

INTERNAL REVENUE SERVICE

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[REDACTED]

Attention: [REDACTED]

Dear [REDACTED]:

I apologize for the delay in responding to your inquiry dated October 15, 2002, on behalf of your constituent, [REDACTED], who wrote about education credits. [REDACTED] believes that a tax-free scholarship should not reduce the expenses that qualify for the credit. He also suggests that we add textbooks, lab fees, and room and board to the definition of expenses that qualify for the credit.

The Hope Scholarship Credit and the Lifetime Learning Credit (collectively called the education credit) allow a credit against federal income tax for the qualified tuition and related expenses (qualified expenses) of the taxpayer, spouse, or certain dependents (§ 25A of the Internal Revenue Code). The term "qualified tuition and related expenses" is defined in § 25A(f)(1)(A) as tuition and fees required for the enrollment or attendance of the student at an eligible educational institution.

A general principle of tax law is to disallow a double tax benefit for the same expense. To prevent a double tax benefit, qualified expenses for § 25A do not include expenses covered by educational assistance that the student or taxpayer does not have to include in his or her gross income. H.R. Conf. Rep. No. 220, 105th Cong., 1st Sess., 343 (1997). Thus, in calculating the education credit, if a student receives a tax-free scholarship for qualified expenses, the student must reduce the amount of qualified expenses paid during the year by the amount of the scholarship. However, if the student can use the scholarship to pay non-qualifying expenses, and the scholarship is not otherwise excluded from the student's gross income, the student is not required to make the reduction.

Under § 25A(f)(1), qualified expenses include fees for books, supplies, and equipment used in study only if the student must pay these fees to the educational institution. Thus, if the amount paid for textbooks or lab fees are required fees, they are qualified

expenses. The Congress has stated that “[c]harges and fees associated with meals, lodging ... and similar personal, living or family expenses are not included” in the definition of qualified expenses. H.R. Conf. Rep. No. 220, 105th Cong., 1st Sess., at 346 (1997)]. Thus, to allow a credit for payment of room and board would contradict congressional intent.

I hope this information is helpful. Please call [REDACTED] [REDACTED] if you have any questions.

Sincerely,

James L. Atkinson
Associate Chief Counsel
(Income Tax & Accounting)