

Taxes for Grads: Do Scholarships Count as Taxable Income?

Updated for Tax Year 2019

OVERVIEW

Heading off to college to broaden your horizons is exciting, but funding your education via scholarships? That's even better. Scholarships often provide a path to education that might not be feasible otherwise, which is why the Internal Revenue Service (IRS) can be generous in minimizing students' tax obligations. But sometimes scholarship money does count as income, and it's better to find out now if your scholarship adds to your tax liability than to have a surprise later. Here's how to decode your scholarship taxation.

Untaxed Scholarship Funds

Most of the time, students working toward degrees at a college, university, or other accredited educational institution can avoid paying taxes on at least some of their scholarship funds. You generally won't have to pay tax on scholarship money used to pay for basic expenses related to your education. The IRS calls these "[qualified education expenses](#)."

These expenses include:

- Tuition and student fees
- As well as books and any required equipment or supplies for your courses

This means that if your scholarship funds are used to pay for access to classes or for special supplies that your school requires you to buy to complete a course, you likely won't have to count these funds as income or pay tax on them.

Taxed Scholarship Funds

Some scholarship funds are [subject to taxation](#), however. If you have scholarship money left over after covering your qualified education expenses, you must include that amount as part of your gross taxable income. That means scholarship money used to pay:

- Rent or board
- Utilities
- And other expenses (including school supplies not listed as required in your program) counts as income when calculating your tax liability

Taxable Stipend Scholarships

In some cases, a scholarship is really more of a stipend, providing compensation for services while you're in school or for services you'll provide in the future. If, for example:

- You receive a \$5,000 scholarship with \$1,500 of it designated to pay for your teaching services.
- The \$1,500 counts toward your taxable income for the year.
- The remaining \$3,500 is usually not taxable, as long as you're a degree student at a qualifying institution and the money is used for qualified education expenses.

If you receive a scholarship with the condition that you provide services in the future, you'll need to count the scholarship as income in the year you receive it. Payment for services at a military academy also count toward your taxable income.

Claiming Taxable Scholarship Income

If part of your scholarship is taxable, you should receive a W-2 from the scholarship's provider showing the taxable portion in box 1. You can report your taxed scholarship income using [Form 1040](#) on line 7.

For a step-by-step of this process, use TurboTax. By answering simple questions, you can figure out how much of your scholarship is taxable to get you the maximum tax refund.