



# VITA/TCE Volunteer Tax Alert (VTA)

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

<b>VTA Number</b>	VTA-2014 – 03																		
<b>Date Issued</b>	March 14, 2014																		
<b>Tax Law Topic</b>	<b>Education Credit</b>																		
<b>Issue identified Causing Inaccurate Returns</b>	<p>Volunteers are using the amount in box 2 to determine the credit without having a conversation with the taxpayer. Volunteers are incorrectly computing the education benefits for taxpayers using the total amount on Form 1098-T, box 2 (Amounts billed for qualified tuition and related expenses).</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; vertical-align: top;"> <small>FILER'S name, street address, city or town, province or state, country, ZIP or foreign postal code, and telephone number</small> </td> <td style="width: 25%; vertical-align: top;"> <b>1</b> Payments received for qualified tuition and related expenses \$             </td> <td style="width: 25%; vertical-align: top;"> <small>OMB No. 1545-1574</small>   <div style="font-size: 2em; font-weight: bold; text-align: center;">2013</div> <small>Form 1098-T</small> </td> </tr> <tr> <td style="vertical-align: top;"> <small>FILER'S federal identification no.</small> </td> <td style="vertical-align: top;"> <small>STUDENT'S social security number</small> </td> <td style="vertical-align: top;"> <b>3</b> If this box is checked, your educational institution has changed its reporting method for 2013 <input type="checkbox"/> </td> </tr> <tr> <td style="vertical-align: top;"> <small>STUDENT'S name</small> </td> <td style="vertical-align: top;"> <b>4</b> Adjustments made for a prior year \$             </td> <td style="vertical-align: top;"> <b>5</b> Scholarships or grants \$             </td> </tr> <tr> <td style="vertical-align: top;"> <small>Street address (including apt. no.)</small> </td> <td style="vertical-align: top;"> <b>6</b> Adjustments to scholarships or grants for a prior year \$             </td> <td style="vertical-align: top;"> <b>7</b> Checked if the amount in box 1 or 2 includes amounts for an academic period beginning January - March 2014 <input type="checkbox"/> </td> </tr> <tr> <td style="vertical-align: top;"> <small>City or town, province or state, country, and ZIP or foreign postal code</small> </td> <td style="vertical-align: top;"> <b>8</b> Check if at least half-time student <input type="checkbox"/> </td> <td style="vertical-align: top;"> <b>9</b> Checked if a graduate student <input type="checkbox"/> </td> </tr> <tr> <td style="vertical-align: top;"> <small>Service Provider/Acct. No. (see instr.)</small> </td> <td style="vertical-align: top;"> <b>10</b> Ins. contract reimb./refund \$             </td> <td></td> </tr> </table>	<small>FILER'S name, street address, city or town, province or state, country, ZIP or foreign postal code, and telephone number</small>	<b>1</b> Payments received for qualified tuition and related expenses \$	<small>OMB No. 1545-1574</small>  <div style="font-size: 2em; font-weight: bold; text-align: center;">2013</div> <small>Form 1098-T</small>	<small>FILER'S federal identification no.</small>	<small>STUDENT'S social security number</small>	<b>3</b> If this box is checked, your educational institution has changed its reporting method for 2013 <input type="checkbox"/>	<small>STUDENT'S name</small>	<b>4</b> Adjustments made for a prior year \$	<b>5</b> Scholarships or grants \$	<small>Street address (including apt. no.)</small>	<b>6</b> Adjustments to scholarships or grants for a prior year \$	<b>7</b> Checked if the amount in box 1 or 2 includes amounts for an academic period beginning January - March 2014 <input type="checkbox"/>	<small>City or town, province or state, country, and ZIP or foreign postal code</small>	<b>8</b> Check if at least half-time student <input type="checkbox"/>	<b>9</b> Checked if a graduate student <input type="checkbox"/>	<small>Service Provider/Acct. No. (see instr.)</small>	<b>10</b> Ins. contract reimb./refund \$	
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<b>General Rule</b>	<p>When figuring an education credit or the tuition and fees deduction, <b>use only the amounts the taxpayers <u>paid</u> and are deemed to have paid during the tax year for the qualified education expenses.</b></p> <p>An institution may choose to report either payments received during calendar year 2013 (box 1), or amounts billed during the calendar year 2013 (box 2), for qualified education expenses. However, the amounts in boxes 1 and 2 of Form 1098-T might be different than the amount actually paid and are deemed to have been paid. In addition, the Form 1098-T should give you other information for that institution, such as adjustments made for prior years, the amount of scholarships or grants, reimbursements, or refunds, and whether the student was enrolled at least half-time or was a graduate student.</p>																		
<b>Figuring the Education Benefits</b>	<p>To determine the amount of qualified expenses, please review Form 1098-T, and <b>have a discussion with the taxpayer to determine the qualified education expenses paid.</b> Remember to include amounts paid for books, supplies and equipment needed for a course of study if calculating the American opportunity credit. For the lifetime learning credit or tuition and fees deduction, these expenses are only included if they must be paid to the institution as a condition of enrollment or attendance.</p> <p>Once you determine the qualified education expenses paid on the student's behalf in 2013, subtract any tax free educational assistance (box 5) received in the 2013 academic period. The difference is the amount used to compute the education credits or tuition and fees deduction. See the example below.</p>																		

**Example:**  
 Bill and Sue are eligible to claim the American opportunity credit for their daughter Sarah, who is in her first year of college. They have a Form 1098-T with \$10,000 in box 2 and a \$3,000 Pell grant in box 5. During your interview with Bill and Sue, you determine that \$5,000 was paid in September 2013 for the fall semester; \$3,000 was paid be scholarship and \$2,000 was paid by Bill and Sue. Also, \$5,000 was billed in December for the Spring 2014 semester, which was paid in January 2014. They paid \$500 for books in 2013. To calculate the eligible expenses for their credit, take the \$5,000 paid in 2013, add the \$500 for books, and then subtract the \$3,000 grant. **Note: This example is shown in the How to report section.**

**How to Report**

Complete a separate worksheet for each student for each academic period beginning (or treated as beginning) in 2013 for which you paid (or are treated as having paid) qualified education expenses in 2013.

1. Total qualified education expenses paid for or on behalf of the student in 2013 for the academic period .....	5,500
2. Less adjustments:	
a. Tax-free educational assistance received in 2013 allocable to the academic period .....	3,000
b. Tax-free educational assistance received in 2014 (and before you file your 2013 tax return) allocable to the academic period . . .	_____
c. Refunds of qualified education expenses paid in 2013 if the refund is received in 2013 or in 2014 before you file your 2013 tax return .....	_____
3. Total adjustments (add lines 2a, 2b, and 2c) .....	3,000
4. Adjusted qualified education expenses. Subtract line 3 from line 1. If zero or less, enter -0- .....	2,500

**Resources**

- Publication 4012, *VITA/TCE Volunteer Resource Guide*, page J-2
- Publication 17, *Your Federal Income Tax -- For Individuals*

**Accuracy Rate**

Quality Statistical Sample (QSS) 96% as of 03-08-2014  
 SPEC Shopping 56% as of 03-08-2014

**Please discuss any questions with your site coordinator or IRS SPEC relationship manager.**