

NAVIGATING 1098T REPORTING REQUIREMENTS

Minnesota Network Conference

October, 2018



NAVIGATING 1098T REPORTING REQUIREMENTS

Key Take-Aways:

1. Beginning with the 2018 tax year (reported on 1098Ts issued in January, 2019), the amount paid must be reported in Box 1 of the 1098T form.
2. Box 2 (reflecting amount billed) is no longer to be reported.
3. There are no changes to the QTRE that the borrower is allowed to claim.
4. There are no changes to the school's responsibility to comply.

NAVIGATING 1098T REPORTING REQUIREMENTS

What has changed:

Until new legislation passed in 2015, schools could report on either –

The amount billed during the calendar year,

or

The amount paid during the calendar year

Implementation of the new requirement was delayed until the 2018 tax reporting year.

NAVIGATING 1098T REPORTING REQUIREMENTS

What the regulations say:

26 CFR 1.6050S-1 regulation states:

For purposes of determining the amount of payments received for qualified tuition and related expenses during a calendar year, payments received with respect to an individual during the calendar year from any source (except for any scholarship or grant that, by its terms, must be applied to expenses other than qualified tuition and related expenses, such as room and board) are treated as payments of qualified tuition and related expenses up to the total amount billed by the institution for such expenses. For purposes of this section, a payment includes any positive account balance (such as any reimbursement or refund credited to an individual's account) that an institution applies toward current charges.

IRS box 1 2017 instructions state:

Enter the total amount of payments received for qualified tuition and related expenses from all sources during the calendar year. The amount reported is the total amount of payments received less any reimbursements or refunds made during the calendar year that relate to the payments received for qualified tuition and related expenses during the same calendar year. The amount reported is not reduced by scholarships and grants reported in box 5.

NAVIGATING 1098T REPORTING REQUIREMENTS

Overview of the required form:

8383 ☐ VOID ☐ CORRECTED

FILER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number		1 Payments received for qualified tuition and related expenses \$ 2	OMB No. 1545-1574 2018 Form 1098-T	Tuition Statement Copy A For Internal Revenue Service Center File with Form 1096. For Privacy Act and Paperwork Reduction Act Notice, see the 2018 General Instructions for Certain Information Returns.
FILER'S employer identification no.	STUDENT'S TIN <input type="checkbox"/>	3 Check if you have changed your reporting method for 2018 <input type="checkbox"/>		
STUDENT'S name		4 Adjustments made for a prior year \$	5 Scholarships or grants \$	
Street address (including apt. no.)		6 Adjustments to scholarships or grants for a prior year \$	7 Check this box if the amount in box 1 includes amounts for an academic period beginning January — March 2019 <input type="checkbox"/>	
City or town, state or province, country, and ZIP or foreign postal code				
Service Provider/Acct. No. (see instr.)	8 Check if at least half-time student <input type="checkbox"/>	9 Check if a graduate student <input type="checkbox"/>	10 Ins. contract reimb./refund \$	

Form **1098-T** Cat. No. 25087J www.irs.gov/Form1098T Department of the Treasury - Internal Revenue Service

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NAVIGATING 1098T REPORTING REQUIREMENTS

Key ERP System Changes

Current setup: ERP systems currently identify qualified tuition and related expenses billed

New requirements for Box 1 reporting:

1. Capture and exclude grants and scholarships that can ONLY be used to pay non-qualified expenses (excluded from box 1).
2. Capture payments applied to QTRE during each calendar year.

Box 2 information continues to be important as:

1. Amount billed (previously reported in box 2) will be the maximum that can be reported in box 1.
2. This amount does not need to be reported.

NAVIGATING 1098T REPORTING REQUIREMENTS

Payment Application/Allocation

The application or allocation of payments are not considered in the calculation of box 1 payments.

All payments (except those specifically excluded) are *treated* as payments of qualified tuition and related expenses up to the total amount billed.

NAVIGATING 1098T REPORTING REQUIREMENTS

Spring Term Crossover

Situation: Payments in the fall 2017 and/or in spring 2018

1. Spring term charges paid in the fall of the prior year are included in the prior year's box 1
2. Box 7 is checked.

Key Consideration: When determining qualified charges for the spring term, calculations must include charges billed in the prior year for terms that begin in the first three months of the following year.

Specifically, if a student pays for spring 2018 in fall of 2017, the amount will not be reported in the 2018T form. If a student pays for spring 2018 in 2018, their amount paid will be reported in box 1 of the 2018 form.

Situation: Spring 2018 charges reported in box 2 for 2017 (Payments in 2018)

1. Due to the change information reported in the previous year may also be reported as payments in the current year.
2. Tax preparer will need to know the regulations and report accordingly

NAVIGATING 1098T REPORTING REQUIREMENTS

Case Study

Spring year 2 charges are posted in November of year 1. Spring charges are \$7,500 QTRE and \$3,000 R&B. Total \$10,500. Student pays \$4,000 in year 1 before December 31 and gets a 1098-T with \$4,000 in Box 1. In year 2, another spring class is added for \$2,000 QTRE in January. The remaining balance of \$8,500 is paid by a loan in January.

For the year 2 1098-T, would the calculations determine that box 1 would be \$5,500 (7,500 QTRE + 2,000 QTRE – 4,000 previously paid)? The only new QTRE charges in year 2 were \$2,000. Would the calculations look at both years combined for spring QTRE and take previous payments into consideration?

Solution Options for year 2 reporting:

Box 1 would be \$5,500 (7,500 QTRE + 2,000 QTRE – 4,000 previously paid), or

Box 1 would be \$8,500 (Total amount paid is less than the 7,500 QTRE + 2,000 QTRE ceiling)

NAVIGATING 1098T REPORTING REQUIREMENTS

Prior Year Adjustments (Box 4)

***1. Payments received.** Enter reimbursements or refunds of qualified tuition and related expenses made during the calendar year that relate to payments received that were reported for any prior year.*

***2. Amounts billed.** Enter any reductions in charges made for QTRE reported for any prior year.*

NAVIGATING 1098T REPORTING REQUIREMENTS

Past Due Balances

Payments of past balances are to be reported in box 1. However, under §25A, taxpayers may not claim education tax credits for academic periods in past years.

Payment Source

Schools are to report the total amount of payments received for qualified tuition and related expenses from **all sources** during the calendar year.

Sponsorships & Grants (Box 5)

Box 5 is not changing for 2018.

NAVIGATING 1098T REPORTING REQUIREMENTS

Payments for Future Years

Payments received in the current year for terms beginning in the first three months of the next year will be reported in box 1, and box 7 will be checked.

Reductions/Waivers

1. The amount of box 1 payments reported is limited to the total amount billed; therefore, waiving qualified charges will lower the amount that can be reported in box 1.
2. If the waiver creates a reimbursement or refund that is issued to the student or applied to other charges, the amount will be reported in box 4. Reductions to financial aid will continue to be reported in box 6 as usual.

NAVIGATING 1098T REPORTING REQUIREMENTS

Source of the Payment Does Not Matter

NAVIGATING 1098T REPORTING REQUIREMENTS

Modifications to Existing Processes

Case Study

If a student pays for spring 2018 in October 2017, what amounts should be reported in the 2017 and 2018 tax years?

NAVIGATING 1098T REPORTING REQUIREMENTS

Modifications to Existing Processes

Case Study

If a student pays for spring 2018 in October 2017, what amounts should be reported in the 2017 and 2018 tax years?

The amount billed for 2018 will be reported in box 2 of the 2017 form.

The amount paid will be reported in box 1 of the 2018 form.

Box 3 is the indication that the reporting method has changed, indicating that charges billed in one year may now be reported as charges paid in another.

Note: No other special action or reconciliation is required. The 1098-T form is only informational; none of the amounts reported are expected to be used as part of a 'plug and play' entry.

NAVIGATING 1098T REPORTING REQUIREMENTS

