## Scholarship Income, Educational Credits, Tuition and Fees Deductions

Who reports scholarship income and who can claim education expenses on their 2010 tax return?

Scholarship or fellowship income and educational expenses are reported on the taxes of whoever claims the exemption for the student who accepted the scholarships or incurred the expenses. That is, if the parent(s) or guardian(s) claim an exemption for the student, then the education expenses and income will be reported on their taxes; otherwise, the student will claim a personal exemption for him/herself and report his/her own education expenses and income. Any expenses paid by the student should be treated as paid by the parents if they claim the student's exemption.

How do I know whether my parents can claim me as a dependent?

If you are enrolled as a full-time student, under the age of 24, and did not provide more than half of your total support in 2010, then your parents have the option of claiming you as a dependent for 2010. In calculating total support, do not include any amount you received in scholarships for the year.

How are scholarships/fellowships reported on a tax return?

The portion of a scholarship or a fellowship that is used to pay for tuition and fees, books, supplies, and equipment that are required for the student to enroll or attend a qualified educational institution is non-taxable. Any portion of scholarship or fellowship income used for any other purpose is taxable and should be reported as income on the return of whoever claims the exemption for the student. Also taxable is any scholarship or fellowship income received as compensation for teaching or research services (unless the income is received as part of an Armed Forces Health Professions Scholarship or a National Health Service Corps Scholarship).

What counts as a qualified educational expense?

Any expense which is incurred to allow a student to enroll or attend an accredited post-secondary institution, including tuition and required fees, required books, supplies, and equipment is considered a qualified educational expense, *unless* these expenses are paid for with scholarships, fellowships, Pell grants, and veterans' or employer-provided educational assistance. Required books, supplies, and equipment do not need to be purchased from the educational institution to be qualified educational expenses. Expenses paid with gifts, bequests, inheritances, or loans do count as qualified expenses.

Amounts paid for room, board, insurance, medical expenses, student activity fees, and transportation are not considered qualified educational expenses and should not be declared as such on your tax return.

What tax benefits are available for students or parents of students with qualified educational expenses for 2010?

Students or parents with qualified educational expenses may claim these expenses as either a deduction from taxable income or use them to claim an educational credit. Since US tax law does not allow an individual to claim both a credit and a deduction for the same student in the same tax year, the individual should choose the one which provides the maximum tax benefit; however, a person or couple with multiple dependents with qualified educational expenses can claim either a deduction or a credit for each student. These educational credits and deductions may not be claimed by anyone with a filing status of married filing separately.

There are three educational credits available, but students attending school in Lancaster County in 2010 only qualify for two of these – the Lifetime Learning Credit and the American Opportunity Credit – because Lancaster has not been declared a Midwestern Disaster Area for the 2010 tax year.

## The American Opportunity Credit:

The American Opportunity Credit is an educational credit for up to \$2,500\*\*, calculated as 100% of the first \$2,000 of educational expenses plus 25% of the next \$2,000. 40% of this credit is refundable, meaning this portion of the credit will be returned to the taxpayer as a refund in the case of the taxpayer's having no tax liability. This credit is reduced for single individuals with a Modified Adjusted Gross Income (MAGI) between \$80,000 and \$90,000 (\$160,000-\$180,000 for married filing jointly) and the credit is disallowed for single individuals with a MAGI above \$90,000 (\$180,000 for married filing jointly). This credit is only available for a student's first four tax or academic years of post-secondary education, and it cannot be claimed for any student with a felony drug conviction. Furthermore, the student must have been enrolled in a qualified institution at least half-time for at least one academic period during the tax year to qualify for the credit. The refundable portion of this credit cannot be claimed by students under the age of 24 who *could* be claimed as a dependent on someone else's return, even if that person chooses not to claim the dependency exemption.

## The Lifetime Learning Credit:

The Lifetime Learning Credit is an educational credit for up to \$2,000, calculated as 20% of the first \$10,000 of educational expenses. All of this credit is non-refundable and is reduced for single individuals with a MAGI between \$50,000 and \$60,000 (\$100,000-\$120,000 for married filing jointly). Unlike the American Opportunity Credit, the Lifetime Learning Credit is available to students for all tax years in which they have qualified educational expenses from an accredited post-secondary institution, and this credit can be claimed for a student who has a felony drug charge.

Rather than claim one of these two credits, the taxpayer may opt to report his/her qualified educational expenses as deductions to taxable income. A single taxpayer with a MAGI of less than \$65,000 (\$130,000 for married filing jointly) can deduct up to \$4,000 of educational expenses from taxable income. A single taxpayer with a MAGI between \$65,000 and \$80,000 (\$130,000-\$160,000 for married filing jointly) can deduct up to \$2,000 of educational expenses from taxable income. Taxpayers with MAGI above these limits cannot claim a deduction for educational expenses. These deductions can also not be claimed by individuals who *could* be claimed as a dependent on someone else's return, even if that person chooses not to claim the dependency exemption.

While in most cases, the taxpayer receives the most benefit by claiming one of the educational credits, the educational expense deduction can at time be more beneficial. As part of preparing your taxes, VITA volunteers seek to report educational expenses in the way that maximizes your tax benefit.

Where can I find information regarding the value of received scholarships and/or fellowships and any tuition and fees paid for 2010?

Students should receive a 1098-T form from the post-secondary institutions in which they were enrolled in 2010, and the value of qualified expenses as well as scholarships and grants should be included on this form. For UNL students, this form can also be viewed online on the student's MyRED page.

** All provided numbers are for 2009 tax year and will be updated when the IRS releases more information on the 2010 tax year.