



Higher Education Tax Credits and IRS Form 1098-T

The Taxpayer Relief Act of 1997 requires the filing of specific information by colleges and universities in order to assist taxpayers and the IRS in determining a tax filer's eligibility for a tax credit such as the Lifetime Learning tax credit or the American Opportunity Tax Credit. Corresponding statements are furnished to the student and reported to the IRS on Form 1098-T.

Do all students receive a 1098-T?

No. Institutions do not need to report information for:

- Nonresident alien individuals
- Noncredit courses
- Individuals whose qualified education expenses are waived or paid entirely with scholarships
- Individuals covered by a formal billing agreement and institution bills to a third party and institution does not maintain a separate financial account for the individual

Do parents and/or guardians receive a copy of the 1098-T from the institution?

No. 1098-T forms are furnished only to the student.

When will these forms be made available for tax year 2011?

- Institutions must furnish the form to students, by mail or electronically, by January 31, 2012.
- Institutions must file with the IRS either:
 - Paper copies by February 28, 2012 (an option available only if institution files fewer than 250 forms; or
 - Electronically by April 2, 2012

Do the amounts reported on the 1098-T transfer directly to a taxpayer's claim?

No. While institutions supply information that may help taxpayers make the determination, students and taxpayers are responsible for determining their eligibility for the tax credits and the amount they claim.

- According to the final rules governing reporting requirements in §6050S(b)(2)(B)(ii) of the Internal Revenue Code, institutions have the option to report *either* qualified tuition and related expenses (QTRE) payments received *or* QTRE amounts billed. The vast majority of institutions report amounts billed.
 - College and university accounting systems generally do not apply payments from various sources (such as student payments, scholarships, and loans) to specific charges on a student's account (such as tuition, room and board and other fees).
 - Many institutions allow parents/students to make tuition payments through third party tuition payment plans that allow the payments to be spread out over a period of months—or even years.
- Although they may be qualified expenses, payments for books and supplies are typically not tracked by colleges and universities and are not reflected in a student's college or university account. Students may have receipts to verify these additional expenses, but they are not captured by the institution.

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- Institutions simply do not have all of the necessary information available to tell the student, or the IRS, if the student is eligible. For instance, while an institution may know if a student has completed some level of postsecondary education at that school, it may or may not have access to a student's prior educational record.

1098-T Compliance and Accuracy

A recent audit published by the Treasury Inspector General for Tax Administration (TIGTA) identified 2.1 million taxpayers who may be receiving \$3.2 billion in erroneously-claimed education tax credits. In its response to the report, IRS suggested that the numbers of erroneous claims may be exaggerated due to timing issues between 1098-Ts and the year in which taxpayers are eligible for the credit.

TIGTA made several recommendations including: revising the Form 8863, the form used by taxpayers to claim education tax credits; revising compliance programs to identify taxpayers erroneously claiming the credit; and coordinating with the Department of Education (ED) to explore the incorporation of ED data into tax return processing. One suggestion was that taxpayers be required to provide the name, address, and employer identification number of institution(s) that the student attended on Form 8863.

✓IRS indicated in its response to the TIGTA report that the 2012 Form 8863 would be revised to capture this information.

Form 1098-T reporting inaccuracy was not confirmed to be a widespread problem. However, the report uncovered some inaccuracy related to information reported in Boxes 8 and 9 related to *enrollment* of the student at the institution. These are check boxes used to indicate if the student attended at least half-time for one academic period during the year (Box 8) or if the student was a graduate student (Box 9). When TIGTA investigators checked accuracy by contacting the issuing institution and using third-party data, 28 percent were confirmed to be accurate, 46 percent were inaccurate, and the remaining 26 percent could not be confirmed. In response, the report recommends that IRS, "develop a process to identify and notify educational institutions that are preparing inaccurate Forms 1098-T."

✓IRS agreed with the recommendation. The Service is moving forward with ways to identify and reject documents using incorrect coding on Forms 1098-T for 2011.

✓Additionally, the IRS is undertaking compliance initiatives focused on taxpayers who claim the AOTC without matching 1098-Ts.

Following the release of the TIGTA report, NACUBO urged its membership to focus on efforts to ensure clarity and accuracy of enrollment information reported on the form. Additionally:

✓NACUBO hosted a webcast on November 17, 2011 for campus professionals reviewing the requirements needed to complete the Form 1098-T. The webcast examined common challenges and pitfalls and offering tips on streamlining institutional reporting processes. The webcast continues to be available on demand.

✓NACUBO offers a reference book, Process Guide to 1098-T Reporting, now in its third edition. The book provides a detailed explanation of the reporting requirements as well as a list of references relating to the tax credits, a process for complying with the reporting requirements, answers to frequently asked questions, sample documents, and copies or links to IRS notices and publications, Internal Revenue Code citations, and other documents.