

When Is Scholarship Income Out of Scope?

The Education Worksheet may show that there is taxable scholarship income for the student. This is because any amount of scholarships and grants that exceeds the amount of qualified education expenses is considered taxable to the student.

Taxable scholarship income is always reported on the tax return of the student, even if a parent or guardian is claiming the credit for a dependent student.

► **If the student is a dependent**, taxable scholarships or grants above \$2,500 (in 2023) make the tax return of the student **OUT OF SCOPE** for the Tax Help Program. (These amounts are \$2,300 for 2022 and \$2,200 for 2021 and 2020.)

This is because an amount of taxable scholarship income above the threshold requires filing **Form 8615, Tax for Certain Children Who Have Unearned Income**. This is the so-called **Kiddie Tax**.

How to Assist the Taxpayer:

1. Determine if the **dependent student** is required to file a tax return.

Single dependents under age 65 or not blind must file a return if **ANY** of the following is true:

1. Their **unearned income** was more than \$1,250
 - Taxable scholarship income is NOT unearned income.
 - Includes interest, ordinary dividends, and capital gains

OR

2. Their **earned income** is more than \$13,850
 - Taxable scholarship amounts ARE included as earned income. Includes salaries, wages, tips, etc.

OR

3. Their **gross income** is more whichever is larger: a) \$1,250 or b) their earned income plus \$400.
 - Gross income includes both earned and unearned income.

2. Determine if the **dependent student** is not required to file a tax return but **will file** to receive any withholding as a refund.
3. Based on your determination above:

► If the student **will not** file a tax return (because they are not required to and have no withholding to be refunded), no action is required even if taxable scholarship income has been attributed to the student.

- ▶ If the student **will file** a tax return, is the scholarship income over \$2,500 (for 2023)?
 - a. If YES, the dependent student's tax return is **OUT OF SCOPE** for the Tax Help program. Refer the student taxpayer to Special Tax Services for a so-called **Kiddie Tax Return**.
 - b. If NO, continue preparation as usual.

How to Avoid the Kiddie Tax for Dependent Students:

You may be able to use the Education Worksheet to limit the amount of scholarships/grants transferred to taxable income. This may be advantageous if you wish to avoid triggering the Kiddie Tax, although it will have a negative impact on the education credit value.

Take Note: You may not be able to use this method in cases where the scholarship/grant amounts in **Box 5** of **Form 1098-T** exceed **Box 1** amounts by the maximum credit amounts.

1. Make sure that you have entered all expenses and scholarship/grants information in the Worksheet. Verify that the amount of taxable scholarship/grant income is more than \$2500 (for 2023).
2. To limit the amount of scholarship/grant transferred to income, navigate to the **Outcome & Next Steps** section of the Education Worksheet.
3. Tick the checkbox to limit Kiddie Tax amounts and enter an amount that limits the scholarship income to \$2,500 for tax year 2023 | \$2,300 for tax year 2022 | \$2,200 for tax years 2021 and 2020.
4. Check the Education Worksheet calculations to be sure that you have limited transfer to the desired amount.

Remember: You may not be able to limit scholarship/grant transfer to less than \$2,500 in cases where the scholarship/grant amounts in **Box 5** of **Form 1098-T** exceed **Box 1** amounts by the maximum credit amounts.