

The IRS does have a worksheet for calculating the education credit included in Pub 970 and other sources, but it is used to calculate what can be excluded from income and lacks the logic included in the regulations for elective taxable scholarships. This worksheet can be used to aid in calculating the maximum credit amount. It can also be expanded or condensed to suit the needs of the practitioner.

This worksheet assumes the taxpayer does not have any outstanding balances or refunds to consider, and does not consider other educational assistance or the possibility of excluding qualified expenses of other types of financial aid. Note that scholarship amounts that cover services rendered such as teaching or research (fellowships) are normally considered taxable earned income, not scholarship income, and would not enter into the calculations. With more complex arrangements, additional research and manipulation may be necessary.

This only refers to the American Opportunity Tax Credit and line numbers refer to the 2013 tax forms. Other education credits are available, including the Lifetime Learning Credit, and may require additional research and alternate calculations. For more information about this form and the AOTC, search for my articles on Education Credits at <http://www.tylerhosting.com/b2e>



Dana Bell, EA
Tyler, Texas

AMERICAN OPPORTUNITY TAX CREDIT WORKSHEET

| | | | |
|----|--|---|--|
| 1 | Qualified Expenses | Enter the total amount of your qualified educational expenses. | |
| 2 | Total Scholarships | Enter the total amount of all scholarships and grants received for the tax year. | |
| 3 | Taxable Scholarships | Enter the amount of scholarships required to be used for other than qualified expenses. | |
| 4 | | Subtract line 3 from line 2. | |
| 5 | Excess Scholarships | If line 4 is greater than line 1, subtract line 1 from line 4. | |
| 6 | Potential Tax-free Scholarships | Subtract line 5 from line 4. | |
| 7 | Exclusive Scholarships | Enter the amount of the scholarships that you are required to use for qualified educational expenses. | |
| 8 | Elective Scholarships | If line 6 is greater than line 7, Subtract line 7 from line 6. | |
| 9 | Excess Expenses Paid by Taxpayer | If line 1 is greater than line 6, Subtract line 6 from line 1. Otherwise, enter 0. | |
| 10 | Qualified Expenses for Tax Credit | Add line 8 and line 9 (maximum 4000). Enter this amount on line 27 of Form 8863. | |
| 11 | Elective Scholarships Includable in Income | If line 10 is greater than line 9, subtract line 9 from line 10. Otherwise, enter 0. | |
| 12 | Total Scholarships Included in Income | Add line 3, line 5 and line 11. This is the amount of taxable scholarships. Enter SCH and this amount on the dotted line to the left of line 7. Include this amount in the total on line 7 of Form 1040. | |

Following are scenarios illustrated in examples from Publication 970 (Coordination with Pell grants) and Treasury Regulation Section 1.25A-5.

970-1: Bill Pass, age 28 and unmarried, enrolled full-time in 2013 as a first-year student at a local college to earn a

degree in law enforcement. This was his first year of postsecondary education. During 2013, he paid \$5,600 for his qualified education expenses and \$4,400 for his room and board for the fall 2013 semester. He and the college meet all the requirements for the American opportunity credit. He figures his American opportunity credit based on qualified education expenses of \$4,000, which results in a credit of \$2,500.

970-3: The facts are the same as in 970-1, except that Bill was awarded a \$5,600 scholarship. Under the terms of his scholarship, it may be used to pay any educational expenses, including room and board. If Bill includes \$4,000 of the scholarship in income, he will be deemed to have used that amount to pay for room and board. The remaining \$1,600 of the \$5,600 scholarship will reduce his qualified education expenses and his adjusted qualified education expenses will be \$4,000. Based on his adjusted qualified education expenses of \$4,000, Bill would be able to claim an American opportunity tax credit of \$2,500.

25A-2: University X charges Student A, who lives on University X's campus, \$3,000 for tuition and \$5,000 for room and board. University X awards Student A a \$2,000 scholarship. The terms of the scholarship permit it to be used to pay any of a student's costs of attendance at University X, including tuition, room and board, and other incidental expenses. University X applies the \$2,000 scholarship against Student A's \$8,000 total bill, and Student A pays the \$6,000 balance of her bill from University X with a combination of savings and amounts she earns.

Student A reports the entire scholarship as income on the student's federal income tax return. Therefore, for purposes of calculating an education tax credit, Student A is treated as having paid \$3,000 of qualified tuition and related expenses to University X.

25A-4: The facts are the same as in 25A-2, except that the terms of the scholarship require it to be used to pay tuition or room and board charged by University X, and the scholarship amount is \$6,000. Student A may allocate the scholarship between tuition and room and board in any manner. However, because room and board totals \$5,000, that is the maximum amount that can be applied under the terms of the scholarship to expenses other than qualified expenses and at least \$1,000 of the scholarship must be applied to tuition. If Student A reports \$5,000 of the scholarship as income on the student's federal income tax return, then Student A will be treated as having paid \$2,000 (\$3,000 tuition-\$1,000 qualified scholarship excludable under section 117) in qualified tuition and related expenses to University X.

| | | 970-1 | 970-3 | 25A-2 | 25A-4 | |
|----|--|---|-------|-------|-------|------|
| 1 | Qualified Expenses | Enter the total amount of your qualified educational expenses. | 5600 | 5600 | 3000 | 3000 |
| 2 | Total Scholarships | Enter the total amount of all scholarships and grants received for 2013. | 0 | 5600 | 2000 | 6000 |
| 3 | Taxable Scholarships | Enter the amount of scholarships required to be used for other than qualified expenses. | | | | 5000 |
| 4 | | Subtract line 3 from line 2. | 0 | 5600 | 2000 | 1000 |
| 5 | Excess Scholarships | If line 4 is greater than line 1, subtract line 1 from line 4. | 0 | 0 | 0 | 0 |
| 6 | Potential Tax-free Scholarships | Subtract line 5 from line 4 | 0 | 5600 | 2000 | 1000 |
| 7 | Exclusive Scholarships | Enter the amount of the scholarships that you are required to use for qualified educational expenses. | | | | 1000 |
| 8 | Elective Scholarships | If line 6 is greater than line 7, Subtract line 7 from line 6. | 0 | 5600 | 2000 | 0 |
| 9 | Excess Expenses Paid by Taxpayer | If line 1 is greater than line 6, Subtract line 6 from line 1 | 5600 | 0 | 1000 | 2000 |
| 10 | Qualified Expenses for Tax Credit | Add line 8 and line 9 (maximum 4000). Enter this amount on line 27 of Form 8863 . | 4000 | 4000 | 3000 | 2000 |
| 11 | Elective Scholarships Includable in Income | If line 9 is less than line 10, subtract line 9 from line 10. Otherwise, enter 0. | 0 | 4000 | 2000 | 0 |
| 12 | Total Scholarships Included in Income | Add line 3, line 5 and line 11. This is the amount of taxable scholarship. Enter SCH and this amount on the dotted line to the left of line 7. Include this amount in the total on line 7 of Form 1040 . | 0 | 4000 | 2000 | 5000 |