

Actg 508 Tax Research II Spring 2000

From March 1986 until sometime in 1998, Harry was a correctional officer with the State of Illinois, Department of Corrections. He was originally assigned as an inmate supervisor and, later, to a transportation team where his responsibilities included supervising and observing inmate behavior, evaluating inmate conduct, and writing activity reports.

In 1996, Harry entered the organizational behavior program at the University of Southern Illinois in Carbondale Illinois. The program's was to train a student to be "an effective human resource specialist in the workplace." Harry did not complete the program to obtain a degree. In 1996 and 1997, Harry deducted a total of \$6,379 education expenses and \$1,551 for Harry's tuition and books purchased for the courses at SIU.

While enrolled in the program, Harry completed the following courses:

- Introduction to Organizational Behavior,
- Research in Organizations
- Organizational Communication
- Small Group Leadership
- Social Ethics
- Interdisciplinary Writing, and Critical Thinking

After completing the courses, Harry temporarily assigned to the Correctional Training Academy in Greenville Illinois. After this assignment, the academy interviewed Harry for a position as an instructor. The instructor position required 2 years of college education, which Harry had already completed at SIU. In June of 1998, Harry was promoted to sergeant instructor at the academy.

Harry has just received notice from the IRS that his deduction for education expenses, tuition, and books has been denied. The IRS indicates that his education prepared him for a different occupation and therefore did not represent deductible expenses. As a result Harry has been assessed back taxes and interest from his 1996 and 1997 tax returns.

Required:

Harry has come to you to determine what his course of action might be. He feels there are two options. One protest the deficiencies assessed and if unsuccessful in his negotiations with the IRS, hire legal counsel and proceed to the courts or two pay the deficiencies and concede the IRS's determination. What advice would you give Harry?

Your advice should be written as though it were being provided to your client. Your submission may be no longer than 3 pages double-spaced with 1-inch margins on all sides with no less than an 11 pt font. Included in your response should be a short summary of the facts, a statement of the issue(s), a summary of the sources from which you drew your conclusion (Review Chapter C1 for the appropriate citation format and sources may be footnoted, rather than appear as part of the memo, and finally your conclusion, clearly stated. Your approach with the response to the client is different from that to your supervisor. Clients don't want to see a lot of code sections; they want an answer. So it will be up to you to make sure I understand what the basis of your conclusion is without cluttering the client letter with excess verbiage.

**Points will be deducted for inappropriate citation formats, insufficient citations, incorrect conclusions, and unprofessional submissions, excess length, or formatting that does not conform to the format stated above. In particular, 2 full points will be deducted for failing to identify yourself in the memo to your supervisor. Your supervisor's name is W. Alrus, Taxman.**

Finally, your submission must be in a Word or WordPerfect file with the extension ".doc" and the file name should be your first initial and last name. For example, "TaxManW.doc" would be an appropriately named file for submission by your supervisor.