

Form 1098-T

Form 1098-T: not a valid record of education expenses

Form 1098-T is not acceptable documentation for educational expenses. Taxpayers often mistakenly believe that the form serves as a record of the educational expenses they paid.

However, the form, issued by universities, only documents tuition that the school billed, not what the student paid. Volunteers should ask questions like: How much tuition did you pay the university/college? If the customer is not sure of the dollar amount they can contact the college. A lot of colleges will give the students a print out of their account and you can use that to calculate the credit or adjustment.

Generally, when Box 5 is larger than Box 1 or Box 2 the individual is not eligible for the credit. However, that does not automatically mean the person has a Taxable Scholarship. A scholarship becomes taxable when the person is given an amount for living expenses (room and board) or a stipend. Here again additional questions should be asked like: Does this scholarship pay for room and board or is any of it classified as a stipend? Money received for a service is also income. Individuals should receive a Form W-2 for their compensation.

Generally, a scholarship received by individuals who are a candidates for a degree only become taxable when they exceed the cost of tuition, books, entrance fees, supplies and equipment. Many colleges and universities require students to buy a lap-top. This would be an allowable equipment expense.

If the person is not a candidate for a degree then any scholarship received is income regardless of what it was used for.

If after probing you determine that the individual has a taxable scholarship then report the amount on line 7 of Form 1040, 1040A or on line 1 of Form 1040-EZ. TaxWise has a link to accomplish this. If you are a paper site enter the taxable scholarship amount on the appropriate line and write SCH and the taxable amount to the left of the line you reported on. Remember, taxable scholarship money is not eligible compensation for the Earned Income Credit.

If the person's Box 5 of Form 1098-T is less then the amount the customer paid in tuition then the difference is eligible for the education credit or the tuition adjustment to income. Scholarship income or other non-taxable monies would first be used to reduce the amount of eligible expenses before calculating any credit or adjustment.

Remember you are not auditors so you do not need to see the cancelled checks or credit receipts. Please remind the customer to keep the documentation to support their claim in case they are audited.