

Determining Qualified Education Expenses

Box 1 may include nontaxable scholarship and grant amounts. Some students may choose to pay nonqualifying expenses with scholarship/Pell Grant funds, making the scholarship/Pell Grant taxable. This is true even if the scholarship/grant was paid directly to the school. This may increase the amount of qualifying expenses that can be used in calculating an education credit. Examples can be found in Coordination with Pell grants and other scholarships or fellowship grants in Publication 970.

Determine the amount paid by verifying the payment received from the student account statement with the amount shown in Box 1 of Form 1098-T. Remember to include books, supplies, course related materials and equipment if claiming the American opportunity credit. Also remember to include out of pocket payments made by the student or on the student's behalf. This includes student loans, payments, credit cards and taxable portions of scholarships/grants.

Example – Bill and Sue are eligible to claim the American opportunity credit for their daughter Sarah, who is in her first year of college. They have a Form 1098-T with \$7,000 in box 1 and a \$3,000 Pell Grant in box 5. During your interview with Bill and Sue, you determine that \$3,000 was paid in September 2020 for the fall semester; \$3,000 was paid by Pell Grant and \$4,000 was paid by loan proceeds. They paid \$500 for books in 2020. To calculate the eligible expenses for their credit, take the \$7,000 (\$3,000 grant + \$4,000 loan) paid in 2020, plus the \$500 for books and enter on line 1 of the worksheet above. The \$3,000 Pell Grant will be entered on line 2a. The line 3 amount is \$3,000. Subtracting line 3 from line 1, you get qualified education expenses of \$4,500. If the resulting qualified expenses are less than \$4,000, the student may choose to treat some of the grant as income to make more of the expenses eligible for the credit.

<input type="checkbox"/> CORRECTED			
FILER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number Clark University 150 Learning Drive Memphis, TN 38101		1 Payments received for qualified tuition and related expenses \$ 7,000.00 2	OMB No. 1545-1574 2020 Form 1098-T
FILER'S employer identification no. 98-000XXXX	STUDENT'S TIN 800-00-XXXX	3	Copy B For Student This is important tax information and is being furnished to the IRS. This form must be used to complete Form 8863 to claim education credits. Give it to the tax preparer or use it to prepare the tax return.
STUDENT'S name Sarah Pine		4 Adjustments made for a prior year \$ OOS	
Street address (including apt. no.) 123 Main Street		5 Scholarships or grants \$ 3,000.00	
City or town, state or province, country, and ZIP or foreign postal code Memphis, TN 38101		6 Adjustments to scholarships or grants for a prior year \$ OOS	
Service Provider/Acct. No. (see instr.)	8 Check if at least half-time student <input checked="" type="checkbox"/>	9 Checked if a graduate student <input type="checkbox"/>	7 Checked if the amount in box 1 includes amounts for an academic period beginning January–March 2021 <input type="checkbox"/> 10 Ins. contract reimb./refund <input type="checkbox"/> \$
Form 1098-T (keep for your records) www.irs.gov/Form1098T Department of the Treasury - Internal Revenue Service			

Adjusted Qualified Education Expenses Worksheet (Form 8863 instructions)	
1. Total qualified education expenses paid for on behalf of the student in 2020 for the academic period	7,500
2. Less adjustments:	
a. Tax-free educational assistance received in 2020 allocable to the academic period.	3,000
b. Tax-free educational assistance received in 2021 (and before you file your 2020 tax return) allocable to the academic period	0
c. Refunds of qualified education expenses paid in 2020 if the refund is received in 2020 or in 2021 before you file your 2020 tax return	0
3. Total adjustments (add lines 2a, 2b, and 2c)	3,000
4. Adjusted qualified education expenses. Subtract line 3 from line 1. If zero or less, enter -0-	4,500

Note: If the student doesn't have a copy of their student account statement, ask them to go online through their college or university to get this information.



Forms 1098-T with amounts listed in boxes 4 and 6 are Out of Scope.