



## TAX GUIDELINES FOR SCHOLARSHIPS, FELLOWSHIPS, AND GRANTS

Taxes can be confusing, especially for young adults who have never had to file taxes before. Yet when beginning college, it is important to learn about and understand how scholarships impact your taxes, so that you are prepared at tax time. There are simple guidelines from the Internal Revenue Service (IRS) that help you determine if you will claim all or part of your scholarship amounts as income on your taxes, meaning you are required to pay taxes on them.

**Here are the guidelines quoted directly from the IRS. ([Topic No. 421 Scholarships, Fellowship Grants, and Other Grants](#))**

A scholarship is generally an amount paid or allowed to a student at an educational institution for the purpose of study. A fellowship grant is generally an amount paid or allowed to an individual for the purpose of study or research. Other types of grants include need-based grants (such as Pell Grants) and Fulbright grants.

## Not Taxable

If you receive a scholarship, a fellowship grant, or other grant, all or part of the amounts you receive may be tax-free. Scholarships, fellowship grants, and other grants are tax-free if you meet the following conditions:

- You're a candidate for a degree at an educational institution that maintains a regular faculty and curriculum and normally has a regularly enrolled body of students in attendance at the place where it carries on its educational activities; and
- The amounts you receive are used to pay for tuition and fees required for enrollment or attendance at the educational institution, or for fees, books, supplies, and equipment required for courses at the educational institution.

## Taxable

You must include in gross income:

- Amounts used for incidental expenses, such as room and board, travel, and optional equipment.
- Amounts received as payments for teaching, research, or other services required as a condition for receiving the scholarship or fellowship grant. However, you don't need to include in gross income any amounts you receive for services that are required by 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 (as defined in section 448(e) of the Higher Education Act of 1965) operated by a work college.

## How to Report

Generally, you report any portion of a scholarship, a fellowship grant, or other grant that you must include in gross income as follows:

- If filing [Form 1040](#) or [Form 1040-SR](#), include the taxable portion in the total amount reported on the "Wages, salaries, tips" line of your tax return. If the taxable amount wasn't reported on Form W-2, enter "SCH" along with the taxable amount in the space to the left of the "Wages, salaries, tips" line.
- If filing [Form 1040-NR](#), report the taxable amount on the "Scholarship and fellowship grants" line."

**Now that you've read the IRS guidelines, you can ask yourself the questions below:**

1. What is the total amount I received from scholarships, fellowships and grants during the tax year I am filing (Jan-Dec)?
2. Of that amount, what amount did I use for tuition and fees required for enrollment or attendance at the educational institution, or for fees, books, supplies, and equipment required for courses at the educational institution?

*Example: If your class required that you purchase an I-Pad to complete the course, it could be considered a required expense, but if you bought the I-Pad for convenience and it was not required, it would be considered as taxable income.*

Subtract the amount you used for required expenses (question 2) from the total amount of scholarships, fellowships, and grants you received (question 1). That is the amount that you used for incidental expenses, such as room and board, travel, and optional equipment and amounts received as payments for teaching, research, or other services required as a condition for receiving the scholarship or fellowship grant.

**This amount is taxable and must be claimed as income on your taxes.**

The IRS has an [online assistant](#) you can use to decide how much of your scholarships (if any) are taxable.

There also is a tax credit that may be available to students (for independent students) or your parents (for dependent students) if you got a Form 1098-T from your college. The credit is called the [American Opportunity Tax Credit \(AOTC\)](#). According to the IRS:

“To be eligible for AOTC, the student must:

- Be pursuing a degree or other recognized education credential
- Be enrolled at least half time for at least one academic period\* beginning in the tax year
- Not have finished the first four years of higher education at the beginning of the tax year
- Not have claimed the AOTC or the former Hope credit for more than four tax years
- Not have a felony drug conviction at the end of the tax year”

To claim AOTC, you must complete the [Form 8863 PDF](#) and attach the completed form to your tax return.

We know that this is a lot of information and it can be confusing. As you begin to file your taxes, we encourage you to reach out to people in your support system and utilize the resources offered through the IRS. In addition to the resources we have referenced above, the [IRS](#) has also partnered with [several organizations](#) to help people prepare and file their federal individual income tax returns for free. Typically, you can file your taxes as early as February and they are due in April. Check the IRS website for exact filing dates for this year and if possible, file your taxes early so that you can get your refund faster.