

Internal Revenue Service

Department of the Treasury

Number: **INFO 2002-0286**
Release Date: 12/31/2002
Index No.: 25A.00-00

Washington, DC 20224

Person to Contact:

Telephone Number:

Refer Reply To:

CC:ITA:4 – GENIN-118856-02

Date:

September 23, 2002

Dear [REDACTED]:

This is in response to your inquiry dated March 27, 2002, concerning the education tax credits allowed by § 25A of the Internal Revenue Code. You furnished us with a notice from [REDACTED] (Information for IRS Form 8863) that advises the students they may be able to reduce their federal income tax liability by claiming the credit. The form shows tuition paid in the amount of \$7,918 and a “waiver” (gift aid and fee reduction) in the same amount. You ask how the tuition and corresponding waiver should be applied in claiming the credit, and whether the amount of the tuition that was waived is considered taxable income.

We do not have sufficient information to determine whether the amount of the tuition that was waived is taxable. However, we are furnishing you with the following general information.

In general, § 25A allows taxpayers to claim a nonrefundable credit against their federal income tax for the qualified tuition and related expenses of a taxpayer, spouse, or certain dependents. The Committee on Finance of the United States Senate stated that the purpose of the credit is to “assist low-and middle-income families and students in payment for the costs of post-secondary education” S. Rep. No. 105-33, 105th Cong., 1st Sess. 9 (1997), 1997-4 (Vol. 2) C.B. 1089.

Under § 25A(b) a taxpayer may claim a Hope Scholarship Credit for the qualified tuition and related expenses paid during a taxable year for each eligible student. The amount of the credit is the total of 100 percent of the first \$1,000 of qualified tuition and related expenses plus 50 percent of the next \$1,000 of such expenses paid with respect to the same student. Under § 25A(c) a taxpayer may also claim a Lifetime Learning Credit for the qualified tuition and related expenses paid during a taxable year for students for whom no Hope Scholarship Credit is claimed. The amount of the credit is 20 percent of the first \$5,000 of qualified tuition and related expenses paid by the taxpayer during the taxable year, for education furnished during any academic period beginning in that taxable year (increased to \$10,000 after 2002).

In 1999 the Department of Treasury issued proposed Income Tax Regulations under § 25A (64 Fed. Reg. 794 (1999)). In determining the amount of an education credit, § 1.25A-5(c) states that the qualified tuition and related expenses paid during a taxable

GENIN-118856-02

year must be *reduced* by any amount paid to, or on behalf of, a student during the taxable year that is excludable from the student's gross income. Some of the examples given in the regulations concern a scholarship (excludable under § 117), and certain employer-provided educational assistance (excludable from income under § 127). If a student's tuition is reduced or reimbursed by an amount that is not otherwise excludable from the student's gross income, then for purposes of calculating the education tax credit the student is not required to reduce the amount of qualified tuition and related expenses paid during the taxable year.

I hope this information is helpful. Please call Channing Horton at (202) 622-4920 if you have any questions.

Sincerely,

Robert A. Berkovsky
Branch Chief
Office of Associate Chief Counsel
(Income Tax & Accounting)