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THE TAX RELIEF ACT OF 1997

and

LIFETIME LEARNING

by

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September 4, 2000

INTRODUCTION

The Tax Relief Act of 1997 made significant changes in the way that educational expenses are treated. A new term was used in this Act which has profound ramifications for individuals and employers in planning educational programs. This term is LIFETIME LEARNING. For the first time the tax code recognizes LIFETIME LEARNING as an integral part of educational development. Knowledge Management, Inc. offers an Internet based system, KMI FolioOne®, with which educational institutions and businesses can take advantage of the opportunities in this bill.

Under this tax bill, educational institutions will find it advantageous to accommodate employers in business and industry to fulfill educational requirements of employers in ways other than proscribing a sequence of courses that must be taken to get a diploma or degree. At the same time, employers will find it advantageous to develop formal plans for employee development under the label of LIFETIME LEARNING and advise educational providers the requirements of these plans. Companies can prepare such plans, and educational institutions can meet their requirements, by using KMI FolioOne®. It is designed to manage such plans.

A procedure for employers to use the KMI FolioOne® to develop formal plans for the LIFETIME LEARNING of employees, and for educational institutions to accommodate these plans, is herewith presented.

EDUCATION TAX INCENTIVES

Pertinent parts of the Tax Relief Bill of 1997 will be compared with prior law to illustrate changes. KMI FolioOne® makes it possible to take advantage of these changes. (underlining by author)

PRIOR LAW

A deduction for education expenses is generally allowed if the education or training (1) maintains or improves a skill required in a trade or business currently engaged in by the taxpayer, or (2) meets express requirements of the taxpayer's employer, or requirements of applicable law or regulations, imposed as condition of continued employment. This deduction is not available if the education or training enables a taxpayer to begin working in a new trade or business.

A special rule allows an employee to exclude from gross income for income tax purposes and from wages for employment tax purposes up to \$5,250 annually paid by his or her employer for educational assistance. This exclusion expires with respect to courses of instruction beginning after June 30, 1997. In the absence of this exclusion, educational assistance is excludable from income only if it is related to employee's current job.

THE TAX RELIEF LAW OF 1997

Individual tax payers are allowed to claim a non-refundable HOPE credit against Federal income taxes up to \$1500 per year for 50% of qualified tuition and related expenses paid for the first two years of the student's post-secondary education in a degree or certificate program.

Individual taxpayers are allowed to claim a nonrefundable "Lifetime Learning" credit against Federal income taxes equal to 20% of up to \$5000 (\$10,000 for tax years beginning after 2002) of qualified tuition and related expenses, which include tuition and fees for under-graduate or graduate-level (and professional degree) courses for students who attend at least a half-time basis as part of a degree or certificate program. this credit is also available for courses at an eligible educational institution to acquire or improve job skills, even if the student is enrolled on less than half-time basis In contrast to the HOPE credit for two years, a taxpayer

may claim the Lifetime Learning credit for an unlimited number of taxable years.

The exclusion for employer-provided educational assistance is extended through courses beginning before June 1, 2000.

SIGNIFICANT DIFFERENCES

Primary differences between the 1997 act and the previous act are summarized as follows.

(1). A tax credit for educational expenses, called the HOPE credit, is available. This credit is limited to two years of post-secondary education.

(2). LIFETIME LEARNING has been added as an eligible education/training program. This is the first time that LIFETIME LEARNING has been identified in the tax code.

(3). LIFETIME LEARNING tax credits have no time limit.

(4). Payments for educational assistance made by an employer are excluded as taxable income for courses beginning before June 1, 2000, with at least half time enrollment required. Less than half time enrollments are eligible for Lifetime Learning credits if the education improves job skills, is required by regulation or by law or is a condition for employment.

LIFETIME LEARNING AS A CONDITION FOR EMPLOYMENT

The usual practice of corporations in educational assistance has been to pay tuition and other costs for employees working toward diplomas or degrees. In many cases employees with a diploma or degree in one field are working for another diploma or degree in another field, i.e. an engineer working toward a MBA. The tax code technically considers this as preparing for another job or career and may question the exclusion of financial assistance from taxable income.

In only a few cases is an additional diploma or degree necessary for an employee to improve capabilities for the current job. That being the case, both the employer and employee, in combination, decide what

KNOWLEDGE is necessary for continued improvement in the current job. In these days of rapidly changing knowledge requirements and galloping technology, it is appropriate to declare that this KNOWLEDGE can be acquired in a LIFETIME LEARNING program.

Courses or learning experiences that provide this KNOWLEDGE are specified. These are entered into KMI FolioOne® as a program and listed as a requirement for continued employment. The employee is tracked on his or her progress toward completion of this program. No diploma or degree is secured but a Knowledge/Skills Portfolio® is prepared that lists all learning experiences of the employee. This is equivalent to what the tax code calls a “certificate”.

The above procedure will conform to the tax code and permit the continuing exclusion of assistance to education as taxable income. Further, learning experiences can be declared as relevant to the job being performed by the employee and changes can be made as the program develops. This is in contrast with the situation where sequential courses are required by educational institutions, without regard as to whether they are relevant to the employee’s position. The institution’s goal is to give a diploma or degree. The goal of the employee and employer is to secure KNOWLEDGE in a manner that conforms to the Tax Relief Act of 1997.

This can be done with KMI FolioOne®, an Internet based system from Knowledge Management, Inc. FolioOne® is designed to manage such a program.

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