

UPDATE ON IRS FORM 1098-T: Q&A

THE FORM EVERYONE LOVES TO HATE

Note: This document was prepared in response to audience questions NACUBO received following a [webcast](#) on November 8, 2017, presented by Brandon Cline-Taskey, university bursar, James Madison University, Joel Levenson, associate controller, University of Central Florida, and Liz Clark and Anne Gross from NACUBO. The information should not be considered tax advice for your institution; it is an attempt to respond to questions posed by the audience. Where possible, answers are supported by citations to IRS guidance. As many institutions prepare to change their reporting method, questions will continue to arise. NACUBO will work to provide additional information and suggestions over the coming months.

TIMING

1. Can we still use Box 2 on our 2017 1098-T forms?

What tax year are we obligated to use Box 1?

Box 2 is blank (no description) on our mock-up of the 1098-T. Why?

Institutions may continue to report amounts billed in Box 2 for tax year 2017 (forms filed in 2018). For tax year 2018 (forms filed in 2019), all institutions must report amounts paid in Box 1; because Box 2 will no longer be used it is grayed out on the 2018 form. Shortly after the NACUBO webcast IRS posted the official [2018 Form 1098-T](#).

2. For institutions that are closed over the holidays, how should we handle mailed payments that were delivered prior to January 1 but not posted by the institution until January 1 or later?

The legal obligation for schools to accept and record payments in the year in which they are received is not clear. Generally, taxpayers are on a cash basis and can only claim tax benefits for the year in which they made the payment. For charitable giving purposes, gifts made by check count as long as they are postmarked in 2017. Strategies institutions might use for reporting include:

- Have staff come in on the last work day of the year to post any payments that have been delivered by mail.
- Post payments that were received during the period when the school was closed first thing after the holidays and back date the transactions to December 31.
- Tell students and their families that payments by check made during the time the school is closed will not be processed until January, but payments made online will be credited on the day the payment was made.

NACUBO recommends that you decide how you are going to handle payments that arrive during the holidays when the school is closed and communicate your practices to your students and their families.

3. *We will continue to report charges, not payments, for 2017. We do not include charges for the next spring's term, because the effective date for that term is January 1. Some students still pay in November/December of the prior year because the charges show up on their account, but they aren't due until sometime in the spring. If someone pays for spring 2018 in December 2017, that payment will not be included in the 2017 1098-T because we will not be reporting payments until 2018. But the payment will not show up on the 2018 1098-T either because of the date of the payment. The student will therefore not be able to use their payment for a tax credit, or at least not according to 1098-T reporting. How should this be handled?*

How the transaction is reported does not impact the eligibility of the payment for a tax benefit. It will make it more difficult for the taxpayer to claim the credit and may trigger an inquiry from IRS, but IRS is aware that some payments will fall through the cracks during the transition year. The taxpayer should be able to use their own financial records and/or detail from their student account statements to substantiate their claim. The student/taxpayer can only make a claim in the year in which they made the payment.

TAXPAYER IDENTIFICATION NUMBERS (TINS)

4. *What are the requirements for TIN solicitations?*

Basically, if a school doesn't have a taxpayer identification number (TIN) for a student, it needs to solicit the TIN in writing at least once a year. [NACUBO Advisory Report 2014-1, Collecting Taxpayer Identification Numbers for Form 1098-T](#), provides the applicable regulations, best practices, and substitute W9S forms.

5. *If the student provided an incorrect TIN will the school be penalized?
If you know that the TIN is incorrect and the student did not provide the correct TIN after asking, do you still report with the incorrect TIN?*

While the school could be fined for using an incorrect TIN, because you are not allowed to use the IRS TIN matching service, you have no way to check the validity of the TIN. This would be a mitigating factor and a great argument for why you should not pay a fine.

If, on the other hand, you know that the TIN is incorrect for whatever reason, you should not use it on the 1098-T and should make sure to follow the rules on soliciting the student's TIN.

6. *Are we supposed to exclude students who do not provide their Social Security number or TIN?*

Schools are required to file 1098-Ts for any students for whom they have reportable transactions during the year, even if the student has not provided a TIN. Leave the TIN field blank and make sure you have complied with the solicitation rules in relation to that student so that you can check the box to certify compliance and avoid a fine.

7. If we use a Substitute W-9 form to update a student's TIN how long do we have to keep the form on file?

The IRS does not have specific retention requirements for W-9s. Generally, one is required to keep tax records for as long as the relevant returns could be amended or audited. Some schools keep them as part of the student's permanent record, others a much shorter time. Many schools collect students' TINs without using a W-9 at all. It is up to your institution to decide its own policy on this matter.

EXCEPTIONS TO REPORTING

8. Are the current exceptions going to go away?

It is unclear if or when the federal government will change reporting exceptions. Until the IRS issues final regulations modifying the current regulations under 26 CFR §1.6050S-1, the current exceptions for reporting on certain groups of students remain in effect.

In the 2016 *proposed* rules, the IRS suggested eliminating all of the exceptions except the one for people taking noncredit classes. In its comments on the proposed rules, NACUBO supported elimination of the exception for students whose aid exceeded payments for qualified tuition and related expenses (Box 5 > Box 1), but recommended that the IRS keep the exception for nonresident aliens and students whose fees are paid by a third party and the school does not maintain a student account. We do not know when the IRS will publish final regulations or what they will say.

9. We have dual-enrolled students. Are they still the exception since the high schools are paying for their tuition and fees?

Should students that are dual enrolled in high school and college get a 1098-T?

There is no exception for dual-enrolled students per se. In some arrangements, the local school system contracts with a nearby college, most often a community college, to provide college-level classes to high school students and pays the college directly. The college does not maintain a student account or charge tuition to the students. This meets the terms of the current exception for students whose charges are paid under a formal billing arrangement. The IRS proposed eliminating this exception but NACUBO objected—we won't know the outcome until final rules are promulgated.

10. As discussed, schools are exempt from filing for nonresident alien students, unless requested by the student. Are we able to give the students a deadline to request a 1098-T, or are we required to furnish this document upon request at any time?

This is not clear and has not been addressed in existing IRS guidance. Because the regulations are silent on an acceptable timeframe for these requests, you may want to suggest a cutoff date to promote good practices but you may need to produce a 1098-T later if a nonresident alien requests one.

11. Please clarify which year that you are recommending we start to file 1098-Ts for nonresident aliens.

NACUBO is not recommending that schools start to file 1098-Ts for all nonresident aliens. Since few NRAs are eligible for the tax credits, we think the current rules make more sense. The IRS proposed eliminating this exemption but we won't know the outcome until final rules are issued.

12. If a nonresident alien wanted a 1098-T for a previous year in which we reported in Box 2, do we now report those old years in Box 1 or Box 2?

You can probably do it either way, whichever is easier.

13. With schools that started sending out forms to students with Box 5 greater than Box 1 or 2, how did students who had not received 1098-Ts in past years react? Did you have to do any past-year corrections?

The majority of schools responding to a NACUBO survey in 2016 indicated that they provide 1098-Ts to students when Box 5 (scholarships and grants) is greater than Box 1 (amounts paid) or Box 2 (amounts billed). Anecdotally, institutions have reported that this cuts down on the number of questions they get from these students.

14. How should we respond to students who have Box 5 amounts greater than Box 1 and ask if it is taxable?

Tell them that it might or might not be, depending on the source of funds – and then refer them to [IRS Publication 970](#) which has a straightforward discussion of the topic.

15. Under a formal billing arrangement, I apply credits to the student's account but the sponsor may not have paid. Using Box 1 reporting would we report when the sponsor pays? If third party payments are not received by December 31, but credit is on student account do we have to exclude it from Box 5?

How this is handled will largely depend on how the school has set up its systems to handle third party billings. In this scenario, the school reports the payment when it is credited to the student's account, even though the sponsor has not yet paid. When the sponsor pays, even if it is in the next year, everything works out. The rub comes if the sponsor doesn't pay, in which case the school will need to reverse the credit applied to the student's account and report in Box 4 a reduction in payments reported previously in Box 1 in the following year. This only matters if the transactions and reversals take place in different tax years, since otherwise they will balance out within the same year.

QUALIFIED TUITION AND RELATED EXPENSES (QTRE)

16. Can you give more detail on the line about comprehensive fees on the QTRE report/Do not Report slide (#16)?

If a school charges a single comprehensive fee that lumps together various charges, it must allocate it between qualified and nonqualified charges. See the regulations at 26 CFR §1.25A-2(d)(4) which are reprinted on page 3 of [NACUBO Advisory Report 2013-2](#).

17. If your school allows, but does not require, students to charge their books to their student account, would you include the book charges on the 1098-T for those students that do?

We allow students to add their books purchased from the bookstore to their student account. Do we have to report that?

While amounts paid for books and supplies are qualified expenses for the American Opportunity tax credit (AOTC), they should only be included in the amounts reported by the school in Box 1 if the student is required to purchase the items (or pay a related fee) from the institution.

18. Does the amount over the \$5,250 tax exempt employer provided tuition assistance get reported on the 1098-T? If so, where is it reported?

Amounts paid by an employer, to the extent they cover QTRE, are reported in Box 1. Whether or not the payments are taxable or tax-exempt to the student doesn't matter.

19. We offer 1 unit for a physical education class for an extra \$125 fee. Since students are receiving credit towards their degree, would this be reportable as QTRE?

Yes, if the student is receiving credit towards their degree, tuition and fees associated with the class are included in QTRE.

20. Is the enrollment charge for a payment plan an allowable QTRE?

No, it is not a fee required for enrollment.

21. Are health fees, graduation fees, admission fees, orientation fees, etc. counted as part of QTRE (multiple questions)?

Please refer to [NACUBO Advisory Report 2013-2](#) for guidance on the types of fees to count in QTRE. The report includes the relevant regulations and prior guidance from IRS if the specific fee you are questioning is not listed. There have been no changes to the rules on what charges are included as QTRE.

PAYMENTS

22. Do any payments made in 2017, regardless of the term, count as a payment reportable on 1098-T— as long as they are for QTRE?

How do we differentiate payments received from students for tuition from those for room or board? If a student makes one payment that includes tuition, and room & board, do we report the entire payment in Box 1?

You don't need to differentiate. Under the rules, you may assume that all payments received go first toward QTRE, and then to nonqualified expenses such as room and board. The amount reported in Box 1 should not exceed QTRE charged. The one exception is aid that cannot pay QTRE. It doesn't matter how you actually allocate payments to specific charges in your student account system.

23. Please explain how scholarships can go into Box 1?

Would an institutional loan be considered a payment?

Are payments from the VA allowed to be included in Box 1?

Payments from *any source*, except scholarships that cannot be used to cover QTRE, are reported in Box 1 up to the amount of QTRE.

24. How are institutions going to split out grants/scholarships that are one lump sum covering QTRE and other costs of attendance? Also, how do you break out payments such as private loans that cover QTRE and other cost of attendance in Box 1? Do you have to split the payment up?

There is no need to split payments, whether they represent grants, loans, or a personal payment. All payments that come in (with the one exception of a payment that can *only* be used for nonqualified expenses) are assumed to go first to qualified tuition and related expenses. It doesn't matter how your system actually applies payments to charges. IRS does not care about the source of the payments. Box 1 cannot exceed QTRE, so once all QTRE are considered "paid" then that is the number that goes in Box 1.

25. Are we able to limit the amount reported in Box 1 to the total amount of tuition billed to the student in the given calendar year?

In general, yes, but the current regulations also require you to include payments for QTRE in prior years as well. However, due to the transition from reporting amounts billed to amounts paid, the institution may not be able to determine if payments for prior years represent payments for QTRE or not and therefore may be justified in leaving them out.

26. If the university refunds loan proceeds to the student for living expenses, do we subtract that from the amount paid?

No, for the purposes of tax reporting, if the loan proceeds were credited to the student's account then they are assumed to pay QTRE first. Unless you follow unusual procedures, schools don't usually refund loan proceeds to a student if the student has outstanding charges on their account. The amount refunded is immaterial for tax purposes.

27. What about when a payment is made in December for the spring term and the student subsequently withdraws and receives a refund in January?

You need to report what happened in the first year (when the student paid) and then in the following year report the refund in Box 4.

28. For 529 payments - I was under the impression that we do not report that on a 1098-T since a student receives another tax form.

A distribution from a 529 savings plan that is used to pay QTRE is reported in Box 1 as a payment. It is not a grant, however, and is not reported in Box 5.

29. What if students don't pay for QTRE in the same year the charges are made?

Are payments made in 2017 for charges dated in January 2018 reported on the 2017 1098-T or the 2018 1098-T?

What about the disconnect between school year and calendar year? For example, spring 2018 charges post in Nov 2017 and are posted on the 2017 1098-T form. Spring 2018 aid will post in Jan 2018 and appear on the 2018 form. Thus, the information for Spring 2018 appears on both the 2017 form and the 2018 form.

We post Spring charges in January. If we receive payments in November/December, do those get reported in the year of payment and check Box 7?

Generally, payments need to be reported in the year they were made. Depending on how the student account system works and the timing of when QTRE is posted to the account, schools will have to decide how to handle such payments received for a term that begins in the first three months of the following year. Current IRS regulations are not clear on this point. The changes proposed in 2016 attempted to clarify the issue but were still open to interpretation. Without final rules, and the accompanying explanation, institutions are faced with doing their best to comply within the confines of their student account systems.

The current regulations at 1.6050S-1(b)(2)(v) define a payment received for QTRE:

“For purposes of determining the amount of payments received for qualified tuition and related expenses during a calendar year, payments received with respect to an individual during the calendar year...are treated as payments of qualified tuition and related expenses up to the total amount billed by the institution for such expenses.”

While the payments are to be received during the calendar year, the total amount billed is not tied to a particular time period. Some institutions take this to mean that amounts billed in December of the previous year count when looking at what has been billed for QTRE, and others don't (or they can't figure out how to get that to work with their accounting system).

The 2016 proposed regulations have not been finalized and are not binding until they have been, but they can provide insight into what the IRS is thinking. The proposed rules added language (in red) to paragraph (2)(v):

(v) Payments received for qualified tuition and related expenses determined. For purposes of determining the amount of payments received for qualified tuition and related expenses during a calendar year, payments received with respect to an individual during the calendar year from any source (except for any scholarship or grant that, by its terms, must be applied to expenses other than qualified tuition and related expenses, such as room and board) are treated **first** as payments of qualified tuition and related expenses up to the total amount billed by the institution for **qualified tuition and related expenses for enrollment during the calendar year, and then as payments of expenses other than qualified tuition and related expenses for enrollment during the calendar year. Payments received with respect to an amount billed for enrollment during an academic period beginning in the first 3 months of the following calendar year in which the payment is made are treated as payment of qualified tuition and related expenses in the calendar year during which the payment is received by the institution.** For purposes of this section, a payment includes any positive account balance (such as any reimbursement or refund credited to an individual's account) that an institution applies toward current charges.

This language is more specific about the time periods, but still is not completely clear about whether the amount billed for the term in the next year was only if the student had actually been billed for the future term during the reporting year.

Schools are likely to come up with several ways of resolving this issue, as have those who have reported amounts paid all along.

30. We currently treat payments for a future semester as advance payments and apply them to a different g/l "deposit" account. Thus, they would not be reported as payments until the semester that they are actually for when we move them to the A/R account. Assuming this would continue to be ok?

This illustrates one of the ways that some schools have approached reporting amounts paid for future terms. It may cause issues for some taxpayers who want to claim the amounts paid in the year they paid the institution and won't have confirmation on the 1098-T, but won't make a practical difference for most continuing students.

31. If charges for 2018 spring post in December 2017 and payment is not received until January 2018, how will that work? The January payment won't have matching charges in 2018.

This is the other side of the problem discussed above (question 30) with payments made before charges for QTRE are posted. The payments need to be reported in the year in which they are made, and billing in the previous year shouldn't keep students from being able to claim the credits. This imbalance is particularly notable for students who only enroll for the spring semester, since if the institution doesn't have a way to carryforward the unpaid QTRE into the following year, they won't have any QTRE billed during 2018. NACUBO asked IRS to clarify these requirements in our comments to the proposed regulations.

It will be important for schools to be upfront with their students and families about their reporting processes and the impact it may have on them.

32. If payment is received in December for a semester that does not start until January for a student who does not start until January, should the payment be reported? There would be no qualified tuition to cap payments.

Whether or not there are charges for QTRE to cap payments will again depend on when the institution bills for the spring semester and how it handles them across the two years. While IRS guidance from 2006 ([IRS Notice 2006-72](#)) says that an institution is not required to file a 1098-T for a student who was not enrolled for an academic period beginning during the calendar year (or a prior year), it would be more helpful to the student if the school provided a 1098-T if possible. Due to recent statutory changes, taxpayers now need to have a 1098-T to claim education tax benefits in most cases.

33. How are credits from a prior year carried over to report in a new year as a payment? How does a system capture this? Payments added up in a calendar year and compared to charges would not tell you a carryover credit amount. Can you give a more detailed explanation of how a credit should be included in Box 1? Does it matter how the credit was created?

The inclusion of credit balances on a student's account as a payment has raised quite a few questions, although the requirement is not new (but didn't impact schools that reported amounts billed). Paragraph 1.6050S-1(b)(2)(vii) provides several examples that may clarify the IRS's reasoning. Example 4 discusses a cross-year scenario:

- (i) In early December 2003, College Y bills enrolled Student B \$10,000 for qualified tuition and related expenses and \$6,000 for room and board for the 2004 Spring semester. In late December 2003, Student B pays \$16,000. In mid-January 2004, after the 2004 Spring semester classes begin, Student B drops to half-time enrollment. In mid-January 2004, College Y credits Student B's account with \$5,000, reflecting a \$5,000

reduction in charges for qualified tuition and related expenses, but does not issue a refund to Student B. In early August 2004, College Y bills Student B \$10,000 for qualified tuition and related expenses and \$6,000 for room and board for the 2004 Fall semester. In early September 2004, College Y applies the \$5,000 positive account balance toward Student B's \$16,000 bill for the 2004 Fall semester. In late September 2004, Student B pays \$6,000 towards the charges.

(ii) In the reporting for calendar year 2003, under paragraph (b)(2)(v) of this section, the \$16,000 payment in December 2003 is treated as a payment of qualified tuition and related expenses up to the \$10,000 billed for qualified tuition and related expenses. Under paragraph (b)(2)(iii) of this section, College Y is required to report \$10,000 of payments received for qualified tuition and related expenses during 2003. In addition, College Y is required to indicate that the payments reported for 2003 relate to an academic period that begins during the first three months of the next calendar year.

(iii) In the reporting for calendar year 2004, under paragraph (b)(2)(vi) of this section, the \$5,000 credited to Student B's account is treated as a reimbursement or refund of qualified tuition and related expenses, because the charges for qualified tuition and related expenses were reduced by \$5,000. Under paragraph (b)(2)(iv) of this section, the \$5,000 reimbursement or refund of qualified tuition and related expenses must be separately reported on Form 1098-T because it relates to payments of qualified tuition and related expenses reported by College Y for 2003. Under paragraph (b)(2)(v) of this section, the \$5,000 positive account balance that is applied toward charges for the 2004 Fall semester is treated as a payment. Therefore, College Y received total payments of \$11,000 during 2004 (the \$5,000 credit plus the \$6,000 payment). Under paragraph (b)(2)(v) of this section, the \$11,000 of total payments are treated as a payment of qualified tuition and related expenses up to the \$10,000 billed for such expenses. Therefore, for 2004, College Y is required to report \$10,000 of payments received for qualified tuition and related expenses during 2004 and a \$5,000 refund of payments of qualified tuition and related expenses reported for 2003.

NACUBO will consult with our 1098-T subcommittee and think through the implications of this requirement.

34. Please clarify the statement in 26 CFR 1.6050S-1 that states "a payment includes any positive account balance (such as reimbursement or refund credited to an individual's account). Does this refer to a refund generated from financial aid, prior calendar years, credit card chargebacks, refunds from dropped tuition, etc.?"

Yes, a credit balance on a student account may result from any of these events. For instance, a student may have received loan proceeds in the fall that, together with other payments, exceeded charges for that term. The student could have received a credit balance refund, but chose instead to have the school hold the funds so that she could use them to pay charges for the spring term. If the credit balance was the result of excess payments of grant aid, loans, or personal payments, they would not have been reported as payments in the previous year (if they had been used to cover QTRE, they wouldn't create a credit balance). These are payments and should be reported as such.

35. Wouldn't a credit balance from prior term (say Fall 17) have been included as a payment in that year?"

If the credit balance was created in Fall 2017 and was on the account at the end of the year, it would not have been counted as a payment of QTRE in that year. If it had been a payment of QTRE, it would not still be a positive balance on the account. If the credit balance was the result of a reduction in charges during 2017, Box 1 would have been reduced accordingly (since QTRE went down). If, on the other hand, the credit balance was created in 2018 due to changes to payments for QTRE that were already reported on the 2017 1098-T, an adjustment would be reported in Box 4 on the 2018 1098-T.

36. If a student has no QTRE starting January 2017 but made payments and has financial aid that posted, are we required to submit a 1098-T? Why would Box 1 be blank?

Yes, you are required to file a 1098-T for any currently enrolled or formerly enrolled student for whom you have a reportable transaction. Disbursement of financial aid would count, unless your school still chooses to utilize the exemption for reporting on students if Box 5 exceeds Box 1. Other reportable transactions would also include adjustments in Box 4 or 6.

37. How would bad check charge-backs be handled with Box 1? If a student makes a payment, but then the check is returned, is that accounted for in Box 1?

It depends on how your system handles bad checks. If a payment is credited, but then the check is rejected by the bank, the payment is either backed out or the charge is reinstated. In any event, the net result would be the same. There may be issues with timing or with how the reinstated charge is coded. Brandon explains that at James Madison University, for many years a payment that was returned resulted in an additional charge "Payment returned by bank" being placed on the account. The original QTRE item would have still been considered paid. If we still had that model, we would've reported the QTRE item paid even though the actual payment returned. It probably wouldn't have been accurate, but it would have been the best we could do at the time. In recent years, we've switched to backing out the payment when it is returned. In the new methodology the QTRE item is no longer paid because the payment is gone. However, I could see an edge case where a payment posts in late December, 1098-T's are run, and then the payment returns. I would expect the system to pick this up as a sort of correction for the following year but haven't tested it.

38. During the spring 2018 semester, a student petitions to drop a summer 2017 class. The petition is approved and tuition and fees are removed for the summer 2017 class but the credit is applied to 2018 spring charges (no reimbursement refund check issued). How should this be reported?

If you had been reporting in Box 1 for both 2017 and 2018, on the 2018 form you would report the refunded amount both in Box 1 as a payment of QTRE for 2018 (since that is how the credit was applied) and as a refund in Box 4 (since the amount that the student paid for QTRE in 2017 has been reduced). If you reported amounts billed in Box 2 in 2017, you don't need to report the adjustment in Box 4 under the transition instructions for the 2018 1098-T.

39. How did you identify refunds and reimbursements to be identified in Box 4?

According to Brandon, at James Madison University this is handled by PeopleSoft so the technical details aren't clear, but at some level it has to look at changes that happened "this year" and see if they were originally posted "last year."

40. We bill in November with payment due in December but aid doesn't disburse until January. Will payments made in November/December show in current tax year and aid disbursed show in the future tax year?

Yes.

41. If a student enrolls in a payment plan for the spring semester and makes their down payment in December, how would that be reported?

Subject to the same concerns noted above (question 29) about cross-year payments, the fact that the student was in a payment plan shouldn't impact how and when a payment is reported. In general, the down payment would be reported in 2017, while later payments would be reported in 2018. Note that some schools account for payments plans differently, treating them like a loan and crediting the student account with the entire amount when the student enters into the agreement.

42. If we bill preliminary charges for student accounts through the end of the year, then post those charges in January, would we need to check Box 7?

Institutions need to check Box 7 on any 1098-T that includes payments received for QTRE that relate to an academic period that begins in January through March of the following year. When you count a payment as received for QTRE for the following term determines if you report it in Box 1, not when you post the charges to the student account.

GRANTS

43. How is cost of attendance is defined?

Schools are to report grants and scholarships that are used to cover cost of attendance in Box 5 on the 1098-T. Cost of attendance, a concept key to federal student aid, is not defined in the current IRS regulations. In the August 2016 proposed rule, IRS added a definition that refers to section 472 of the Higher Education Act. Section 472 enumerates the following types of expenses as making up cost of attendance: tuition and fees, books, supplies, transportation, room and board, miscellaneous personal expenses including computers, costs associated with study abroad, dependent care, and more. The financial aid office at each school polices cost of attendance for students receiving aid, so there is no need to do so for tax reporting purposes—just report all grant aid received in Box 5.

44. Where are outside scholarships that students bring with them reported?

Where can we get more information on Box 5 and exactly what we should report there, e.g. VA, HPSP, HRSA, etc.?

Nothing has changed related to Box 5. All grants and scholarships, that the school administers and has reason to know are grants, are reported in Box 5 if they cover cost of attendance. Please see [NACUBO Advisory Report 2013-2](#) for more detail and relevant regulations. In its 2016 proposed regulations, IRS added language requiring schools to report payments in Box 5 if it reasonably should know that the payment was grant aid. Although the changes have not been implemented, this phrasing was added to the instructions for the 2017 1098-T:

A scholarship or grant is administered and processed by you if you receive payment of an amount, whether by check, cash, electronic transfer, or other means, which **you know or reasonably should know is a scholarship or grant**, regardless of whether the educational institution is named as payee or co-payee of the amount and (if a non-cash payment) regardless

of whether the student endorses the check or other means of payment for the benefit of the institution.

The wording has been changed again in the recently released instructions for the 2018 1098-T:

A scholarship or grant is administered and processed by you if you receive payment of an amount, whether by check, cash, electronic transfer, or other means, and such payment is designated as a grant or a scholarship by the payor, or the circumstances make it clear that the payment is a grant or scholarship.

45. Why would a Pell grant be counted in Box 1 - wouldn't that just be Box 5?

Is a Pell grant different than a scholarship in terms of Box 1?

Pell grants may be used to cover qualified and/or nonqualified expenses, so they are considered payments for Box 1. A payment from any source, except for a grant that cannot be used for QTRE, is reported in Box 1 up to the amount of QTRE charged. All grant aid that covers cost of attendance, including Pell grants, is reported in Box 5.

46. If a grant gets reported in both Box 1 and Box 5 is the total amount of the grant going in both boxes?

Yes, as long as the amount reported in Box 1 does not exceed the amounts charged for QTRE.

47. For Box 5, what about the amount of excess aid (like Pell) disbursed to the student?

What about refunds for excess financial aid? Do you net that in Box 1?

A credit balance refund of excess financial aid that is paid to the student for noninstitutional costs has no impact on 1098-T reporting. The amounts reported in Box 5 should include the total amount of grants and scholarships without regard to whether the proceeds went to pay QTRE, nonqualified institutional charges such as room and board, or were disbursed to the student to cover off campus expenses.

48. When reporting in Box 1, do we now need to include AmeriCorps education awards on a 1098-T?

AmeriCorps education awards may be used to pay QTRE and should be included in Box 1, up to the amount of QTRE charged. However, an AmeriCorps award is not a scholarship (it is payment for services rendered) and should not be reported in Box 5.

49. If a college awards institutional aid and does not technically receive a payment since the funds are coming directly from the college, does that amount get reported in Box 5?

Would tuition remission be included in Box 1 AND Box 5?

Are institutional scholarships reported in Box 1 as well?

Institutional aid can be treated in two ways:

1. Treat it as a discount and net it against charges for QTRE, thereby lowering the cap on what you report in Box 1, or
2. Treat it as a grant and count it in both Box 1 as a payment and Box 5.

Note that there has been little guidance from IRS on this subject. The 2006 FAQs issued by IRS specifically addressed waivers under 117(d), but not other institutional awards.

50. How are you coming up with the \$5,250 Box 5 figure?

Can you please clarify how you calculated Box 1 and Box 5 on slide 24? Both examples are misleading.

		Charges	Payments
Jan 4	QTRE	\$12,000	
	Room/board	\$ 5,000	
Jan 6	Institutional award		\$ 2,000
Jan 7	State grant		\$ 1,500
Jan 15	Direct loan		\$ 3,750
Jan 18	Pell grant		\$ 750
Jan 18	PLUS loan		\$ 3,000
Feb 1	Private grant (board only)		\$ 1,000
	Student		\$ 5,000
Total		\$17,000	\$17,000

Box 1 = \$12,000; Box 5 = \$5,250 *or*
 Box 1 = \$10,000; Box 5 = \$3,250



Slide 24 (above) illustrates two ways to treat institutional aid (circled in purple). If you don't net institutional aid against QTRE, then Box 5 equals the sum of the circled amounts (circled in purple and red). Remember that only grants, not loans, are reported in Box 5. If you do subtract institutional aid from QTRE (treating it like a reduction in price), the amounts in Box 1 and Box 5 are both reduced by the \$2,000 institutional award.

51. For those institutions who bill in December for the Spring 2018 term, should the institutional financial aid (grants/scholarship) be transmitted in December 2017 or not? What are the implications?

This is up to the institution, but it might be better if institutional aid is "paid" in the same year that charges are posted, particularly if the aid is treated as a waiver that decreases the amounts charges for QTRE.

52. A book scholarship is included in Box 5 but would not be counted in the payment calculation for Box 1?

Why is "Scholarship restricted to Room and Board" reported in Box 5 (slide 18) when room and board is not a QTRE?

A scholarship that cannot be used for qualified expenses is the one type of payment that is excluded from Box 1. A scholarship that is restricted to covering room and board or books is not reported in Box 1 (since it can't contribute to QTRE) but is still reported in Box 5 as a scholarship that covers cost of attendance. Remember that QTRE doesn't play into what is reported in Box 5—it includes all grants that go toward cost of attendance.

53. We have athletes who get room and board as part of their scholarships. They are required to claim this as income and I have always put this information on the 1098-T. With the changes that will not be possible anymore. How do we give students that information and make sure they claim what they are required to claim?

A scholarship that is restricted to paying room and board will still be reported in Box 5 on the 1098-T. It will not, however, be counted in Box 1 as a payment for QTRE since it can't be used for those expenses. If, on the other hand, the athletic scholarship can pay both QTRE and nonqualified charges, it counts as a payment up to the amount of QTRE and is reported in Box 1. The full amount is still reported in Box 5.

54. Is the benefit a resident assistant (RA) receives (housing and meal plan credit) reportable in Box 5? Our RAs receive a 'scholarship' for their room & board. Because this amount needs to be reported in Box 5, their Box 5 can be greater than Box 1. Is that okay?

A "scholarship" covering room and/or board for resident assistants that is offered in exchange for services performed may be treated as a tax-free fringe benefit rather than as a scholarship and would not be reported on the 1098-T at all. Some schools do treat these as scholarships, however. As to the question about Box 5 being larger than Box 1, that is often the case since Box 5 includes all grants that cover cost of attendance, not just QTRE.

55. If grants are included in Box 1 and Box 5 what can be claimed as a deduction? If Pell is considered a payment, can it be claimed as a deduction? Isn't that double dipping?

All payments, up to the amount of QTRE charged, are included in Box 1 while all grants, up to the cost of attendance are included in Box 5. In general, the taxpayer may claim the difference between Box 1 and Box 5 and any excess in Box 5 that exceeds Box 1 may be taxable income. However, Box 5 includes some support, such as VA benefits, that are not taxable even if aid exceeds payments for QTRE. Taxpayers also have the option of counting aid that can be used for either qualified or nonqualified expenses, such as Pell grants, as taxable income and then counting the payments for purposes of a tax credit. When the taxpayer fills out IRS Form 8863 to claim an education tax credit, they use a worksheet found in the instructions to subtract "tax-free educational assistance received in [the tax year or in the following year before filing their taxes] allocable to the academic period." So, schools put the aid in as a payment, but taxpayers subtract it out.

PAYMENTS OF PRIOR-YEAR CHARGES

*56. Under the new reporting requirements, will a student be eligible for a 1098-T if they are paying tuition charges from a previous calendar year?
How should we handle payments on prior-year accounts that have been sent to collections?
If a student pays for 2017 charges in 2018, should the payment be counted in 2018?*

There are contradictions between the rules for claiming tax benefits for education and the rules for filing 1098-Ts. Taxpayers can only file claims for education tax benefits based on payments made during the tax year for qualified tuition and related expenses for enrollment during the tax year or a period of enrollment beginning in the first three months of the subsequent year. So, a student paying an overdue

amount for the fall semester in January (or for any previous year) would not be able to claim that payment.

The rules under 26 CFR §1.6050S-1(b)(2) seem to require reporting on such payments. Paragraph (b)(2)(i) requires filing a 1098-T for “each individual enrolled for an academic period beginning during the calendar year *or during a prior calendar year* and for whom a transaction described in paragraphs (b)(2)(ii)(C), (E), (F), or (G) of this section is made during the calendar year.” Paragraph (C) refers to a payment of QTRE.

IRS recently reiterated this requirement when it released Form 1098-T for 2018 and added the following sentence to the instructions for Box 1: “Include in this box the receipt of a payment of past-due qualified tuition or related expenses from a previous calendar year, but only if the educational institution previously billed the student for such amount(s).”

Schools that have been reporting amounts paid in Box 2, however, are going to find it difficult to determine if payments for overdue prior-year charges are for QTRE, since they were not tracking payments this way.

57. If a prior-year payment is made and has to be reported in Box 1, and goes above the current year QTRE, what do you do?

We allow students to carry balances into future terms. How does the IRS want us to report payments received in current tax year for QTRE from previous tax years? Would this affect the cap to be considered for Box 1?

In a conversation, an IRS attorney explained that a payment of prior-year QTRE would up the limit by the amount of QTRE paid for the prior year. So, say the student was billed and paid \$5000 for QTRE in 2018, but also paid \$750 in 2018 to cover unpaid QTRE for 2015, Box 1 would be \$5,750.

58. If you receive a payment from a student for a prior-year charge and there are no charges in the current year, do you report zero in the payment box or the actual payment made?

The actual payment made, if the payment is attributable to QTRE.

OTHER

59. Will that announcement regarding the removal of the requirement to notify the IRS of Box 1/Box 2 changes be published?

Probably not. NACUBO was told that the statutory language requiring schools to change their reporting method made the previous guidance moot. If this makes you uncomfortable, there is no harm in notifying IRS of your intention to change your reporting method.

60. In 2016, we reported charges on the 1098-T. If the student pays in 2017 for charges applied in December 2016, do we report payments for 2017 that would give them credits for the same charges/payments in 2017?

If we have picked up the billed amounts for the Spring 2017 semester in Box 2 of 2016 1098-Ts, do we pick up the cash payments for that semester again in Box 1 of the current year?

Yes, you should, so that you are reporting payments in the year in which they are made. There doesn't seem to be a way around that seeming duplication in the first year of the switch.

61. Should there be any amount in Box 4 the first year we change the reporting method?

No, the IRS has indicated in the instructions for the newly released 2018 1098-T that schools should not report reimbursements made during 2018 if they reported in Box 2 in 2017, because the amount would not have been reported in 2017.

62. Will NACUBO have recommendations for communications to students/parents about the changes?

NACUBO's 1098-T subcommittee, a joint effort of our Tax and Student Financial Services councils, is working on some model communications. Please share sample of communications that you have drafted (and are proud of) with [Anne Gross](#).

63. Do I need to give a 1098-T for an employee who gets tuition remission?

Theoretically, no, since you would not have a reportable transaction in Box 1 or Box 5 if you net the tuition remission against QTRE. However, the student may be eligible to use the AOTC for books and supplies and under new requirements needs to have a 1098-T in order to make a claim, so it may be helpful to them to receive one to confirm their attendance.

64. What is the IRS stance on how to report the number of months a student is full time? Will there be a box on the form?

This was a proposal for a new reporting element that was floated by the IRS in the 2016 proposed rules. The way that IRS wanted schools to calculate this was complicated and NACUBO objected to the additional burden. Until final rules are issued, we won't know what the decision was.