

Education Credit FAQ

► What if the scholarship or grant is not listed as an option in the Education Worksheet or in [Scholarships/Grants for Living Expenses](#)?

Ask the taxpayer if they know whether a scholarship or grant can be for living expenses. If the taxpayer does not know and limited online research does not yield the answer, then assume that the scholarship/grant cannot be used for living expenses and is restricted to tuition and fees only unless there is a compelling reason why that is not the case.

► 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 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-Ts 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.

► 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. Can often be used for both tuition and living expenses.
- **Grant:** funds disbursed by one party (often a government, corporation, or foundation) to a recipient and not to be repaid. Can often be used for both tuition and living expenses.
- **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 counted when calculating scholarships and grants.
- **Emergency loan:** Disregard when calculating scholarships and grants. **Texas 24-hour grant** is an example of an emergency loan (and must be repaid by the student).
- **Waiver:** Used when a charge for tuition or other fees is waived or canceled. Disregard when calculating education expenses and scholarships and grants.