



VITA/TCE Volunteer Tax Alert (VTA)

Thank you for volunteering and for your dedication to top QUALITY service!

VTA Number	VTA-2015-04
Date Issued	January 26, 2015
Tax Law Topic	Education Credits - Treatment of Pell Grants & Scholarships
Background	<p>The Department of Treasury issued a fact sheet on how to allocate Pell grants/scholarships to maximize the Education Credits. Based on our discussions with IRS Counsel, we agree that students can decide to include all or part of the Pell grant/ scholarship as taxable income on their return when the grant/scholarship is not required to be applied to qualified educational expenses only. However, per IRS Counsel, the student must have incurred actual nonqualified expenses. Someone (not necessarily the student) must have paid the actual nonqualified expenses during the tax year.</p> <p>Reminder: If the student is a dependent, the benefit to the education credit would be on the return of the individual who claims the student as a dependent, but it is the student who has to include the taxable scholarship/grant income on their return.</p> <p>Please refer to Publication 970, <i>Tax Benefits for Education</i>, for examples of how to make this allocation.</p>
Volunteer's Role	<p>The amount of grant/scholarship being treated as taxable income will be reported on the student's return. If the student is a dependent of your taxpayer, you should not treat any portion of the Pell grant/scholarship as an eligible education expense on your taxpayer's return unless the student has/will be treating that amount as taxable scholarship income on their tax return.</p> <p>Making this election can be a time-consuming process. The volunteer will need to determine the impact of electing to treat some or all of the Pell grant/scholarship as taxable income on both the federal and state tax returns for both the taxpayer and the student (if the student is a dependent). Site Coordinators can elect to refer taxpayers with this choice to a paid preparer.</p> <p>As a volunteer preparer, let your Site Coordinator know if you need a more experienced volunteer to prepare a tax return with this situation.</p>
Resources	<ul style="list-style-type: none">• Treasury Fact Sheet• Publication 970• Instructions for Form 8863, Education Credits

For additional questions, please talk to your site coordinator, partner, or IRS SPEC relationship manager.