When Is Scholarship Income Out of Scope?

The Education Worksheet will show that there is taxable scholarship income for the student if the amount of scholarships and grants is larger than the amount of qualified education expenses.

➤ **If the student is a <u>dependent</u>** and they have taxable scholarships or grants above the limit below for the tax years being prepared, the tax return of the student **OUT OF SCOPE** for the Tax Help Program.

- 2026: $2,700
- 2025: $2,700
- 2024: $2,600
- 2023: $2,500
- 2022: $2,300
- 2021: $2,200

An amount of taxable scholarship income above the threshold requires filing **<u>Form 8615</u>**, *<u>Tax for Certain Children Who Have Unearned Income</u>*. This is the so-called **Kiddie Tax** which is out of scope for the VITA tax programs.

How to Assist the Taxpayer:

1. Determine if the **dependent student** is required to file a tax return.

The dependent student is **<u>required</u>** to file a tax return if:

- Their total income is more than the standard deduction for the tax year you are preparing.
  OR
- Their total income is less than the standard deduction for the tax year you are preparing <u>but they have income reported on Form 1099-NEC or over $400 of net self-employment income</u>.

Income includes:

- Any taxable scholarship amount shown on the Education Worksheet
- Any income earned and reported on Form W-2, Form 1099-NEC, Form 1099-MISC, etc.

The standard deduction for a Single filer with a 2026 tax return is $16,100.

The dependent student is **<u>not required</u>** to file a tax return but may choose to if:

- They prefer to for any reason.
  OR
- Their total earned and unearned income is less than the standard deduction for the tax year you are preparing <u>but they have income reported on Form W-2 that shows federal income tax withholding</u>. In this case, the student may choose to file a tax return in order to determine if they are entitled to a refund of any of their withholding.

If the dependent student chooses to file a tax return, the student **must** report the taxable scholarship income indicated on the Education Worksheet.

The standard deduction for a Single filer with a 2026 tax return is $16,100.

2. Determine if the **dependent student will file** a tax return (whether required or not).

3. Based on your determination above:

   ➤ If the student **will not** file a tax return (because they are not required to and choose not to), no action is required even if taxable scholarship income has been attributed to the student.

   ➤ If the student **will file** a tax return, is the scholarship income over the Kiddie Tax limit for the tax year being prepared? See chart above.

   a. If YES, the dependent student's tax return is **OUT OF SCOPE** for the Tax Help program. Refer the student taxpayer to Special Tax Services for a so-called **Kiddie Tax Return**.

   b. If NO, continue preparation as usual.

How to Avoid the Kiddie Tax for a Dependent Student

➤ **Take Note:** You will not be able to use this method in cases where the taxable scholarship amounts in **Box 5** of **Form 1098-T** exceed **Box 1** amounts by the maximum credit amounts.

To limit the amount of scholarship/grants that is transferred to taxable income:

1. Make sure that you have entered **Form 1098-T Box 1** expense amounts and scholarship/grants amounts in the Worksheet.

2. Verify that the amount of taxable scholarship income listed in **Outcome A** is not already more than the Kiddie Tax limit for the tax year you are preparing. (See the table above.)

   ➤ If the amount of taxable scholarship income listed in **Outcome A** is already more than the Kiddie Tax limit for the tax year you are preparing, **STOP**. You cannot restrict scholarship income to avoid Kiddie Tax rules.

3. Verify that the amount of taxable scholarship income listed in **Outcome B** is more than Option A and more than the Kiddie Tax limit for the tax year you are preparing.

4. Navigate to the end of the **Outcome & Next Steps** section of the Education Worksheet.

5. Click the checkbox to the right of **Maximum additional scholarship income to transfer to the student.**

6. Enter an amount that equals the maximum amount of scholarship income for the tax

year you are preparing minus the amount of taxable scholarship income listed in **Outcome A**.

> For example, for a 2026 tax return if **Outcome A** lists $500.00 in taxable scholarship income, click the checkbox and enter $2200 as the additional amount to transfer.
>
> **2700 (Kiddie Tax Limit) - 500 (Outcome A scholarship income) = 2200**

7. Check the Education Worksheet calculations to be sure that you have limited transfer to the desired amount.

Take Note: You cannot limit scholarship/grant transfer to less than the Kiddie Tax limit in cases where the taxable scholarship income listed in **Outcome A** already exceeds the maximum amount.