Education Credit FAQ

➤ **What if the scholarship or grant is not listed as an option in the Education Worksheet or in List of Scholarships & Grants? Or if I do not know whether the scholarship or grant can be used for tuition only?**

If a scholarship or grant is not listed and you are unable to determine whether the grant or scholarship is restricted to tuition/fees only, assume that the grant/scholarship is not restricted and **can** be used for living and other expenses.

If you are completing the Education Worksheet for a scholarship or grant that is not listed here or on the Worksheet, select one of the following options in the Education Worksheet. *Do not type the scholarship or grant name into the Worksheet.*	
Name of Scholarship or Grant	**Description**
Other Grant/Scholarship: Not Listed	The scholarship or grant is not an option from the drop-down and you cannot determine whether it is restricted to tuition. This option assumes it is not restricted.
Other Grant/Scholarship: Restricted	The scholarship or grant is not an option from the drop-down and you confirm that it is restricted to tuition.

➤ **If a student has more than one Form 1098-T for the tax year, do we enter both in TaxSlayer? How do we enter education expenses?**

If the student has more than one **Form 1098-T** for the tax year, both should be entered in TaxSlayer but only **Form 1098-T** (the one with the largest **Box 1** amount) should be used to enter the total qualified expenses from the Education Worksheet. Enter **Tuition Paid** as zero (0) in any additional **Form 1098-T**s for the same student in TaxSlayer.

➤ **How do we count years of eligibility for the American Opportunity Credit?**

The American Opportunity Credit (AOC) is available for the first 4 years of post-secondary (after high-school) education. This generally corresponds to a traditional 4-year undergraduate degree. Some students may take longer to complete a typical 4-year undergraduate degree and, as long as they have not claimed AOC credit four times, they may take the AOC credit even though they have been a post-secondary student more than 4 years.

➤ **What if the qualified education expenses were paid with borrowed funds?**

Loan payments sent directly to an institution or payments made by family or others are

considered to have been paid by the student for the purposes of calculating the credit. Loans are not included when you are entering scholarships/grants in the Education Worksheet.

➤ **What if various people helped pay the tuition and expenses?**

Qualified education expenses paid on behalf of the student by someone else (a third-party, for example) considered to have been paid by the student for the purposes of calculating the credit.

➤ **Do we need to see receipts for any book or supply expenses?**

We do not need to see receipts. The taxpayer will attest to the accuracy of the tax return and they are ultimately responsible for the amounts that they provide during preparation.

➤ **What if the student received tuition waivers or exemptions?**

Tuition amounts that are "waived" or "excluded" are not generally included in **Box 1** of **Form 1098-T** as an expense. But the amount of any tuition waivers or exemptions is generally included in **Box 5** of **Form 1098-T** as a scholarship or grant. These are restricted to tuition (cannot be used for living expenses) and are potentially considered as taxable scholarship income if the amount exceeds the qualified education expenses.

➤ **What is the definition of a "half-time" student?**

In most cases, **Box 8** of **Form 1098-T** will provide information about whether the student was enrolled at least half-time. But in rare cases where an education credit is prepared for a student who did not receive **Form 1098-T**, it may be necessary to determine status.

A student is enrolled "at least half-time" if he or she is enrolled for at least half of a full-time academic workload for at least one academic term in the tax year being prepared, according to the standards of the institution.

➤ **Does a high school student taking college classes qualify for an education credit?**

No. Since the student is still enrolled in high school, the classes are not considered post-secondary enrollment and therefore the student does not qualify for the credit. However, these years also do not count against a student's eligibility for the American Opportunity Credit in future years.

For example, if a student enters college as a sophomore in credit hours because of college classes taken while still in high school, the student still has 4 potential years of eligibility remaining for purposes of the AOC.

➤ **What if the student withdraws from a class?**

You can claim an education credit only for qualified education expenses that were not refunded if the student withdrew.

➤ **How do we handle Form 1099-R early distributions that were used to pay for qualified education expenses?**

Qualified education expenses paid with **Form 1099-R** distributions are considered paid by the

student and can be counted when calculating the education credit. If the early distribution was used to pay for higher education expenses, the taxpayer would be eligible for an exception to the early distribution penalty.

➤ **Definitions of terms**

- **Scholarships:** awards of financial aid to a student that is not to be repaid.
- **Grant:** funds disbursed by one party (often a government, corporation, or foundation) to a recipient and not to be repaid.
- **Fellowship:** merit-based awards, often restricted to use for tuition and fees.
- **Endowment:** funds given from a private individual to the institution; use of these funds can be restricted in use.
- **Stipend:** a payment in exchange for work performed, which is counted as taxable income and disregarded when calculating scholarships and grants. If instead it does not represent payment for work performed and is paid directly to the student, it is considered available for living expenses and is counted along with scholarships and grants.
- **Refund:** Monies returned to the student after all school charges are paid (e.g. H1-Fin Aid Refund). This does not factor into the education credit calculation and should be ignored.
- **Loan:** A loan is considered to be a payment made by the student. It should not be included when entering scholarships and grants in the Education Worksheet.
- **Emergency loan:** These should not be included when entering scholarships and grants in the Education Worksheet. “Texas 24-hour grant” is an example of an emergency loan (and must be repaid by the student).