgical techniques since there does not appear to be anything pleasurable motivating the taxpayer. I can assure you there is no tax law that states a taxpayer cannot derive some personal enjoyment from the educational curriculum they undertake – including flying airplanes. Remember – you don't have to hate your job to get a tax deduction!

This Emery Pilot education discussion needs to be broken down into four major groups of pilots: working pilots (including flight engineers with their pilot's license); flight engineers without a pilot's license; aspiring-to-work pilots; and non-professionally employed pilots. I will start first out with the working pilot.

Education vs the Working Pilot (including Flight Engineers Holding a Pilot's License)

Most ALPA members, including many Emery Flight Engineers, should fit into this category. For tax purposes, I would define the working pilot as someone who is currently working full-time or at least routinely being paid as a commercial pilot or a flight engineer (who holds at least their private pilot license). Education courses for these taxpayers usually involves taking aviation courses to qualify themselves for more sophisticated airplanes.

Pilots in this group could also be working for a small commuter airline only making, say, \$1,500/mth and trying to build up their flying time to qualify for the major airlines. These taxpayers typically will sign up for some additional advanced training that will make their resumes more attractive to larger carriers. Since the taxpayer is currently being paid as a commercial pilot or flight engineer, these advanced training courses, including getting an instrument rating, should be fully deductible.

Don't be too concerned with the issue sometimes raised by some people because the employee's current employer does not fly these more sophisticated aircraft. Remember for tax purposes the education rules states . . .

1. *Educational costs are deductible if the education maintains or improves skills required by the taxpayer in the taxpayer's trade or business, including the trade or business of being an EMPLOYEE.*

2. *The education must not train you for a new occupation.*

The above rules make no mention of the requirement to show an improvement of skills required for the current employer. The Government makes no legal distinction between a commercial pilot flying a six-passenger twin engine and someone flying 300 passengers between cities. Let me cite another example, the Service would not disallow an education deduction for an English teacher who takes additional classes

qualifying them to teach Math. In fact, teachers are routinely allowed education deductions for taking classes qualifying them to become a School Principal since they are still considered to be employed in the field of Education.

This same logic would apply to the working pilot who decides to later upgrade his ratings to include the ATP (Airline Transport Certificate). Working pilots should have no difficulty in substantiating this large education deduction. After all, this additional rating does help to maintain or improve their flying skills and does not train them for a new occupation.

Tax Tip: In addition to deducting the direct costs charged by these various flight training centers usually located in other parts of the country, you may also be able to deduct the related travel expenses which I already discussed with you in your last issue of "Gear Up Magazine (October 1999)."

For example, the following Tax Court Case allowed a flight engineer on a DC-8 to deduct the expenses of using his six-passenger Cessna 210 to "maintain and improve his skills as a flight engineer in monitoring flight instruments, flight planning, map reading, aerial scanning and other related duties."

On the other hand, expenses for maintaining gliding and aerobatic skills by a DC-9 co-pilot were not deductible. The same results were given to another commercial pilot who tried deducting his helicopter flight training. Expenses of flying a private plane to acquire familiarity with airports to which a commercial pilot might (in the future) be required to fly and for which the employer provided familiarity training were also denied. In all of these cases, the taxpayers could not show a direct relationship between their jobs and their flight training.

Education vs Flight Engineers without a Pilot's License

Now let me turn to those Emery Flight Engineers who do not already have a pilot's license. With the retiring of older airplanes that require a "three man crew," flight engineers in this group need to remember that education expenses can only be deducted if you can show a direct relationship between your flying and your paycheck.

Good news. There is already a Tax Court Case that stated that although the taxpayer's employer (a commercial airline) did not require a flight engineer to have a pilot's license, the employer's "crew concept" practice required that each crew member be aware of the duties of the other crew members and be able to take over such duties in the event of an emergency. If you hurry up and start your pilot training before Emery changes their job requirements, you should still be able to claim a full tax deduction.

Want more good news? Using the same legal logic, several FAA Air Traffic Controllers have already been successfully allowed an education deduction by the U.S. Tax Court for their flying lessons, aircraft rental, and flying club dues since they could demonstrate a

direct relationship between their job as an employee and their pilot education. They were able to show how this education made them better Controllers because they now have a better understanding of the duties of the pilots they serve.

What happens to an Emery Flight Engineer who waits until after Emery changes their job description to demand a pilot rating? Let me turn to the legal issue of what is meant by a "new occupation." Each and every job or occupation sets its own level of minimum education requirement for that particular job. The educational costs incurred to reach this minimum level for any job is never allowed as a tax deduction. Only the education costs incurred after reaching this minimum level is deductible. For example, a medical student must receive their "Doctorate in Medical Science" before he can deduct a dime. Other jobs may require no previous education requirements. You need to look at each job individually. *For the flight engineer who waits too long, they will need to get their Private Rating before they can get any further tax deductions.*

Tax Tip: Pilots fitting into this group should try their best to quickly meet the bare minimum qualifications required by any commercial carriers so as to qualify as a Working Pilot described above. Once you have your Private Pilot license, all your future aviation-related education should also become deductible as I described above.

Another Tax Tip: Flight Engineers without a Private License need not despair. Starting with the 1998 tax filing, pilots unable to write off their education deductions could still qualify for the new "Lifetime Learning Education Credit." Understand this is a new Tax CREDIT for educational expenses paid after 6/30/98 – NOT a Tax DEDUCTION. This "Lifetime Learning Credit" is computed on a PER FAMILY BASIS (both parents and their dependent children). The "Lifetime Learning Credit" is limited to \$5,000 per year of FAMILY Education Expenses x 20% = \$1,000/year. This "Lifetime Learning Education Credit" only provides about half the tax benefit of the tax deduction discussed above and has other restrictions. If this eventually applies to you, talk to your tax preparer.

Education vs the Aspiring-To-Work Pilot

In this category I would include those pilots who are not currently working as pilots, but are continuing to pursue their education to some day become commercially employed pilots. This group may have a harder time getting any tax deductions. As stated above, no education deduction is ever allowed if the education trains you for a new occupation.

Notice in the previous paragraph I noted "not currently working as pilots." This group included a taxpayer that took flight training three years after his last job as a pilot. During the intervening period, he was engaged in other businesses. Having a pilot's license, renewing his medical certificate, and belonging to a professional pilot's association like ALPA did not establish this taxpayer was actively carrying on the business of being a pilot.

Tax Tip: Pilots fitting into this group should try their best to quickly meet the bare

minimum qualifications required by any commercial carriers so as to qualify as a Working Pilot described above. Once you are currently employed as a Commercial Pilot, your future aviation-related education should also become deductible as described above.

The currently working commercial pilot who goes on to get their Certified Flight Instructor (CFI) rating will also be denied a deduction for the same legal reason. Why? The job of a flight instructor is by definition different from that of a commercial pilot. However, starting with the 1998 tax filing, pilots unable to write off their education deductions could still qualify for the new "Lifetime Learning Education Credit." If this applies to you, read my discussion of this credit above.

Education vs the NON-Professionally Employed Pilot

For tax purposes, I would include in this category all pilots who do not earn their living employed as a pilot. As stated above, education expenses can only be deducted if you can show a direct relationship between your flying and your paycheck. If you know someone whose flying is purely personal in nature, they will not be able to take advantage of this tax deduction. Does this mean all pilots in this group are barred from taking this deduction? *Don't be so quick to give up.*

A traveling salesperson, for example, who needs to get to remote locations quickly or to areas not easily serviced by the airlines may be able to demonstrate this direct business relationship. The independent businessman who has clients and/or suppliers in these remote areas may also be able to demonstrate this direct business connection. Each person's tax situation is different. Tell them to get some professional help before making a final decision about taking this deduction. Also tell them to get more information about possibly qualifying for the "Lifetime Learning Credit."

Tax Tip: If you know someone who wants to claim this deduction, tell them to acquire these remote clients before finishing their private pilot lessons. They may need to show the flying lessons were the result of acquiring the clients, not the other way around. The I.R.S. will not give them the deduction if they first acquired the private pilot's license and then later as an afterthought, tried making it deductible by acquiring these new clients. Remember, they need to demonstrate a direct business need.

In the same vein, the private pilot who later decides to get his Instrument Rating needs to also show a direct need between servicing these already-existing clients and his flying lessons.

As already discussed above, several FAA Air Traffic Controllers have been successfully allowed an education deduction by the U.S. Tax Court for their flying lessons, aircraft rental, and flying club dues since they could demonstrate a direct relationship between their job as an employee and the education. They were able to show how this education made them better Controllers because they now have a better understanding of the duties of the pilots they serve.

The private pilot who may have otherwise felt qualified for an education deduction for their Private and/or Instrument Rating as I described above and who later decides to go on and get their Commercial Rating will not get a tax deduction. Why? Because by definition a Commercial Certificate qualifies the taxpayer to become a Commercial Pilot. No rationalization or distinction will be acceptable by stating the taxpayer has no intentions of actually becoming a Commercial Pilot.

This exception for private pilots should not apply to Emery Flight Engineers since they have already been hired, trained, and (most importantly) paid by Emery to work along side the pilots as a working member of the flight crew.

In Conclusion

As described above, pilots are not treated any differently than any other group of taxpayers. With proper tax planning and a good working knowledge of pilot-related education, you too may be able to take advantage of this valuable and often very large tax deduction. Visit my Website at www.pilotax.com or call my office at (800) 728-1040 for more information.