



Module 8B: ELIGIBLE EXPENSES

Special thanks to: Tricia Ragland, Gwen Moore, and Janet Herrgesell with Foundation Communities, Austin, Texas for their contribution to the content contained in this module.



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By the end of this module you will...

- Understand which expenses can be claimed for education credits
- Understand how to read Form 1098-T and calculate qualified expenses
- Understand how to interpret Student Account Statements



In this module...

- [Determining Eligible Expenses or Income](#)
- [Re-Cap](#)
- [Knowledge Check](#)



Determining Eligible Expenses



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What does the client need to present?

- For tax years beginning with 2017, the law requires that the student must generally receive a Form 1098-T in order for the taxpayers to claim the education credit.
- Copy of their student account statement from an eligible institution.

CORRECTED

FILER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number State University PO Box 45982 Your City, YS XXXXX		1 Payments received for qualified tuition and related expenses \$ 9,995.00 2	OMB No. 1545-1574 2018 Form 1098-T	Tuition Statement 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.
FILER'S employer identification no. XX-XXXXXXX	STUDENT'S TIN XXX-XX-0000	3 If this box is checked, your educational institution changed its reporting method for 2018 <input type="checkbox"/>	4 Adjustments made for a prior year \$	
STUDENT'S name Ann Harvard		5 Scholarships or grants \$ 5,360.00	6 Adjustments to scholarships or grants for a prior year \$	
Street address (including apt. no.) 78453 Laurel Lane City or town, state or province, country, and ZIP or foreign postal code Your City, YS XXXXX		7 Checked if the amount in box 1 includes amounts for an academic period beginning January—March 2019 <input type="checkbox"/>	8 Check if at least half-time student <input checked="" type="checkbox"/>	
Service Provider/Acct. No. (see instr.)	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



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1098-T with entries in boxes 4 or 6, indicating prior year adjustments

In some cases, a 1098-T with an adjustment is out-of-scope for VITA.

If you encounter a taxpayer with a Form 1098-T with an entry in box 4 and/or 6, consult your site coordinator.

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FILER'S employer identification no. XX-XXXXXXX	STUDENT'S TIN XXX-XX-0000	3 If this is the first year your educational institution changed its reporting method for 2018 <input type="checkbox"/>	4 Adjustments made for a prior year \$ 435.00	
STUDENT'S name Ann Harvard		5 Scholarships or grants \$ 5,360.00	6 Adjustments to scholarships or grants for a prior year \$ 500.00	
Street address (including apt. no.) 78453 Laurel Lane		7 Checked if the amount in box 1 includes amounts for an academic period beginning January—March 2019 <input type="checkbox"/>	8 Check if at least half-time student <input checked="" type="checkbox"/>	
City or town, state or province, country, and ZIP or foreign postal code Your City, YS XXXXX		9 Checked if a graduate student <input type="checkbox"/>	10 Ins. contract reimb./refund \$	
Service Provider/Acct. No. (see instr.)		Form 1098-T (keep for your records)		

www.irs.gov/Form1098T Department of the Treasury - Internal Revenue Service



Calculating expenses available for credit

- The expense must be paid during the calendar year.
 - *Expenses paid in December 2018 for Spring 2019 semester qualify for 2018.*
- Reduce expenses by any scholarships or grants received.
 - *The amount of expenses that exceed scholarships and grants can be used to calculate the credit.*
 - *The amount of scholarships and grants that exceed expenses is reported on the student's return as income.*

Analyzing Student Account Statements

Qualified education expenses **DO NOT INCLUDE** amounts paid for:

- Insurance
- Medical expenses (including student health fees)
- Room and board
- Transportation
- Similar personal, living, or family expenses. This is true even if the amount must be paid to the institution as a condition of enrollment or attendance.
- **Sports, games, hobbies, and noncredit courses.** Qualified education expenses generally don't include expenses that relate to any course of instruction or other education that involves sports, games, or hobbies, or any noncredit course. However, if the course of instruction or other education is part of the student's degree program, these expenses can qualify.
- **Comprehensive or bundled fees.** Some eligible educational institutions combine all of their fees for an academic period into one amount. If you don't receive or don't have access to an allocation showing how much you paid for qualified education expenses and how much you paid for personal expenses, such as those listed earlier, contact the institution. The institution is generally required to make this allocation and provide you with the amount you paid for qualified education expenses on Form 1098-T, Tuition Statement.



Analyzing Student Account Statements

Account Activity			Student: Ann Harvard
View transaction by term: <input type="text" value="Spring 2018: 0.00"/> <input type="button" value="Select"/>			
Spring 2018 Account Activity			
To sort, click on the desired column header			
Description	Code	Date	Amount(\$)
Tuition, College Credit	TUI1C	12/15/2017	12624.00
Fee, General Use	FGNFC	12/15/2017	576.00
Fee, Student Accident Ins	FSIFC	12/15/2017	60.00
Fee, Parking Permit	PKPT	12/15/2017	50.00
Tuition, College Credit	TUI1C	01/06/2018	-3156.00
Fee, General Use	FGNFC	01/06/2018	-144.00
Fee, Student Accident Ins	FSIFC	01/06/2018	-15.00
Direct Subsidized Loan	DRSLY	01/12/2018	-1635.00
Federal Pell Grant	FPELL	01/12/2018	-5360.00
Payment	TN	01/12/2018	-3000.00
Term Balance:			0.00

Ineligible Expenses

Analyzing Student Account Statements

Account Activity			Student: Ann Harvard
View transaction by term: <input type="text" value="Spring 2018: 0.00"/> <input type="button" value="Select"/>			
Spring 2018 Account Activity			
To sort, click on the desired column header			
Description	Code	Date	Amount(\$)
Tuition, College Credit	TUI1C	12/15/2017	12624.00
Fee, General Use	FGNFC	12/15/2017	576.00
Fee, Student Accident Ins	FSIFC	12/15/2017	60.00
Fee, Parking Permit	PKPT	12/15/2017	50.00
Tuition, College Credit	TUI1C	01/06/2018	-3156.00
Fee, General Use	FGNFC	01/06/2018	-144.00
Fee, Student Accident Ins	FSIFC	01/06/2018	-15.00
Direct Subsidized Loan	DRSLY	01/12/2018	-1635.00
Federal Pell Grant	FPELL	01/12/2018	-5360.00
Payment	TN	01/12/2018	-3000.00
Term Balance:			0.00

Ineligible Expenses

Dropped Class

Determining Eligible Expenses or Income

Reduce expenses by any scholarships or grants received.

The amount of expenses that exceed scholarships and grants can be used to calculate the credit.

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FILER'S employer identification no. XX-XXXXXXX	STUDENT'S TIN XXX-XX-0000	3 If this box is checked, your educational institution changed its reporting method for 2018 <input type="checkbox"/>	4 Adjustments made for a prior year \$		5 Scholarships or grants \$ 5,360.00
STUDENT'S name Ann Harvard		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"/>		
Street address (including apt. no.) 78453 Laurel Lane City or town, state or province, country, and ZIP or foreign postal code Your City, YS XXXXX					
Service Provider/Acct. No. (see instr.)	8 Check if at least half-time student <input checked="" 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		

Based on the Student Account Statement for Ann Harvard
 Eligible Expenses = \$9,900 - \$5,360 = \$4,540



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Determining Eligible Expenses or Income

The amount of scholarships and grants that exceed expenses is reported on the student's return as income.

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FILER'S employer identification no. XX-XXXXXXX	STUDENT'S TIN XXX-XX-0000	2	3 If this box is checked, your educational institution changed its reporting method for 2018 <input type="checkbox"/>	
STUDENT'S name Ann Harvard		4 Adjustments made for a prior year \$	5 Scholarships or grants \$ 9,995.00	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.
Street address (including apt. no.) 78453 Laurel Lane		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"/>	
City or town, state or province, country, and ZIP or foreign postal code Your City, YS XXXXX		8 Check if at least half-time student <input checked="" type="checkbox"/>	9 Checked if a graduate student <input type="checkbox"/>	
Service Provider/Acct. No. (see instr.)	10 Ins. contract reimb./refund \$			

Form **1098-T** (keep for your records) www.irs.gov/Form1098T Department of the Treasury - Internal Revenue Service

Income = \$9,995 - \$5,360 = \$4,635



Re-Cap



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Re-Cap

- Taxpayer must have a Form 1098-T and copy of Student Account Statement to claim an education credit.
- Taxable scholarship/grant income is reported on the student's return when the amount exceeds qualifying education expenses.
- Tax credits are reported on the tax return of the taxpayer who can claim the student as a dependent. The student claims the credit if no taxpayer claims him as a dependent.
 - American Opportunity Credit
 - Lifetime Learning Credit
- In some cases, you can report scholarships as income taxable to the student to maximize education credits.



Knowledge Check

- Module 8 Quiz
- Dear IRIS letters

Up Next...
Module 8C: Treatment of Scholarships and Grants



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