

Education Credits

Frequently Asked Questions

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What is an eligible education institution?

An eligible educational institution is generally any accredited public, nonprofit, or proprietary (privately owned profit-making) college, university, vocational school, or other postsecondary educational institution. Also, the institution must be eligible to participate in a student aid program administered by the U.S. Department of Education. Virtually all accredited postsecondary institutions meet this definition. An eligible educational institution also includes certain educational institutions located outside the United States that are eligible to participate in a student aid program administered by the U.S. Department of Education.

Look up a school here: <https://www.ed.gov/accreditation?src=rn>

What counts as tax-free educational assistance?

You must reduce the qualified educational expenses for each academic period by the amount of tax-free education assistance allocable to that academic period. This assistance includes: tax-free parts of scholarships and fellowship grants, tax-free part of employer-provide education assistance, veterans' educational assistance, and any other nontaxable payments (other than gifts or inheritances) received as educational assistance.

You cannot claim an education credit based on the same expenses used to figure the tax-free portion of a distribution from a Coverdell education savings account (ESA) or qualified tuition program (QTP). Any additional tax-free assistance received from one of these types of accounts not already included on a 1098-T would be added to the sum of tax-free assistance received (alongside scholarships and grants). The full amount of the distribution must have been used toward education expenses or else the return becomes out of scope for VITA. (The Out-of-Scope team can prepare this type of return.) The distribution may be reported on a 1099-Q.

Do we have to see the 1098-T? We do. Exceptions in which institution not required to send a 1098-T: if the student is a nonresident alien, has qualified education expenses paid entirely with scholarships, has qualified education expenses paid under a formal billing arrangement, or is enrolled in courses for which no credit is awarded. If a student's educational institution is not required to provide a 1098-T to the student, the taxpayer may claim one of the education benefits without it if he/she otherwise qualifies, can demonstrate that the taxpayer (or dependent) was enrolled at an eligible educational institution, and can substantiate the payment of qualified tuition and related expenses.

Do we need to see the account summary to calculate an education credit? Yes, we must see the student's account summary from the educational institution to accurately calculate any education credit and/or taxable scholarship income.

What expenses can we count?

For 2018, the credits are based on the amount of qualified education expenses paid for the student in 2018 for academic periods beginning in 2018 and in the first 3 months of 2019.

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

You can claim an education credit for qualified education expenses to figure the credit for the year in which the expenses are paid, not the year in which the loan is repaid. Treat loan payments sent directly to institution as paid on date institution credits the student's account

What amounts do not reduce qualified education expenses (unlike tax-free educational assistance)?

Do not reduce qualified education expenses by amounts paid with funds the student receives as payment for services, such as wages; a loan; a gift; an inheritance; or a withdrawal from the student's personal savings. Additionally, do not reduce qualified education expenses by any scholarship or fellowship grant reported as income on the student's tax return when use of the money is restricted, by the terms of the scholarship, to costs of attendance (such as room and board) other than qualified education expenses.

What if various people helped pay the tuition?

Qualified education expenses paid on behalf of the student by someone else are treated as paid by the student or by the person claiming the student (if the student is a dependent on someone else's return).

What if the student withdraws from a class?

You can claim an education credit for qualified education expenses not refunded when a student withdraws.

Can I allocate some of the scholarships and grants to personal expenses in order to increase qualified education expenses for an education credit?

Yes, in some situations. You may be able to increase an education credit and reduce your total tax or increase your tax refund if the student (you, your spouse, or your dependent) chooses to include all or part of certain scholarships or fellowship grants in income. The scholarship or fellowship grant must be one that may qualify as a tax-free scholarship and must be one that may (by its terms) be used for expenses other than qualified education expenses (such as room and board). That fact that the educational institution applies the scholarship or fellowship grant to qualified education expenses doesn't prevent the student from choosing to apply certain scholarships or grants to other expenses. By choosing to do so, the student will include the part applied to other expenses in gross income and may be required to file a tax return. However, this allows payments made in cash, by check or by credit or debit card, or with borrowed funds such as a student loan, to be applied to qualified education expenses. These payments, unlike certain scholarships or fellowship grants, will not reduce the qualified education expenses available to figure an education credit. The result is generally a larger education credit that reduces your total tax or increases your tax refund.

What does it mean if there is an entry in box 4 and/or 6 on the 1098-T?

If there is an entry in box 4 or 6 of the 1098-T, the return may be out of scope. We cannot prepare the tax return for the person who claimed the education credit for the student last year.

- If the student was a dependent last year, we can do the student's return this year. If the person who claimed the student last year (e.g. the parent) received the education credit for that student, the return for that person this year is out of scope. (The student will need to share this year's 1098-T with that person.) If that person did not claim the credit last year, we can prepare that person's return this year.
- If the student was not claimed as a dependent last year, we can only do the return if the student did not claim the education credit last year. If the student did claim the education credit last year, the return is out of scope this year.

How we proceed: **For the return that is within scope this year, we disregard the entries in boxes 4 and 6.** These are only relevant to the person whose return is out of scope this year. **Our Out-of-Scope program can prepare the return for the person who received the education credit last year.** (It's called a recapture of the education credit. The taxpayer will need to provide a copy of last year's return and the student's 1098-T and account summary for this year.)