

Balance *sheet*

1098T and Education Expense Documentation

By Thomas Tomlins

The American Opportunity Tax Credit (AOTC) is one of the most helpful tax credits available to students who have large amounts of education expenses. With that being said, the AOTC is also one of the tax credits that has received the most abuse in recent tax years. As a result, the IRS is cracking down on this abuse by increasing the amount of the education expense documentation that is required in order to claim the AOTC.

The AOTC is a tax credit generally available to students in the first four years of postsecondary education to offset costs for “qualified tuition and related expenses” (QTRE), which includes tuition, required fees, and course materials. The AOTC provides a 100% credit for the first \$2,000 of QTRE and a 25% credit for the next \$2,000, for a total credit of up to \$2,500. 40% of the otherwise allowable AOTC, up to \$1,000, is refundable. In order to provide proof of QTRE expenses, eligible educational institutions are required to provide a form 1098-T to all of their students. Educational institutions currently have the option to either report the payments received for the calendar year in Box 1 of the form or as amounts billed during the calendar year in Box 2 of the form. The Protecting Americans from Tax Hikes Act of 2015 (PATH act) has eliminated the option to report education expenses billed for the calendar year (Box 2 of form 1098-T) effective for expenses paid after December 31, 2015. Failure to do this will result in a penalty. The IRS has extended penalty relief for the PATH act reporting requirements through the 2017 calendar year.



In order to crack down on AOTC abuse, the IRS has implemented new due diligence requirements for tax preparers. Tax preparers are now required to increase the education expense documentation by collecting not only the 1098-T, but also the receipts for the education expenses for the claimed AOTC. The reasoning behind this is simple. The AOTC is only to be claimed for those education expenses that are PAID within a given calendar year. When educational institutions report qualified tuition and related expenses in Box 2 of form 1098-T (amounts billed), they may include qualified tuition and related expenses that may have been paid either in the previous calendar year or the following calendar year which is providing an inaccurate picture of the educational expenses that you actually paid during the current calendar year. In order to provide proof of the education expenses that have actually been paid by taxpayers to educational institutions for the tax year in which the taxpayer is claiming the AOTC, the IRS now requires tax preparers to collect receipts for the education expenses paid by the taxpayer. Taxpayers should be able to get these receipts or a print out of their account activity from their educational institution. The 1098-T combined with the receipts from education expenses paid should paint a more realistic picture of what taxpayers have actually paid for education expenses and therefore, cut down on AOTC abuse.

If you plan on claiming the AOTC for your 2016 tax return, please be sure to provide your tax preparer with a 2016 Form 1098-T and related receipts for the education expenses that you paid in 2016. If you have any questions on the new documentation requirements for the AOTC, please contact our office.

Items presented are not intended to be technically complete. Additional information may be required to make an informed decision.