

Call me “Doctor”: The case of the Executive PhDs

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ABSTRACT

Education costs have increased significantly in the last 75 years to the point this issue has become a public concern. Fortunately, there are several tax education benefits that can serve to alleviate this burden. On this case, Derek, a participant of an executive doctoral program, is inquired by his classmates on whether they qualify to any of those tax benefits, and which approach will result in the greatest tax refund. The case learning objectives of this case are: a) improve students' critical thinking, b) build their technical knowledge, c) enhance their tax research skills, and d) improve their communication skills.

Keywords: education; tax credit; deduction; lifetime learning credit, tax research

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I. THE CASE

Late 2015, Derek, a finance executive for an Austin-based technology company, is excited as he received news of his acceptance into the executive PhD program at Oklahoma State University (OSU). This program is organized in cohorts and Derek will be joining cohort 5 scheduled to start Fall 2016. During the first residence, members of cohort 5 met for breakfast at The Ranchers Club, an exclusive restaurant located inside The Atherton Hotel, part of OSU hospitality hub. After a typical round of introductions, members found out Derek is a CPA so they start inquiring about what kind of tax benefits they can get from the tuition and other expenses paid as part of the doctoral program. Some members are aware of a tax education credit. Few members share they have their own business and wonder whether they can just run all expenses related to the program as a simple business expense. An argument arises on the difference between a tax credit and a tax deduction. Derek explains a tax deduction will reduce the taxable income and consequently, reduce your tax liability. However, a tax credit is seen as more valuable as it will reduce the tax liability dollar-for-dollar. As Derek wants to assist his classmates, each of them shares information on their background, which is provided on the next section.

Executive PhD programs are becoming very popular among business professionals, particularly those who aspire to pursue a doctoral degree but do not want to quit their current jobs. These non-traditional doctoral programs can be completed in about three to four years. Hence, a common admission requirement across all executive doctoral programs is the possession of a master's degree or a professional degree, such as J.D. or M.D. The curriculum is similar to that of traditional PhD programs. However, the format is designed so all coursework can be completed within schedule and is delivered through a combination of monthly residences (e.g., 3 days per month) and weekly synchronous online sessions. A downside of these programs is that, in general, there is no possibility for participants to focus on a particular area of study, such as marketing, finance or accounting, except the actual topic of their dissertation. In addition to OSU, executive doctoral programs are offered by a handful of universities, including University of Denver, Florida Atlantic University, Georgia State University and Kennesaw State University. Among the benefits participants can expect to gain after earning a doctoral degree include the possibility to join the academic world, or becoming a more skilled and confident executive, or being able to serve as a consultant to advice other businesses in a more effective manner. Tuition, which is around \$120K for this 3-year program, includes books, materials and most meals. However, travel expenses must be factored, including airfare, hotel, transportation and dinners.

The participants

1. Julie

Julie is in her early 40s. She lives in Chicago, IL, is married and has two children. However, she separated from her husband not long before she started in the PhD program and is planning to file her taxes as married filling separate. She works full-time as a sales director for a pharmaceutical company. Her education includes a bachelor's degree in English from Temple University and an MBA in marketing from Long Island University. Due to her job, Julie is

constantly traveling across the U.S. As a result, she has earned plenty of miles with her preferred airline which then she can use to travel for her monthly residences. In her first visit to the campus, Julie was bragging how she would fly first class to attend the residences at no cost. While on campus, Julie prefers to stay at the Atherton, which is the hotel located within OSU campus. Julie's plan is to fly to Oklahoma City and then, rent a car to travel to Stillwater. Julie's employer will reimburse educational expenses up to \$5,250 a year.

2. *Julian*

Julian, 45, lives in Ontario, CA with his wife and four children. Julian holds a bachelor's degree in mathematics from Northern Illinois University and MBA in management from California State University-Long Beach. After working for over 20 years in the entertainment industry, Julian decided to run his own consulting firm, which was about the same time he joined the PhD program. Julian plans to fly with American Airlines, which is the only carrier flying to Stillwater. Then, the Atherton hotel can provide a shuttle free of charge from the airport to OSU campus. Given the extensive readings typical of a PhD program, Julian decides to buy a tablet in addition to his work laptop.

3. *Kristopher*

Kristopher, 45, lives in Youngstown, OH, is married and no children. He holds a bachelor's in mechanical engineering from Youngstown State University, and an MBA in entrepreneurship from Carnegie Mellon University. Kristopher is the founder of a very successful valuation practice specialized in closely-held businesses and tangible assets. He has also been teaching entrepreneurship as an adjunct instructor at Kent State University since 2014. Like Julian, Kristopher decided to fly with American Airlines to Stillwater and take the shuttle to the Atherton hotel in campus. He also bought a tablet in addition to his work laptop so he could keep up with the extensive readings required on the program.

4. *Jim*

Jim, 37, lives in Baltimore, MD, is married and has three children. Jim likes to brag about his academic background often describing himself as "the professional student". He holds three bachelor's degrees: one in business administration from University of Tennessee-Knoxville, another one in technology management from Kansas State University, and the other one in general studies from University of Connecticut. Jim also holds three master's degrees: one in policy management from Georgetown University, another one in Systems Engineering from the Catholic University of America, and an MBA in management from the University of North Carolina at Chapel Hill. He founded an IT engineering firm along with two partners in 2012. Jim also saw some benefit flying directly to Stillwater. However, on some occasions, he would fly to Oklahoma City and then, take a ride sharing service like Uber to Stillwater. On the return, he would hope to split the cost of the ride with other participants.

5. *Derek*

Derek, 47, is single and no children. He earned his bachelor's in accounting from Universidad Católica Andres Bello and holds an MBA in finance from the University of Houston and master of international management from Thunderbird School of Global Management. Derek has been working as a finance executive for a large technology company based in Austin, TX. In addition to his full-time job, Derek runs his own accounting firm on the side where he serves individuals and small businesses. Derek also works as an adjunct faculty at Concordia University where he teaches finance and accounting courses. Derek is planning to fly to Oklahoma City and then, either grab a short flight to Stillwater or just use a ride sharing service like Uber. He has also decided to stay at the Atherton Hotel for all residences. Even though tuition includes all books and materials, Derek purchased couple of books out of pocket to learn SAS. He did not request any reimbursement to the program coordinator and the use of SAS was required by his advisor to conduct all statistical analysis on his dissertation. He also subscribed to Dropbox.com to allow him to access all his material anywhere. Derek's employer will reimburse educational expenses up to \$5,250 a year.

6. *Marcelo*

Marcelo, 44, married and two children. Marcelo is a Brazilian national. He would fly from Brazil to Stillwater, OK to attend the monthly residences. Also, because that was a long trip, he would come two days earlier so he could get set prior to each residence. Like most participants, Marcelo decided to stay at the Atherton Hotel. He earned a bachelor's in agronomy from Universidade Federal de Viçosa and master's degree in mining from Universidade Federal de Minas Gerais. He manages a company headquartered in Betim, Minas Gerais, which operates in the iron and steel mills and ferroalloy manufacturing industry. The company also has a U.S. subsidiary located in California.

7. *Jennifer*

Jennifer, 45, is married and a true fan of OSU as she earned both, bachelor's and master's degrees from this institution. She concentrated in industrial engineering & management on both degrees. She lives in Stillwater and works as an operations manager for a local pipe supplier. Her employer agreed to cover all her education expenses related to the PhD program.

Requirements:

1. Use your knowledge of the current tax law to identify what tax benefits each participant may be able to take advantage from their educational expenses and the issues they may be exposed. Unless instructed otherwise, assume the events described in this case happened during the current tax year
2. Prepare a technical research memo, including findings, analysis and conclusion of the proper tax treatment. Research sources should include primary sources. Secondary sources are acceptable

Supplementary Information

Most tuition for executive doctoral programs includes required books, software, and materials. Students are responsible for travel, lodging and meals (except lunches, breaks and occasional receptions during residency). The OSU Executive PhD program has a total cost of \$120,000 or \$40,000 per year and is billed per semester (e.g., \$13,333 per semester). The cost of other executive doctoral programs is similar. The cost of the program at the University of Denver is \$128,000 and is billed every quarter. However, Florida Atlantic University offers an executive PhD program with a total cost of \$80,000 and offers other benefits, such as lifetime discounted rates on professional development courses, graduation regalia, tutoring services and 24/7 access to dedicated group study rooms. Financial aid is available to executive PhD students and some programs even offer scholarships.

Other expenses incurred by the students include the following:

- Cost of airfare, which ranges from \$300 to \$700 depending on the city of departure to Oklahoma City, closest major airport hub.
- A short flight from Oklahoma City to Stillwater costs \$49. If a car is rented, daily rate is around \$50-\$70. Rates for ride sharing service like Uber is around \$90 plus tips from Oklahoma City Airport to OSU Campus in Stillwater.
- The Atherton Hotel offers a 10% discount to OSU students and the daily rate is around \$170 vs \$70-\$80 from nearby hotels.
- In average, students spend about \$25 on the evening meals plus another \$25 on incidentals (e.g., drinks).
- A tablet goes around \$500. SAS books cost around \$29 and \$39. A Dropbox subscription costs \$9.99 a month.

II. CASE LEARNING OBJECTIVES AND IMPLEMENTATION GUIDANCE

Case Overview

Several tax benefits are available for taxpayers when incurring education expenses. However, whether an individual is entitled to a tax benefit depends on certain criteria, which includes filing status, level of education, and type of expenses among others. On this case, Derek, a participant of an executive doctoral program, is attempting to assist his classmates to determine what kind of tax benefit they can claim as each of them present a different taxpayer's profile.

Learning Objectives

The objective of this case is to help students improve their skills across four different competences: critical thinking, technical knowledge, tax research proficiency, and written communication skills.

- a. The first learning objective of this case is to help students improve their critical thinking skills by identifying tax issues impacting a group of professionals pursuing a doctoral degree.
- b. The second learning objective of this case is to build technical knowledge on education tax credits and deduction. While several education benefits are available, eligibility criteria may impact whether or not they qualify and to what extent each participant may be entitled.
- c. The third learning objective of this case is to enhance students' tax research proficiency by requiring students to locate, examine and integrate authoritative guidance. In addition, citing the proper tax authority is a critical skill students will master as they conduct their tax research.
- d. The fourth learning objective of this case is to improve students' communication skills. As students write their tax research memo, they will be required to make the connection between clients' facts and the legislative rules in a clear and concise manner.

While education tax benefits have been available for over 20 years, executive doctoral programs have recently been launched by few universities. Participants to these doctoral programs exhibit a different profile from traditional students, which may put at risk their eligibility to a tax education credit or a business tax deduction. For instance, conventional wisdom would indicate that doctoral students' goal is to pursue a career in academia. However, recent statistics show over 50% of doctoral degree holders pursue a career outside academia and/or research (Lautz, et al. 2018). Candidates to executive doctoral degrees may also have different career goals. The intention of the case is to expose students to a different profile of taxpayers and raise their intellectual curiosity by examining each of the situations presented.

Topics/Content Covered

- IRC §25A
- IRC §61
- IRC §127
- IRC §132
- Treas. Reg. §1.162-5
- Treas. Reg. §301.7701
- Announcement 2002-18

Implementation Guidance

This case can be used in an individual taxation course or a graduate course focused on tax research. It is suggested the case to be distributed prior to class to allow students to become familiarized with the content. An opening session can be initiated by asking students what the case is about and what issues they have identified. Students can then be broken into groups to allow them to discuss the issues and implications. Upon regrouping, tax research issues are worked out together. A group is called out randomly to present their response on a given issue and then, feedback is asked to other groups. If a disagreement is found, the specific code section is pulled to identify the tax treatment in accordance with the tax law. The instructor can provide feedback on the issues identified, challenge any unnecessary or redundant issues, and how to reframe the issues in a more appropriate format. The instructor can then assist by providing insights into additional issues missed by the students. By doing this, the instructor can confirm a consistent level of difficulty across all participants. In addition, different situations (e.g., “what if”) can be discussed to further illustrate the intent of the tax law. The session can be concluded with a discussion of ethics and liability issues from offering friendly tax advice to friends and colleagues.

The second part of the assignment consists in the preparation of a technical tax research memo. Instructor can remain available to address any questions from the students. Students should have three weeks to prepare and submit their memo. Students are provided feedback on their memos to help them improve both, writing and research skills.

Case Validation

The case has been completed by 12 students in a Fundamentals of Taxation course at one university over one semester. Students completed a post-case questionnaire, with responses on a seven-point Likert scale ranging from Strongly Agree (1) to Strongly Disagree (7). Summary statistics on students’ responses are provided in Table 1. In general, students’ responses indicated they perceived a positive experience across all four learning objectives. The case is also currently being implemented in an individual Income Tax course in another university. Students’ initial reaction have been positive and have expressed their lack of knowledge of how some tax benefits can be disallowed by certain criteria beyond taxpayer’s control (e.g., filing status).

	Extremely comfortable	Moderately comfortable	Slightly comfortable	Total	Mean Response	Std. Dev. Response
Question \ Scale	1	2	3			
Q1. The assignment increased my comfort using my existing technical knowledge to identify tax issues	3	9		12	1.75	.66
Q2. The assignment increased my comfort using statutory and administrative sources of primary authority to address tax research issues	3	9		12	1.75	.66
Q3. I feel comfortable using court cases to address tax research issues	6	6		12	1.50	.71
Q4. I understand how tax jurisdiction impacts tax outcomes	3	6	3	12	2.00	.62
Q5. I understand the tax differences among the education tax benefits	3	9		12	1.75	.66
Q6. I am comfortable using data in addressing tax research issues	2	10		12	1.83	.65
Q7. I am proficient at communicating technical knowledge in an effective and concise manner	6	6		12	1.50	.71
Q8. I am proficient at conducting tax research		12		12	2.00	.62

TEACHING NOTES**Call me “Doctor”: The case of the Executive PhDs****SUGGESTED QUESTIONS AND SOLUTIONS**

Issue 1: Is Julie able to claim a tax benefit for the tuition and related expenses for the PhD program? If so, how much can she claim?

Relevant to: Julie

IRC §25A(a) states that “there shall be a credit against the tax imposed by this chapter for the taxable year the amount equal to the sum of –

- The American Opportunity Tax Credit, plus
- The Lifetime Learning Credit”

However, IRC §25A(b)(2)(C) states the American Opportunity Tax Credit is allowed only for the first four years of postsecondary education. IRC §25A(c)(2)(B) states qualified tuition and related expenses for purposes of the Lifetime Learning Credit include expenses related to any course of instruction at an eligible educational institution. Assuming Oklahoma State University is an eligible institution, it appears the students would qualify for the Lifetime Learning Credit. However, based on the information provided by the case, Julie will be filing as Married Filing Separate. IRC §25A(g)(6) states no credit is available for married individuals filing separate tax return. Therefore, Julie will not be able to claim any tax benefit for her education expenses.

Issue 2: Is the employer’s tuition reimbursement of \$5,250 considered taxable income?

Relevant to: Julie and Derek

No. IRC §127(a)(1) states educational assistance provided to employees are excluded from gross income if part of an employer’s educational assistance program. IRC §127(a)(2) states up to \$5,250 can be excluded.

Issue 3: Are the miles earned by Julie from American Airlines a taxable event?

Relevant to: Julie

IRC §61(a) states gross income includes all income from whatever source derived. As a result, mileage awards should be included. However, IRC §132 states certain fringe benefits are excluded from gross income, such as de minimis fringe benefits which are defined as those that are so small as to make accounting for it unreasonable or administratively impracticable. While the IRC and the regulations do not address specifically the taxability of frequent flyer miles, the IRS issued Announcement 2002-18 dealing with this specific topic to confirm a taxpayer’s tax liability will not be impacted by the receipt of frequent flyer miles

Issue 4: For those members who own their businesses, can they deduct the cost of the tuition and related educational expenses as a business expense? If so, would the type of business disqualify the eligibility of the expenses for tax deduction or tax credit purposes?

Relevant to: Julian, Kristopher, Derek and Jim

Treas. Reg. §1.162-5(a) states expenditures made by an individual for education (including research undertaken as part of his educational program) are deductible as ordinary and necessary business expenses. Treas. Reg. §1.162-5(b) states if such educational expenses are a) required to meet the minimum educational requirements for qualification in the employment, and/or b) qualify the taxpayer to a new trade or business, then such expenditures are nondeductible.

- Julian, Kristopher, Derek and Jim own different types of business. Julian owns a consulting firm, Kristopher owns a valuation practice, Derek runs an accounting firm and Jim owns an IT engineering firm. One could argue a doctoral degree qualifies the student for a new trade (e.g., teaching). As a result, tuition and other related expenses would not be deductible. However, it could also be argued that a doctoral degree can enhance an individual's knowledge to support their involvement in areas like consulting by becoming subject-matter experts. If so, educational expenditures would be deductible as business expenses.
- It can be noted that both, Kristopher and Derek, have also been in the teaching business working as adjunct professors. Both of them hold graduate degrees so they already met the minimum educational requirements to teach, which in general is the possession of a graduate degree. Therefore, they may be able to deduct their educational expenses regardless of the type of business they own.

Issue 5: If claiming a tuition deduction or education tax credit, can travel expenses be included? If so, are they required to select the lowest cost option when available (e.g., renting a car vs. using Uber, staying inside campus vs. outside)?

Relevant to: All

Treas. Reg. §1.162-5(e) states if an individual travels away from home primarily to obtain education, for which the expenses are deduction under this section, then expenditures for travel, meals and lodging are deductible as ordinary and necessary business expenses. However, IRC §25A(c)(1) states the Lifetime Learning Credit is an amount equal to 20% of the qualified tuition and related expenses paid by the taxpayer not exceeding \$10,000. Qualified tuition and related expenses are defined as tuition and fees required for enrollment or attendance. As a result, expenses for room and travel would not be allowed for the purposes of a education tax credit.

Issue 6: Is a foreign student required to file a U.S. tax return? If so, can they deduct the travel expenses from their home country to the US when claiming the education tax credit or tuition deduction?**Relevant to: Marcelo**

Marcelo is a Brazilian national. Treas. Reg. §301.7701(b)-1(b) states an alien is resident alien if such individual has been granted the privilege of resident permanently in the United States. In most cases, possession of an alien registration card (aka green card) would be enough to fulfill this requirement. However, according to Treas. Reg. §301.7701(b)-1(c), an alien individual may also be considered a resident alien for tax purposes if such individual satisfies the substantial presence test. To meet the substantial presence test, an individual must be physically present in the United States (U.S.) on at least 183 days during the 3-year period that includes the current year and the 2 years immediately before that, counting:

- All the days you were present in the current year, and
- 1/3 of the days you were present in the first year before the current year, and
- 1/6 of the days you were present in the second year before the current year

In the absent of further information and assuming Marcelo just came to the US to attend the doctoral residences, that would probably mean he stays in the U.S. around 50 days in a year (5 days * 10 months), which would not be enough to satisfy the substantial presence test. As a result, he would not be required to file a U.S. tax return. Whether his educational expenses can be deducted in his Brazilian tax return is another matter that is beyond this case.

Issue 7: Is the employer's full tuition reimbursement a taxable event?**Relevant to: Jennifer**

IRC §61(a) states gross income includes all income from whatever source derived. However, IRC §127(a)(2), states up to \$5,250 on educational assistance can be excluded from gross income if part of an employer's educational assistance program. As a result, one would expect benefits paid in excess of \$5,250 to be taxable to the recipient. However, IRC §132 states certain fringe benefits are excluded from gross income, such as working condition fringe, which are defined as property or services provided to an employee to the extent that, if the employee paid for such property or services, such payment would be allowable as a deduction under IRC §162 or IRC §167.

Additional Learning Activities**Discussion questions:**

1. Do you believe education tax credits are effective to promote education across all social segments?
2. What changes do you believe are needed to promote education in an efficient manner?
For instance:
 - a. Do you believe no restrictions should be placed regardless of tax filing status?
 - b. Should education tax benefits phase out at higher or lower income thresholds?

- c. Should eligible education expenses be more inclusive (e.g., living expenses)?

Data analysis/visualization:

Using time series data on the number of filers claiming the American Opportunity Tax Credit obtained from [IRS SOI](#), plot the usage of this tax credit for the last ten years. Then, visit the site for the [National Center for Education Statistics](#) and pull education expenses (both, constant and current dollars) for the same period and plot this datapoint in the chart as well. Education expenses should be inclusive of tuition, fees, room, and board for all institutions. Feel free to select the type of chart you consider will provide an accurate picture of your analysis. Are there any usual/unusual trends and if so, what conclusions can you draw?



REFERENCES

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