

# How to Read a 1098T

The big questions at work this time of year are: "When are you sending 1098T forms?" and the follow-up "You filled out the wrong box". Colleges and Universities are required to file Form 1098-T, but the rules on what they have to include do not necessarily mesh with filling out your taxes, especially if you or your tax program don't know how to interpret them. That form can be the information that helps claim a big tax credit; or, often missed, it could be the information about scholarships that have to be claimed as income. Who claims what and where?

## Reading a Form 1098T

Form 1098T was created by the IRS after the initial education tax credits were passed into law, the Hope (now American Opportunity) and Lifetime Learning credits. There are more than just these two, but that is what started it all. In years prior to 2018, colleges had the option of completing either Box 1 or Box 2 related to Qualified Tuition and Related Expenses. Box 1 represented Payments whereas Box 2 was for calculated Billings.

Federally mandated tax reporting now mandates colleges report in Box 1. Form 1098-T reports the Qualified Tuition and Related Expenses paid via any source during the calendar year, **up to the amount billed for these expenses**. Keep in mind that the Spring semester is billed in December of the preceding year.

Your Box 1 payments are limited by the amount of Qualified Tuition and Related Expenses (QTRE) **billed** during the tax year. **If your Spring Semester tax year expenses were charged in the preceding tax year, your payment made in January of the tax year may not increase the amount reported in Box 1 because of the QTRE limitation.** However, even though your January payment may not be included in Box 1, that payment may still be eligible toward your educational tax benefit calculation if the taxpayer is able to use their own financial records and/or details from their student account statements to substantiate their claim. [Please see IRS Publication 970 for additional information.](#)

Also included on the form is Box 5, Scholarships or Grants. This box is important for two reasons: it can help calculate how much is eligible for the credit; but often missed, it can also indicate that some of those scholarships are taxable. Let's first look at calculating the credit.

To get a start on what is eligible for the credit, the first step is to subtract Box 5 from Box 1. Why? Scholarships are generally applied to tuition. Also, they are only **tax free** to the extent that they are applied to tuition (and related expenses). I have more on when they aren't below. So, if the scholarship is paying tuition, and you did

not use it for that, then you will not be eligible for the credit. Unfortunately, doing this math is not necessarily the end.

Box 1 is what was paid during the year for Qualified Tuition and Expenses (QTRE) billed during the year. Clarke bills for their spring or first calendar year term usually in late November or early December. This allows taxpayers to do some planning, but makes it confusing. On the planning end, the bill isn't usually due until January, so you can decide which tax year works best by paying in either December or January. The confusion is, what did you pay? It is not always simple. For some, the information on the 1098T is all that is needed. For others, the best way is to pull out the statements from the college or request one. Student Account activity can be found in [CUHub](#). Things to remember: all payments you made count, including payments on credit cards and student loans (see below). Unfortunately, this whole confusion sends many to a tax advisor. If you are unsure, having one help may not be a bad idea at least the first time through. Clarke University is unable to give tax advice. Please note that when claiming tax credits or deductions, the taxpayer's (i.e. student's) financial records serve as the official supporting documentation for calculating the amounts being claimed. The 1098-T is for informational purposes only. There may be additional documentation required in filing your annual tax return.

Box 7 is checked when payment for QTRE is received during the calendar year for a semester that begins in the first three months of the following calendar year. For example, if a payment is received during December for the upcoming Spring semester, the payment is included in Box 1, and Box 7 is checked to indicate it is for an academic period that begins in January.

Students are encouraged to consult a qualified tax advisor for specific questions.

### **What to do when scholarships exceed tuition**

Some will go through the calculations above, either the simple or complex, and realize that they had enough scholarship and grant aid to not only cover tuition, but also some that pay for room and board. First comment is great! That means you earned quite a bit of free money for school. It does also mean that some of it is taxable. Scholarships or grants that exceed qualified tuition and related expenses are taxable income to the recipient. The recipient is the student, which does at least mean that the tax rate will be low.

You report this income in the same place you report wages. It can even be done on a 1040-EZ. The form should have "SCH" written just to the left of line 7 on your Form 1040, 1040A, or 1040-EZ.

### **Who claims what?**

The other problem with relying on Form 1098T, and the information colleges don't track, is who paid. To qualify for the credit or deduction, you have to have made the

payment and the recipient has to be your dependent. Payments by check or credit/debit card are easy for you to track. For loans, look at the borrower. Federal Direct Loans are issued to the student only, so technically not a payment from the parent. If you are a co-signer on a loan, then you likely can count it as a payment. As I stated above, scholarships are taxable to the student. This is a good thing since students likely have a lower tax rate.

### **1098-T and Your Tax Return**

You are not required to attach IRS Form 1098-T to your tax return. The IRS Form 1098-T is not like the IRS Form W-2 obtained from your employer, which is required to be attached to the tax return filed with the IRS. The primary purpose of the IRS Form 1098-T is to let you know that Clarke University has provided the required information to the IRS to assist them in determining who may be eligible to claim the tuition and fee deduction or an education credit.

In your tax software, usually, you can go directly to the tax form and get the number where it needs to go, usually right-clicking the line on the form. It may require reading the help file a little.

Where the numbers should be:

- Tax credits are taken/reported on [Form 8863](#). The Tuition deduction is on [Form 8917](#). To understand which is right, you can start [here](#).
- Scholarships are reported on line 7 of Form 1040, 1040A, or 1040-EZ. There is usually a place in the tax software for wage income not reported on Form W2. This is the place to input the taxable scholarship.

So in the end, taking this benefit isn't easy. Some important things to remember:

- Is it worth it? Absolutely! The tax credits can reduce your tax by up to 100% of what you paid (American Opportunity Credit). Even the other options will reduce your tax by 20% or more of what you paid.
- While it may stink that you have to pay tax on some of your scholarships, it also means you didn't have to pay the entire amount out of pocket. That scholarship is likely being taxed at a rate of 20%. That means 80% was free money! Scholarships are any funds paid to you. They can be the grant award the school provided, a Pell Grant or SEOG, State Financial Aid, or those local rotary and foundation scholarships. On the latter, if they were sent to the college or made co-payable, then the college is including them in Box 5 of 1098T. If not, that is up to you.

- And the IRS has started a project to attempt to review and collect information about how people use these forms. While not an "audit", it does mean that they will ask some people to validate the numbers they used. The IRS is using Form 1098T as the start of these reviews. That does not mean you should only use Form 1098T. Ultimately you are responsible for what's in your tax return. As long as you have the support (checks and account statements) to support what you reported, you will be fine.

For some, this process can be frustrating, but I still believe that effort is worth it. For some, this may mean using a tax preparer. But paying \$100 or even more for tax return preparation to save \$1,000 still sounds like a good deal.

*This information is provided for general reference. None of the above should be considered as offering specific tax advice. Many individuals will have unique circumstances that require different treatment. You should examine your situation and consult a tax advisor if necessary.*

### **If Your 1098-T is Incorrect**

The name, Social Security Number, and address on Form 1098-T were obtained from information provided to Clarke University, although the address shown on Form 1098-T is irrelevant for IRS income tax filing purposes. The two most important pieces of information on the form are your name and your Social Security Number. Both your name and Social Security Number must be correct and match that reflected on your social security card. Please call the Student Account's Office 563.588.6342 if either of these two pieces of information are inaccurate.

### **Other Helpful Links**

In all matters related to tax implications of education expenses, Clarke University is unable to advise parents and students. We strongly encourage you to speak with a qualified tax advisor. Please refer to official IRS policies for important about possible tax credits.

[American Opportunity Tax Credit](#)

[Lifetime Learning Credit](#)

[IRS Publication 970 Tax Benefits for Education](#)