



# EDUCATION CREDITS WORKSHOP

MARCH 10, 2025



# WHY ARE EDUCATION CREDITS IMPORTANT?

- Provide substantial credits that can greatly increase refund, reduce amount owed, or provide refunds when customers may have owed.
- Customers would probably not maximize the benefits of these credits on their own, this is your chance to be a star preparer!





# WORKSHOP GOALS

- Go over some of the basics of ed credits
- Why we go through the steps to maximize
- How taxability of scholarships/grants and expenses for ed credits are related
- How to utilize the Education Credits worksheet
- How to enter data into TaxSlayer

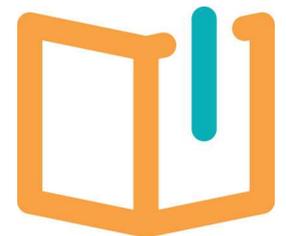
# FORMS AND DOCUMENTATION

- **Form 1098-T:** Required to claim education benefits. Issued by the school and generally available online.
- **Billing statements:** Documents book and other expenses and additional details on scholarships/grants
- **Form 8863:** Collects American Opportunity Credit and Lifetime Learning Credit info to transfer to Form 1040 credits section



# RESOURCES

- **P+P Volunteer Manual:** Screening for education credit eligibility and instructions for maximizing benefit of the credits.
- **Education Credits Worksheet:** Documents taxpayer interview and provides way to provide documentation of steps taken to maximize the American Opportunity Credit.
- **Publication 4012:** Comparison of tax benefits and TaxSlayer entry instructions.
- **Publication 970:** *Tax Benefits for Education* publication detailing all tax benefits including American Opportunity Credit, Lifetime Learning Credit, and Tuition and Fees Deduction.
- **Self-paced training:** Available on the training site



# 1098-T

Box 1: Payments received

<input type="checkbox"/> CORRECTED				<b>Tuition Statement</b>	
FILER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number Hamline University 1536 Hewitt Avenue Saint Paul, MN 55104-1284		1 Payments received for qualified tuition and related expenses \$ 14,756	OMB No. 1545-1574 20XX Form 1098-T		<b>Copy B For Student</b>  This is important tax information and is being furnished to the Internal Revenue Service. 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.
FILER'S federal identification no. 58-4567552	STUDENT'S taxpayer identification no. 123-00-3333	2 Amounts billed for qualified tuition and related expenses \$		3 If this box is checked, your educational institution has changed its reporting method for 2016 <input type="checkbox"/>	
STUDENT'S name Ayaan Said		4 Adjustments made for a prior year \$	5 Scholarships or grants \$ 8,745		
Street address (including apt. no.) 200 3rd Ave		6 Adjustments to scholarships or grants for a prior year \$		7 Checked if the amount in box 1 or 2 includes amounts for an academic period beginning January - March 2017 <input type="checkbox"/>	
City or town, state or province, country, and ZIP or foreign postal code Brooklyn Park, MN 55429		8 Check if at least half-time student <input checked="" type="checkbox"/>		9 Checked if a graduate student <input type="checkbox"/>	
Service Provider/Acct. No. (see instr.)		10 Ins. contract reimb./refund \$			
Form <b>1098-T</b> (keep for your records)		<a href="http://www.irs.gov/form1098t">www.irs.gov/form1098t</a>		Department of the Treasury - Internal Revenue Service	

# WHO IS NOT ELIGIBLE FOR THE EDUCATION CREDITS?

Someone who:

- Is claimed as a dependent on another person's tax return.
- Is filing married filing separately.
- Was a nonresident alien for any part of the tax year. (Nonresident returns are out of scope for P+P.)
- Taxpayer's modified adjusted gross income is above certain limits (above P+P income guidelines).

## MULTIPLE STUDENTS IN A FAMILY

- Each student can only utilize one credit
- Each student goes through the steps to determine credit eligibility
- AOC limits are per student but Lifetime Learning Credit max of \$2,000 is per family
- Taxpayers can claim education credits for dependents in college and/or themselves





# DEPENDENT STUDENTS

- Credits go to the parents (or whoever is claiming the dependent), income goes on the **student's** return
- Any taxable scholarship income goes on the **student's** return, not the parent's return
- Any nontaxable scholarships for a dependent will not be included on any return
  - Dependents do not qualify for M1PR

# TAX BENEFITS FOR EDUCATION

American Opportunity  
max credit \$2,500 per student

Lifetime Learning  
max credit \$2,000 per return

Form <b>8863</b>	<b>Education Credits</b> (American Opportunity and Lifetime Learning Credits)	OMB No. 1545-0074
Department of the Treasury Internal Revenue Service (99)	▶ Attach to Form 1040 or Form 1040A. ▶ Information about Form 8863 and its separate instructions is at <a href="http://www.irs.gov/form8863">www.irs.gov/form8863</a> .	<b>2016</b> Attachment Sequence No. <b>50</b>
Name(s) shown on return		Your social security number
 Complete a separate Part III on page 2 for each student for whom you're claiming either credit before you complete Parts I and II.		
<b>Part I Refundable American Opportunity Credit</b>		
1	After completing Part III for each student, enter the total of all amounts from all Parts III, line 30	1
2	Enter: \$180,000 if married filing jointly; \$90,000 if single, head of household, or qualifying widow(er)	2
3	Enter the amount from Form 1040, line 38, or Form 1040A, line 22. If you're filing Form 2555, 2555-EZ, or 4563, or you're excluding income from Puerto Rico, see Pub. 970 for the amount to enter	3
4	Subtract line 3 from line 2. If zero or less, <b>stop</b> ; you can't take any education credit	4
5	Enter: \$20,000 if married filing jointly; \$10,000 if single, head of household, or qualifying widow(er)	5
6	If line 4 is: <ul style="list-style-type: none"> <li>• Equal to or more than line 5, enter 1.000 on line 6</li> <li>• Less than line 5, divide line 4 by line 5. Enter the result as a decimal (rounded to at least three places)</li> </ul>	6
7	Multiply line 1 by line 6. <b>Caution:</b> If you were under age 24 at the end of the year <b>and</b> meet the conditions described in the instructions, you <b>can't</b> take the refundable American opportunity credit; skip line 8, enter the amount from line 7 on line 9, and check this box <input type="checkbox"/>	7
8	<b>Refundable American opportunity credit.</b> Multiply line 7 by 40% (0.40). Enter the amount here and on Form 1040, line 68, or Form 1040A, line 44. Then go to line 9 below.	8
<b>Part II Nonrefundable Education Credits</b>		
9	Subtract line 8 from line 7. Enter here and on line 2 of the Credit Limit Worksheet (see instructions)	9
10	After completing Part III for each student, enter the total of all amounts from all Parts III, line 31. If zero, skip lines 11 through 17, enter -0- on line 18, and go to line 19	10
11	Enter the smaller of line 10 or \$10,000	11
12	Multiply line 11 by 20% (0.20)	12
13	Enter: \$131,000 if married filing jointly; \$65,000 if single, head of household, or qualifying widow(er)	13

# EDUCATION CREDITS

## AMERICAN OPPORTUNITY

- 40% of the credit may be refundable
- Available for the first 4 years of college
- Pursuing a degree or recognized educational credential
- Enrolled at least half-time
- No felony drug conviction

## LIFETIME LEARNING

- Nonrefundable
- Available for an **unlimited** number of years
- Do not need to be pursuing a degree
- Can take one or more courses
- Felony drug convictions permitted



## BREAKDOWN OF AOC

- \$4,000 – Max qualified expenses used
- First \$2,000 of expenses – 100% goes to credit
- Second \$2,000 – 25% goes to credit
- Max credit of \$2,500
  - 60% nonrefundable, max of \$1,500
  - 40% refundable, max of \$1,000



# QUESTIONS FOR AOC QUALIFICATIONS

- Has the American Opportunity Credit (or Hope Scholarship Credit) been claimed for any 4 previous tax years?
- Has the student completed the first 4 years of postsecondary education prior to (the tax year)?
- Was the student enrolled at least half-time for at least one academic period in (tax year)?
- Was the student convicted of a felony for a controlled substance?



# NOT ELIGIBLE FOR THE REFUNDABLE AMERICAN OPPORTUNITY CREDIT

1. Taxpayer is (a) under age 18; or (b) age 18 and their earned income was less than  $\frac{1}{2}$  of their support; or (c) FT student over age 18 and under 24 and earned income was less than  $\frac{1}{2}$  of their support; **and**
2. At least one of his/her parents was alive at the end of the year; **and**
3. Taxpayer is not filing a joint return.

1. Student's name: \_\_\_\_\_
2. Can the student be claimed as a dependent?  Yes  No  Dependent
3. What credit does the student qualify for?  American Opportunity Credit  
 Lifetime Learning Credit

**4. Determine total qualified expenses**

<input type="text"/>	+	<input type="text"/>	=	<input type="text"/>
Tuition & related expenses Form 1098-T, box 1		additional amounts for books or other qualified expenses		total qualified expenses

**5. Figure expenses eligible for credits and taxable scholarships and grants**

<input type="text"/>	-	<input type="text"/>	=	<input type="text"/>
Total qualified expenses from step 4		Scholarships and grants from Form 1098-T, box 5		Eligible Expenses for Credit (+) or Taxable Scholarship (-)

- A. Eligible Expenses for Credits \_\_\_\_\_ (step 5 if positive; if negative use \$0)
- B. Taxable scholarships/grants \_\_\_\_\_ (step 5 if negative; if positive use \$0)
- C. Nontaxable scholarships/grants \_\_\_\_\_ (total scholarships/grants minus line B)

- A. Eligible Expenses for Credits \_\_\_\_\_ (step 5 if positive; if negative use \$0)
- B. Taxable scholarships/grants \_\_\_\_\_ (step 5 if negative; if positive use \$0)
- C. Nontaxable scholarships/grants \_\_\_\_\_ (total scholarships/grants minus line B)

**6. Test scenarios in TaxSlayer to maximize the credit and make notes.**

	<b>Option 1:</b> Enter A,B,C Values from step 5	<b>Option 2:</b> Maximize Eligible Expenses	<b>Option 3:</b> Eligible Expenses less than max
<b>Eligible Expenses for Credits</b> Enter in TaxSlayer Education Credit section			
<b>Taxable educational assistance</b> Enter in TaxSlayer Other Compensation section			
<b>Nontaxable educational assistance</b> Enter only for homeowners in TaxSlayer MN section			
<b>Federal Adjusted Gross Income (AGI)</b>			
<b>Federal Refund or Balance Due</b>			
<b>State Refund or Balance Due</b>			

See Education Benefits section in the P+P Volunteer Tax Manual for more information about education credit eligibility, TaxSlayer data entry, and strategies for maximizing an education credit.

## DETERMINE TOTAL QUALIFIED EXPENSES

Tuition  
and  
related  
expenses

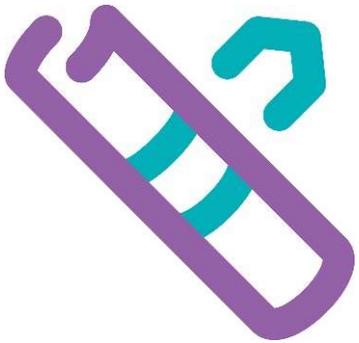


Additional  
qualified  
expenses



Total  
qualified  
expenses

# ELIGIBLE PAYMENTS



Loans



Gifts

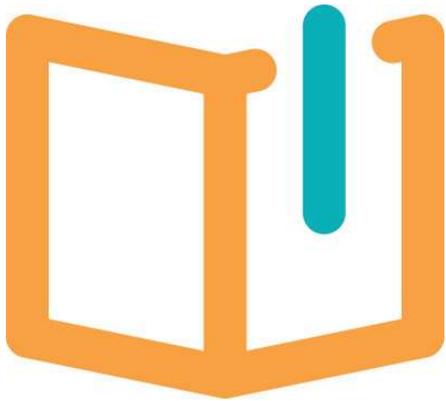


Savings



Income

# ADDITIONAL QUALIFIED EXPENSES



**Qualified education expenses:**  
books or materials required for class



**NOTE:** Book or material expenses for LLC are very restrictive.



**Nonqualified expenses:**  
rent, meals, health insurance, parking, student activity fees, or anything not required for class

# OTHER QUALIFIED EXPENSES FOR AOC

- Books purchased from any location
  - Must have receipts, books purchased through the school will often be listed on billing statement.
- Required materials or equipment for enrollment in a class. Items must be specific
  - Can include items such as calculator, computer software, art supplies, science equipment
  - Only include computer if make and model are specified for enrollment

## EXAMPLE

- Sarah had \$4,500 tuition expenses listed on her 1098-T, she also paid \$500 in book expenses, \$50 in parking fees, and \$150 for her school gym membership. What is her total qualified expenses?





# SCHOLARSHIPS, GRANTS AND OTHER EDUCATIONAL ASSISTANCE

- Box 5 of 1098-T shows scholarships and grants received
  - Some employer-based benefits, VA education benefits, or Fellowship awards may not be listed on a 1098-T
- Scholarships and grants can be treated as tax-free to the extent that they are used for qualified education expenses
- All nontaxable scholarships must be added if filing an M1PR (all scholarships accounted for)

\$\$\$  
**Qualified expenses**



paid by scholarships



**not eligible** for education credits

paid out-of-pocket<sup>1</sup>



**eligible** for education credits

<sup>1</sup>Out-of-pocket payments include cash payments, student loans, gifts, and amounts paid by other individuals.

📚📚📚  
**Scholarships and grants**



used to pay qualified expenses



**Nontaxable income:** Include as nontaxable income on a student's Schedule M1ED and Form M1PR when applicable.

used to pay living expenses



**Taxable income:** Report as taxable income on the student's return.

# DETERMINE 3 VALUES

- **Eligible expenses for credits:** The amount of total qualified expenses reduced by the amount of nontaxable educational assistance (scholarships and grants).
- **Taxable educational assistance:** The amount of scholarships and grants that exceed qualified expenses, or the amount of scholarships used or elected to be used for non-qualified expenses, such as living expenses. Taxable amounts must be added as income on the student's return.
- **Nontaxable educational assistance:** The amount of scholarships or grants used to pay for qualified education expenses. If the student is the taxpayer or spouse this must be included on form M1PR.

# FIGURING BASELINE VALUES: DETERMINING OPTION 1

## **If Total Qualified Expenses are greater**

- The amount of expenses that exceed scholarships can be used for credits
- No taxable income
- All scholarships will be nontaxable at this point

## **If Scholarships are greater**

- No amount can be used currently for credits
- The amount of scholarships that exceed expenses is taxable income
- The nontaxable amount will be equal to total expenses

# ADJUSTED QUALIFIED EDUCATION EXPENSES

- Total qualified expenses must be reduced by any tax-free assistance.



# DETERMINE TAXABLE ASSISTANCE

- Any amounts of educational assistance that exceed or are not used to pay qualified expenses or deemed to pay for living expenses need to be added to gross income



# MORE SCHOLARSHIPS THAN TUITION (FOR QUALIFIED AND UNQUALIFIED EXPENSES)

CORRECTED

FILER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number University of Minnesota 2221 University Ave SE, Suite 100 Minneapolis, MN 55414		1 Payments received for qualified tuition and related expenses <b>\$4,500</b>	OMB No. 1545-1574 <b>20 XX</b> Form 1098-T	<b>Tuition Statement</b>
FILER'S federal identification no. 41-6007513      STUDENT'S taxpayer identification no. 111-11-1111		2 Amounts billed for qualified tuition and related expenses <b>\$</b>	3 If this box is checked, your educational institution has changed its reporting method for 2016 <input type="checkbox"/>	
STUDENT'S name Sara Rodriguez		4 Adjustments made for a prior year <b>\$</b>	5 Scholarships or grants <b>\$5,500</b>	<b>Copy B For Student</b>  This is important tax information and is being furnished to the Internal Revenue Service. 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.
Street address (including apt. no.) 1163 Raleigh St		6 Adjustments to scholarships or grants for a prior year <b>\$</b>	7 Checked if the amount in box 1 or 2 includes amounts for an academic period beginning January – March 2017 <input type="checkbox"/>	
City or town, state or province, country, and ZIP or foreign postal code St Paul, MN 55108		8 Check if at least half-time student <input checked="" type="checkbox"/>	9 Checked if a graduate student <input type="checkbox"/>	
Service Provider/Acct. No. (see instr.)		10 Ins. contract reimb./refund <b>\$</b>		

Tuition (box 1)	\$4,500
Books	+ \$500
<b>Total qualified education expenses</b>	<b>\$5,000</b>

Scholarships (box 5)	\$5,500
Qualified education expenses	- \$5,000
<b>Taxable scholarship income</b>	<b>\$500</b>

**PREPARE + PROSPER**

# DETERMINE TAX-FREE ASSISTANCE



- \$5,000 of nontaxable scholarships reported in state section.
- No education credits available when prepared this way.

# FIGURING QUALIFIED EXPENSES FOR AOC

- Are the total qualified expenses at least \$4,000 greater than the total scholarships or grants?
  - If 1098-T shows tuition at least \$4,000 greater than scholarships, don't worry about books or other expenses.
  - Enter \$4,000 in TS for expenses
  - Enter total scholarships/grants as nontaxable income in state section.

# ALLAN BAKER

<input type="checkbox"/> CORRECTED				<b>Tuition Statement</b>	
<b>FILER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number</b> Hamline University 1536 Hewitt Avenue Saint Paul, MN 55104-1284		<b>1 Payments received for qualified tuition and related expenses</b> <b>\$ 10,330</b>	OMB No. 1545-1574  <b>20 XX</b>		<b>Copy B For Student</b>  This is important tax information and is being furnished to the Internal Revenue Service. 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.
		<b>2 Amounts billed for qualified tuition and related expenses</b> <b>\$</b>	Form <b>1098-T</b>		
<b>FILER'S federal identification no.</b> 58-4567552	<b>STUDENT'S taxpayer identification no.</b> 123-00-3333	<b>3 If this box is checked, your educational institution has changed its reporting method for 2016</b> <input type="checkbox"/>			
<b>STUDENT'S name</b> Allan Baker		<b>4 Adjustments made for a prior year</b> <b>\$</b>	<b>5 Scholarships or grants</b> <b>\$ 4,100</b>		
<b>Street address (including apt. no.)</b> 20 33rd Ave		<b>6 Adjustments to scholarships or grants for a prior year</b> <b>\$</b>		<b>7 Checked if the amount in box 1 or 2 includes amounts for an academic period beginning January – March 2017</b> <input type="checkbox"/>	
<b>City or town, state or province, country, and ZIP or foreign postal code</b> Brooklyn Park, MN 55429		<b>8 Check if at least half-time student</b> <input checked="" type="checkbox"/>		<b>9 Checked if a graduate student</b> <input type="checkbox"/>	
<b>Service Provider/Acct. No. (see instr.)</b>		<b>10 Ins. contract reimb./refund</b> <b>\$</b>			
Form <b>1098-T</b> (keep for your records)		<a href="http://www.irs.gov/form1098t">www.irs.gov/form1098t</a>		Department of the Treasury - Internal Revenue Service	

# TUITION \$4,000 > SCHOLARSHIPS

Tuition – 10,300

Scholarships – 4,100

Qualified education expenses entered in TS

➤ \$4,000

Nontaxable scholarships entered on M1PR return

➤ \$4,100

# IF THE TUITION IS NOT AT LEAST \$4,000 GREATER THAN SCHOLARSHIPS

<input type="checkbox"/> CORRECTED			
<b>FILER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number</b> Hamline University 1536 Hewitt Avenue Saint Paul, MN 55104-1284		<b>1 Payments received for qualified tuition and related expenses</b> \$ 4,500	OMB No. 1545-1574  20 XX  Form 1098-T
<b>FILER'S federal identification no.</b> 58-4567552	<b>STUDENT'S taxpayer identification no.</b> 123-00-3333	<b>2 Amounts billed for qualified tuition and related expenses</b> \$	<b>Tuition Statement</b>  <b>Copy B For Student</b>  This is important tax information and is being furnished to the Internal Revenue Service. 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.
<b>STUDENT'S name</b> Sara Rodriguez		<b>3 If this box is checked, your educational institution has changed its reporting method for 2016</b> <input type="checkbox"/>	
<b>Street address (including apt. no.)</b> 200 3rd Ave		<b>4 Adjustments made for a prior year</b> \$	<b>5 Scholarships or grants</b> \$ 5,500
<b>City or town, state or province, country, and ZIP or foreign postal code</b> Brooklyn Park, MN 55429		<b>6 Adjustments to scholarships or grants for a prior year</b> \$	<b>7 Checked if the amount in box 1 or 2 includes amounts for an academic period beginning January – March 2017</b> <input type="checkbox"/>
<b>Service Provider/Acct. No. (see instr.)</b>	<b>8 Check if at least half-time student</b> <input checked="" type="checkbox"/>	<b>9 Checked if a graduate student</b> <input type="checkbox"/>	<b>10 Ins. contract reimb./refund</b> \$
Form 1098-T (keep for your records)		<a href="http://www.irs.gov/form1098t">www.irs.gov/form1098t</a>	Department of the Treasury - Internal Revenue Service

# MAXIMIZING EDUCATION CREDITS

- Think of this process as a trade-off or exchange of tax benefits, trading in the benefit of the tax-free status of scholarships for an often more lucrative education credit
- We are stating that the customer paid for some or all of their tuition and expenses out of pocket therefore qualifying them for the credits
- When we do this, then some of the scholarships would have been used for living expenses, making them taxable, these values need to change or be traded in equal amounts

Tax-free status applied to scholarships and grants used for eligible expenses

exchange  
tax benefits



Education credit (or greater amount of qualified expenses for an education credit)



# STEPS TO MAXIMIZE CREDITS

- Determine if scholarships were unrestricted
- Increase eligible expenses for credits to the lesser of \$4000 or the total qualified expenses
- Determine the amount of that increase and increase taxable scholarships by that same amount
- Decrease nontaxable scholarships by that amount
- Test out more options
- Enter options into TaxSlayer
- Talk over full situation with customer

# WAS THE EDUCATIONAL ASSISTANCE RESTRICTED OR NON-RESTRICTED

- Non-restricted: Pell grants or state grants and other assistance that can be used to pay for qualified + nonqualified expenses
- Restricted: Certain merit scholarships are only able to be used on tuition or qualified expenses
- Ask for or use billing statements





# ELECTING TO USE SCHOLARSHIPS AS TAXABLE INCOME

- How a student or the school used the money does not matter, only whether you **could have** used the money for qualified education or living expenses
- Taxpayers and preparers are electing to apply scholarships to pay for living expenses, not tuition expenses, therefore making scholarships taxable, not tax-free



# MAXIMIZE ELIGIBLE EXPENSES

- Increase eligible expenses to lesser of \$4000 or total qualified expenses
- Find the amount of increase from baseline eligible expenses to the amount above
- Increase taxable assistance by that amount
- Decrease nontaxable assistance by that amount

# SARA RODRIGUEZ

- Tuition - \$4,500, books \$500:  
Qualified Expenses \$5,000, Scholarships \$5,500

	<b>Option 1:</b> Enter A,B,C Values from step 5	<b>Option 2:</b> Maximize Eligible Expenses	<b>Option 3:</b> Eligible Expenses less than max
<b>Eligible Expenses for Credits</b> Enter in TaxSlayer Education Credit section	0		
<b>Taxable educational assistance</b> Enter in TaxSlayer Other Compensation section	500		
<b>Nontaxable educational assistance</b> Enter only for homeowners in TaxSlayer MN section	5000		
<b>Federal Adjusted Gross Income (AGI)</b>			
<b>Federal Refund or Balance Due</b>			
<b>State Refund or Balance Due</b>			

# MAXIMIZE AOC

- Goal: to have Qualified Expenses be \$4,000 greater than Tax Free Assistance.

	Option 1: Enter A,B,C Values from step 5	Option 2: Maximize Eligible Expenses	Option 3: Maximize Tax Free Assistance
<b>Eligible Expenses for Credits</b> <small>Enter in TaxSlayer Education Credit section</small>	0	\$4,000	4000
<b>Taxable educational assistance</b> <small>Enter in TaxSlayer Other Compensation section</small>	500	\$4,000	4500
<b>Nontaxable educational assistance</b> <small>Enter only for homeowners in TaxSlayer MN section</small>	5000	\$4,000	1000
<b>Federal Adjusted Gross Income (AGI)</b>			
<b>Federal Refund or Balance Due</b>			
<b>State Refund or Balance Due</b>			



## WHAT TO WATCH OUT FOR

- Reallocation of scholarships to the maximum of \$4,000 of expenses may not always be the best option. Sometimes \$2,000, \$2,500, \$3,000 of education expenses can work out better overall
- Factors such as reduction of EITC, reduced MN refund or increased amount owed, or moving up a tax bracket can affect overall refunds
- M1PR refund will never change, but all scholarships need to be accounted for

# TRYING DIFFERENT AMOUNTS FOR QUALIFIED EXPENSES

- Suggested steps:
  - Move \$4,000, then try \$2,000 and maybe \$3,000.
  - The first \$2,000 of expenses is 100% credit, going below that is usually not beneficial
  - In TaxSlayer, only enter taxable scholarships and eligible expenses, enter nontaxable sch in state section after determining max credit

# MAXIMIZE AOC

- Goal: to have Qualified Expenses be \$2,000 greater than Tax Free Assistance.

	Option 1: Baseline Values	Option 2: Max Eligible Expenses	Option 3	TS entry instructions
<b>Eligible Expenses for Credits</b> Baseline = Total Qualified Expenses - Total Educational Assistance (cannot be negative)	0	4000	2000	Enter on Form 8863
<b>Taxable educational assistance</b> Baseline = Total Educational Assistance - Total Qualified Expenses (cannot be negative)	500	4500	2500	Enter in Other Income section
<b>Nontaxable educational assistance</b> Baseline = Total Educational Assistance to the extent used for eligible expenses	5000	1000	3000	Enter in State section on M1ED & MIPR
<b>Federal Refund or Balance Due</b>				Discuss the best tax advantage with the taxpayer.
<b>State Refund or Balance Due</b>				

# EXAMPLE 2: ELLEN BAKER

Ellen also qualifies for the American Opportunity Credit. She paid \$6,400 in tuition and related expenses, \$250 for books, and had \$3,400 in Pell Grants to help pay her school expenses. Write in the amount for no changes to the scholarships and for maximizing AOC expenses.

<b>Eligible Expenses for AOC</b>		
<b>Taxable educational assistance</b>		
<b>Nontaxable educational assistance</b>		

<input type="checkbox"/> CORRECTED				
<b>FILER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number</b> Hamline University 1536 Hewitt Avenue Saint Paul, MN 55104-1284		<b>1 Payments received for qualified tuition and related expenses</b> <b>\$ 6,400</b>	OMB No. 1545-1574  <b>20 XX</b>  Form <b>1098-T</b>	<b>Tuition Statement</b>  <b>Copy B For Student</b>  This is important tax information and is being furnished to the Internal Revenue Service. 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.
<b>FILER'S federal identification no.</b> 58-4567552	<b>STUDENT'S taxpayer identification no.</b> 123-00-3333	<b>2 Amounts billed for qualified tuition and related expenses</b> <b>\$</b>		
<b>STUDENT'S name</b> Ellen Baker		<b>4 Adjustments made for a prior year</b> <b>\$</b>	<b>5 Scholarships or grants</b> <b>\$3,400</b>	
<b>Street address (including apt. no.)</b> 20 33rd Ave <b>City or town, state or province, country, and ZIP or foreign postal code</b> Brooklyn Park, MN 55429		<b>6 Adjustments to scholarships or grants for a prior year</b> <b>\$</b>	<b>7 Checked if the amount in box 1 or 2 includes amounts for an academic period beginning January – March 2017</b> <input type="checkbox"/>	
<b>Service Provider/Acct. No. (see instr.)</b>	<b>8 Check if at least half-time student</b> <input checked="" type="checkbox"/>	<b>9 Checked if a graduate student</b> <input type="checkbox"/>	<b>10 Ins. contract reimb./refund</b> <b>\$</b>	
Form <b>1098-T</b> (keep for your records) <a href="http://www.irs.gov/form1098t">www.irs.gov/form1098t</a> Department of the Treasury - Internal Revenue Service				

PREP

# EXAMPLE 2: ELLEN BAKER

$$\begin{aligned}
 \$6,400 \text{ tuition} + \$250 \text{ books} &= \$6,650 \text{ qualified expenses} \\
 &- \underline{\$3,400 \text{ educational assistance}} \\
 &= \$3,250 \text{ eligible expenses}
 \end{aligned}$$

<b>Eligible Expenses for AOC</b>	3250	
<b>Taxable educational assistance</b>	0	
<b>Nontaxable educational assistance</b>	3400	

<input type="checkbox"/> CORRECTED				
<b>FILER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number</b> Hamline University 1536 Hewitt Avenue Saint Paul, MN 55104-1284		<b>1 Payments received for qualified tuition and related expenses</b> <b>\$ 6,400</b>	OMB No. 1545-1574  <b>20 XX</b>  Form <b>1098-T</b>	<b>Tuition Statement</b>  <b>Copy B For Student</b>  This is important tax information and is being furnished to the Internal Revenue Service. 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.
<b>FILER'S federal identification no.</b> 58-4567552	<b>STUDENT'S taxpayer identification no.</b> 123-00-3333	<b>2 Amounts billed for qualified tuition and related expenses</b> <b>\$</b>		
<b>STUDENT'S name</b> Ellen Baker		<b>4 Adjustments made for a prior year</b> <b>\$</b>	<b>5 Scholarships or grants</b> <b>\$3,400</b>	
<b>Street address (including apt. no.)</b> 20 33rd Ave <b>City or town, state or province, country, and ZIP or foreign postal code</b> Brooklyn Park, MN 55429		<b>6 Adjustments to scholarships or grants for a prior year</b> <b>\$</b>	<b>7 Checked if the amount in box 1 or 2 includes amounts for an academic period beginning January – March 2017</b> <input type="checkbox"/>	
<b>Service Provider/Acct. No. (see instr.)</b>	<b>8 Check if at least half-time student</b> <input checked="" type="checkbox"/>	<b>9 Checked if a graduate student</b> <input type="checkbox"/>	<b>10 Ins. contract reimb./refund</b> <b>\$</b>	
Form <b>1098-T</b> (keep for your records)		<a href="http://www.irs.gov/form1098t">www.irs.gov/form1098t</a>		Department of the Treasury - Internal Revenue Service

PREP

# EXAMPLE 2: ELLEN BAKER

Take \$4,000 - \$3,250 = \$750 of increase to try and maximize AOC  
 Increase taxable education assistance by the same amount and  
 decrease nontaxable assistance by the same amount

<b>Eligible Expenses for AOC</b>	3250	→	4000	+750
<b>Taxable educational assistance</b>	0		750	+750
<b>Nontaxable educational assistance</b>	3400		2650	-750

CORRECTED

FILER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number Hamline University 1536 Hewitt Avenue Saint Paul, MN 55104-1284		1 Payments received for qualified tuition and related expenses <b>\$ 6,400</b>	OMB No. 1545-1574 <b>20 XX</b> Form 1098-T	<b>Tuition Statement</b>
FILER'S federal identification no. 58-4567552	STUDENT'S taxpayer identification no. 123-00-3333	2 Amounts billed for qualified tuition and related expenses <b>\$</b>	3 If this box is checked, your educational institution has changed its reporting method for 2016 <input type="checkbox"/>	
STUDENT'S name Ellen Baker		4 Adjustments made for a prior year <b>\$</b>	5 Scholarships or grants <b>\$3,400</b>	
Street address (including apt. no.) 20 33rd Ave		6 Adjustments to scholarships or grants for a prior year <b>\$</b>	7 Checked if the amount in box 1 or 2 includes amounts for an academic period beginning January – March 2017 ▶ <input type="checkbox"/>	
City or town, state or province, country, and ZIP or foreign postal code Brooklyn Park, MN 55429		8 Check if at least half-time student <input checked="" type="checkbox"/>	9 Checked if a graduate student <input type="checkbox"/>	
Service Provider/Acct. No. (see instr.)	10 Ins. contract reimb./refund <b>\$</b>			

Form 1098-T (keep for your records) www.irs.gov/form1098t Department of the Treasury - Internal Revenue Service

PREP



# DEPENDENTS AND AOC

- Parents claim credits, student claims income
- Overall benefit to parents will almost always outweigh increased income for students
- Don't enter nontaxable scholarships on parents' return

# PREPARING RETURNS WITH DEPENDENT STUDENTS

- Best to have both parents and student filing at the same time
- If the student is not there, we should look to maximize credits for the parents return
  - Ask about job income for the student
  - Inform parent of how much scholarship income to include on student's return
- If student is filing on their own, only include additional taxable scholarships if you are certain the parents have or will maximize the credits.
  - AOC phases out between 80-90k for single or HOH filers
  - Inform student of this possibility



# FORM 8615 AND TAXABLE SCHOLARSHIPS FOR DEPENDENTS

- Sometimes making scholarships taxable for dependents creates a filing requirement.
- If income is above the standard deduction, the dependent will have to file and could owe.
- Form 8615 is supposed to be filed with dependents return if the student has a filing requirement and includes taxable scholarships of greater than \$2600
- See page 129 for possible out of scope issues with dependent's taxes, refer to DIY if out of scope



# ENTERING INFO INTO TAXSLAYER

# ENTERING IN TAXSLAYER

- Search 1098-T or 8863 to go to credit section
- Enter Scholarship income in the other income section (other compensation)

## Scholarships and Grants

Taxpayer's scholarships and grants

- Go to state section to enter nontaxable sch

Additional Nontaxable Income (Forms M1CD, M1ED, M1PR)

BEGIN



# TAXSLAYER TIPS

- Figure education credits after entering all other federal information
- Use the left-hand menu to switch back and forth to test out different scenarios
- Make sure to finalize both parts, credits section and taxable scholarships after determining best option



# LIFETIME LEARNING CREDIT

- Only books purchased from the school are qualified expenses
- Electing to use scholarships as income less beneficial if student is taxpayer
- Credit uses 20% of up to \$10,000 expenses above tax-free assistance for a max credit of \$2,000 – all nonrefundable
- Max credit is per return



# LIFETIME LEARNING STEPS

1. Customer does not qualify for AOC
2. Customer has qualified expenses that exceed assistance
3. Customer has taxable income and a tax burden that nonrefundable credits can help to lower
4. Enter expenses - assistance amount and nontaxable scholarship amounts in TS

# FIGURING LLC

<input type="checkbox"/> CORRECTED				
<b>FILER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number</b> Hamline University 1536 Hewitt Avenue Saint Paul, MN 55104-1284		<b>1 Payments received for qualified tuition and related expenses</b> \$ 14,756	OMB No. 1545-1574  <b>20 XX</b>  Form <b>1098-T</b>	<b>Tuition Statement</b>   <b>Copy B For Student</b>  This is important tax information and is being furnished to the Internal Revenue Service. 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.
<b>FILER'S federal identification no.</b> 58-4567552		<b>2 Amounts billed for qualified tuition and related expenses</b> \$		
<b>STUDENT'S name</b> Ayaan Said		<b>4 Adjustments made for a prior year</b> \$	<b>5 Scholarships or grants</b> \$ 8,745	
<b>STUDENT'S taxpayer identification no.</b> 123-00-3333		<b>6 Adjustments to scholarships or grants for a prior year</b> \$	<b>7 Checked if the amount in box 1 or 2 includes amounts for an academic period beginning January – March 2017</b> <input type="checkbox"/>	
<b>STUDENT'S name</b> Ayaan Said		<b>8 Check if at least half-time student</b> <input checked="" type="checkbox"/>	<b>9 Checked if a graduate student</b> <input type="checkbox"/>	
<b>Street address (including apt. no.)</b> 200 3rd Ave		<b>10 Ins. contract reimb./refund</b> \$		
<b>City or town, state or province, country, and ZIP or foreign postal code</b> Brooklyn Park, MN 55429				
<b>Service Provider/Acct. No. (see instr.)</b>				

Form **1098-T** (keep for your records) [www.irs.gov/form1098t](http://www.irs.gov/form1098t) Department of the Treasury - Internal Revenue Service

# FIGURING LLC

Tuition – 14,756

Scholarships – 8,745

Qualified education expenses entered in TS

➤ \$6,011

Nontaxable scholarships entered for M1PR return

➤ \$8,745