

When Is Scholarship Income Out of Scope?

Once an education credit has been prepared, the Education Worksheet may indicate that it is to the advantage of the student to transfer some scholarships and grants to taxable income for the student in order to maximize the amount of qualified education expenses that are available for the education credit.

If the student is a dependent, transferring scholarship or grants to income may make the tax return of the student out of scope for the Tax Help Program.

The student's tax return is **out of scope** if the student is required to file **Form 8615, Tax for Certain Children Who Have Unearned Income**. This is the so-called **Kiddie Tax**, in which a child's unearned income under \$1,250 is not taxed; the next \$1,250 is taxed at the child's tax rate; and any unearned income in excess of \$2,500 is taxed at the parents' tax rate.

➤ The Kiddie Tax applies (and the dependent student's return is subsequently **out of scope**) only if the answer is **YES** to **both** of these questions:

1. For tax year 2023, does the dependent student have over \$2,500¹ in unearned income (including taxable scholarship income)?
2. Will the dependent file a return?

Remember: Single dependents not age 65 or blind must file a return if **ANY** of the following apply:

- Their unearned income was more than \$1,250 (in this case, not including taxable scholarships)
- Their earned income (including taxable scholarships) was more than \$13,850
- Their gross income² was more than the larger of \$1,250 or their earned income (up to \$13,850) plus \$400

If the dependent student's return is out of scope, please refer the student taxpayer to Special Tax Services for a so-called **Kiddie Tax Return**. See your Site Manager.

If the dependent student's return is in scope for VITA, continue preparation of the tax return as usual.

¹ For tax year 2022, the amount is \$2,300. For tax years 2021 and earlier, the amount is \$2,200.

² Gross income for an individual consists of income from wages and salary plus other forms of income, including pensions, interest, dividends, and rental income.

How to Avoid the Kiddie Tax

Once an education credit has been prepared, the Education Worksheet may indicate that it is to the advantage of the student to transfer some scholarships and grants to taxable income for the student in order to maximize the amount of qualified education expenses that are available for the education credit.

If the student is a dependent, **transferring scholarship or grants to income may make the tax return of the student out of scope** for the Tax Help Program.

Review “**When Is Scholarship Income Out of Scope**” to confirm the unearned income thresholds that cause the kiddie tax to apply.

To **limit the amount of scholarship/grant to transfer to income**, navigate to the bottom section of the education credit worksheet.

- **Check the box as indicated below and enter the maximum amount to be transferred to the student.**

Determining amount of scholarship/grant to transfer to income
Set maximum amount of income to transfer to student (set checkbox and enter amount) <input checked="" type="checkbox"/> : <input style="background-color: yellow;" type="text" value="2500"/>

To avoid triggering the kiddie tax, enter a maximum of:

\$2500 for tax year 2023 | \$2300 for tax year 2022 | \$2200 for tax years 2021 and 2020

Note: This field can also be used to avoid transferring an amount of scholarship income that would trigger a filing requirement. For more information, check with a VLT or your site manager or consider sending the tax return to Drop Off.