

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 \$1,150 is not taxed; the next \$1,150 is taxed at the child's tax rate; and any unearned income in excess of \$2,300 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 2022, does the dependent student have over \$2,300¹ 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 \$1,100 (in this case, not including taxable scholarships)
- Their earned income (including taxable scholarships) was more than \$12,550
- Their gross income² was more than the larger of \$1,100 or their earned income (up to \$12,950) plus \$350

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 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.