

# Tax Treatment of Scholarship and Fellowship Payments

A scholarship or fellowship is tax free (excludable from gross income) **only if**:

- You are a candidate for a degree at an eligible educational institution. You are a candidate for a degree if you attend a primary or secondary school or are pursuing a degree at a college or university, or attend an educational institution that offers a program of training to prepare students for gainful employment in a recognized occupation and is authorized under federal or state law to provide such a program and is accredited by a nationally recognized accreditation agency.

A scholarship or fellowship is tax free only to the extent:

- It doesn't exceed your qualified education expenses;
- It isn't designated or earmarked for other purposes (such as room and board), and doesn't require (by its terms) that it can't be used for qualified education expenses; and
- It doesn't represent payment for teaching, research, or other services required as a condition for receiving the scholarship. (But for exceptions, see Payment for services in Publication 970, Tax Benefits for Education.)

Use Worksheet 1-1 below to figure the amount of a scholarship or fellowship you can exclude from gross income.

## Education Expenses

The following are qualified education expenses for the purposes of tax-free scholarships and fellowships:

- Tuition and fees required to enroll at or attend an eligible educational institution.
- Course-related expenses, such as fees, books, supplies, and equipment that are required for the courses at the eligible educational institution. These items must be required of all students in your course of instruction.

Qualified education expenses don't include the cost of:

- Room and board
- Research
- Equipment and other expenses not required for enrollment in or attendance at an eligible educational institution
- Travel
- Clerical help

## Worksheet 1-1. Taxable Scholarship and Fellowship Income

<p>1. Enter the total amount of any scholarship or fellowship grant for 2019. See Amount of scholarship or fellowship grant in Publication 970.</p> <ul style="list-style-type: none"> <li>• If you are a degree candidate at an eligible educational institution, go to line 2.</li> <li>• If you aren't a degree candidate at an eligible educational institution, stop here. The entire amount is taxable. For information on how to report this amount on your tax return, see Reporting Scholarships and Fellowship Grants, later.</li> </ul>	<p>1. _____</p>
<p>2. Enter the amount from line 1 that was for teaching, research, or any other services required as a condition for receiving the scholarship. Don't include amounts received for these items under the National Health Service Corps Scholarship Program, the Armed Forces Health Professions Scholarship and Financial Assistance Program, or a comprehensive student work-learning-service program (as defined in Section 448(e) of the Higher Education Act of 1965) operated by a work college (as defined in that section).</p>	<p>2. _____</p>
<p>3. Subtract line 2 from line 1 .....</p>	<p>3. _____</p>
<p>4. Enter the amount from line 3 that your scholarship or fellowship grant required you to use for other than qualified education expenses .....</p>	<p>4. _____</p>
<p>5. Subtract line 4 from line 3 .....</p>	<p>5. _____</p>
<p>6. Enter the amount of your qualified education expenses .....</p>	<p>6. _____</p>
<p>7. Enter the smaller of line 5 or line 6. This amount is the most you can exclude from your gross income <sup>1</sup> (the tax-free part of the scholarship or fellowship grant) .....</p>	<p>7. _____</p>
<p>8. Subtract line 7 from line 5 .....</p>	<p>8. _____</p>
<p>9. Taxable part. Add lines 2, 4, and 8. See Reporting Scholarships and Fellowship Grants, in Publication 970, for how to report this amount on your tax return .....</p>	<p>9. _____</p>

<sup>1</sup> However, a scholarship or fellowship grant isn't treated as tax free to the extent the student includes it in gross income (the student may or may not be required to file a tax return) for the year the scholarship or fellowship grant is received and either:

- The scholarship or fellowship grant (or any part of it) must be applied (by its terms) to expenses (such as room and board) other than qualified education expenses.
- The scholarship or fellowship grant (or any part of it) may be applied (by its terms) to expenses (such as room and board) other than qualified education expenses.

You may be able to increase the combined value of an education credit and certain educational assistance if the student includes some or all of the educational assistance in income in the year it is received. See Publication 970 for more information.

# Highlights of Education Tax Benefits for Tax Year 2019

This chart highlights some differences among the benefits discussed in Publication 970. See the text for definitions and details. Don't rely on this chart alone.



You generally can't claim more than one benefit for the same education expense.

	Scholarships, Fellowships, Grants, and Tuition Reductions	American Opportunity Credit	Lifetime Learning Credit	Student Loan Interest Deduction	Tuition and Fees Deduction, if extended	Coverdell ESA†	Qualified Tuition Program (QTP)†	Education Exception to Additional Tax on Early IRA Distributions†	Education Savings Bond Program†	Employer-Provided Educational Assistance†	Business Deduction for Work-Related Education
<b>What is your benefit?</b>	Amounts received may not be taxable	Credits can reduce the amount of tax you have to pay.  40% of the credit may be refundable (limited to \$1,000 per student).	Credits can reduce amount of tax you must pay	Can deduct interest paid	Can deduct expenses	Earnings not taxed	Earnings not taxed	No 10% additional tax on early distribution	Interest not taxed	Employer benefits not taxed	Can deduct expenses
<b>What is the annual limit?</b>	None	\$2,500 credit per student	\$2,000 credit per tax return	\$2,500 deduction	\$4,000	\$2,000 contribution per beneficiary	None	Amount of qualified education expenses	Amount of qualified education expenses	\$5,250 exclusion	Amount of qualifying work-related education expenses
<b>What expenses qualify besides tuition and required enrollment fees?</b>	Course-related expenses such as fees, books, supplies, and equipment	Course-related books, supplies, and equipment	Amounts paid for required books, etc., that must be paid to the educational institution, etc., are required fees	Books Supplies Equipment  Room & board  Transportation  Other necessary expenses	None	Books Supplies Equipment  Expenses for special needs services  Payments to QTP  Higher education: Room and Board if at least half-time student  Elem/sec (K-12) education: Tutoring Room & board Uniforms Transportation Computer access  Supplementary expenses	Higher Education: Books Supplies Equipment  Room & board if at least half-time student  Expenses for special needs services  Computer Equipment, computer software, or Internet access and related services  Elem/sec (K-12) education: See Pub 970	Books Supplies Equipment including computer or peripheral equipment, computer software and internet access and related services if used primarily by the student enrolled at an eligible education institution  Room & board if at least half-time student  Expenses for special needs services	Payments to Coverdell ESA  Payments to QTP	Books Supplies Equipment	Transportation  Travel  Other necessary expenses

# Highlights of Education Tax Benefits for Tax Year 2019

	Scholarships, Fellowships, Grants, and Tuition Reductions	American Opportunity Credit	Lifetime Learning Credit	Student Loan Interest Deduction	Tuition and Fees Deduction, if extended	Coverdell ESA†	Qualified Tuition Program (QTP)†	Education Exception to Additional Tax on Early IRA Distributions†	Education Savings Bond Program†	Employer-Provided Educational Assistance†	Business Deduction for Work-Related Education
<b>What education qualifies?</b>	Undergraduate & graduate K-12	Undergraduate & graduate  A graduate student can claim the American opportunity credit if and only if the student hasn't completed the first four years before the beginning of the tax year	Undergraduate & graduate courses to acquire or improve job skills	Undergraduate & graduate	Undergraduate & graduate	Undergraduate & graduate K-12	Undergraduate & graduate  K -12 for no more than \$10,000 of tuition	Undergraduate & graduate	Undergraduate & graduate	Undergraduate & graduate	Required by law to keep present job, salary, status  Maintain or improve job skills
<b>What are some of the other conditions that apply?</b>	Must be in degree or vocational program  Payment of tuition and required fees must be allowed under the grant	Can be claimed for only 4 tax years (which includes years Hope credit claimed)  Must be enrolled at least half-time in degree program  No felony drug conviction(s)  Must not have completed first 4 years of postsecondary education before end of preceding tax year	No other conditions	Must have been at least half-time student in degree program	Can't claim both deduction & education credit for same student in same year	Assets must be distributed at age 30 unless special needs beneficiary	No other conditions	No other conditions	Applies only to qualified series EE bonds issued after 1989 or series I bonds	No other conditions	Can't be to meet minimum educational requirements of present trade/business  Can't qualify you for a new trade/business
<b>In what income range do benefits phase out?</b>	No phaseout	\$80,000 - \$90,000  \$160,000 - \$180,000 for joint returns	\$58,000 - \$68,000  \$116,000 - \$136,000 for joint returns	\$70,000 - \$85,000  \$140,000 - \$170,000 for joint returns	\$65,000 - \$80,000  \$130,000 - \$160,000 for joint returns	\$95,000 - \$110,000  \$190,000 - \$220,000 for joint returns	No phaseout	No phaseout	\$81,100 - \$96,100  \$121,600 - \$151,600 for joint and qualifying widow(er) with a dependent child returns	No phaseout	No phaseout

† Any nontaxable distribution is limited to the amount that doesn't exceed qualified education expenses.



CAUTION Taxpayers filing MFS cannot claim deductions for the American opportunity credit, lifetime learning credit, or student loan interest deductions.

# Education Credits



**TaxSlayer Navigation:** Federal Section>Deductions>Credits Menu>Education Credits; or Keyword “EDUCA” or “886”

Probe/Action: To determine if a taxpayer qualifies for the education credit.



Taxpayers who claim the American opportunity credit even though they are not eligible can be banned from claiming the credit for up to 10 years.

## Comparison of Education Credits

	American Opportunity Credit	Lifetime Learning Credit
<b>Maximum credit</b>	Up to \$2,500 credit per eligible student	Up to \$2,000 credit per return
<b>Limit on modified adjusted gross income (MAGI)</b>	\$180,000 if married filing jointly; \$90,000 if single, head of household, or qualifying widow(er)	\$136,000 if married filing jointly; \$68,000 if single, head of household, or qualifying widow(er)
<b>Refundable or nonrefundable</b>	40% of credit may be refundable <sup>1</sup> ; the rest is nonrefundable	Nonrefundable—credit limited to the amount of tax you must pay on your taxable income
<b>Number of years of postsecondary education</b>	Available ONLY if the student had not completed the first 4 years of postsecondary education before 2019	Available for all years of postsecondary education and for courses to acquire or improve job skills
<b>Number of tax years credit available</b>	Available ONLY for 4 tax years per eligible student (including any year(s) Hope credit was claimed)	Available for an unlimited number of tax years
<b>Type of program required</b>	Student must be pursuing a program leading to a degree or other recognized education credential	Student does not need to be pursuing a program leading to a degree or other recognized education credential
<b>Number of courses</b>	Student must be enrolled at least half-time for at least one academic period beginning during 2019 (or the first 3 months of 2020 if the qualified expenses were paid in 2019)	Available for one or more courses
<b>Felony drug conviction</b>	As of the end of 2019, the student had not been convicted of a felony for possessing or distributing a controlled substance	Felony drug convictions do not make the student ineligible
<b>Qualified expenses</b>	Tuition, required enrollment fees, and course materials that the student needs for a course of study whether or not the materials are bought at the educational institution as a condition of enrollment or attendance	Tuition and required enrollment fees (including amounts required to be paid to the institution for course-related books, supplies, and equipment)
<b>Payments for academic periods</b>	Payments made in 2019 for academic periods beginning in 2019 or beginning in the first 3 months of 2020	Payments made in 2019 for academic periods beginning in 2019 or beginning in the first 3 months of 2020
<b>TIN needed by filing due date</b>	Filers and students must have a TIN by the due date of their 2019 return (including extensions)	
<b>Educational institution's EIN</b>	You must provide the educational institution's employer identification number (EIN) on your Form 8863, Education Credits.	

### Footnote

<sup>1</sup> None of the credit is refundable if (1) the taxpayer claiming the credit is (a) under age 18 or (b) age 18 at the end of the year, and their earned income was less than one-half of their own support or (c) a full time student over 18 and under 24 and their earned income was less than one-half of their own support; and (2) the taxpayer has at least one living parent, and; (3) the taxpayer doesn't file a joint return.

# 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 2019 or the first 3 months of 2020
- 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 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 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 \$2,200, the student may 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).

# Determining Qualified Education Expenses

Box 1 may include nontaxable scholarship and grant amounts. Some students may choose to pay nonqualifying 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. Examples can be found in Coordination with Pell grants and other scholarships or fellowship grants in Publication 970.

<input type="checkbox"/> CORRECTED		OMB No. 1545-1574		<b>2019</b>	<b>Tuition Statement</b>
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			
		2			
FILER'S employer identification no.	STUDENT'S TIN	3		<b>Copy B For Student</b>	
STUDENT'S name		4 Adjustments made for a prior year		5 Scholarships or grants	
		\$		\$	
Street address (including apt. no.)		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 2020 <input type="checkbox"/>	
City or town, state or province, country, and ZIP or foreign postal code		\$			
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 <b>1098-T</b> (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.

<b>Adjusted Qualified Education Expenses Worksheet (Form 8863 instructions)</b>	
1. Total qualified education expenses paid for on behalf of the student in 2019 for the academic period .....	7,500
2. Less adjustments:	
a. Tax-free educational assistance received in 2019 allocable to the academic period. ....	3,000
b. Tax-free educational assistance received in 2020 (and before you file your 2019 tax return) allocable to the academic period .....	0
c. Refunds of qualified education expenses paid in 2019 if the refund is received in 2019 or in 2020 before you file your 2019 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- .....	4,500

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 \$7,000 in box 1 and a \$3,000 Pell Grant in box 5. During your interview with Bill and Sue, you determine that \$3,000 was paid in September 2019 for the fall semester; \$3,000 was paid by Pell Grant and \$4,000 was paid by loan proceeds. They paid \$500 for books in 2019. To calculate the eligible expenses for their credit, take the \$7,000 (\$3,000 grant + \$4,000 loan) paid in 2019, 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 \$4,500.

**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.

**Note:** Forms 1098-T with amounts listed in boxes 4 and 6 are out of scope.

# Entering Education Benefits



TaxSlayer Navigation: Federal Section>Deductions>Credits Menu>Education Credits; or Keyword 8863

## Form 8863 - Educational Credit

Select an Eligible Student

Taxpayer - [REDACTED]

Select the type of credit \*

- American Opportunity
- Lifetime Learning

Qualified Expenses \*

Please ensure that you reduce the amount entered for "qualified expenses" by any scholarships / grants received, pursuant to IRS Publication 970.

\$

Select an Eligible Student

Taxpayer - [REDACTED]

Select the type of credit \*

- American Opportunity
- Lifetime Learning

Qualified Expenses \*

Please ensure that you reduce the amount entered for "qualified expenses" by any scholarships / grants received, pursuant to IRS Publication 970.

\$ 12000

Add Another Institution

### Institution 1

Name \*

Clark University

Check here if foreign address

Address (Number and Street) \*

319 Doane Drive

ZIP Code \*

38101

City, Town, or Post Office \*

Memphis

If the taxpayer was under age 24 at the end of the year and met the conditions as outlined in the student under age 24 chart in this tab, they can't take the refundable American opportunity credit.

**Note:** TaxSlayer will allow you to compare the education benefits and determine the largest refund using each benefit.

See determining qualified expenses page earlier in this tab.

For lifetime learning credit, course-related books, materials, and supplies are not included as qualified expenses unless paid directly to the institution as a condition of enrollment.

# Entering Education Benefits (continued)



TaxSlayer Navigation: Federal Section>Deductions>Credits, Menu>Education Credits; or Keyword "886"

Did the student receive Form 1098-T from this institution for 2018? \*

- Yes  
 No

Did the student receive Form 1098-T from this institution for 2017 with Box 2 filled in and Box 7 checked? \*

- Yes  
 No

Enter the Institution's Federal Identification Number (from Form 1098-T) \*

-

Has the Hope Scholarship Credit or American Opportunity Credit already been claimed on 4 prior tax returns? \*

- Yes  
 No

Was the student enrolled at least half-time? \*

- Yes  
 No

Did the student complete the first 4 years of post-secondary education before 2018? \*

- Yes  
 No

Was the student convicted, before the end of 2018, of a felony for possession or distribution of a controlled substance? \*

- Yes  
 No

Are you eligible for the refundable portion of the American Opportunity Credit? Answer NO if 1, 2, & 3 apply to you:

1: You were:

- a) Under age 18 at the end of the year, or  
b) Age 18 at the end of the year and your earned income was less than one-half of your support, or  
c) A full-time student over age 18 and under 24 at the end of the year and your earned income was less than one-half of your support.

2: At least one of your parents was alive at the end of the year.

3: You are not filing a joint return for the year.

\*

- Yes  
 No

- Only the taxpayer is eligible if he or she claims the student as a dependent. Only the student is eligible if he or she isn't claimed as a dependent (even if he or she can be claimed) - no matter who pays.
- For the American opportunity credit only, qualified tuition and related expenses include books, supplies and equipment needed for the course, whether or not they were purchased from the institution as a condition of enrollment. Computers, however, can only be included IF they are a requirement for enrollment or attendance.

**Note:** The following aren't qualifying expenses for education credits: room and board, insurance, medical, transportation, or personal expenses, even if the amount must be paid to the institution as a condition of enrollment or attendance. If the educational expenses are associated with sports, games, hobbies, or other noncredit courses, see Publication 970 for more information.

**Note:** See Disallowance of Certain Refundable Credits in Tab I, Earned Income Credit, if the taxpayer received a letter saying they had to complete Form 8862, Information To Claim Certain Credits After Disallowance.



If American opportunity credit is selected but taxpayer is determined to be ineligible after answering qualifying questions, TaxSlayer will automatically change credit to lifetime learning without changing tax preparer's credit selection or any other warning.



# Student Under Age 24 Claiming American Opportunity Credit

<b>1. Were you under 24 at the end of 2019?</b>	<p>If <b>NO</b>, stop here; you <b>do</b> qualify to claim part of the allowable American opportunity credit as a refundable credit.</p> <p>If <b>YES</b>, go to question 2.</p>
<b>2. Were you over 18 at the end of 2019?</b>	<p>If <b>YES</b>, go to question 3.</p> <p>If <b>NO</b>, go to question 4.</p>
<b>3. Were you a full-time student (defined later) for 2019?</b>	<p>If <b>NO</b>, stop here; you <b>do</b> qualify to claim part of your allowable American opportunity credit as a refundable credit.</p> <p>If <b>YES</b>, go to question 5.</p>
<b>4. Were you 18 at the end of 2019?</b>	<p>If <b>YES</b>, go to question 5.</p> <p>If <b>NO</b>, go to question 6.</p>
<b>5. Was your earned income (defined below) less than one-half of your support for 2019?</b>	<p>If <b>NO</b>, stop here; you <b>do</b> qualify to claim part of your allowable American opportunity credit as a refundable credit.</p> <p>If <b>YES</b>, go to question 6.</p>
<b>6. Was either of your parents alive at the end of 2019?</b>	<p>If <b>NO</b>, stop here; you <b>do</b> qualify to claim part of your allowable American opportunity credit as a refundable credit.</p> <p>If <b>YES</b>, go to question 7.</p>
<b>7. Are you filing a joint return for 2019?</b>	<p>If <b>NO</b>, you <b>do not</b> qualify to claim part of your allowable American opportunity credit as a refundable credit.</p> <p>If <b>YES</b>, you <b>do</b> qualify to claim part of your allowable American opportunity credit as a refundable credit.</p>

**Earned income.** Earned income includes wages, salaries, professional fees, and other payments received for personal services actually performed. Earned income includes the part of any scholarship or fellowship that represents payment for teaching, research, or other services performed by the student that are required as a condition for receiving the scholarship or fellowship. Earned income does not include that part of the compensation for personal services rendered to a corporation which represents a distribution of earnings or profits rather than a reasonable allowance as compensation for the personal services actually rendered.

**Full-time student.** Solely for purposes of determining whether a scholarship is considered support, you were a full-time student for 2019 if during any part of any 5 calendar months during the year you were enrolled as a full-time student at an eligible educational institution (defined earlier), or took a full-time, on-farm training course given by such an institution or by a state, county, or local government agency.