

P+P TAX TIP: EDUCATION CREDITS

Overview

TaxSlayer changed the data entry required for federal education credits that many college, university, and other post-secondary education students can claim. Even without these changes, education credits are tricky, so review the information in this tip and more details in your P+P tax manual on pages 124-138 to help prepare yourself for assisting students to claim the best tax benefits possible.

Education credits are complicated but worth it! You can make a difference of thousands of dollars in a customer's refund when you have a good understanding of these credits and the options students have.

Form 1098-T and Education Credits Worksheet

The **Form 1098-T** shows tuition paid and scholarships and grants received by students. The form gives some of the information needed to claim the American Opportunity Credit (refundable credit) or the Lifetime Learning Credit (nonrefundable credit). The rest of the information we need will come from questions you ask the customer.

The **Education Credits Worksheet** is a guide for the tax interview and making complete notes. It helps make sure we get all the information to compare scenarios and find the best tax credit option. Printed copies are available at all tax sites, and it is in the P+P volunteer tax manual on pages 131-132.

TaxSlayer data entry

Most of the TaxSlayer data entry changes for education credits are straightforward, however, it's easy to assume that the software is doing more for you than it actually does! You still need to enter three different values in three different areas of the software for most taxpayers:

1. Eligible Expenses for Credits (amount that qualifies for AOC or LTLC)	Enter in the Education Credit/Form 8863 section of TaxSlayer (<i>more notes below</i>)
2. Taxable educational assistance (taxable scholarships/grants)	Enter in the Other Income >> Other Compensation section of TaxSlayer
3. Nontaxable educational assistance (nontaxable scholarships/grants)	Enter in the MN (M1) section of TaxSlayer as Additional Nontaxable Income

Review the information on the next two pages for more details about how to use the new data entry screens in TaxSlayer to correctly calculate education credits.

Entry directly from 1098-T

Use Step 3 and Step 4 from the Education Credits Worksheet or information straight from the Form 1098-T and your interview with the taxpayer to do a first round of data entry into TaxSlayer.

Remember: You still need to enter any taxable scholarship income or nontaxable scholarship income in the appropriate locations in TaxSlayer.

FILER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number HAMLIN UNIVERSITY 1526 HEWITT AVE ST PAUL, MNE 55104		1 Payments received for qualified tuition and related expenses \$ 5878	OMB No. 1545-1574 2023 Form 1098-T	Tuition Statement
FILER'S employer identification no. 58-4567552	STUDENT'S TIN 111-22-1234	2		
STUDENT'S name DERRIN JONSEY JR		3	Copy B For Student This is important tax information and is being furnished to the IRS.	
Street address (including apt. no.) 123 LEXINGTON PKWY S, APT 1 ST PAUL, MN 55105		4 Adjustments made for a prior year \$		
City or town, state or province, country, and ZIP or foreign postal code		6 Adjustments to	7 Checked if the amount	
Service Provider/Acct. No. (see instr.)		8 Check half		

Form **1098-T** (keep for your records)

PREPARE + PROSPER **EDUCATION CREDITS WORKSHEET**

This worksheet helps determine **Eligible Expenses for Credits**, the **Taxable Educational Assistance**, and the **Nontaxable Educational Assistance**. See page 133 in the P+P Volunteer Tax Manual for definitions of these terms. See pages 124-138 for more information about education credits.

1. **Student is the:** Taxpayer Spouse Dependent

2. **What credit does the student qualify for?** American Opportunity Credit (AOC) Lifetime Learning Credit (LTLC)
See chart on page 125 of P+P Volunteer Tax Manual.

! If qualified for LTLC only, does the taxpayer have taxable income on Form 1040? If no, stop. Credit is nonrefundable and will not benefit the taxpayer.

3. **Determine total qualified expenses**

\$5,878	+	\$362	=	\$6,240
Tuition & related expenses Form 1098-T, box 1		additional expenses (see page 128 of the P+P Volunteer Tax Manual)		Total Qualified Expenses

4. **Total educational assistance** (Scholarships or grants from Form 1098-T, box 5): \$3,420

Form 1098-T Information – HAMLIN UNIVERSITY

CANCEL

CONTINUE

If you paid expenses for higher education in 2023, enter the amounts in the corresponding fields to determine the amount eligible for an education tax credit.

Tuition Paid

\$5878

Grants

\$3420

Other Qualified Expenses

\$362

Tuition Paid: Enter from box 1 on Form 1098-T

Grants: Enter from box 5 on Form 1098-T

Other Qualified Expenses: Determine this in the taxpayer interview

Entry to maximize American Opportunity Credit

If the taxpayer is claiming the American Opportunity Credit and the first entry does not allow them to take full advantage of the credit, you'll take additional steps. Fill out the full Education Credits Worksheet! Use the options chart on the worksheet to test various options. The data entry directly from the 1098-T tests option 1. To test option 2 and option 3 from the worksheet:

- Navigate back to the Education Credits section in TaxSlayer
- Enter the "Eligible Expenses for Credits" amount in the "Tuition Paid" box.
- Enter \$0 in the "Grants" box.
- Enter \$0 the "Other Qualified Expenses" box.

Follow the same steps for option 3. Remember to update the taxable educational assistance entry while testing refund options. Update the final nontaxable educational assistance entry after you have finalized the education credit entry on the federal return.

	Option 1: Baseline Values	Option 2: Max Eligible Expenses	Option 3
Eligible Expenses for Credits	\$2,820	\$4,000	\$3,000
Taxable educational assistance	\$0	\$1,180	\$180
Nontaxable educational assistance	\$3,420	\$2,240	\$3,240

Corrected!
The Option 3 nontaxable was listed as \$1,240 in the original tip. Oops!

EDUCATION GUIDE

Form 1098-T Information – HAMLINE UNIVERSITY

CANCEL

CONTINUE

If you paid expenses for higher education in 2023, enter the amounts in the corresponding fields to determine the amount eligible for an education tax credit.

Tuition Paid

\$4000

Grants

\$0

Other Qualified Expenses

\$0

Tuition Paid: Enter the "Eligible Expenses for Credits" amount.

Grants: Enter \$0.

Other Qualified Expenses: Enter \$0.