

# **WELCOME!**

## **Tax Benefits for Education - VITA**



United Way of Tucson  
and Southern Arizona

# TRAINING OBJECTIVES

- **Identify types of education benefits you may encounter.**
- **Determine which benefit is the most advantageous.**
- **Understand how to maximize the American Opportunity Credit.**
- **Get familiar with resources & tools.**



# HOW DO EDUCATION EXPENSES IMPACT A RETURN?

- **If expenses paid exceed scholarships received:**  
The taxpayer may be eligible for a credit or deduction.
- **If scholarships received exceed expenses paid:**  
The taxpayer is not eligible for a credit or deduction & may need to report taxable scholarship income.



# FORM 1098-T

**Form 1098-T** shows tuition paid and any scholarships or grants received.

Let's take a look at form 1098-T on the next slide, specifically these boxes:

- **Box 1:** Payments received for qualified tuition and related expenses
- **Box 2:** Amounts billed for qualified tuition and related expenses
- **Box 5:** Scholarships or grants



# FORM 1098-T

CORRECTED

FILER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number  <b>Clark University</b> <b>150 Learning Drive</b> <b>Memphis, TN 38101</b>		1 Payments received for qualified tuition and related expenses <b>\$ 7,000.00</b> 2	OMB No. 1545-1574  <b>2020</b>  Form 1098-T	<b>Tuition Statement</b>  <b>Copy B</b> <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.
FILER'S employer identification no. <b>98-000XXXX</b>	STUDENT'S TIN <b>800-00-XXXX</b>	3		
STUDENT'S name  <b>Sarah Pine</b>		4 Adjustments made for a prior year <b>\$ OOS</b>	5 Scholarships or grants <b>\$ 3,000.00</b>	
Street address (including apt. no.) <b>123 Main Street</b>		6 Adjustments to scholarships or grants for a prior year <b>\$ OOS</b>	7 Checked if the amount in box 1 includes amounts for an academic period beginning January-March 2021 <input type="checkbox"/>	
City or town, state or province, country, and ZIP or foreign postal code <b>Memphis, TN 38101</b>				
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 <b>\$</b>	

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



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# FORM 1098-T

Ideally, boxes 1, 2, and 5 contain an amount – however, **box 1 is often empty.**

We always recommend that taxpayers bring a copy of their student account summary with them as it helps fill in information gaps from the 1098-T.

We cannot assume that the amount billed is equal to the amount paid during the tax year – if we don't have the amount paid, we cannot accurately complete the return.



# FORM 1098-T

For purposes of calculating education benefits, we must subtract the scholarship amount from the tuition paid to calculate the out-of-pocket amount paid by the students.

- If Box 1 – Box 5 = **positive number**, the taxpayer may qualify for a benefit.
- If Box 1 – Box 5 = **negative number**, the taxpayer does not qualify for a benefit and may need to report taxable income.

There may be additional out of pocket expenses not reflected on the 1098-T – such as books and other materials. Be sure to ask the taxpayer!



# WHO REPORTS TAXABLE SCHOLARSHIP INCOME

**Check here:** Pub 4012 – Tab A, page A-2

Taxable scholarship income is reported by the student, if the student has a filing requirement.

- **If the student is a dependent**, the taxable scholarship income may create a filing requirement, in which case they will need to report the income.
- Taxable scholarships or grants are considered unearned income.

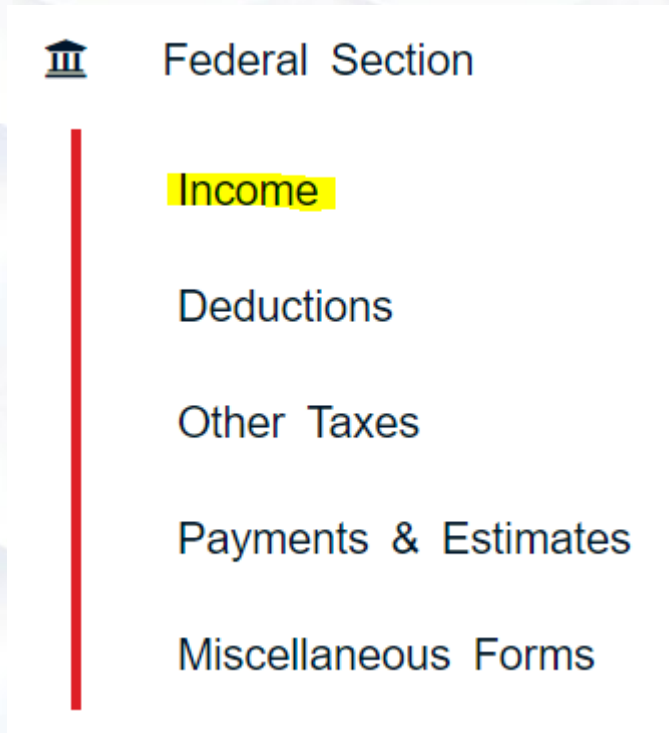
**Note:** If the student's unearned income (including the taxable portion of the scholarship) is more than \$2,200, the student may need to file Form 8615, *Tax for Certain Children Who Have Unearned Income* – which is Out of Scope for VITA!






# HOW TO ADD INCOME IN TAXSLAYER

1.



A screenshot of the TaxSlayer software interface showing the 'Federal Section' menu. The menu items are: Federal Section, Income (highlighted in yellow), Deductions, Other Taxes, Payments & Estimates, and Miscellaneous Forms. A red vertical line is positioned to the left of the menu items.

-  Federal Section
- Income**
- Deductions
- Other Taxes
- Payments & Estimates
- Miscellaneous Forms

2.

## Other Compensation

Scholarships and Grants

Fringe Benefits

Household Employee Income

Prisoner Earned Income

Foreign Earned Compensation

Section 933 Excluded Income from Puerto Rico



# HOW TO ADD INCOME IN TAXSLAYER

## 3. Less Common Income

Other Income Not Reported Elsewhere

Gambling Winnings Form W-2G

Other Compensation

Payments from Qualified Education Programs Form 1099-Q

Cancellation of Debt Form 1099-C, Form 982

## 4. Other Income

Form belongs to

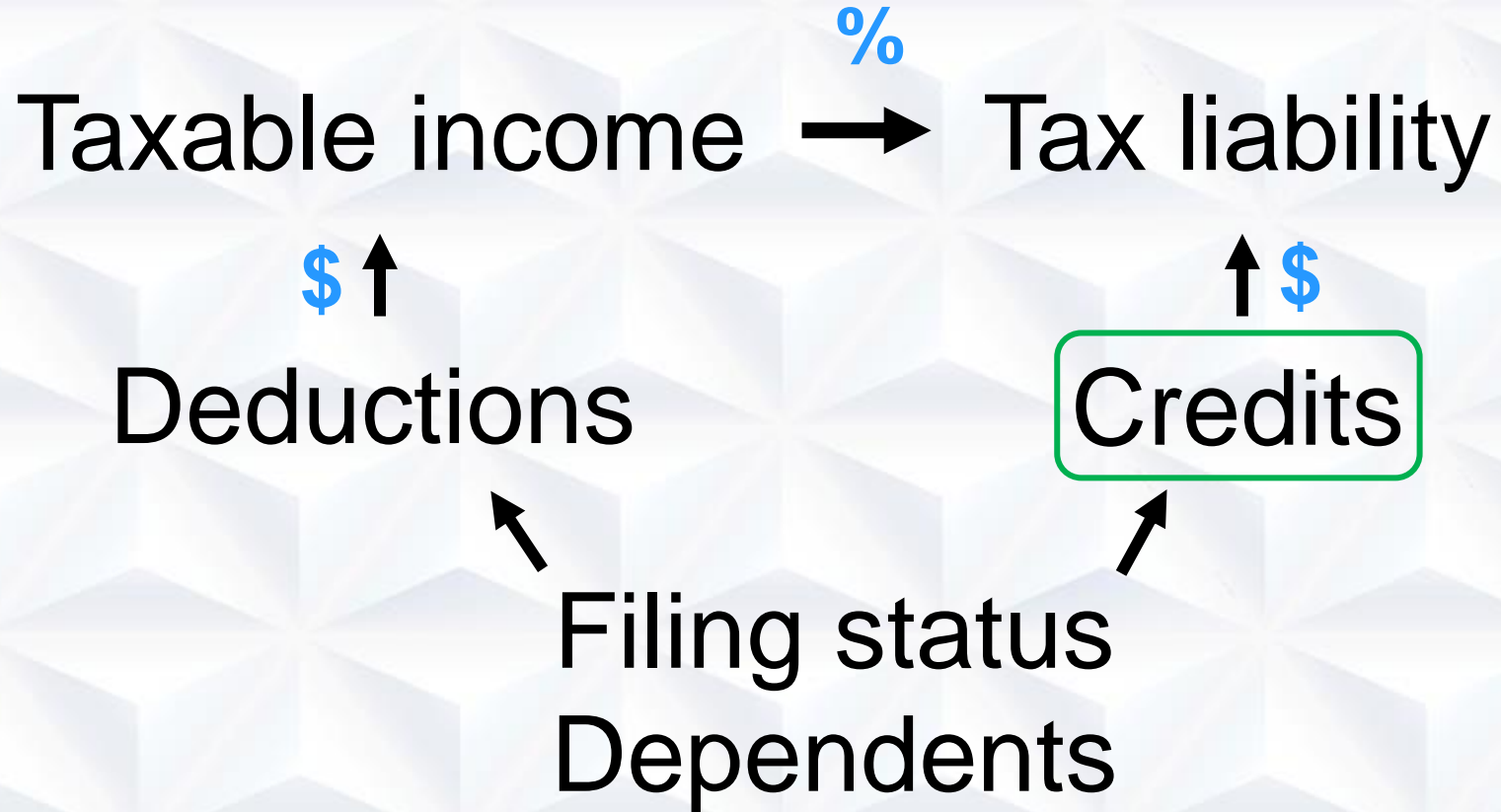
Description of other income \*

Amount of other income \*

Earned Income



# LET'S PUT SOME PIECES TOGETHER



# TAX CREDITS

Tax credits directly reduce tax liability, dollar for dollar. They have a greater dollar-for-dollar impact than deductions.

There are **two types** of tax credits:

- Nonrefundable
- Refundable



# TAX CREDITS

A **nonrefundable credit** can reduce the tax liability to zero, but that's all. Any excess is not added to the refund – it has no further impact.

A **refundable credit** can reduce the tax liability to zero and can add to the refund beyond that point.

It is *possible* to receive a refundable credit even if the taxpayer owes no tax and is not required to file a tax return, so a refundable credit is more beneficial.



# EDUCATION CREDITS

**Check here:** Pub 4012 – Tab J, page J-4

**There are two education credits** – only one can be claimed for an expense

- American Opportunity Credit (AOC)      A portion of the AOC is **refundable**
- Lifetime Learning Credit (LLC)      The LLC is **nonrefundable**



# EDUCATION CREDITS

**Check here:** Pub 4012 – Tab J, page J-5

To claim either education credit, taxpayers must:

- **not** be MFS
- **not** be claimed as a dependent on another person's tax return
- **not** have modified AGI that exceeds allowable limits



# EDUCATION CREDITS

**Check here:** Pub 4012 – Tab J, page J-5

Taxpayers can claim an education credit if they:

- paid **qualified educational expenses** of higher education,
- for an **eligible student** – taxpayer, spouse, or dependent – who
- was enrolled at or attending an **eligible educational institution**





# EDUCATION CREDITS

Taxpayers can claim a credit for expenses paid out-of-pocket, with credit cards, or with loans – in all of these cases, the taxpayer still pays.

Taxpayers cannot claim a credit for expenses paid with:

- Scholarships
- Pell grants
- Employer-provided educational assistance
- Veteran's educational assistance
- Any other non-taxable payments (other than gifts or inheritances) received for educational expenses



# EDUCATION EXPENSES PAID BY OTHERS

Assuming the student meets other eligibility requirements, they can include qualified tuition payments made directly to the educational institution by someone else in their qualified expenses.



# EDUCATION CREDITS

## Qualified educational expenses are

- Tuition and required enrollment fees;
- Course-related expenses, such as books, supplies, and equipment that are **required of all students** in a course of instruction.



# LIFETIME LEARNING CREDIT

There is a restriction for book expenses. Book expenses are eligible for the Lifetime Learning Credit **only if they are both**:

- Required for admission, and
- Only available from the institution.

For example, if a book is available at the institution and at Amazon.com, it doesn't qualify for the credit – even if it was ultimately purchased from the institution.



# EDUCATION CREDITS

## Examples of expenses that do not qualify:

- Student health insurance, fees, or medical expenses
- Parking fees
- Room and board
- Transportation
- Living expenses
- Laptops, tablets or other computers – unless it is a **requirement of enrollment**



# AMERICAN OPPORTUNITY CREDIT

- The maximum credit is \$2,500 per student.
- 40% of the credit – up to \$1,000 – is refundable.
- Expenses must be in pursuit of a degree or recognized educational credential.
- It generally does not apply to graduate programs.



# LIFETIME LEARNING CREDIT

- This credit is limited to \$2,000 per return, not per student.
- Non-degree courses taken to improve job skills are eligible, as are expenses related to non-credit and non-degree courses.
- There is no limit to the number of years it can be claimed and the felony drug conviction rule does not apply.



# AMERICAN OPPORTUNITY CREDIT

**To be eligible for this credit, the student must be:**

- At least a ½ time student for at least one academic period beginning during the tax year
- Free of any felony conviction for possessing or distributing a controlled substance





# AMERICAN OPPORTUNITY CREDIT

There are two 4-year tests for the American Opportunity Credit:

- The credit can be taken only for four tax years.
- The student must not have completed four years of academic credit before the beginning of the tax year – Freshman, Sophomore, Junior, and Senior.



# EDUCATION CREDITS QUIZ

**Check here:** Pub 4012 – Tab J, page J-4

Kevin spent \$1,300 for required books and lab supplies for his first year at college. He also spent \$500 on therapy sessions to help him adjust to college life.

**How much can Kevin claim in qualified expenses for the American Opportunity Credit?**

**\$1,300 for books and lab fees**



# EDUCATION CREDITS QUIZ

**Check here:** Pub 4012 – Tab J, page J-5

Heather is a half-time student in her second year at a community college. Her mother, Sally, paid \$1,400 for her tuition in 2020. Heather also paid \$200 for a parking pass in 2020. Sally is able to claim Heather as a dependent on her tax return.

**Who can claim the American Opportunity Credit for Heather's expenses?**

**Sally**



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# EDUCATION CREDITS QUIZ

**Check here:** Pub 4012 – Tab J, page J-5

Heather is a half-time student in her second year at a community college. Her mother, Sally, paid \$1,400 for her tuition in 2020. Heather also paid \$200 for a parking pass in 2020. Sally is able to claim Heather as a dependent on her tax return.

**What is the total of eligible expenses for the American Opportunity Credit?**

**\$1,400**



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# MAXIMIZING THE AMERICAN OPPORTUNITY CREDIT

**If the following statements are true:**

- A taxpayer is eligible to claim the American Opportunity Credit
- The taxpayer is not already receiving the maximum credit (eligible expenses do not reach \$4,000)
- The student received tax-free, unrestricted scholarships or grants;

**...then we can maximize the American Opportunity Credit by making some – or all – of the scholarship or grant income taxable.**



# MAXIMIZING THE AMERICAN OPPORTUNITY CREDIT

- If  $\text{Box 1} - \text{Box 5} = \text{positive number}$ , the taxpayer may qualify for a benefit.

**In this equation, reduce the amount in Box 5 by the amount reported as income.**



# MAXIMIZING THE AMERICAN OPPORTUNITY CREDIT

## Example

Expenses paid (box 1): \$1,200  
Scholarship (box 5): \$2,000

### Option 1:

- Enter no expenses.
- Enter \$800 in taxable excess scholarship income.

AOC: **No.**

### Option 2:

- Enter \$2,000 in taxable scholarship income.
- Enter \$800 in expenses.

AOC: **Yes!**

**Caution:** Scholarships are considered unearned income. If student is a dependent, any unearned income over \$2,200 requires filing Form 8615, *Tax for Certain Children Who Have Unearned Income* – which is Out of Scope for VITA!



# EDUCATION CREDITS QUIZ

**Check here:** Pub 4012 – Tab J, page J-4

Kim is a professional photographer. She enrolled in an advanced photography course at a local community college. The course does not count toward a degree program, but she enrolled to learn new technical skills.

**Which credit does Kim qualify for, if any?**

**Lifetime Learning Credit**



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# HOW TO ADD CREDIT IN TAXSLAYER

1.



Federal Section

Income

**Deductions**

Other Taxes

Payments & Estimates

Miscellaneous Forms

2.

## Deductions

Adjustments

Standard Deduction

Itemized Deductions

**Credits Menu**



# HOW TO ADD CREDIT IN TAXSLAYER

3.

## Credits

Foreign Tax Credit Form 1116

Child Care Credit Form 2441

Education Credits Form 1098-T

4.

## Form 8863 - Educational Credit

Select an Eligible Student

Select the type of credit \*

- American Opportunity
- Lifetime Learning
- Tuition and Fees Deduction

Qualified Expenses \*

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



# RESOURCES & TOOLS

- **Pub 4012** – Tab J: “Education Benefits”
- **Pub 970** – “Tax Benefits for Education” – available at [irs.gov](https://www.irs.gov)
- **VITA Links** – Education Benefits Calculator – available at [unitedwaytucson.org/vitalinks](https://unitedwaytucson.org/vitalinks)



**THANK YOU!**



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