

# Scholarships and Taxes

## Tax-free Scholarships and Fellowships

A scholarship is *tax-free* if:

- You are a full-time or part-time candidate for a degree at a primary, secondary or accredited post-secondary institution, and
- The award covers tuition and fees to enroll in or attend an educational institution, and
- The award covers fees, books, supplies, and equipment required for your course.

The award is tax-free *only* as long as you use it for the purposes outlined above.

## Taxable Scholarships and Fellowships

Your scholarship is taxed if used to cover:

- Room and board
- Travel
- Research
- Clerical help
- Equipment

If your award, for example, covers both tuition and room and board, the amount you use for tuition is tax-free, while the amount you use for room and board is taxable. If you need to make this adjustment, you may have to adjust other parts of your return as well. For example, if you are filing a deduction for educational expenses, you must reduce the amount of your deduction by the tax-free amount of the award.

## Making It Legal: Reporting Taxable Awards

If your only income is a tax-free scholarship or fellowship, you're in the clear. You don't have to file a tax return or report the award. On the other hand, if all or part of your scholarship is taxable and if that money is not recorded on your W2 form, you must report it.

Scholarship awards reported to the Federal Government using the IRS Tax Form 1098-T Federal Treasury Regulations require colleges and universities to annually report scholarship awards received by students to the Internal Revenue Service (IRS) using the IRS Tax Form 1098-T (Tuition Statement) for the purposes of determining a student's eligibility for the Hope and Lifetime Learning education tax credits. A duplicate copy of the IRS Tax Form 1098-T is issued and mailed by the district office to each student following the calendar year in which the awards are administered and processed. The total scholarship amount is shown in Box 4 (Scholarships or Grants) which includes both taxable and non-taxable awards.

## Questions?

If you're not sure if your award is taxable, ask the organization that sponsored the award. They may have information from the IRS regarding your award's tax status. You can also ask your District Director of Internal Revenue, check the IRS web site at <http://www.irs.gov> or call the IRS help line at 1-800-829-1040. If you have questions, ask as soon as possible to get your answers before tax time.

Being informed about the tax procedures for scholarships will make your life easier come April 15. Find out what's taxable and report it correctly.

