



# TaxNewsFlash

United States



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## IRS guidance for students, higher education institutions on reporting emergency financial aid (COVID-19)

The IRS today released guidance and a set of “frequently asked questions” (FAQs) addressing the tax treatment and how students and higher education institutions are to report emergency financial aid grants made in response to the coronavirus (COVID-19) pandemic.

Read the [FAQs](#) (March 30, 2021) (full text provided below)

As explained in a related IRS release—[IR-2021-70](#):

### **For students—**

- Emergency financial aid grants made by a federal agency, state, Indian tribe, higher education institution or scholarship-granting organization (including a tribal organization) to a student because of an event related to the COVID-19 pandemic are not included in the student’s gross income.
- Students are not to reduce an amount of qualified tuition and related expenses by the amount of an emergency financial aid grant. If students used any portion of the grants to pay for qualified tuition and related expenses on or before December 31, 2020, they may be eligible to claim a tuition and fees deduction or the American Opportunity Credit or Lifetime Learning Credit on their 2020 tax return.
- The tuition and fees deduction is not available for tax years beginning after December 31, 2020.

### **For higher education institutions—**

- Because students do not include emergency financial aid grants in their gross income, higher education institutions are not required to file or furnish Forms 1099-MISC reporting the grants made available by the “Coronavirus Aid, Relief, and Economic Security Act” (CARES Act) or the

“COVID-related Tax Relief Act” (COVID Relief Act) and do not need to report the grants in Box 5 of Form 1098-T.

- Any amounts that qualify for the tuition and fees deduction or the American Opportunity Credit or Lifetime Learning Credit are considered “qualified tuition and related expenses” and trigger the reporting requirements of section 6050S. Higher education institutions must include qualified tuition and related expenses paid by emergency financial aid grants awarded to students in Box 1 of Form 1098-T.

## **Text of FAQs**

***Q1. I am a student who received an emergency financial aid grant under section 3504, 18004, or 18008 of the CARES Act for unexpected expenses, unmet financial need, or expenses related to the disruption of campus operations on account of the COVID-19 pandemic. Is this grant includible in my gross income? (added March 30, 2021)***

*A1. No. Emergency financial aid grants under the CARES Act for unexpected expenses, unmet financial need, or expenses related to the disruption of campus operations on account of the COVID-19 pandemic, such as unexpected expenses for food, housing, course materials, technology, health care, or childcare, are not included in your gross income.*

***Q2. I am a student who received an emergency financial aid grant from a Federal agency, State, Indian tribe, institution of higher education, or scholarship-granting organization (including a tribal organization) because of an event related to the COVID-19 pandemic. Is this grant includible in my gross income? (added March 30, 2021)***

*A2. No. Emergency financial aid grants made by a Federal agency, State, Indian tribe, institution of higher education, or scholarship-granting organization (including a tribal organization) because of an event related to the COVID-19 pandemic are not included in your gross income.*

***Q3. I received an emergency financial aid grant as described in Q1 or Q2 above and used some of it to pay for course-related books, supplies, and equipment that are now required for online learning because my college or university campus is closed. The books, supplies, and equipment do not have to be purchased from my college or university. Can I claim a tuition and fees deduction for these expenses, or treat the cost of these items as a qualifying education expense for purposes of claiming the American Opportunity Credit or the Lifetime Learning Credit? (added March 30, 2021)***

*A3. You may claim the American Opportunity Credit for these expenses if you otherwise meet the requirements for the credit. You cannot claim a Lifetime Learning Credit or a tuition and fees deduction for the expenses because you are not required to purchase the books, supplies, and equipment from your college or university. For additional information on these credits and the tuition and fees deduction, see Publication 970, Tax Benefits for Education, available on [www.irs.gov/pub970](http://www.irs.gov/pub970).*

***Q4. I received an emergency financial aid grant as described in Q1 or Q2 above and used some of it to pay for course-related books, supplies, and equipment that are now required for online learning because my college or university campus is closed. The books, supplies, and equipment must be purchased from my college or university. Can I claim a tuition and fees deduction for these expenses, or treat the cost of these items as a qualifying education expense for purposes of claiming the American Opportunity Credit and the Lifetime Learning Credit? (added March 30, 2021)***

*A4. You may claim the American Opportunity Credit or the Lifetime Learning Credit for these expenses if you otherwise meet the requirements for the credit you are claiming. In addition, if you do not claim one of the credits, you can claim a deduction for tuition and fees for these expenses paid on or before December 31, 2020. The tuition and fees deduction is not available for tax years beginning after December 31, 2020.*

**Q5. Do higher education institutions have any requirements under Internal Revenue Code section 6041 to report information on Form 1099-MISC for emergency financial aid grants awarded to students under section 3504, 18004, or 18008 of the CARES Act, or under section 277 of the COVID Relief Act? (added March 30, 2021)**

A5. No, higher education institutions do not have information reporting requirements under section 6041 with respect to the emergency financial aid grants. These grants are not included in students' gross income, as described in A1 and A2 above. Because the grants are not income, section 6041 does not apply to them, and higher education institutions are not required to file or furnish Forms 1099-MISC, Miscellaneous Income, reporting the emergency financial aid grants.

**Q6. For tax year 2021, do higher education institutions have any requirements under Internal Revenue Code section 6050S to report information on Form 1098-T for emergency financial aid grants awarded to students under section 3504, 18004, or 18008 of the CARES Act, or under section 277 of the COVID Relief Act? (added March 30, 2021)**

A6. Yes, for tax year 2021, in certain cases, higher education institutions have information reporting requirements under section 6050S for payments made with emergency financial aid grants. As described in A3 and A4 above, a student may claim a deduction or one of the education credits if the student and the expenses otherwise qualify for the deduction or credit. Any amounts that qualify for the deduction or credit are known as "qualified tuition and related expenses" (QTRE) and trigger the reporting requirements of section 6050S. Accordingly, higher education institutions must report total QTRE, including QTRE paid with emergency financial aid grant funds, in Box 1 of Form 1098-T, Tuition Statement. Higher education institutions do not need to separately identify the portion of QTRE paid with the emergency financial aid grants anywhere on Form 1098-T and they do not need to report the grants themselves in Box 5 of Form 1098-T. This is the case regardless of whether the higher education institution:

1. paid the emergency financial aid grants to the students, who then used grant money to pay for QTRE or
2. applied grant money directly to a QTRE on a student's account.

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