



# Module 8C: TREATMENT OF SCHOLARSHIPS AND GRANTS

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# In this module...

- [Treating Scholarships and Grants as Income](#)
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# By the end of this module you will...

- Understand how to determine if the taxpayer has taxable scholarship/grant income
- Understand when to treat scholarships or grants as income
- Understand when to complete Form 8615 (Kiddie Tax)



# Treating Grants and Scholarships as Income

- Scholarships and grants are considered taxable income when used toward living expenses
- If all or part of scholarships and grants were used toward living expenses the amount is **reported as income on the student's return**
- The remaining total of education expenses paid to be available for tax credits is reported on the return where the student is claimed.
- Students can choose how they want to allocate grant or scholarship money:
  - Living Expenses, or
  - Qualified Education Expenses



# Treating Grants and Scholarships as Income

- This option should only be considered when:
  - It has been verified that the grant or scholarship can be used for living expenses.
  - The available qualified expenses are below:
    - \$4,000.00 for American Opportunity Credit
    - \$10,000.00 for Lifetime Learning Credit.
- Whenever possible the best option is to have the parent(s) and student come in together to get their returns prepared.



# Determining Scholarship or Grant Income

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

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 \$ 5,360.00	OMB No. 1545-1574  2018 Form 1098-T	<b>Tuition Statement</b>
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"/>	<b>Copy B For Student</b>  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 Ann Harvard		4 Adjustments made for a prior year \$		5 Scholarships or grants \$ 9,995.00
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				
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](http://www.irs.gov/Form1098T) Department of the Treasury - Internal Revenue Service

**Scholarship or Grant Income = \$9,995 - \$5,360 = \$4,635**



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# Tax for Children Who Have Unearned Income Form 8615 (AKA the Kiddie Tax)

When reporting scholarship/grant monies as income on the student's return, keep in mind...

- Form 8615, Tax for Certain Children Who Have Unearned Income, may be required if:
  - Scholarship or grant income exceeds \$2,100,
- AND**
- The student's income meets filing requirements.
- This provision applies only when the student is claimed as a dependent by another taxpayer.
- When determining filing requirements, taxable scholarship is considered earned income. Once income meets filing requirements, the taxable scholarship is considered unearned income when calculating tax.
- If the student meets filing requirements or intends to file a return to claim federal tax withholding, then Form 8615 is required.

Beginning with tax year 2018, Form 8615 is in scope for VITA.



# 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 9: Affordable Care Act



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