# 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.







# 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







#### 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.

	☐ CORRE	ECTED			
FILER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number		r 1 Payments received for qualified tuition and related expenses	OMB No. 1545-1574		
State University PO Box 45982 Your City, YS XXXXX		\$ 9,995.00	2018		Tuition Statement
			Form <b>1098-T</b>		
FILER'S employer identification no.	STUDENT'S TIN	3 If this box is checked, your educational institution characteristics reporting method for 2018			Сору В
XX-XXXXXX	XXX-XX-0000				For Student
STUDENT'S name  Ann Harvard		Adjustments made for a prior year	5 Scholarships or gran	nts 5,360.00	This is importan tax informatior and is being
Street address (including apt. no.)		6 Adjustments to	7 Checked if the amou	ınt	furnished to the IRS. This form
78453 Laurel Lane		scholarships or grants for a prior year	amounts for an		must be used to
City or town, state or province, country, and ZIP or foreign postal code			academic period beginning January –		complete Form 8863 to claim education
Your City, YS XXXXX		\$	March 2019		credits. Give it to the
Service Provider/Acct. No. (see instr.)	8 Check if at least half-time student	9 Checked if a graduate student	10 Ins. contract reimb.	/refund	tax preparer or use it to prepare the tax return
Form 1098-T	een for vour records)		Department of the T	roaeury -	Internal Revenue Service



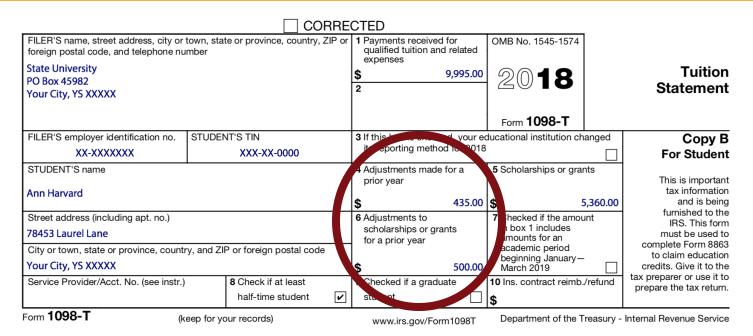




# 1098-T with entries in boxes 4 or 6, indicating prior year adjustments

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.









## 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**

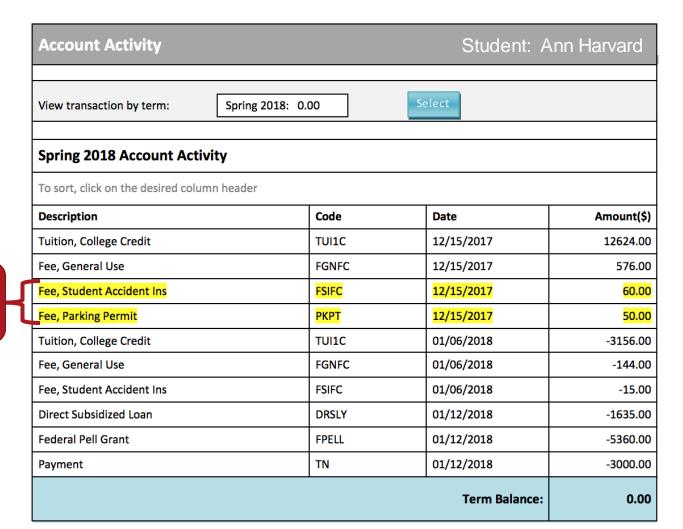
Qualified education expenses **DO NOT INCLUDE** amounts paid for:

- 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**



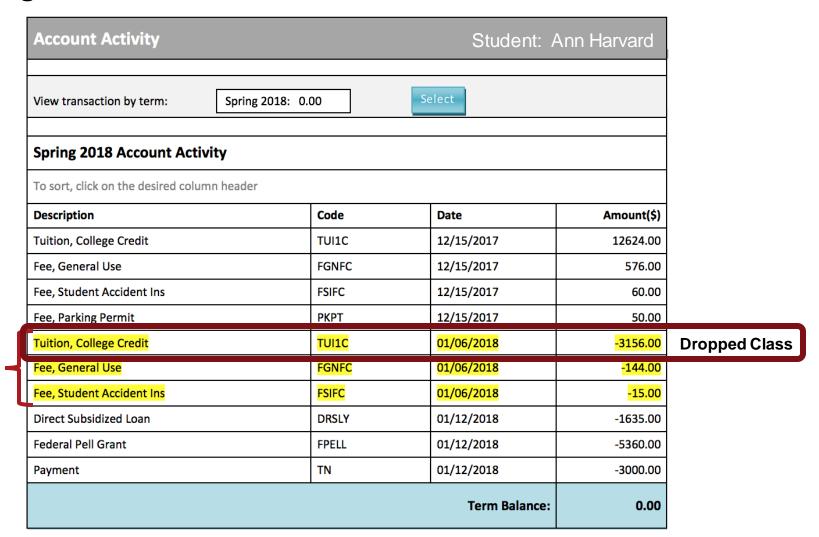
Ineligible Expenses







#### **Analyzing Student Account Statements**



Ineligible Expenses







## **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.

		ECTED			
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	OMB No. 1545-1574		
State University PO Box 45982 Your City, YS XXXXX		\$ 9,995.00	2018		Tuition Statement
			Form <b>1098-T</b>		
FILER'S employer identification no.	STUDENT'S TIN	3 If this box is checked, your educational institution chaits reporting method for 2018			Copy B
XX-XXXXXX	XXX-XX-0000				For Student
STUDENT'S name		4 Adjustments made for a	5 Scholarships or grants		
Ann Harvard		prior year			This is important tax information
		\$	\$	5,360.00	and is being
Street address (including apt. no.)		6 Adjustments to	7 Checked if the amou		furnished to the IRS. This form
78453 Laurel Lane		scholarships or grants in box 1 includes amounts for an			must be used to
City or town, state or province, country, and ZIP or foreign postal code		for a prior year	academic period		complete Form 8863 to claim education
Your City, YS XXXXX		\$	beginning January – March 2019	credits. Give it to	
Service Provider/Acct. No. (see instr.)	8 Check if at least	9 Checked if a graduate	10 Ins. contract reimb.	/refund	tax preparer or use it to prepare the tax return.
	half-time student	student	\$		propare the tax return.
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







#### **Determining Eligible Expenses or Income**

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

	☐ CORRI	ECTED				
FILER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number		r 1 Payments received for qualified tuition and related expenses	OMB No. 1545-1574			
State University PO Box 45982 Your City, YS XXXXX		\$ 5,360.00	2018		Tuition Statement	
			Form <b>1098-T</b>			
FILER'S employer identification no.	STUDENT'S TIN	3 If this box is checked, your educational institution chaits reporting method for 2018			Copy B For Student	
XX-XXXXXXX	XXX-XX-0000					
STUDENT'S name		4 Adjustments made for a	5 Scholarships or grants			
Ann Hansard		prior year			This is important tax information	
Ann Harvard		\$	\$	9,995.00	and is being	
Street address (including apt. no.)		6 Adjustments to	scholarships or grants in box 1 includes		furnished to the IRS. This form must be used to complete Form 8863 to claim education	
78453 Laurel Lane		scholarships or grants for a prior year				
City or town, state or province, country, and ZIP or foreign postal code		academic period				
Your City, YS XXXXX		\$	March 2019 credi		credits. Give it to the	
Service Provider/Acct. No. (see instr.) 8 Check if at least		9 Checked if a graduate	10 Ins. contract reimb.	/refund	tax preparer or use it prepare the tax returns	
	half-time student	] student	\$		propare the tax return.	
Form <b>1098-T</b> (k	eep for your records)	www.irs.gov/Form1098T	Department of the T	reasury -	Internal Revenue Service	

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















#### 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** 





