

Education Credits: A How-To Guide

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

- For a dependent student, the parent (or guardian or whoever claims the student) claims the credit in their tax return.
- A non-dependent student claims their own credit.
- Scholarships and/or grants that are reported as taxable income are always reported on the student's return.

For an overview of the Education Credit preparation process, see the [Overview of Calculating Education Credits](#) video.

Step 1: Do you have what you need to calculate the credit?

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

1. Form 1098-T from the school or institution

This form is issued by the school and reflects expenses paid to the school and scholarships/grants administered by the school and provided to the student.

Because the amounts listed in **Box 1** may include non-qualifying expenses and are thus not accurate for calculating the credit, amounts in both **Box 1** and **Box 5** are disregarded in favor of calculating expenses and scholarships/grants using the Account Summaries provided by the student.

The **ONLY** information used on **Form 1098-T** is the name, address, and EIN of the institution. In addition, **Form 1098-T** is used to verify whether the student was enrolled at least half-time.

Take Note: If **Form 1098-T** includes entries in **Box 4** and/or **Box 6**, refer to [When is Form 1098-T Out of Scope?](#) before proceeding.

Take Note: Some institutions will not issue **Form 1098-T**, including the University of Texas at San Antonio in most cases. If the student has qualifying expenses as shown on the Account Summary (see below) and the institution is a qualifying institution, the education credit can be prepared without **Form 1098-T** but the tax return cannot be e-filed and must be mailed to the IRS.

2. Account Statement(s) from the School or Institution

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.

The information from the Account Statement is the primary source of information used to complete the Education Worksheet.

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

3. 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. Computers and software do not qualify unless they are required for enrollment or specified in the syllabus as a requirement for the course.

Refer to the Education Checklist (see below) for this expense information.

4. Education Credit Checklist

This checklist is completed during Intake and provides information that you need to assess whether the return being prepared is in scope for the Tax Help Program, whether you have all needed information to prepare the return, and which education credit you will apply to the return.

Step 2: Calculate Expenses Using the Education Worksheet

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

The [How-To for Education Worksheet Data Entry](#) video demonstrates how to enter information from the Account Statement into the Education Worksheet.

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 Student?

If you have multiple **Form 1098-Ts** for one student, you can use the same Education Worksheet to enter information from all **Form 1098-Ts**.

1. Select or enter the first institution name from **Select School**.
2. Enter the relevant expenses and scholarship/grant information from the Account Summary of the first **Form 1098-T**.
3. In the Education Worksheet, return to the **Select School** field and select the school for the next **Form 1098-T**.
4. Enter the relevant expenses and scholarship/grant information from the Account Summary of the second **Form 1098-T**.
5. Repeat as necessary for all **Form 1098-Ts**.

There is no need to enter education expense amounts greater than \$4000 per student for the American Opportunity Credit or \$10,000 for the Lifetime Learning Credit, as these are the maximum amounts for the credit and expenses beyond these amounts will not yield a greater tax credit.

Step 3. Interpreting the Results of the Worksheet to Claim the Education Credit

Use the Impact on the Tax Return section of the Education Worksheet to determine whether Option A or Option B will provide the best outcome for the taxpayer. This usually involves whether or not to transfer income to the student in order to maximize the expenses for the credit and increase its value. See the [Understanding the Impact of Education Worksheet Data on the Tax Return](#) video.

Step 4: Entering Education Expenses into TaxSlayer

The video [Entering Education Expenses on TaxSlayer](#) (2020) demonstrates how to enter education expenses into TaxSlayer.

Note: Only one **Form 1098-T** can be entered in TaxSlayer. In the case of multiple Form 1098-Ts for a single student, enter the one with the greater expenses in **Box 1**.

Step 5: Transferring Grants and Scholarships to Income using the Education Worksheet, When Applicable

When scholarships and/or grants exceed qualified expenses, the client (usually parent) has the option to transfer scholarships/grants to the student as income in order to increase the

qualified expenses available for the credit. The Education Worksheet offers this option only when the available expenses (eligible expenses reduced by scholarships/grants) are below \$4,000 for American Opportunity Credit and below \$10,000 for Lifetime Learning Credit.

If the student is a dependent whose parent is claiming the credit, the income is transferred to the dependent student and is reported on their individual tax return. If the student is not a dependent, the income is reported on the non-dependents student's tax return as scholarship income. This means that they will have both taxable scholarships/grants and an education credit on their return.

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?](#).

The video [Entering Scholarship Income on TaxSlayer](#) (2020) demonstrates how to enter scholarship income on the student's return.

Step 5: Provide a copy of the Education Worksheet to the Taxpayer

If you are working on-site with a client, a copy of the Education Worksheet is provided 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, you will print a copy of the Education Worksheet in PDF format and then upload it to the Hub.