

# Education Credits: A How-To Guide

## Who Gets the Credit? Who Reports Scholarship/Grant Income?

	Education Credit	Taxable Scholarship Income
<b>Student is a Dependent</b>	Claimed on the Parent or Guardian's Tax Ret	Reported on the Student's Tax Return (if there is a filing requirement)
<b>Student is Not a Dependent</b>	Claimed on the Student's Tax Return	Reported on the Student's Tax Return

For an overview of the Education Credit preparation process, review Education Credit documents and videos on [CTC Resources](#).

## Step 1: Do you have what you need to calculate the credit and any taxable scholarship income?

Verify that you have these 4 items in order to calculate an education credit correctly.

### 1. Do you have Form 1098-T for the student?

- YES.** (Continue to the next question below.)
- NO.** If there is no 1098-T, is the institution an eligible institution? Search at <https://ope.ed.gov/dapip/#/home>.
- YES.** (Continue to the next question below.)
- NO. (STOP.** We cannot prepare an education credit.)

### 2. Is there anything in Box 4 or Box 6 of Form 1098-T?

<input type="checkbox"/> <b>NO</b>	<b>The return is IN SCOPE.</b> Continue preparation.
<input type="checkbox"/> <b>YES AND</b> no education credit was claimed last year <b>OR</b> the credit was claimed by the student's parents last year but the student is not a dependent this year and will claim the credit.	<b>The return is IN SCOPE.</b> Continue preparation.

<input type="checkbox"/> <b>YES AND</b> the tax return is for a taxpayer (non-dependent student or parent) who claimed an education credit on last year's tax return.	<b>STOP. The return is OUT OF SCOPE.</b>  <i>Refer the taxpayer to Special Tax Services for so-called Education Credit Recapture.</i>
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See [When Is Form 1098-T Out of Scope?](#) for more information.

3. **Will you need Account Statements?** The student Account Statement or Summary shows tuition, fees and other expense payments charged to the student by the school and reflects any payments made regardless of the payment's origin.

**Take Note:** Some institutions may not issue an Account Summary, particularly trade schools but also the University of Texas at Austin in many cases.

IF...	Are Account Statements Needed?
There is no Form 1098-T for an eligible institution.	Yes - send return to Drop Off
Box 1 is larger than 0 and Box 5 is 0 or empty	No
Box 1 is larger than Box 5 by: <ul style="list-style-type: none"> <li>• \$4,000 for a full-time undergraduate student</li> <li>• \$10,000 for a part-time OR graduate student</li> </ul>	No
Box 1 is larger than Box 5 but not by more than: <ul style="list-style-type: none"> <li>• \$4,000 for a full-time undergraduate student</li> <li>• \$10,000 for a part-time OR graduate student</li> </ul>	Recommended to maximize the credit. There <u>may</u> be taxable scholarship income for the student.
Box 5 is larger than Box 1.	Required or there is no credit. <b>There <u>is</u> taxable scholarship income for the student even if there is no education credit.</b>
The institution is a trade school with no summaries.	No

4. **Does the Student Have Other Expenses?**

These are course-related expenses such as fees, books, supplies and equipment that are required to take the course. These items must be required of **all** students in the course.

**Important:** Computers and software **do not qualify** unless the specific brand and model are required for enrollment or specified in the syllabus as a requirement for the course.

## Step 2: Enter Expenses and Scholarship/Grants Using the Education Worksheet

Located on CTC Resources, the online [Education Worksheet](#) is used to prepare both American Opportunity (AOC) and Lifetime Learning Credits, as well as to calculate scholarship income for the student. It is the starting point for education credit preparation in the Tax Help Program.

### 1. Complete the Education Worksheet for each student who may be eligible for an education credit or received Form 1098-T in the tax year.

- Rely on the taxpayer to supply information about enrollment, school, semesters attended, etc.
- Use **Box 1** amounts as qualified expenses unless you are from the Drop-Off team and are preparing without **Form 1098-T**.
- Enter any book and supply expenses based on taxpayer information. We do not need to see receipts.
- Refer to the table below to determine whether you will enter **Box 5** as the amount of any scholarships/grants into the Education Worksheet - or whether you will enter individual scholarships/grants in the worksheet in order to maximize the credit.

IF...	Enter Individual Scholarships/Grants into the Worksheet??
There is no Form 1098-T for an eligible institution.	Yes - return should be prepared by Drop-Off only
Box 1 is larger than 0 and Box 5 is 0 or empty	No - use Box 5 amount
Box 1 is larger than Box 5 by: <ul style="list-style-type: none"> <li>● \$4,000 for a full-time undergraduate student</li> <li>● \$10,000 for a part-time OR graduate student</li> </ul>	No - use Box 5 amount
Box 1 is larger than Box 5 but not by more than: <ul style="list-style-type: none"> <li>● \$4,000 for a full-time undergraduate student</li> <li>● \$10,000 for a part-time OR graduate student</li> </ul>	Yes - Recommended to maximize the credit. There <u>may</u> be taxable scholarship income for the student.
Box 5 is larger than Box 1.	Yes. Required or there is no credit. <b>There is taxable scholarship income for the student even if there is no education credit.</b>

**Note:** If there is an expense listed on the Account Statement that is not an option on the drop-down menu of the Education Worksheet, check [Qualified Expenses by School/Institution](#) on CTC Resources to see if it is listed. That reference document is updated more frequently than the Education Worksheet.

### ➤ More Than One School for the Same Student?

If you have multiple **Form 1098-Ts** for one student, you will combine them into one Education Worksheet.

#### For Expenses:

- If you have Form 1098-T for each school, add the **Box 1** amounts and enter them in the Expenses field.

#### For Books/Supplies:

- Add books and supplies information for both schools.

#### For Scholarship & Grants:

- Refer to the table above to determine whether you will enter **Box 5** as the amount of any scholarships/grants into the Education Worksheet - or whether you will enter individual scholarships/grants in the worksheet in order to maximize the credit.
- If you will be using Box 5 amounts, add the **Box 5** amounts and enter them in the Scholarships field.
- If you will be entering individual Scholarship & Grants, enter them in the Education Worksheet.

## Step 3. Interpreting the Results of the Worksheet to Claim the Education Credit or Recognize Scholarship Income

Use the **OUTCOME AND NEXT STEPS** section of the Education Worksheet to determine whether **Option A** or **Option B** will provide the best outcome for the taxpayer. This may involve the transfer of additional scholarship income to the student in order to maximize the expenses for the credit and thus increase its value.

**Important:** If there are \$0 in educational expenses, there is no education credit. There may STILL be scholarship income that the student must report.

## Step 4: Entering the Education Credit & Expenses into TaxSlayer

1. In the tax return in TaxSlayer, navigate to **Federal**→**Deductions**→**Credits**→**Education Credits**.
2. Select the name of the student.
3. Answer the questions that follow. Rely on the taxpayer for assistance.

4. Indicate if the student received **Form 1098-T** and check answer the additional question about **Boxes 2** and **7**.
5. Enter the education institution's name, address and EIN (from Form 1098-T).
6. Click **Continue** when finished.
7. In the **1098-T** screen, enter:

<b>Tuition Paid</b>	Enter the <b>Total Qualified Expenses</b> from the Education Worksheet
<b>Grants</b>	ENTER ZERO or leave blank
<b>Other Qualified Expenses</b>	ENTER ZERO or leave blank

8. Click on **Continue**.
9. Answer the qualifying questions for the student. Refer to the Education Worksheet qualifying questions.
10. TaxSlayer will display the Education Credits available to the taxpayer.
  - a. Verify that the outcome is what you expected based on your review of the tax forms.
  - b. If necessary, click on the credit that provides the taxpayer with the greatest benefit. (It may already be selected with a checkmark.)
11. Click on **Continue**.

**Note:** 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.

### Step 5: Enter Taxable Scholarship Income in TaxSlayer (if applicable)

	<b>Taxable Scholarship Income</b>
<b>Student is a Dependent</b>	<p>Reported on the <b>Student's</b> Tax Return (if there is a filing requirement)</p> <p><i>If you are preparing an education credit for a dependent student, do NOT enter the scholarship income on the parents' tax return.</i></p>

<b>Student is Not a Dependent</b>	Reported on the Student's Tax Return
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**Take Note:** Taxable scholarship/grant income above a certain amount for a dependent student may make the student's return out of scope. See [When is Scholarship Income Out of Scope?](#).

1. In the student's tax return in TaxSlayer, navigate to **Federal**→**Income**→**Other Income**→**Other Compensation**→**Taxable Scholarships or Grants**.
2. Enter the **Taxable Scholarships and Grants** amount from the Education Worksheet in **OPTION A** or **OPTION B** (depending on which option was chosen).
3. Select **Continue**.

## **Step 6: Provide a copy of the Education Worksheet to the Taxpayer**

If you are working on-site with a client, quality reviewers should print the Education Worksheet and provide it to the client in their Client Envelope with a copy of their completed tax return.

If you are working to prepare a return in the Drop-Off Program or another virtual program, print a copy of the Education Worksheet in PDF format and then upload it to the Hub ticket. Leave a note for the Drop-Off pick-up that the Worksheet should be printed and provided to the taxpayer.