



Education Tax Benefits

Today's Topics

- Highlights of Education Benefits
 - Student Loan Interest
- Education Credits
 - American Opportunity Credit
 - Lifetime Learning Credit
- Qualifying Expenses
- Calculating Education Credits
 - Form 1098-T

Today's Resources

Pub 4491: 22-1 to 22-9

Pub 4012: J-1 to J-10

Education Tax Benefits for TY 2022

- Expenses for professional development of an educator can be claimed as an educator expense deduction
- You generally, cannot claim more than one benefit for the same education expense.
- Any non-taxable distribution is limited to the amount that does not exceed qualified educational expenses
- OOS = Out of Scope

What type of benefit?	What is your benefit?	What is the annual limit?
Scholarships, Fellowships, Grants, and Tuition Reductions	Amounts received may not be taxable	None
American Opportunity Credit	Credits can reduce the amount of tax you have to pay. 40% of the credit may be refundable (limited to \$1,000 per student).	\$2,500 credit per student
Lifetime Learning Credit	Credits can reduce amount of tax you must pay	\$2,000 credit per tax return
Student Loan Interest Deduction	Can deduct interest paid on qualified loans. See Tab E, Adjustments, for more information.	\$2,500 deduction per return
Coverdell ESA* OOS if taxable	Earnings not taxed	\$2,000 contribution per beneficiary
Qualified Tuition Program (QTP) (529 Plan)* OOS if taxable	Earnings not taxed	None
Education Exception to Additional Tax on Early IRA Distributions*	No 10% additional tax on early distribution	Amount of qualified education expenses reduced by any tax-free educational assistance
Education Savings Bond Program* OOS	Interest not taxed	Amount of qualified education expenses
Employer - Provided Educational Assistance*	Employer benefits not taxed	\$5,250 exclusion
Business Deduction for Work-Related Education	Can deduct expenses	Amount of qualifying work-related education expenses

Tax Treatment of Scholarship or Fellowship Payments

A Scholarship or Fellowship is tax free (excludable from gross income) only if:

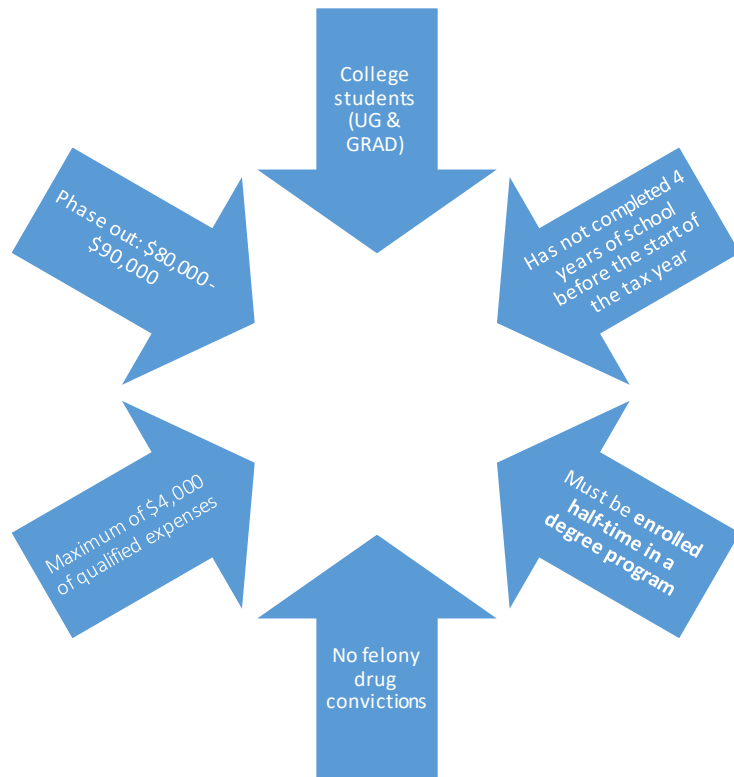
- You are a candidate for a degree at an eligible education institution.
- If you are attending a primary or secondary school or are pursuing a degree at a college or educational institution that offers programs of training to prepare students for gainful employment or a recognized occupation and is authorized under federal and state law and is accredited by a national recognized accreditation agency.

A Scholarship or Fellowship is tax free only to the extent:

- It does not exceed your qualified expenses
- It is not designated or earmarked for other purposes (such as room and board, and does not require by its terms that it cannot be used for qualified expenses; and
- It does not represent payment for teaching, research, or other services required as a condition of the scholarship.

There are two types of Education Credits

American Opportunity



Lifetime Learning

- College courses (UG & GRAD) to **acquire or improve job skills**
- Maximum amount of qualified expenses is \$10,000
- No other conditions

Who Can Take the Education Credit

- Taxpayers can take education credits for themselves, their spouse, and/or dependents (claimed on the tax return) who were enrolled at or attended an eligible postsecondary educational institution during the tax year.
- The law requires that the student must generally receive a Form 1098-T, Tuition Statement.
- If the student's educational institution is not required to furnish a Form 1098-T, the taxpayer may claim a credit if the student does not receive a Form 1098-T.
 - The student is required to provide the information that would otherwise be included on the Form 1098-T.



Basic Requirements Taxpayer Must Meet

To claim an education credit, verify that the following are true for the taxpayers:

- They cannot be claimed as a dependent on someone else's tax return
- They are not filing as Married Filing Separately
- Their adjusted gross income (AGI) is below the limitations for their filing status
- They were not nonresident aliens for any part of the tax year, or if they were, they elected to be treated as resident aliens



Taxpayers claiming the American opportunity credit must have a valid identification number (SSN or ITIN) by the due date of the tax return (including extensions). Further, the student claimed for the credit must also have a valid identification number (SSN, ATIN, or ITIN) by the due date (including extensions). Taxpayers cannot file an amended return to claim the credit for a year that the taxpayer and/or student did not originally have a required identification number by the return due date.

Educational Expenses

Qualifying Expenses

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 educational institution. (Must be required of all students enrolled in the course.)

Non-Qualifying Expenses

- Room & Board
- Research
- Equipment & other expenses not required for enrollment or attendance
- Travel
- Clerical help
- Health Insurance or fees




When Janice enrolled for her freshman year of college, she had to pay a separate student activity fee in addition to her tuition. This activity fee is required of all students and is used solely to fund on-campus organizations and activities run by students, such as the student newspaper and the student government. No portion of the fee covers personal expenses. Although labeled as a student activity fee, the fee is required for Janice's college enrollment and attendance; therefore, it is a qualified expense.



Jackie paid \$3,000 for tuition and \$5,000 for room and board at an eligible university. The \$5,000 paid for room and board is not a qualified expense for the education credits.



Which Education Benefit is best?

- American Opportunity Credit (AOC) or Lifetime Learning Credit
 - Business expenses on Schedule C if the expenses qualify
 - Make an unrestricted scholarship or grant tax free
 - Student Loan Interest Deduction
 - Education Exception to Additional Tax on Early IRS Distribution
 - Employer-Provided Education Assistance
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Highlights of Education Tax Benefits

	Fellowships, Grants & Tuition Remission	American Opportunity Credit	Lifetime Learning Credit	Business Deductions	Student Loan Interest Deduction
Benefit	Amounts received may not be taxable	Credits reduce tax liability 40% of credit refundable (\$1000/student)	Credits reduce tax liability	Can deduct expenses	Deduct interest paid on qualified student loans, Form 1098, E
Annual Limit	None	\$2,500 credit/student	\$2,000/tax return	Amount of qualifying work-related educational expenses	\$2,500 deduction per return
Qualifying Expenses besides tuition and enrollment fees	Course-related expenses: fees, books, supplies, equipment.	Course-related expenses: fees, books, supplies, equipment. Maximum of \$4,000	Course-related expenses paid directly to institution. Maximum of \$10,000	Transportation Travel Other necessary expenses	



EXERCISES

Use the Volunteer Resource Guide, Tab J, Education Benefits, and Publication 17, Comparison of Education Credits, to answer the following questions. Answers are at the end of the lesson summary.

Question 1: Bob was a full-time student and a fifth-year senior. He has only claimed the American opportunity credit for three earlier years. Does he qualify for the American opportunity credit?

Yes No

Question 2: Janice works full time and takes one course a month at night school. Some of the courses are not for credit, but they are meant to advance her career. Which credit is appropriate for her?

American opportunity Lifetime Learning

Question 3: Clark is an older student who has gone back to college half time after serving 18 months in prison for felony drug possession. Which credit is appropriate for him?

American opportunity Lifetime Learning

Requirements the Taxpayer Must Meet

- They cannot be claimed as a dependent on someone else's tax return
- They are not filing as 'Married Filing Separately'
- Their adjusted gross income (AGI) is below the limitations of their filing status
- They were not nonresident aliens for any part of the tax year, or if they were, they elect to be treated as resident aliens for tax purposes.
- Student attended an eligible institution (domestic/international) accredited public, nonprofit, or private college, university, vocational school, or other postsecondary institution eligible to participate in student aid programming administered by the [US Department of Education](#).

Calculating Education Credits

- Review Form 1098-T or ask taxpayer to login to their student account.
- Clarify Box 1, Payments for qualified tuition and expenses is accurate.
- Does Box 1 contain book expenses, etc.
- Add any qualified expenses to Box 1.
- Review Box 5, Scholarships. Student loans are not reported in Box 5.
- Subtract Box 5 from Box 1 (adjusted).

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
Clark University 150 Learning Drive Memphis, TN 38101		\$ 7,000	2022 Form 1098-T
FILER'S employer identification no. 98-000XXXX		2	
STUDENT'S TIN 800-00-XXXX		3	
STUDENT'S name Sarah Pine		4 Adjustments made for a prior year \$ OOS	5 Scholarships or grants \$ 3,000
Street address (including apt. no.) 123 Main Street City or town, state or province, country, and ZIP or foreign postal code Memphis, TN 38101		6 Adjustments to scholarships or grants for a prior year \$ OOS	7 Checked if the amount in box 1 includes amounts for an academic period beginning January-March 2022 <input type="checkbox"/>
Service Provider/Acct. No. (see instr.)	8 Checked 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

Adjusted Qualified Education Expenses Worksheet (Form 8863 instructions)

1. Total qualified education expenses paid for on behalf of the student in 2022 for the academic period	7,500
2. Less adjustments:	
a. Tax-free educational assistance received in 2022 allocable to the academic period	3,000
b. Tax-free educational assistance received in 2023 (and before you file your 2022 tax return) allocable to the academic period	0
c. Refunds of qualified education expenses paid in 2022 if the refund is received in 2022 or in 2023 before you file your 2022 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



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.



Forms 1098-T with amounts listed in boxes 4 and 6 are Out of Scope (OOS).

Calculating Education Credits

- Review Form 1098-T or ask taxpayer to login to their student account.
- Clarify Box 1, Payments for qualified tuition and expenses is accurate.
- Does Box 1 contain book expenses, etc.
- Add any qualified expenses to Box 1.
- Review Box 5, Scholarships. Student loans are not reported in Box 5.
- Subtract Box 5 from Box 1 (adjusted).

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
Clark University 150 Learning Drive Memphis, TN 38101		\$ 7,000	2021 Form 1098-T
FILER'S employer identification no. 98-00XXXX		2	
STUDENT'S TIN 800-00-XXXX		3	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 Sarah Pine		4 Adjustments made for a prior year	
Street address (including apt. no.) 123 Main Street		\$ OOS	
City or town, state or province, country, and ZIP or foreign postal code Memphis, TN 38101		5 Scholarships or grants \$ 3,000	
Service Provider/Acct. No. (see instr.)		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 2022 <input type="checkbox"/>
8 Checked if at least half-time student <input checked="" type="checkbox"/>		\$ OOS	10 Ins. contract reimb./refund <input type="checkbox"/>
9 Checked if a graduate student <input type="checkbox"/>		\$	

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

Adjusted Qualified Education Expenses Worksheet (Form 8863 instructions)



1. Total qualified education expenses paid for on behalf of the student in 2021 for the academic period	7,500
2. Less adjustments:	
a. Tax-free educational assistance received in 2021 allocable to the academic period.	3,000
b. Tax-free educational assistance received in 2022 (and before you file your 2021 tax return) allocable to the academic period	0
c. Refunds of qualified education expenses paid in 2021 if the refund is received in 2021 or in 2022 before you file your 2021 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

Calculating Education Credits, part II


<input type="checkbox"/> CORRECTED		2021		Tuition Statement
FILER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number Clark University 150 Learning Drive Memphis, TN 38101		1 Payments received for qualified tuition and related expenses \$ 7,000	OMB No. 1545-1574 2021 Form 1098-T	
FILER'S employer identification no. 98-000XXXX	STUDENT'S TIN 800-00-XXXX	3		Copy B For Student
STUDENT'S name Sarah Pine		4 Adjustments made for a prior year \$ 000	5 Scholarships or grants \$ 10,000	
Street address (including apt. no.) 123 Main Street		6 Adjustments to scholarships or grants for a prior year \$ 000	7 Checked if the amount in box 1 includes amounts for an academic period beginning January-March 2022 <input type="checkbox"/>	
City or town, state or province, country, and ZIP or foreign postal code Memphis, TN 38101		9 Checked if a graduate student <input type="checkbox"/>	10 Ins. contract reimb./refund \$	
Service Provider/Acct. No. (see instr.)	8 Checked if at least half-time student <input checked="" type="checkbox"/>	This is important 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.		
Form 1098-T (keep for your records)		www.irs.gov/Form1098T		Department of the Treasury - Internal Revenue Service

1. Sarah had \$500 in additional qualifying expenses.
2. Sarah had awesome scholarships and grants of \$10,000.
3. Sarah's scholarships are more than her tuition and qualifying expenses. Therefore, she has \$2,500 in scholarship income to be reported on her Form 1040 not her parents.
4. Can Sarah claim more Scholarship Income, giving her parents tuition and qualifying expenses for the American Opportunity Credit?
5. Does Sarah complete Form 8615, (Kiddie Tax)?

Adjusted Qualified Education Expenses Worksheet (Form 8863 instructions)	
1. Total qualified education expenses paid for on behalf of the student in 2021 for the academic period	7,500
2. Less adjustments:	
a. Tax-free educational assistance received in 2021 allocable to the academic period	<u>\$10,000</u>
b. Tax-free educational assistance received in 2022 (and before you file your 2021 tax return) allocable to the academic period	<u>0</u>
c. Refunds of qualified education expenses paid in 2021 if the refund is received in 2021 or in 2022 before you file your 2021 tax return	<u>0</u>
3. Total adjustments (add lines 2a, 2b, and 2c)	<u>\$10,000</u>
4. Adjusted qualified education expenses. Subtract line 3 from line 1. If zero or less, enter -0-	<u>-\$2,500</u>



Form 8615, Tax for Certain Children Who Have Unearned Income (Kiddie Tax)

- Publication 970
 - If the student includes tax free education assistance in income, has a filing requirement, and unearned income (including taxable scholarship) over \$2,200, they must file Form 8615.
 - If the case, the return is “Out of Scope”.
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Full-Time College Students filing for AOC

Parent(s) are entitled to claim student (18-24 years of age) as a dependent and AOC as long as the student was a full time student at an eligible degree granting institution for minimally five (5) months of the year.

If parent is not present, have student call parent(s) to inquire if parent(s) are claiming the student on parent's tax return.

A student who is not being claimed as a dependent on parent(s) tax return are eligible for American Opportunity Credit.

Student Under Age 24 Claiming American Opportunity Credit

Probe/Action: Ask the taxpayer	Action
1. Were you under 24 at the end of 2022?	If NO , stop here; you do qualify to claim part of the allowable American opportunity credit as a refundable credit. If YES , go to question 2.
2. Were you over 18 at the end of 2022?	If YES , go to question 3. If NO , go to question 4.
3. Were you a full-time student (defined below) for 2022?	If NO , stop here; you do qualify to claim part of your allowable American opportunity credit as a refundable credit. If YES , go to question 5.
4. Were you 18 at the end of 2022?	If YES , go to question 5. If NO , go to question 6.
5. Was your earned income (defined below) less than one-half of your support for 2022?	If NO , stop here; you do qualify to claim part of your allowable American opportunity credit as a refundable credit. If YES , go to question 6.
6. Were either of your parents alive at the end of 2022?	If NO , stop here; you do qualify to claim part of your allowable American opportunity credit as a refundable credit. If YES , go to question 7.
7. Are you filing a joint return for 2022?	If NO , you do not qualify to claim part of your allowable American opportunity credit as a refundable credit. If YES , you do qualify to claim part of your allowable American opportunity credit as a refundable credit.

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 2022 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, or took a full-time, on-farm training course given by such an institution or by a state, county, or local government agency.

Things to Remember...

1

Compute any of the other eligible education benefits to determine the lowest tax.

2

Do not claim multiple credits for the same education expenses

3

Use the education credit most advantageous to the tax payer

4


Use Intake and Interview Sheet to mark the appropriate box and add any notes to assist the quality reviewer.

5

Add qualifying expenses to the Form 1098-T to be used as written documentation for QR and taxpayer.

6

Ask if the American Opportunity Credit was disallowed in previous years.



Questions/Comments