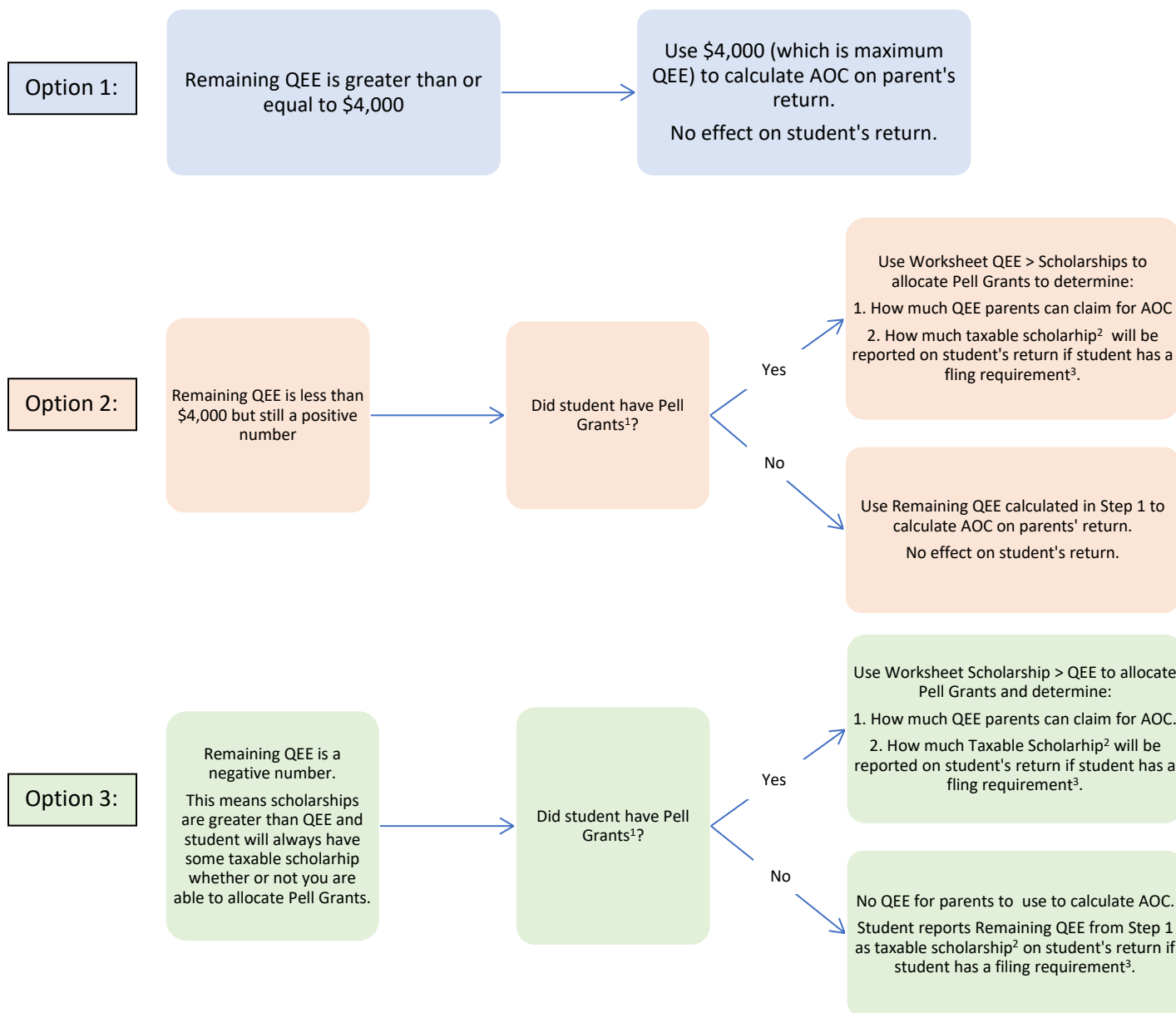


# Should I Allocate Pell Grants When Calculating Parents' American Opportunity Tax Credit (AOC) and Dependent Student's Taxable Scholarship?

**Step 1:** Gather 1098-T and Student Account Statement to calculate Qualified Education Expenses (QEE):

	Education expenses in Box 1 of 1098-T
Plus	Any other allowed out-of-pocket education expenses (See Pub 4012, Tab J for allowed expenses)
Minus	Scholarships in Box 5 of 1098T
Equals	Remaining Qualified Education Expenses (QEE)

**Step 2:** Based on the dollar amount of Remaining QEE in Step 1, choose one of the three options below to calculate QEE for parents to use to calculate AOC and taxable scholarship for dependent student. (See Note below)



<sup>1</sup>This would also include any other scholarships that are not restricted to be used only for educational purposes (tuition/books). We mostly just see unrestricted Pell Grants or Federal SEOG grants at VITA. Scholarships that can only be used for tuition/books are considered Restricted Scholarships and cannot be allocated.

<sup>2</sup>If taxable scholarship is greater than \$2,300, use Kiddie Tax table to determine if Kiddie Tax is triggered. If unable to remove Kiddie Tax requirement, the student's tax return is out of scope for VITA. Parents' return remains in scope for VITA.

<sup>3</sup>Student has a filing requirement if wages earned plus taxable scholarship is greater than student's standard deduction for the tax year.

**NOTE:** This decision tree should be used by parents claiming dependent students who attend a university and receive Form 1098-T.

If the student is the taxpayer (older person returning to school) and not a dependent, the amounts calculated on Worksheets used in Options 2 and 3 should be adjusted to maximize education credits along with any other credits the taxpayer may be entitled to based on their filing status, income level and dependents they claim. Both QEE and taxable scholarship will be reported on the student/taxpayer return.

## Kiddie Tax

For children under 18 and certain older children (under age 24 and full-time student), unearned income over \$2,300 is taxed at the parent's rate if the parent's rate is higher than the child's. Form 8615 is used to calculate the dependent's tax.

Taxable scholarship is considered **EARNED** income when determining if the student has a filing requirement.

Taxable scholarship is considered **UNEARNED** income when determining if Kiddie Tax must be paid.

**Remember:** Dependent students under age 24 are only required to pay Kiddie Tax if **BOTH** of the following are true:

Student has a filing requirement<sup>3</sup>

**AND**

Taxable scholarship is greater than \$2,300

