



Advisory Report 2013-2

National Association of College and
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Recommendations for Completing Form 1098-T

In 2002, the Internal Revenue Service (IRS) finalized the regulations at §1.6050S-1 governing the reporting requirements imposed on institutions of higher education in connection with the introduction of the Hope and Lifetime Learning tax credits authorized by the Taxpayer Relief Act of 1997. Since that time, IRS has provided little additional formal guidance to colleges and universities. NACUBO's communications with members indicate that, over time, considerable variation has crept into the community's shared understanding of what needs to be reported on Form 1098-T, Tuition Statement. Greater conformity across campuses will make it easier for students and families to understand and use the information schools provide on the 1098-T to help them claim the American Opportunity (which has replaced the Hope credit) and Lifetime Learning tax credits.

Last spring, a joint subcommittee of NACUBO's Student Financial Services Council and Tax Council took on the difficult task of building a framework for greater conformity in reporting. The group considered the myriad fees commonly charged by colleges and universities, distilled the list into a manageable number of categories, and determined whether they should be reported in Box 1 or Box 2 of Form 1098-T as qualified tuition and related expenses (QTRE). The subcommittee also tackled the reporting of scholarships and grants in Box 5 of the 1098-T, developing recommendations for the types of payments which should be included. A draft of the group's recommendations was shared more widely with the NACUBO membership—and feedback solicited—in August. Careful review of concerns and comments received led to clarification and reformatting of the final guidance.

We hope this Advisory Report will prompt institutions to look carefully at how student charges and payments are categorized for 1098-T reporting purposes. For each category (QTRE and scholarships), a concise summary of the criteria used to decide which items should be reported is followed by a table summarizing NACUBO's recommendations. Relevant IRS guidance is also provided, including excerpts from the regulations, other guidance, and the instructions to Form 1098-T. The volume and variety of terminology and practices among institutions is too great to allow for compilation of a master list of all possible charges or sources of aid to students. These recommendations represent our best effort at identifying the components that factor into reporting decisions and illustrating the resulting determinations for common circumstances. Each institution should review these recommendations in light of its own unique practices, terminology, systems, and experience.

NACUBO is grateful for the dedicated work and expertise of the subcommittee members as well as the input from many other members who helped shape this guidance. [Anne Gross](#), vice president, regulatory affairs, and [Mary Bachinger](#), director of tax policy, serve as staff liaisons to the subcommittee.

Box 1 or Box 2

Criteria for reporting payments (Box 1) or amounts billed (Box 2) for qualified tuition and related expenses on Form 1098-T

Determining qualified tuition and related expenses (QTRE) reported by institution:

1. Tuition and fees required for enrollment
2. Books and supplies charges, if required to be paid to institution

BUT NOT

- a. Personal expenses (room, board, insurance, medical, travel, etc.)
- b. Expenses for courses involving sports, games, or hobbies (unless part of degree program)

Note: Institutions have the option of reporting amounts paid for QTRE or amounts billed for QTRE. This choice does not affect which charges are components of QTRE.

Qualified Tuition and Related Expenses for Box 1 or 2 on Form 1098-T

✓ Report	✗ Do Not Report
<i>Tuition and fees required for enrollment</i> <i>Charges for books and supplies paid to institution</i>	<i>The following charges are generally not mandatory and/or cover personal expenses.</i>
Tuition	Tuition or other charges for courses related to sports, games, or hobbies (unless count towards degree)
Books, equipment, supplies (if required to be purchased from institution)*	Dining /meal plan charges
Course or program fees (e.g., lab, art, music)	Health or disability insurance fees (even if required; excluded by statute)
Distance learning fees	Housing charges
Enrollment confirmation fees	Late payment fees
Exam fees (for placement, testing out of credit courses, or if required for degree program)	Library fines
Information & technology fees	Loan processing fees
Malpractice insurance (if required for clinical courses)	Orientation fees (portion which covers expenses for overnight stays)
Records fees	Parking permits
Student athletics fees (if required, no personal benefit provided)	Parking fines
Student life/activity/association fees	Student health fees
Other mandatory fees (no personal benefit provided)	Transportation fees (if providing individual benefit)
Comprehensive fees (covering tuition, fees, room, board) must be allocated between QTRE/non-QTRE	

IRS Regulations

26 CFR §1.25A-2 Definitions.

(d) Qualified tuition and related expenses—

(1) In general. *Qualified tuition and related expenses* means tuition and fees required for the enrollment or attendance of a student for courses of instruction at an eligible educational institution.

(2) Required fees—

(i) In general. Except as provided in paragraph (d)(3) of this section, the test for determining whether any fee is a qualified tuition and related expense is whether the fee is required to be paid to the eligible educational institution as a condition of the student's enrollment or attendance at the institution.

(ii) Books, supplies, and equipment. Qualified tuition and related expenses include fees for books, supplies, and equipment used in a course of study only if the fees must be paid to the eligible educational institution for the enrollment or attendance of the student at the institution. *[Note: These regulations predate the expansion of the American Opportunity Tax Credit, which enables students to include expenses for required books and materials in QTRE regardless of where purchased.]*

(iii) Nonacademic fees. Except as provided in paragraph (d)(3) of this section, qualified tuition and related expenses include fees charged by an eligible educational institution that are not used directly for, or allocated to, an academic course of instruction only if the fee must be paid to the eligible educational institution for the enrollment or attendance of the student at the institution.

(3) Personal expenses. Qualified tuition and related expenses do not include the costs of room and board, insurance, medical expenses (including student health fees), transportation, and similar personal, living, or family expenses, regardless of whether the fee must be paid to the eligible educational institution for the

enrollment or attendance of the student at the institution.

(4) Treatment of a comprehensive or bundled fee. If a student is required to pay a fee (such as a comprehensive fee or a bundled fee) to an eligible educational institution that combines charges for qualified tuition and related expenses with charges for personal expenses described in paragraph (d)(3) of this section, the portion of the fee that is allocable to personal expenses is not included in qualified tuition and related expenses. The determination of what portion of the fee relates to qualified tuition and related expenses and what portion relates to personal expenses must be made by the institution using a reasonable method of allocation.

(5) Hobby courses. Qualified tuition and related expenses do not include expenses that relate to any course of instruction or other education that involves sports, games, or hobbies, or any noncredit course, unless the course or other education is part of the student's degree program, or in the case of the Lifetime Learning Credit, the student takes the course to acquire or improve job skills.

(6) Examples. The following examples illustrate the rules of this paragraph (d). In each example, assume that the institution is an eligible educational institution and that all other relevant requirements to claim an education tax credit are met. The examples are as follows:

Example 1.

University V offers a degree program in dentistry. In addition to tuition, all students enrolled in the program are required to pay a fee to University V for the rental of dental equipment. Because the equipment rental fee must be paid to University V for enrollment and attendance, the tuition and the equipment rental fee are qualified tuition and related expenses.

Example 2.

First-year students at College W are required to obtain books and other reading materials used in its mandatory first-year curriculum. The books and other reading materials are not required to be purchased from College W and may be borrowed from other students or purchased from off-campus bookstores, as well as from College W's bookstore. College W bills students for any books and materials purchased from College W's bookstore. The fee that College W charges for the first-year books and materials purchased at its bookstore is not a qualified tuition and related expense because the books and materials are not required to be purchased from College W for enrollment or attendance at the institution. *[Note: These regulations predate the expansion of the American Opportunity Tax Credit, which enables students to include expenses for required books and materials in QTRE regardless of where purchased.]*

Example 3.

All students who attend College X are required to pay a separate student activity fee in addition to their tuition. The student activity fee is used solely to fund on-campus organizations and activities run by students, such as the student newspaper and the student government (no portion of the fee covers personal expenses). Although labeled as a student activity fee, the fee is required for enrollment or attendance at College X. Therefore, the fee is a qualified tuition and related expense.

Example 4.

The facts are the same as in Example 3, except that College X offers an optional athletic fee that students may pay to receive discounted tickets to sports events. The athletic fee is not required for enrollment or attendance at College X. Therefore, the fee is not a qualified tuition and related expense.

Example 5.

College Y requires all students to live on campus. It charges a single comprehensive fee to cover tuition, required fees, and room and board. Based on College Y's reasonable allocation, sixty percent of the comprehensive fee is allocable to tuition and other required fees not allocable to personal expenses, and the remaining forty percent of the comprehensive fee is allocable to charges for room and board and other personal expenses. Therefore, only sixty percent of College Y's comprehensive fee is a qualified tuition and related expense.

Example 6.

As a degree student at College Z, Student A is required to take a certain number of courses outside of her chosen major in Economics. To fulfill this requirement, Student A enrolls in a square dancing class offered by the Physical Education Department. Because Student A receives credit toward her degree program for the square dancing class, the tuition for the square dancing class is included in qualified tuition and related expenses.

Box 5

Criteria for reporting payments in Box 5, Scholarships or Grants

1. Is it gift aid, i.e. a scholarship or grant tied to enrollment that does not need to be repaid?
2. Is it intended to cover the student's "cost of attendance" (COA)?
3. Is it "administered and processed" by the institution? While this term is not defined by the IRS, the following factors should be considered. Does the institution:
 - a. Determine eligibility of student for award?
 - b. Certify enrollment / attendance to the sponsor or granting organization?
 - c. Calculate the amount awarded?
 - d. Allocate funds across terms?
 - e. Return overpayments to source?
 - f. Count the payment as aid when packaging financial aid (to avoid overawards under Title IV financial aid rules)?

Scholarships and Grants for Box 5 on Form 1098-T

✓ Report	✗ Do Not Report
<i>Payments from the following sources are generally gift aid intended to cover COA and are administered and processed by the institution.</i>	<i>Payments from the following sources do not meet all of the necessary criteria (gift aid, COA, administered and processed).</i>
Corporation or employer under a third-party billing arrangement, including institutional §127 plans	AmeriCorps Education Award—Earned income, not gift aid, AmeriCorps reports to student on 1099-MISC
DoD Tuition Assistance and other support for servicemembers and dependents	Corporation or employer with no third-party billing arrangement (including corporate §127 plans)—Not administered and processed by institution
Federal Pell, SEOG, or other grant	Other college or university, with agreement to exchange students/tuition—student pays home university; exchange payment between universities
Institutional scholarship/grant	Private nonprofit organization, not processed as a scholarship/grant—not administered and processed by institution
Private nonprofit or other organization, if processed as scholarship/grant	Private or family trust—not gift aid, not administered and processed by institution
Scholarship restricted to room and board	State §529 savings or prepaid plan distribution reported on Form 1099-Q
State grant, including vocational-rehabilitation	State or local school system payment for K-12 dual enrollment, if no student account—1098-T not required
State or local school system payment for K-12 dual enrollment, if student account is maintained	Travel grant/prize/award not related to educational pursuit resulting in college credit—not for COA; may be reportable on Form 1099-MISC
Travel grant/prize/award related to educational pursuit for credit - covers COA	Tuition waived by institution (under IRC §117(d))—should be subtracted from amount paid/billed per IRS Notice 2006-72; Q&A-8
Veterans' benefits (Chapter 31, Chapter 33 (Post 9/11 GI Bill), and Yellow Ribbon)—VA makes payment to institution	Veterans' benefits—Chapter 30 (Montgomery GI Bill)—VA makes payment to student

IRS Regulations

26 CFR §1.6050S-1

§1.6050S-1(b)(2) Information reporting requirements for institutions that elect to report payments received for qualified tuition and related expenses ...

(ii) Information included on return. An institution reporting payments received for qualified tuition and related expenses must include on Form 1098—T

(E) The amount of any scholarships or grants for the payment of the individual's costs of attendance that the institution administered and processed during the calendar year;

§1.6050S-1(b)(3) Information reporting requirements for institutions that elect to report amounts billed for qualified tuition and related expenses ...

(ii) Information included on return. An institution reporting amounts billed for qualified tuition and related expenses must include on Form 1098-T—

(E) The amount of any scholarships or grants for the payment of the individual's costs of attendance that the institution administered and processed during the calendar year;

IRS Notice 2006-72

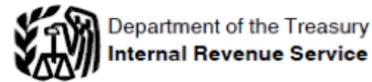
Q-8. What amounts must an institution report in Box 5 as scholarships or grants?

A-8. Section 6050S(b)(2)(B)(ii) of the Code provides that an institution must report the amount of any grants that the institution administered and processed during the calendar year for the payment of the student's costs of attendance. A student's costs of attendance may include both qualified expenses (such as tuition and required fees) and non-qualified expenses (such as room and board). The institution should report these amounts in Box 5. A qualified tuition reduction described in section 117(d) of the Code is not a scholarship or grant, and accordingly, should not be reported in Box 5; but such a reduction is relevant in determining the net amount reported in Box 2 if the institution elects to report amounts billed.

Whether an institution reported scholarship or grant amounts in Box 5 is not considered in determining amounts to be reported as payments received (Box 1) or as amounts billed (Box 2) for qualified expenses. An institution that elects to report payments received for qualified expenses generally must include the amount of scholarships and grants in Box 1, except any scholarship or grant that by its terms must be applied to expenses other than qualified expenses, such as room and board (see section 1.6050S-1(b)(2)(v) of the regulations). An institution that elects to report amounts billed for qualified expenses may not reduce the amount reported in Box 2 by scholarships or grants.

2013

Instructions for Forms 1098-E and 1098-T



Student Loan Interest Statement and Tuition Statement

Qualified tuition and related expenses. Qualified tuition and related expenses are tuition and fees required for a student to be enrolled at or attend an eligible educational institution.

The following are **not** qualified tuition and related expenses.

- Amounts paid for any course or other education involving sports, games, or hobbies, unless the course or other education is part of the student's degree program or is taken to acquire or improve job skills.
- Charges and fees for room, board, insurance, medical expenses (including student health fees), transportation, and similar personal, living, or family expenses.

Box 1. Payments Received for Qualified Tuition and Related Expenses

If you use this method of reporting, enter the total amount of payments received for qualified tuition and related expenses from all sources during the calendar year. The amount reported is the total amount of payments received less any reimbursements or refunds made during the calendar year that relate to the payments received for qualified tuition and related expenses during the same calendar year. The amount reported is not reduced by scholarships and grants reported in box 5.

Box 2. Amounts Billed for Qualified Tuition and Related Expenses

If you use this method of reporting, enter the amounts billed during the calendar year for qualified tuition and related expenses. The amount reported is the total amount billed less any reductions in charges made during the calendar year that relate to the amounts billed for qualified tuition and related expenses during the same calendar year. The amount reported is not reduced by scholarships and grants reported in box 5.

Box 5. Scholarships or Grants

Enter the total amount of any scholarships or grants that you administered and processed during the calendar year for the payment of the student's costs of attendance. Scholarships and grants generally include all payments received from 3rd parties (excluding family members and loan proceeds). This includes payments received from governmental and private entities such as the Department of Veterans Affairs, the Department of Defense, civic, and religious organizations, and nonprofit entities. However, see *Exceptions*, earlier.