

Talking Points

Implementation of Mandatory Box 1 Reporting of IRS Form 1098-T

Background:

On December 18, 2015, the Consolidated Appropriations Act amended the Internal Code, eliminating the option for colleges and universities to report amounts billed for qualified tuition and expenses in Box 2 of IRS Form 1098-T. Schools are required to issue Form 1098-T each year to their students. The new requirement was made effective as of January 1, 2016.

For more than a decade, colleges and universities have had the option of reporting either the aggregate amount billed for qualified tuition and related expenses (Box 2 on Form 1098-T) or payments received for qualified tuition and related expenses (Box 1 on Form 1098-T).

Most institutions have opted to report amounts billed (Box 2) rather than payments received (Box 1) because Box 1 reporting is extremely difficult—if not impossible—to perform accurately for the following reasons:

- Box 1 reporting requires the filing institution to distinguish payments for qualified tuition and related expenses from payments for nonqualified payments such as room, board, and living expenses, yet students do not include any information with their payments about what expense the payment is intended to cover.
- Financial aid awarded to a student after the student has paid the filing institution may retroactively affect whether the payment is applied to a qualified or nonqualified expense. Making matters more complicated is the fact that financial aid may be awarded in a different calendar year from the year of the payment

Challenges Implementing New Requirement:

Schools face significant challenges complying with this new requirement, particularly in the absence of guidance from the IRS, including:

- To collect data to meet the new reporting requirement, schools would have needed to have new software account tracking systems in place as of January 1, 2016, which was simply not possible given the date of enactment of the new requirement.

- While software providers are working on the necessary modifications and/or customizations to computer systems, once the new software becomes available, institutions will still need time for implementation, staff training, and testing.;
- Even if new systems were already operational, many institutions have already billed students (during late 2015 and early 2016) for 2016 tax year educational expenses using old systems that do not allow for accurate Box 1 reporting; and,
- There is not enough time for colleges and universities to convert existing data collection and tuition reporting systems for the 2016 year as it is already well underway.

Regulatory Request:

In light of these many challenges, the higher education community has requested that Treasury and the IRS take the following actions:

- Delay the implementation of mandatory reporting in Box 1 until after regulatory guidance is issued and allow institutions time to feasibly implement and test their systems in accordance with that guidance;
- Develop guidance that acknowledges and accommodates the realities of tax year reporting of information that is tied to academic periods; and,
- Develop plain-language, web-based resources to help taxpayers with the transition and going forward.