



National Association of College and University Business Officers
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Chief Counsel

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Office of Chief Counsel
Internal Revenue Service
1111 Constitution Avenue, NW
Washington, DC 20224

Dear Ms. Dusenberry and Mr. Wilkins:

I want to thank you for the time and attention you have given to the administration of the tuition expense reporting system on Internal Revenue Service (IRS) Form 1098-T. We share your interest in ensuring that students receive accurate information with which to report and claim their education credits without unduly burdening the colleges and universities that must complete the reporting, which can be extremely complex.

As you are aware, the Protecting Americans from Tax Hikes Act of 2015 (PATH Act) imposed the requirement to report the aggregate amount of tuition expenses received on Form 1098-T, rather than the amounts billed as has long been the practice of most colleges and universities. Our member institutions are committed to adapting to this statutory change; however, the change in accounting systems, software, and business practices necessary to report amounts received rather than amounts billed is a massive undertaking. For that reason, our member institutions were grateful for the announcement earlier this year that the IRS will not penalize institutions for reporting the aggregate amount billed for qualified tuition and related expenses (Box 2) on the 2016 Form 1098-T.

I am writing again today to request a delay in implementation of changes to reporting requirements for IRS Form 1098-T for tax year 2017 because it is in the best interests of efficient, effective, and fair tax administration for colleges and universities to change their business practices and accounting systems only after they have a clear understanding of the new tuition reporting methodology and their software providers have had sufficient time to create and test software that implements these changes.

We have been carefully evaluating the proposed regulations issued on August 2, 2016, that implement recent legislative changes and will be submitting extensive comments in the coming weeks. These comments are expected to address the following issues and questions about the revised tuition reporting standards, among others.

One of the main challenges of the revised tuition reporting methodology is that the definition of qualified educational expenses, among other terms, used in calculating the credit under §25A, makes it very difficult to develop consistent tuition reporting methodology on IRS Form 1098-T. Because of the way the education tax credits are defined, even an accurate number reported in Box 1 of amounts paid for

qualified tuition and related expenses (QTRE) does not necessarily translate into the correct amount an individual is entitled to claim for an education tax benefit.

I. Box 1 reporting renders current systems outdated; new software solutions are required and are still under development.

The revised tuition reporting requirement forces institutions to make major modifications to well-established systems in order to adopt a new payment application methodology. This is no small undertaking. Because of the definitions in §25A, the Box 1 methodology requires institutions to apply individual payments to particular charges, while Box 2 methodology did not.

There are a variety of student information systems in use by colleges and universities, offered by different service providers. Institutions are eager to comply with the new reporting mandate and are working diligently on teams with software providers to make the necessary modifications.

The largest software vendor in this field does not yet have a solution in place, but schools will need to be able to apply payments received beginning January 1, 2017, to specific charges based on tax reporting requirements.

As with IRS systems, changes to large complex software systems at institutions of higher education can take months to implement and test. Concurrent with the changes in enterprise resource systems is the need to adequately train staff to understand the new requirements.

II. Software functionality is difficult to develop because Box 1 reporting is complex.

- The rules under §6050S attempt to aid compliance efforts, but §25A is complicated and does not reflect how students actually pay for higher education.
- Not all payments made by students to institutions are *qualified* as defined under §25A, and the characterization of a payment as *qualified* or *nonqualified* can shift over time (and across calendar years).

First, the academic year does not align with the calendar (tax) year. Students may carry outstanding balances from previous years or may pay for qualified coursework in a calendar year that precedes that beginning of the term.

Second, payments for student charges come from many different sources, and some payments are restricted to paying certain charges. It is not unusual, for instance, for state grants to be restricted to paying tuition and fees (essentially QTRE). The school is often not permitted to apply these funds to the student's account until the term begins. Other funds are restricted to paying room and board and cannot be applied to QTRE. This timing is important because the application of aid can change the nature of previous payments made by students, from qualified to unqualified.

Third, proper treatment of prepayments and payment plans is confusing. The vast majority of colleges and universities offer students and their families the option to spread out their payments. Typically, payment plans permit families to pay tuition for a term over four to six months. For schools where the spring term begins in January, spring term installment payments may begin in November, so families will have paid two installments in 2015 for spring term 2016, and the remaining installments in 2016. How these payments should be reported, particularly if they are received before charges for the following term are posted to the student account, is another area of confusion for colleges and universities.

The misalignment between the academic year and the tax year, the disbursement of student aid, and institutional billing cycles inexorably linked to academic periods make the Box 1 reporting method inevitably more complex.

III. Because the IRS and Treasury have embarked on a rulemaking process that could result in further substantial changes to Form 1098-T, the Box 1 reporting requirement should be postponed until final rules are issued.

NACUBO is currently reviewing and preparing comments in response to the Treasury and IRS August 2 Notice of Proposed Rulemaking. We will submit comments advocating for reasonable rules and fair guidance that institutions can follow.

We believe that it would be more efficient for all parties—institutions, software providers, taxpayers, and the IRS—to wait until those rules are final before mandating the Box 1 reporting change. It is inevitable that there will be required reporting changes following the rulemaking process. The Box 1 reporting obligation should not be implemented until all other reporting changes related to this rulemaking process have been considered and are established. Repeated mandates to change complicated processes are inefficient and needlessly expensive to implement. Incremental changes will also complicate efforts to educate students, taxpayers, and tax preparers on how to utilize Form 1098-T when claiming education tax benefits.

NACUBO agrees with the administration’s position that more should be done to make it easier for students to claim education benefits. Even with Box 1 reporting, Form 1098-T will only ever serve as a momentary snapshot of a student’s account, rather than a “plug and play” number that accurately reflects what amounts the taxpayer may claim for a credit.

We continue to welcome communication between our organizations as you work on the Form 1098-T guidance. Please contact Mary Bachinger, director of tax policy, at 202-861-2581, mary.bachinger@nacubo.org or Anne Gross, vice president for regulatory affairs, at 202-861-2544, anne.gross@nacubo.org.

We appreciate your consideration of this request.

Sincerely yours,



John D. Walda
President and Chief Executive Officer

cc: Gerald Semasek, Associate Chief Counsel (Procedure & Administration), IRS
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