

There are tax credits available to help the taxpayer offset the costs of higher education by reducing the amount of income tax.

Learning Objectives

- Who qualifies for an education credit
- Which credit the taxpayer can claim

Getting Started:



Study the associated IRS VITA/TCE Training Guide Chapter 23.

Ask taxpayers if they are aware of the education credits, and give a brief description. Next, gather information to determine if any credits can be claimed. This lesson suggests probing questions you can ask based on the intake and interview sheet, the Volunteer Resource Guide, Tab J, Education Benefits, and on the rules for claiming education credits.



Open [Pub 4012 Volunteer Resource Guide](#) **Tab J**.

Education Benefits:

- In tax preparation, counselors need to verify the terms of scholarships or grants. Many institutions provide the financial information to the parents and students online. Taxpayers may have to return with the information from the school.
 - **Restricted scholarships and grants** are fairly straight-forward. This topic is even part of the Certification test.
 - **Unrestricted scholarships or grants** can be complex. As a new counselor, you may want to have the Local Coordinator move the return on to an experienced Counselor. Accounting for unrestricted scholarships and grants is some of the most complicated tax preparation for AARP Tax-Aide Counselors

Hint: Remember that any scholarship or grant income always belongs to the student, not necessarily a parent that may qualify for an education credit.

Hints from NTTC Modifications to the IRS Training Guide

Who can take an education credit?

A Form 1098-T is not required when all the tuition and fees were paid with scholarships or grants. The taxpayer will need to provide the required information to claim an education credit.

Clarify restricted and unrestricted grants

The student can choose whether to apply the education assistance to reduce qualified education expenses or as taxable income **only if** the scholarship or grant is unrestricted. Restricted scholarships or grants must be used for tuition, fees, and other expenses, such as books, as per the terms of the grant. If the student could withdraw unspent assistance amounts from their student account, the assistance is unrestricted.

Clarify in the Juan example (page 23-4) that it may be better to forgo some portion of the AOC when other issues, such as the kiddie tax or premium tax credits, could be adversely affected by Juan having a filing requirement.

Clarify that taxpayers under age 24 (page 23-5) cannot claim the refundable portion of the credit if certain conditions are met – these are the same conditions that would make the kiddie tax apply, other than having unearned income in excess of the kiddie tax ceiling requirement. See Who must file Form 8615 in Lesson 20.

Correct wording in TIP (page 23-7):

A taxpayer who has taken an early distribution from an IRA may take an exception to the 10% additional tax **up to the amount of** the qualified higher education expenses.

Correct last bullet of the Summary (page 23-9):

Students that include tax-free scholarships and grants in income and have a filing requirement **may need to** file Form 8615, Tax for Certain Children Who Have Unearned Income

Additional Hints from NTTC Modifications to the IRS Training Guide

Review of possible education benefits:

Scholarships, grants or fellowships One main benefit is to make scholarships, grants or other education assistance tax-free. Scholarships or grants that are not based on work can be tax-free. If they are tax-free, they are not entered on the tax return. See Worksheet 1-1 in Pub 4012, Tab J.

Coverdell Education Savings Accounts (ESA) and Qualified Tuition Programs (QTP) These are special accounts that have been set up to pay education expenses. The earnings are tax-free if the distributions are used to offset qualifying expenses. Qualifying expenses **include room and board** if the student attended at least half-time.

Coverdell distributions can be used for K-12 expenses as well as post-secondary education. QTP (Sec. 529 plan) distributions can also be used for K-12 expenses, up to an annual limit of \$10,000.

Employer-provided educational assistance Employers may provide up to \$5,250 of tax-free payments or reimbursements for an employee's education expenses. Unreimbursed qualified education expenses that exceed the employer payments can be used toward other benefits.

Veterans Administration education benefit If the student qualifies for one or more VA education benefits, the payments are not included on his or her tax return, but he or she must reduce the amount of education expenses qualifying for an education tax benefit by his or her VA payments. This applies only to the part of his or her VA payments that is required to be used for education expenses.

Business deduction The taxpayer can deduct the costs of qualifying work-related education as a business expense if they are self-employed. Refer to the Business Income lesson.

Educator Expenses Professional development expenses can be claimed as part of the educator expense adjustment to gross income. Refer to the Adjustments to Income lesson.

Education Credits

Practice Lab

Open [TaxSlayer Practice Lab](#) and login.

If necessary, find and review the **Entering Basic Credits** video.

Open Practice Lab and input the following Elliott Exercise. When complete, navigate to the TaxSlayer Summary>Print. Then open and view the PDF printout. Check over your work and compare to the answer.

Form 13614-C (October 2018)		Department of the Treasury - Internal Revenue Service Intake/Interview & Quality Review Sheet						OMB Number 1545-1964					
You will need: <ul style="list-style-type: none"> Tax Information such as Forms W-2, 1099, 1098, 1095. Social security cards or ITIN letters for all persons on your tax return. Picture ID (such as valid driver's license) for you and your spouse. 				Please complete pages 1-3 of this form. <ul style="list-style-type: none"> You are responsible for the information on your return. Please provide complete and accurate information. If you have questions, please ask the IRS-certified volunteer preparer. 									
Volunteers are trained to provide high quality service and uphold the highest ethical standards. To report unethical behavior to the IRS, email us at vi.voltax@irs.gov													
Part I – Your Personal Information (If you are filing a joint return, enter your names in the same order as last year's return)													
1. Your first name MARY		M.I.	Last name ELLIOTT		Daytime telephone number 555-555-5555		Are you a U.S. citizen? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No						
2. Your spouse's first name		M.I.	Last name		Daytime telephone number		Is your spouse a U.S. citizen? <input type="checkbox"/> Yes <input type="checkbox"/> No						
3. Mailing address 143 CONCORD LANE				Apt #	City YOUR CITY		State YOUR STATE		ZIP code				
4. Your Date of Birth 8/3/1955		5. Your job title MANAGER		6. Last year, were you:			a. Full-time student <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No						
				b. Totally and permanently disabled <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No			c. Legally blind <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No						
7. Your spouse's Date of Birth		8. Your spouse's job title		9. Last year, was your spouse:			a. Full-time student <input type="checkbox"/> Yes <input type="checkbox"/> No						
				b. Totally and permanently disabled <input type="checkbox"/> Yes <input type="checkbox"/> No			c. Legally blind <input type="checkbox"/> Yes <input type="checkbox"/> No						
10. Can anyone claim you or your spouse as a dependent? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Unsure													
11. Have you, your spouse, or dependents been a victim of tax related identity theft or been issued an Identity Protection PIN? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No													
Part II – Marital Status and Household Information													
1. As of December 31, 2018, what was your marital status?		<input type="checkbox"/> Never Married (This includes registered domestic partnerships, civil unions, or other formal relationships under state law) <input type="checkbox"/> Married a. If Yes, Did you get married in 2018? <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Divorced Date of final decree _____ <input type="checkbox"/> Legally Separated Date of separate maintenance agreement _____ <input checked="" type="checkbox"/> Widowed Year of spouse's death <u>2012</u>											
2. List the names below of:		If additional space is needed check here <input type="checkbox"/> and list on page 3 • everyone who lived with you last year (other than your spouse) • anyone you supported but did not live with you last year											
To be completed by a Certified Volunteer Preparer													
Name (first, last) Do not enter your name or spouse's name below	Date of Birth (mm/dd/yy)	Relationship to you (for example: son, daughter, parent, none, etc)	Number of months lived in your home last year	US Citizen (yes/no)	Resident of US, Canada, or Mexico last year (yes/no)	Single or Married as of 12/31/18 (S/M)	Full-time Student last year (yes/no)	Totally and Permanently Disabled (yes/no)	Is this person a qualifying child/relative of any other person? (yes/no)	Did this person provide more than 50% of his/her own support? (yes/no)	Did this person have less than \$4,150 of income? (yes/no)	Did the taxpayer(s) provide more than 50% of support for this person? (yes/no/N/A)	Did the taxpayer(s) pay more than half the cost of maintaining a home for this person? (yes/no)
(a) AMY HARRIS	(b) 5/4/1993	(c) DAUGHTER	(d) 12	(e) Y	(f) N	(g) S	(h) F	(i) N					

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Form **13614-C** (Rev. 10-2018)

Education Credits

Check appropriate box for each question in each section

Yes	No	Unsure	Part III – Income – Last Year, Did You (or Your Spouse) Receive
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	1. (B) Wages or Salary? (Form W-2) If yes, how many jobs did you have last year? _____
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	2. (A) Tip Income?
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	3. (B) Scholarships? (Forms W-2, 1098-T)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	4. (B) Interest/Dividends from: checking/savings accounts, bonds, CDs, brokerage? (Forms 1099-INT, 1099-DIV)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	5. (B) Refund of state/local income taxes? (Form 1099-G)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	6. (B) Alimony income or separate maintenance payments?
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	7. (A) Self-Employment income? (Form 1099-MISC, cash)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	8. (A) Cash/check payments for any work performed not reported on Forms W-2 or 1099?
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	9. (A) Income (or loss) from the sale of Stocks, Bonds or Real Estate? (including your home) (Forms 1099-S, 1099-B)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	10. (B) Disability income? (such as payments from insurance, or workers compensation) (Forms 1099-R, W-2)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	11. (A) Retirement income or payments from Pensions, Annuities, and/or IRA? (Form 1099-R)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	12. (B) Unemployment Compensation? (Form 1099-G)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	13. (B) Social Security or Railroad Retirement Benefits? (Forms SSA-1099, RRB-1099)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	14. (M) Income (or loss) from Rental Property?
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	15. (B) Other income? (gambling, lottery, prizes, awards, jury duty, Sch K-1, royalties, foreign income, etc.) Specify _____
Yes	No	Unsure	Part IV – Expenses – Last Year, Did You (or Your Spouse) Pay
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	1. (B) Alimony or separate maintenance payments? If yes, do you have the recipient's SSN? <input type="checkbox"/> Yes <input type="checkbox"/> No
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	2. Contributions to a retirement account? <input type="checkbox"/> IRA (A) <input type="checkbox"/> 401K (B) <input type="checkbox"/> Roth IRA (B) <input type="checkbox"/> Other
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	3. (B) College or post secondary educational expenses for yourself, spouse or dependents? (Form 1098-T)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	4. (A) Deductions: <input type="checkbox"/> Medical & Dental (including insurance premiums) <input type="checkbox"/> Mortgage Interest (Form 1098) <input type="checkbox"/> Taxes (State, Real Estate, Personal Property, Sales) <input type="checkbox"/> Charitable Contributions
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	5. (B) Child or dependent care expenses such as daycare?
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	6. (B) For supplies used as an eligible educator such as a teacher, teacher's aide, counselor, etc.?
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	7. (A) Expenses related to self-employment income or any other income you received?
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	8. (B) Student loan interest? (Form 1098-E)
Yes	No	Unsure	Part V – Life Events – Last Year, Did You (or Your Spouse)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	1. (HSA) Have a Health Savings Account? (Forms 5498-SA, 1099-SA, W-2 with code W in box 12)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	2. (A) Have credit card or mortgage debt cancelled/forgiven by a lender or have a home foreclosure? (Forms 1099-C, 1099-A)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	3. (A) Adopt a child?
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	4. (B) Have Earned Income Credit, Child Tax Credit or American Opportunity Credit disallowed in a prior year? If yes, for which tax year? _____
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	5. (A) Purchase and install energy-efficient home items? (such as windows, furnace, insulation, etc.)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	6. (B) Live in an area that was declared a Federal disaster area? If yes, where? _____
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	7. (A) Receive the First Time Homebuyers Credit in 2008?
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	8. (B) Make estimated tax payments or apply last year's refund to this year's tax? If so how much? _____
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	9. (A) File a federal return last year containing a "capital loss carryover" on Form 1040 Schedule D?
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	10. Receive a letter from the IRS?

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Interview Notes:

Mary's husband died in 2012. Mary is the manager of a local business. Mary had a medical issue last year that resulted in several unreimbursed expenses. Her daughter, Amy Harris, has no income and is a fulltime student at a local college in her senior year completing her nursing degree. Her DOB: 12/20/1998 and lived and supported by Mary.

Mary's employer provided health insurance for her and Amy.

Education Credits

Social Security

572-00-7140

THIS NUMBER HAS BEEN ESTABLISHED FOR

MARY ELLIOTT

For Tax Training Purposes Only

Social Security

572-00-0000

THIS NUMBER HAS BEEN ESTABLISHED FOR


AMY HARRIS

For Tax Training Purposes Only

Driver's License (Tax Training Only)

License No. 20181013100917

Name and Address
MARY ELLIOTT
 143 CONCORD LANE
 YC, YS, YZIP



Birth Date 08/03/1955 Expiration Date 08/03/2023

a. Employee's social security number 572-00-7140			
b. Employer identification number (EIN) 46-8123456		1. Wages, tips, other compensation \$52,000.00	2. Federal income tax withheld \$4,500.00
c. Employer's name, address, City, State and ZIP Code CINNAMONS QUILT SHOPPE 4220 HOOD RD JACKSONVILLE FL 32257		3. Social security wages \$53,890.00	4. Social security tax withheld \$3,341.18
		5. Medicare wages and tips \$53,890.00	6. Medicare tax withheld \$781.40
		7. Social security tips	8. Allocated tips
d. Control number		9. Verification code 15ac-bd34-9875-eca4	10. Dependant care benefits
e. Employee's first name and initial last name f. Employee's address and ZIP code MARY ELLIOTT 143 CONCORD LANE YC, YS, YZIP		11. Nonqualified plans	12a. See instructions for box 12 D \$1,890.00
		13. Statutory Retirement Third-party Employee Plan sickpay <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/>	12b. DD \$6,700.00
		14. Other	12c.
			12d.
15. State YS	Employer's state ID number 468123456	16. State wages, tips, etc. \$52,000.00	17. State income tax 2,385.00
			18. Local wages, tips, etc.
			19. Local income tax
			20. Locality name

Form **W-2** Wage and Tax Statement **2018**
 Copy B - To Be Filed With Employee's FEDERAL Tax Return.
 This information is being furnished to the Internal Revenue Service.

Education Credits

<input type="checkbox"/> CORRECTED (if checked)				
FILER'S name, address, city, state, and ZIP code LIBERTY NURSING COLLEGE 23 GRADUATE WAY YC, YS, YZIP		1 Payments received for qualified tuition and related expenses \$12,890.00	20 18 Form 1098-T	Tuition Statement
FILER'S federal identification no. 10-8123456		2 Amounts billed for qualified tuition and related expenses		
STUDENT'S name, address, city, state, and ZIP code AMY HARRIS 143 CONCORD LANE YC, YS, YZIP		3 If this box is checked, your educational institution has changed its reporting method for 2018. <input type="checkbox"/>	Copy B For Student This is important tax information and is being furnished to the Internal Revenue Service. This form maybe 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 taxpayer identification no. 572-00-0000		4 Adjustments made for a prior year	5 Scholarships or grants \$6,000.00	
Service Provider/Acct No. (see instr.)		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 2019. > <input type="checkbox"/>	
8. Checked if at least half-time student <input checked="" type="checkbox"/>		9 Checked if a graduate student <input type="checkbox"/>	10 Ins. contract reimb/refund	
Form 1098-T				

Amy is a senior (fourth) year. The American Opportunity Credit have been claimed only 3 times in prior tax returns for her. Amy's scholarship is restricted to tuition and fees. Her grandmother paid \$3,000 toward the tuition; the remainder was paid from a student loan. Amy pulled up her student statement online and showed the same amounts for scholarship and tuition. In addition, Amy paid \$950 for required books and equipment including a laptop computer. She purchased the used textbooks on-line. Amy has never been convicted of felony drug possession.

Find answers in the file: *Answers to Practice Lab Self-Study Exercises* in the Self-Study 2018>H. Answers, etc. Module.

Learning Review

1: Bob was a full-time student and a fifth-year senior. He has only claimed the American opportunity and Hope credit in three earlier years. Does he qualify for the American opportunity credit?	Yes or No
2: Janice works full time and takes one course a month at night school. Some of the courses are not for credit, but they are meant to advance her career. Which credit is appropriate for her?	American opportunity or Lifetime Learning
3: Clark is an older student who has gone back to college half time after serving 18 months in prison for felony drug possession. Which credit is appropriate for him?	American opportunity or Lifetime Learning

Answers to Learning Review

1: Yes. Bob qualifies for the American opportunity credit because he only claimed the credit in three previous tax years.
2: Lifetime learning
3: Lifetime learning

Feedback:

Please email: selfstudy@aarpdfntaxaide.org. Appreciate suggestions and comments.