UNDERSTANDING IRS FORM 1098-T

The Taxpayer Relief Act of 1997 requires colleges and universities to report a student’s enrollment status, qualified educational expenses, and grant aid in order to assist taxpayers and the IRS in determining a tax filer’s eligibility for education tax credits. IRS Form 1098-T serves this purpose, with institutions furnishing a statement to the student and filing copies with the IRS.

Unlike other information returns, such as the Form 1098 Mortgage Interest Statement, Form 1098-T does not provide information that can be directly inserted onto a taxpayer’s return. Instead, the form serves as a threshold verification of a student’s enrollment status at an eligible institution and delineates the portion of the student’s charges attributable to “qualified tuition and related expenses.” It also provides information on grant aid administered by the institution.

Form 1098-T helps taxpayers calculate what amounts for qualified expenses they may be able to claim for a federal tax benefit and serves as a timely reminder to claim a credit. However, the amounts reported on the Form 1098-T can rarely, if ever, be plugged directly onto Form 8863, Education Tax Credits, without the taxpayer’s individual analysis of their other eligibility factors (i.e., AGI limits), and substantiation of amounts paid for qualified expenses during that tax (calendar) year.

Although they are qualified expenses for purposes of the American Opportunity Tax Credit, payments for books and supplies are typically not reflected in a student’s college or university account and are not tracked by the institution. Taxpayers need to use their receipts to verify these additional expenses. Note: Books and supply expenses are considered eligible for purposes of the Lifetime Learning Tax Credit only if they are required and paid to the institution.