

Notice of IRS audits regarding the Education Tax Credits and Deduction and 1098-T Information

The internal Revenue Service has undertaken several initiatives to audit college students on their tax credits and above-the-line deduction for educational expenses. Frequently, in these audits the IRS will ask the student to obtain a letter from the institution regarding the amount of tuition paid.

The University of Minnesota does not report payments received in Box 1 of Form 1098-T. As spelled out in the resource page for educational tax benefits on the University Tax Management Office website, the University reports the amounts billed for tuition and related fees in Box 2 of the form. This alternative, provided by IRS regulations, was chosen because the University is not in a position to determine how payments and charges on a student's account are allocated for tax purposes. There are choices that each student can make on their tax returns with respect to how these charges and credits are reported for income tax purposes. For example, a student may choose to recognize income for all the scholarships received at the University on the front page of their tax return and then take a corresponding deduction for those charges above-the-line for the amount of qualified tuition. Alternatively, given the same facts and circumstances, the student may elect not to report any of the scholarships received on the front of their tax return and also to not take the tax credit or deduction for the same amount – in effect netting the two prior to reporting anything on their tax return.

Given the various alternatives available to students on how tax credits and above-the-line deductions are handled, the University of Minnesota cannot make any official statements to the IRS regarding these amounts. The information contained in the 1098-T is accurate as reported. See attached press release from NACUBO for additional information.

Students may obtain a copy of their student account via One Stop to provide to the IRS with an explanation as to how such items were treated on their tax return.

IRS CORRECTS AUDITORS' MISINTERPRETATION OF 1098-T REQUIREMENTS

November 21, 2011

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The September 16 report of the Treasury Inspector General for Tax Administration's report entitled *Billions of Dollars in Education Credits Appear to Be Erroneous*, included a recommendation for the Internal Revenue Service to [conduct audits of tax credits allegedly wrongfully claimed](#). IRS accordingly initiated audits of taxpayers--students and their families--to take a closer look at the education tax credits claimed.

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Over the past few weeks, members alerted NACUBO that students under audit were receiving an IRS-generated letter directing them to obtain another Form 1098-T from the institution they attended, with Box 1 completed (payments received for qualified tuition and related expenses), rather than Box 2 (amounts billed for qualified tuition and related expenses). Some students also reported conversations in which IRS staff asserted that the institution had completed the 1098-T incorrectly by failing to report amounts paid and needed to redo it.

According to the final rules governing reporting requirements in §6050S(b)(2)(B)(i) of the Internal Revenue Code, institutions clearly have the option to either report payments received or amounts billed.

In an effort to prevent the further spread of confusion on this topic and to enhance the training of and communications made by IRS field examiners, NACUBO brought the misinterpretation of the rules to the attention of the national IRS office. We reported that universities in Minnesota, North Dakota, Utah, and California had fielded similar erroneous requests for amended 1098-Ts from students and families, at the direction of IRS examiners.

Within a few days, NACUBO received a response from the IRS apologizing about confusion resulting from the inaccurate IRS requests for information and was told that a clarification has been provided to IRS offices operating the automated underreporter program instructing them to stop asking for Forms 1098-T with Box 1 filled in, and an assurance that the problem has been corrected going forward.

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