

## Tax Treatment of Scholarship and Fellowship Payments

A scholarship or fellowship is tax free (excludable from gross income) **only if**:

- You are a **candidate for a degree** at an eligible educational institution. You are a candidate for a degree if you attend a primary or secondary school or are pursuing a degree at a college or university, or attend an educational institution that offers a program of training to prepare students for gainful employment in a recognized occupation and is authorized under federal or state law to provide such a program and is accredited by a nationally recognized accreditation agency.

A scholarship or fellowship is tax free **only to the extent**:

- It doesn't exceed your qualified education expenses;
- It isn't designated or earmarked for other purposes (such as room and board), and doesn't require (by its terms) that it can't be used for qualified education expenses; and
- It doesn't represent payment for teaching, research, or other services required as a condition for receiving the scholarship. (But for exceptions, see *Payment for services* in Publication 970).

Use *Worksheet 1-1* to figure the amount of a scholarship or fellowship you can exclude from gross income.

## Education Expenses

The following are **qualified education expenses** for the purposes of tax-free scholarships and fellowships:

- **Tuition and fees** required to enroll at or attend an eligible educational institution
- Course-related expenses, such as **fees, books, supplies, and equipment** that are required for the courses at the eligible educational institution. These items must be required of all students in your course of instruction.

Qualified education expenses **don't include** the cost of:

- Room and board
- Research
- Equipment and other expenses not required for enrollment in or attendance at an eligible educational institution
- Travel
- Clerical help

### Worksheet 1-1. Taxable Scholarship and Fellowship Income

<p>1. Enter the total amount of any scholarship or fellowship for the tax year. ....</p> <ul style="list-style-type: none"> <li>• If you are a degree candidate at an eligible educational institution, go to line 2.</li> <li>• If you aren't a degree candidate at an eligible educational institution, <b>stop here</b>. The entire amount is <b>taxable</b>.</li> </ul>	<p>1. _____</p>
<p>2. Enter the amount from line 1 that was for teaching, research, or any other services required as a condition for receiving the scholarship. (Don't include amounts received for these items under the National Health Service Corps Scholarship Program or the Armed Forces Health Professions Scholarship and Financial Assistance Program.)</p>	<p>2. _____</p>
<p>3. Subtract line 2 from line 1 .....</p>	<p>3. _____</p>
<p>4. Enter the amount from line 3 that your scholarship or fellowship <b>required</b> you to use for other than qualified education expenses .....</p>	<p>4. _____</p>
<p>5. Subtract line 4 from line 3. ....</p>	<p>5. _____</p>
<p>6. Enter the amount of your qualified education expenses (see Education Expenses above) .....</p>	<p>6. _____</p>
<p>7. Enter the smaller of line 5 or line 6. This amount is the most you can exclude from your gross income<sup>1</sup> (the tax-free part of the scholarship or fellowship) .....</p>	<p>7. _____</p>
<p>8. Subtract line 7 from line 5 .....</p>	<p>8. _____</p>
<p>9. <b>Taxable part.</b> Add lines 2, 4, and 8. This amount is taxable to the person in whose name the scholarship was received. ....</p>	<p>9. _____</p>

<sup>1</sup> However, a scholarship or fellowship grant isn't treated as tax free to the extent the student includes it in gross income (the **student** may or may not be required to file a tax return) for the year the scholarship or fellowship grant is received and either:

- The scholarship or fellowship grant (or any part of it) **must** be applied (by its terms) to expenses (such as room and board) other than qualified education expenses.
- The scholarship or fellowship grant (or any part of it) **may** be applied (by its terms) to expenses (such as room and board) other than qualified education expenses.

**You may be able to increase the combined value of an education credit and certain educational assistance if the student includes some or all of the educational assistance in income in the year it is received.**