



# Education Expenses Part 1

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Course #3151B

Taxes

2 Credit Hours

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# EDUCATION EXPENSES PART 1

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This course covers the various types of tax benefits and savings opportunities available for education. The topics covered here included: the types of educational assistance, American Opportunity Credit, lifetime learning credit, the tax treatment for student loans, and cancellations or repayment assistance for student loans<sup>16</sup>

## LEARNING ASSIGNMENTS AND OBJECTIVES

*As a result of studying each assignment, you should be able to meet the objectives listed below each individual assignment.*

### SUBJECTS

**Scholarships, Fellowship Grants, Grants, and Tuition Reductions**  
**American Opportunity Credit**  
**Lifetime Learning Credit**  
**Student Loan Interest Deduction**

Study the course materials from pages 1 to 72

Complete the review questions at the end of each chapter

Answer the exam questions 1 to 10

### Objectives:

- Recognize the taxability of various types of educational assistance
- Recognize how and when to use the American opportunity credit.
- Recognize when and how to use the lifetime learning credit.
- Recognize the proper tax treatment for student loans and the cancellations or repayment assistance of such.
- Recognize the proper tax treatment for student loans and the cancellations or repayment assistance of such.

### NOTICE

This course is sold with the understanding that the publisher is not engaged in rendering legal, accounting, or other professional advice and assumes no liability whatsoever in connection with its use. Since laws are constantly changing, and are subject to differing interpretations, we urge you to do additional research and consult appropriate experts before relying on the information contained in this course to render professional advice.

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## EXAM OUTLINE

- **TEST FORMAT:** The final exam for this course consists of 10 multiple-choice questions and is based specifically on the information covered in the course materials.
- **ACCESS FINAL EXAM:** Log in to your account and click Take Exam. A copy of the final exam is provided at the end of these course materials for your convenience, however you must submit your answers online to receive credit for the course.
- **LICENSE RENEWAL INFORMATION:** This course qualifies for **2** CPE hours.
- **PROCESSING:** You will receive the score for your final exam immediately after it is submitted. A score of 70% or better is required to pass.
- **CERTIFICATE OF COMPLETION:** Will be available in your account to view online or print. If you do not pass an exam, it can be retaken free of charge.

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# TABLE OF CONTENTS

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<b>Chapter 1: Scholarships, Fellowship Grants, Grants, and Tuition Reductions</b>	<b>4</b>
<b>I. Introduction</b>	<b>4</b>
<b>II. Scholarships and Fellowship Grants</b>	<b>4</b>
TAX-FREE SCHOLARSHIPS AND FELLOWSHIP GRANTS	5
TAXABLE SCHOLARSHIPS AND FELLOWSHIP GRANTS	7
REPORTING SCHOLARSHIPS AND FELLOWSHIP GRANTS	8
<b>III. Other Types of Educational Assistance</b>	<b>8</b>
FULLBRIGHT GRANTS	8
PELL GRANTS AND OTHER TITLE IV NEED-BASED EDUCATION GRANTS	8
PAYMENT TO SERVICE ACADEMY CADETS	8
VETERANS' BENEFITS	8
QUALIFIED TUITION REDUCTION	9
<b>Chapter 1: Test Your Knowledge</b>	<b>11</b>
<b>Chapter 1: Solutions and Suggested Responses</b>	<b>12</b>
<b>Chapter 2: American Opportunity Credit</b>	<b>13</b>
<b>I. Introduction</b>	<b>13</b>
<b>II. Can You Claim the Credit</b>	<b>15</b>
WHO CAN CLAIM THE CREDIT	15
WHO CANNOT CLAIM THE CREDIT	19
<b>III. What Expenses Qualify</b>	<b>19</b>
QUALIFIED EDUCATION EXPENSES	20
NO DOUBLE BENEFIT ALLOWED	21
ADJUSTMENTS TO QUALIFIED EDUCATION EXPENSES	22
EXPENSES THAT DO NOT QUALIFY	26
<b>IV. Who Is an Eligible Student</b>	<b>27</b>
<b>V. Who Can Claim a Dependent's Expenses</b>	<b>30</b>
<b>VI. Figuring the Credit</b>	
<b>32</b>	
EFFECT OF THE AMOUNT OF YOUR INCOME ON THE AMOUNT OF YOUR CREDIT	33
REFUNDABLE PART OF CREDIT	35
<b>VII. Claiming the Credit</b>	<b>36</b>
<b>Chapter 2: Test Your Knowledge</b>	<b>37</b>
<b>Chapter 2: Solutions and Suggested Responses</b>	<b>38</b>
<b>Chapter 3: Lifetime Learning Credit</b>	<b>39</b>

<b>I. Introduction</b>	<b>39</b>
<b>II. Can You Claim the Credit</b>	<b>41</b>
WHO CAN CLAIM THE CREDIT	41
WHO CANNOT CLAIM THE CREDIT	41
<b>III. What Expenses Qualify</b>	<b>42</b>
QUALIFIED EDUCATION EXPENSES	42
NO DOUBLE BENEFIT ALLOWED	43
EXPENSES THAT DO NOT QUALIFY	47
<b>IV. Who Is an Eligible Student</b>	<b>47</b>
<b>V. Who Can Claim a Dependent's Expenses</b>	<b>47</b>
<b>VI. Figuring the Credit</b>	<b>49</b>
EFFECT OF THE AMOUNT OF YOUR INCOME ON THE AMOUNT OF YOUR CREDIT	50
<b>VII. Claiming the Credit</b>	<b>51</b>
<b>Chapter 3: Test Your Knowledge</b>	<b>52</b>
<b>Chapter 3: Solutions and Suggested Responses</b>	<b>53</b>
<b>Chapter 4: Student Loan Interest Deduction</b>	<b>54</b>
<b>I. Introduction</b>	<b>54</b>
<b>II. Student Loan Interest Defined</b>	<b>55</b>
QUALIFIED STUDENT LOAN	55
QUALIFIED EDUCATION EXPENSES	57
DO NOT INCLUDE AS INTEREST	59
WHEN MUST INTEREST BE PAID	59
<b>III. Can You Claim the Deduction</b>	<b>60</b>
NO DOUBLE BENEFIT ALLOWED	60
<b>IV. Figuring the Deduction</b>	<b>60</b>
EFFECT OF THE AMOUNT OF YOUR INCOME ON THE AMOUNT OF YOUR DEDUCTION	60
<b>V. Claiming the Deduction</b>	<b>62</b>
<b>Chapter 4: Test Your Knowledge</b>	<b>64</b>
<b>Chapter 4: Solutions and Suggested Responses</b>	<b>65</b>
<b>Chapter 5: Student Loan Cancellations and Repayment Assistance</b>	<b>66</b>
<b>I. Introduction</b>	<b>66</b>
<b>II. Student Loan Cancellation</b>	<b>66</b>
<b>III. Student Loan Repayment Assistance</b>	<b>68</b>

<b>Chapter 5: Test Your Knowledge</b>	<b>69</b>
<b>Chapter 5: Solution and Suggested Responses</b>	<b>70</b>
<b>Glossary</b>	<b>71</b>
<b>Index</b>	<b>73</b>
<b>Final Exam Copy</b>	<b>74</b>

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# CHAPTER 1: SCHOLARSHIPS, FELLOWSHIP GRANTS, GRANTS, AND TUITION REDUCTIONS

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## Chapter Objective

### After completing this chapter, you should be able to:

- Recognize the taxability of various types of educational assistance.

## I. INTRODUCTION

This chapter discusses the income tax treatment of various types of educational assistance you may receive if you are studying, teaching, or researching in the United States. The educational assistance can be for a primary or secondary school, a college or university, or a vocational school. Included in the discussion are:

- Scholarships,
- Fellowship grants,
- Need-based education grants, such as a Pell Grant, and
- Qualified tuition reductions.

Many types of educational assistance are tax free if they meet the requirements discussed here.

Special rules apply to U.S. citizens and resident aliens who have received scholarships or fellowship grants for studying, teaching, or researching abroad.

## II. SCHOLARSHIPS AND FELLOWSHIP GRANTS

A scholarship is generally an amount paid or allowed to, or for the benefit of, a student at an educational institution to aid in the pursuit of his or her studies. The student may be either an undergraduate or a graduate.

A fellowship grant is generally an amount paid for the benefit of an individual to aid in the pursuit of study or research.

**Amount of scholarship or fellowship grant.** The amount of a scholarship or fellowship grant includes the following:

- The value of contributed services and accommodations. This includes such services and accommodations as room (lodging), board (meals), laundry service, and similar services or accommodations that are received by an individual as a part of a scholarship or fellowship grant.

- The amount of tuition, matriculation, and other fees that are paid or remitted to the student to aid the student in pursuing study or research.
- Any amount received in the nature of a family allowance as a part of a scholarship or fellowship grant.

## TAX-FREE SCHOLARSHIPS AND FELLOWSHIP GRANTS

A scholarship or fellowship grant is tax free (excludable from gross income) only if you are a candidate for a degree at an eligible educational institution.

### Tip



You may be able to increase the combined value of an education credit and certain educational assistance if the student includes some or all of the educational assistance income in the year it is received.

A scholarship or fellowship grant is tax free only to the extent:

- It does not exceed your qualified education expenses;
- It is not designated or earmarked for other purposes (such as room and board), and does not require (by its terms) that it cannot be used for qualified education expenses; and
- It does not represent payment for teaching, research, or other services required as a condition for receiving the scholarship. (For exceptions, see *Payment for services*, later.)

Use Worksheet 1-1 to figure the amount of a scholarship or fellowship grant you can exclude from gross income.

**Candidate for a degree.** You are a candidate for a degree if you:

1. Attend a primary or secondary school or are pursuing a degree at a college or university, or
2. Attend an educational institution that:
  - a) Provides a program that is acceptable for full credit toward a bachelor's or higher degree, or offers a program of training to prepare students for gainful employment in a recognized occupation; and
  - b) Is authorized under federal or state law to provide such a program and is accredited by a nationally recognized accreditation agency.

**Eligible educational institution.** An eligible educational institution is one whose primary function is the presentation of formal instruction and that normally maintains a regular faculty and curriculum and normally has a regularly enrolled body of students in attendance at the place where it carried on its educational activities.

**Qualified education expenses.** For purposes of tax-free scholarships and fellowship grants, these are expenses for:

- Tuition and fees required to enroll at or attend an eligible educational institution, and
- Course-related expenses, such as fees, books, supplies, and equipment that are required for the courses at the eligible educational institution. These items must be required of all students in your course of instruction.

**Expenses that do not qualify.** Qualified education expenses do not include the cost of:

- Room and board,
- Travel,
- Research,
- Clerical help, or
- Equipment and other expenses that are not required for enrollment in or attendance at an eligible educational institution.

**Payment for services.** Generally, you cannot exclude from your gross income the part of any scholarship or fellowship grant that represents payment for teaching, research, or other services required as a condition for receiving the scholarship. This applies even if all candidates for a degree must perform the services to receive the degree. (See *Exceptions*, next.)

**Exceptions.** You do not have to treat as payment for services the part of any scholarship or fellowship grant that represents payment for teaching, research, or other services if you receive the amount under:

- The National Health Service Corps Scholarship Program,
- The Armed Forces Health Professions Scholarship and Financial Assistance Program, or
- A comprehensive student work-learning-service program operated by a work college.

### Example 1



You received a scholarship of \$2,500. The scholarship was not received under any of the exceptions mentioned above. As a condition for receiving the scholarship, you must serve as a part-time teaching assistant. Of the \$2,500 scholarship, \$1,000 represents payment for teaching. The provider of your scholarship gives you a Form W-2 showing \$1,000 as income. Your qualified education expenses were at least \$1,500. Assuming that all other conditions are met, the most you can exclude from your gross income is \$1,500. The \$1,000 you received for teaching must be included in your gross income.