

## Appendix D

# Miscellaneous Business Office Functions

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For Title IV participating schools, there are two school reporting requirements that involve FSA that are not Department of Education requirements. Both reporting requirements are Internal Revenue Service (IRS) requirements. The first of these requirements is for your school to provide the 1098 E or T form to certain aid recipients, and the second is to generate a 1042-S for each student who is a nonresident alien and who receives taxable income other than wages. We will discuss each requirement in greater detail below.

## IRS Form 1098

There are two variations of IRS form 1098 relevant to awarding Title IV aid:

- IRS Form 1098-E; and
- IRS Form 1098-T.

### IRS Form 1098-E

All schools who receive \$600 or more in student loan interest must provide IRS Form 1098-E, Student Loan Interest Statement, to all individuals who paid student loan interest of \$600 or more on loans held by your school during a calendar year. To access the form and more information for students about filling out and filing the form, go to the IRS website:

<https://www.irs.gov/forms-pubs/about-form-1098-e>.

### IRS Form 1098-T

All Title IV participating schools must provide Form 1098-T, *Tuition Statement*, for each student enrolled for credit unless:

1. the student is a nonresident alien (unless requested by the student);
2. the student's qualified tuition and related expenses are entirely waived, or entirely paid with scholarships or grants; or
3. the student's qualified tuition and related expenses are entirely covered by a formal billing arrangement between the school and the student's employer or a government agency such as the Department of Veterans Affairs or the Department of Defense. The instructions for Form 1098-T do not specify what a school should do if:
  - a student's qualified tuition and related expenses are entirely covered by **a combination of** scholarships, grants, and formal billing arrangement between the school and the student's employer or a government agency; or
  - only a part of a student's qualified tuition and related expenses are covered by a formal billing arrangement between the school and the student's employer or a government agency.

Note that for purposes of filling out the 1098-T, "qualified tuition and related expenses" do **not** include the following:

- amounts paid for any course or other education involving sports, games, or hobbies, unless the course or other education is part of the student's degree program or is taken to acquire or improve job skills; and
- charges and fees for room, board, insurance, medical expenses (including student health fees), transportation, and similar personal, living, or family expenses.

The preamble to the Final Regulations states that: "... a taxpayer cannot claim the education credit for education expenses paid with amounts that are excludable from gross income. Educational expenses paid through a formal billing arrangement between an institution and a government entity such as the Veteran's Administration, often are excludable from the gross income of the individual student." (Federal Register, December 19, 2002 (Volume 67, Number 244) page 77680).

We encourage schools to seek guidance from their in-house counsel and the IRS on how to complete IRS Form 1098-T when the student falls into one of the aforementioned categories. To access the form and more information for students about filling out and filing the form, go to the IRS website: <https://www.irs.gov/forms-pubs/about-form-1098-t>.

## IRS 1098

26 CFR Parts 1, 301, and 602

26 U.S.C. 6050S

Federal Register: April 29, 2002 (Volume 67, Number 82) Preamble to Notice of Proposed Rule Making

Federal Register, December 19, 2002 (Volume 67, Number 244) Preamble to Final Rules

## IRS Forms 1042 and 1042-S

Pell Grants and other Title IV need-based grants are tax free to the extent that they are used to pay for qualified tuition and course-related expenses during the grant period. Qualified tuition and course-related expenses are defined as tuition, fees, books, supplies and equipment required for courses attempted by a degree, certificate, or other recognized educational credential candidate at an educational institution. To qualify, fees, books, supplies, and equipment must be required of all students in the course of instruction (See the [FSA Handbook, Volume 3, Chapter 2, Cost of Attendance](#), for more on COA).

**Amounts paid from Pell Grants and other Title IV need-based grants which are used for purposes other than for qualifying tuition and fees are taxable.** This includes amounts paid for room and board, travel and supplies and equipment not required for the course of instruction at an educational institution. (See IRS Publication 970, Tax Benefits for Education: <https://www.irs.gov/forms-pubs/about-publication-970>).

You are **not** required to withhold or report taxable scholarship amounts for students considered residents by the Internal Revenue Service. Students are considered residents for tax purposes if they are U.S. citizens, permanent residents, or nonresidents that meet the IRS substantial presence test (see <https://www.irs.gov/individuals/international-taxpayers/substantial-presence-test>), and are not subject to exemption or treaty benefits.

You **are** required to meet withholding and reporting requirements for nonresident aliens. Schools must generate a Form 1042-S for each student who is a nonresident alien and who receives taxable income other than wages. This includes Title IV need-based aid and other grants or scholarships. Schools must also prepare a 1042 summarizing the data reported on the individual 1042-S forms. See IRS instructions for form 1042 at <https://www.irs.gov/forms-pubs/about-form-1042>. See instructions for form 1042-S at <https://www.irs.gov/pub/irs-pdf/i1042s.pdf>.

You must withhold at the rate of 30% of the taxable portion of the Title IV aid for each nonresident alien unless the student passes the substantial presence test for the calendar year (see <https://www.irs.gov/individuals/international-taxpayers/substantial-presence-test>). To meet this test, the student must be physically present in the United States for:

- at least 31 days during the current year; and
- 183 days during the three-year period that includes the current year, and the two years immediately before that. (Count all of the days present in the current year, 1/3 of the days present in the first year before the current year, and 1/6 of the days present in the second year before the current year.)

[IRS Publications 515, Withholding of Tax on Nonresident Aliens and Foreign Entities](#) and [IRS Publication 519, U.S. Tax Guide for Aliens](#) provide further guidance on withholding and reporting requirements.

As a withholding agent, your school is liable for any taxes you are required to withhold. This liability is independent of the tax liability of the foreign student to whom the payment is made. If your school fails to withhold the required amount, and the foreign student fails to satisfy the U.S. tax liability, then both you and the foreign student are liable for the taxes, as well as for interest and any applicable penalties (the applicable tax will be collected only once.) Even if the foreign student

satisfies his or her U.S. tax liability, your school may still be held liable for interest and penalties for your failure to withhold.

If you withhold amounts from taxable Title IV need-based aid (or other scholarships and grants) your school must complete an IRS Form 1042-S, *Foreign Person's U.S. Source Income Subject to Withholding* (see <https://www.irs.gov/forms-pubs/about-form-1042-s>). The foreign student must complete and file an [IRS Form 1042, Annual Withholding Tax Return for U.S. Source Income of Foreign Persons](#) with the Internal Revenue Service by March 15 of the year following the calendar year in which the Title IV need-based aid or other grant or scholarship was paid.