

Determining Qualified Education Expenses

Box 1 may include non-taxable scholarship and grant amounts. Some students may choose to pay non-qualifying expenses with scholarship/Pell Grant funds, making the scholarship/Pell Grant taxable. This is true even if the scholarship/grant was paid directly to the school. This may increase the amount of qualifying expenses that can be used in calculating an education credit.

<input type="checkbox"/> CORRECTED		OMB No. 1545-1574		2018	Tuition Statement		
FILER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number		1 Payments received for qualified tuition and related expenses					
		\$ _____		Form 1098-T			
FILER'S employer identification no.	STUDENT'S TIN	3 If this box is checked, your educational institution changed its reporting method for 2018 <input type="checkbox"/>		Copy B For Student This is important tax information and is being furnished to the IRS. This form must be used to complete Form 8863 to claim education credits. Give it to the tax preparer or use it to prepare the tax return.			
STUDENT'S name		4 Adjustments made for a prior year				5 Scholarships or grants	
Street address (including apt. no.)		\$ _____				\$ _____	
City or town, state or province, country, and ZIP or foreign postal code		6 Adjustments to scholarships or grants for a prior year				7 Checked if the amount in box 1 includes amounts for an academic period beginning January—March 2019 <input type="checkbox"/>	
Service Provider/Acct. No. (see instr.)	8 Check if at least half-time student <input type="checkbox"/>	9 Checked if a graduate student <input type="checkbox"/>		10 Ins. contract reimb./refund			
		\$ _____		\$ _____			
Form 1098-T		(keep for your records)		www.irs.gov/Form1098T Department of the Treasury - Internal Revenue Service			

Determine the amount paid by verifying the payment received from the student account statement with the amount shown in Box 1 of Form 1098-T. Remember to include books, supplies, course related materials and equipment if claiming the American Opportunity Credit. Also remember to include out of pocket payments made by the student or on the student's behalf. This includes student loans, payments, credit cards and **taxable portions of scholarships/grants.**

Adjusted Qualified Education Expenses Worksheet (Form 8863 instructions)	
1. Total qualified education expenses paid for on behalf of the student in 2018 for the academic period	5,500
2. Less adjustments:	
a. Tax-free educational assistance received in 2018 allocable to the academic period.	3,000
b. Tax-free educational assistance received in 2019 (and before you file your 2018 tax return) allocable to the academic period	0
c. Refunds of qualified education expenses paid in 2018 if the refund is received in 2018 or in 2019 before you file your 2018 tax return	0
3. Total adjustments (add lines 2a, 2b, and 2c)	3,000
4. Adjusted qualified education expenses. Subtract line 3 from line 1. If zero or less, enter -0-	2,500

Example - Bill and Sue are eligible to claim the American Opportunity Credit for their daughter Sarah, who is in her first year of college. They have a Form 1098-T with \$5,000 in box 1 and a \$3,000 Pell Grant in box 5. During your interview with Bill and Sue, you determine that \$5,000 was paid in September 2018 for the fall semester; \$3,000 was paid by Pell Grant and \$2,000 was paid by loan proceeds. They paid \$500 for books in 2018. To calculate the eligible expenses for their credit, take the \$5,000 (\$3,000 grant + \$2,000 loan) paid in 2018, plus the \$500, for books and enter on line 1 of the worksheet above. The \$3,000 will be entered on line 2a. The line 3 amount would be \$3,000. Subtracting line 3 from line 1, you get qualified education expenses of \$2,500. In this same example, if the taxpayers opted to include all the income as wages, they wouldn't have any adjustments to subtract to determine their expenses.

Note: If the student doesn't have a copy of their student account statement, ask them to go online through their college or university to get this information.

Education Credits (continued)

Probe/Action: To determine if a taxpayer qualifies for the Education Credit.

Who Can Claim the Credit?

- Taxpayers who paid qualified educational expenses of higher education for an eligible student.
- Taxpayers who paid the education expenses for a student enrolled at or attending an eligible educational institution. (To determine if eligible, go to the U.S. Department of Education's Office of Post-secondary Education (OPE) website.
- The eligible student is either the taxpayer, taxpayer's spouse or their dependent.

Note: Qualified education expenses are considered paid by the taxpayer if paid by their dependent or a third party on behalf of the dependent. If a student isn't claimed as a dependent (even if eligible to be claimed), only the student can claim an education credit no matter who paid the expenses. Anyone paying the expenses (even directly to the institution) are considered to have given a gift to the student who in turn is treated as having paid the expenses.

Note: There are two 4-year tests for the American Opportunity Credit. First, the credit can be taken for only 4 tax years. Second, the student must not have completed four years of academic credit before the beginning of this tax year. Follow the examples in the Who is an Eligible Student for the American Opportunity Credit section in Publication 970 for additional information.

Who Can Claim a Dependent's Expenses?

If the taxpayer...	Then only...
Has a dependent who is an eligible student	The taxpayer can claim the credit based on that dependent's expenses. The dependent can't claim the credit.
Doesn't claim the dependent on the tax return	The dependent can claim the credit. The taxpayer can't claim the credit based on the dependent's expenses.

Who Can't Claim the Credit?

- Married filing separately filing status
- Anyone listed as a dependent on another person's tax return
- Taxpayers whose modified AGI is more than the allowable income limits
- Taxpayer (or the spouse) was a nonresident alien for any part of the tax year unless one of the exceptions listed in Publication 519, U.S. Tax Guide for Aliens, applies

What Expenses Qualify?

- Expenses paid for an academic period starting in 2018 or the first 3 months of 2019
- Expenses not refunded when the student withdraws from class
- Expenses paid with the proceeds from a loan

What are Qualifying Expenses?

- The term "qualified tuition and related expenses" is expanded for the American Opportunity Credit (AOC) to include expenditures for course materials. For this purpose, course-related materials are books, supplies, and equipment needed for a course of study whether or not the materials are purchased from the educational institution as a condition of enrollment or attendance.

What is Tax-Free Educational Assistance?

- Tax-free parts of scholarships and fellowships
- Pell Grants (see Chapter 1 of Publication 970)
- Employer-provided educational assistance (see Publication 970)
- Veterans' educational assistance
- Any other nontaxable payment (other than gifts or inheritances) received as educational assistance

Note: Don't reduce the qualified education expenses by any scholarship or fellowship reported as income on the student's tax return if the use of the scholarship isn't restricted and used to pay education expenses that aren't qualified (such as room and board).

Note: Taxpayers must have a Form 1098-T from an eligible educational institution to claim education benefits.

Note: If the student includes the tax free educational assistance in income, has a filing requirement and unearned income (including the taxable scholarship) over \$2,100, the student will be subject to filing Form 8615, Tax for Certain Children Who Have Unearned Income (Kiddie Tax), to compute the tax. (See Tab H, Other Taxes, Payments and ACA for additional information).