

Balance *sheet*

Pell Grants

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Not everyone will qualify for Pell Grant benefits, but if you do, you may be able to do some tax planning and get more education benefits out of it than just the grant amount. You need to consider whether or not it makes sense to allocate some of the Pell Grant to room and board of the student rather than to tuition. If you allocate the Pell Grant to room and board of the student, the Pell Grant amount becomes taxable income to the student. If the Pell Grant amount is treated as taxable income to the student, the tuition amount is deemed paid by the student and becomes an eligible expense for the American Opportunity Tax Credit. Further, the amount that has been elected to be taxable income for room and board to the student may be an amount that is under the threshold for paying taxes for the student depending on his or her other taxable income.

You are allowed to elect to allocate the Pell Grant at your discretion and are not bound by how the college or university allocates it. You just need to document how you are doing it by allocating an amount to taxable income.

If the student's qualified tuition and related expenses aside from Pell Grants exceed the amount of scholarships the student receives by more than \$4,000, it would generally not make sense to allocate any of the Pell Grants to room and board since you are already maximizing the American Opportunity Tax Credit.

You will need to consider the terms of any scholarships that the student qualifies for and the rate of tax that the student will incur by allocating some of the Pell Grants to his or her income. If it all fits together, it may provide you some extra benefit by providing you some extra education credits. Let us know if we can help in preparing an analysis.

