

## Internal Revenue Service

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Department of the Treasury

Washington, DC 20224

Third Party Communication: None

Date of Communication: Not Applicable

Person To Contact:

Telephone Number:

Refer Reply To:

CC:PA:APJP:01

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Date:

February 15, 2005

In Re:

### Legend

University =

Academic Year 1

Calendar Year 1 =

Dear :

This letter responds to your request for a private letter ruling, dated September 27, 2004, submitted on behalf of your client, University. Specifically, you request a ruling that, under section 6050S of the Internal Revenue Code (Code), for Calendar Year 1, University may report amounts billed during Calendar Year 1 for qualified tuition and related expenses (qualified expenses) based on an annual bill that includes charges for qualified expenses for Academic Year 1, as well as other amounts previously billed during Calendar Year 1.

The ruling contained in this letter is based upon information submitted by University under penalty of perjury and representations made by University. Based on the initial and supplemental submissions, the facts are as follows.

### Facts

University is an eligible educational institution (institution), as defined in section 25A(f)(2) of the Code, that enrolls students in undergraduate and graduate programs. University's academic periods are based on quarter and semester terms.

Students register for each upcoming term before the beginning of the term during the registration period. University represents that it considers a student to be enrolled for each academic period when the student registers for classes for each term.

At the time of the initial letter ruling submission, University billed its students at the beginning of each term for the qualified expenses for that term. Supplemental information indicates that University now bills full-time students who are enrolled in an undergraduate program for Academic Year 1 in the Fall of Calendar Year 1. Because University charges a flat tuition fee for full-time undergraduate students who register for a minimum of 12 credit hours to a maximum of 20 credit hours in a term, University can calculate an annual bill based on the student's elected curriculum and full-time undergraduate status.

The annual bill includes charges for tuition, fees, and room and board for Academic Year 1. The bill also reflects University grants, federal grants, scholarships, and loans. Payment for the net amount owed for Academic Year 1 is due by the beginning of the Fall Term. Students may elect to make payments in 9 installments under an installment plan agreement. After the initial bill, University sends monthly statements reflecting any payments or adjustments to the students' financial account. Payment for any increase in charges reflected on a subsequent billing statement is due at the beginning of the following month.

#### Requested Ruling

Whether, under section 6050S of the Code, for Calendar Year 1, University may report amounts billed during Calendar Year 1 for charges of qualified expenses that relate to Academic Year 1, as well as other amounts previously billed during Calendar Year 1.

#### Authority

Section 6050S of the Code requires any eligible educational institution that enrolls any individual for any academic period to file information returns described in section 6050S(b) with the Internal Revenue Service (Service) and to furnish information statements described in section 6050(d) to students.

Section 6050S(b)(2)(A) of the Code provides, in part, that the return must contain the name, address, and taxpayer identification number of any individual who is or has been enrolled at the institution and for whom a transactions described in section 6050S(b)(2)(B) is made during the calendar year. Section 6050S(b)(2)(B)(i) provides that the return must contain either the aggregate amount of payments received, or the aggregate amount billed, for qualified expenses with respect to the individual described in section 6050S(b)(2)(A) during the calendar year.

The Income Tax Regulations (regulations) provides guidance on the information reporting requirements for qualified expenses. Specifically, section 1.6050S-1(a)(1)

provides that any eligible educational institution that enrolls (as determined under section 1.6050S-1(d)(1)) any individual for any academic period (as defined in the regulations under section 25A) must file an information return described in section 1.6050S-1(b) with the Service with respect to each individual described in section 1.6050S-1(b) and must furnish a statement as described in section 1.6050S-1(c) to the individual.

Section 1.6050S-1(b)(3) of the regulations provides the reporting requirements for institutions that elect the billed method of reporting for qualified expenses. In general, an institution reporting amounts billed for qualified expenses must file an information return on Form 1098-T, "Tuition Statement," for each individual enrolled (as determined in section 1.6050S-1(d)(1)) for an academic period beginning during the calendar year or during a prior calendar year and for whom a transaction described in section 1.6050S-1(b)(3)(ii)(C), (E), (F), or (G) is made during the calendar year.

Section 1.6050S-1(b)(3)(ii)(C) of the regulations provides that an institution reporting amounts billed must include on Form 1098-T the amount billed for qualified expenses with respect to the individual during the calendar year. Section 1.6050S-1(b)(3)(ii)(D) provides that an institution must include on Form 1098-T an indication whether amounts billed for qualified expenses reported for the calendar year relate to an academic period that begins during the first three months of the next calendar year.

Section 1.6050S-1(d)(1) of the regulations provides that an institution may determine its enrollment for each academic period under its own rules and policies for determining enrollment or as of any of the following dates: (1) 30 days after the first day of the academic period; (2) a date during the academic period on which enrollment data must be collected for purposes of the Integrated Post Secondary Education Data System administered by the Department of Education; or (3) a date during the academic period on which the institution must report enrollment data to the State, the institution's governing body, or some other external governing body.

Section 25A of the Code provides the requirements for the education tax credit. In general, section 25A allows an individual taxpayer to claim an education tax credit for amounts of qualified expenses paid during the calendar year for an academic period beginning during the calendar year or during the first three months of the following calendar year.

Section 1.25A-2(c) of the regulations defines an "academic period" to mean a quarter, semester, trimester, or other period of study as reasonably determined by an eligible educational institution.

### Analysis

In general, section 6050S of the Code and the regulations require an institution that enrolls any individual for any academic period to file a Form 1098-T, and furnish an

information statement, reporting either the aggregate amount of payments received, or the aggregate amount billed, for qualified expenses during the calendar year with respect to an individual who is enrolled at the institution during the calendar year or has been enrolled during a prior calendar year.

Section 1.6050S-1(b)(3), Example (2)(i), illustrates the rules in section 1.6050S-1(b)(3). The example provides that, in early August 2003, University X bills enrolled Student A \$10,000 for qualified expenses and \$6,000 for room and board for the 2003 Fall Semester. In late August 2003, Student A pays \$11,000 to University X. In early September 2003, Student A drops to half-time enrollment for the 2003 Fall Semester. In late September 2003, University X adjusts Student A's account and reduces the charges for qualified expenses by \$5,000 to reflect half-time enrollment. In late September 2003, University X applies the \$5,000 account balance toward current charges. In addition, in early December 2003, College X bills student A \$10,000 for qualified expenses and \$6,000 for room and board for the 2004 Spring Semester.

The example concludes that College X is required to report \$15,000 amounts billed for qualified expenses during 2003 (\$5,000 for the 2003 Fall Semester and \$10,000 for the 2004 Spring Semester). In addition, College X is required to indicate that a portion of the amounts billed for qualified expenses reported for 2003 relate to an academic period that begins during the first three months of the next calendar year. The example illustrates that, under section 6050S, an institution that enrolls a student for an academic period (2003 Fall Semester) beginning during the calendar year (2003) must file an information return that includes the aggregate amounts billed during the calendar year.

In the present case, under University's annual billing system, full-time students in the undergraduate program will be enrolled for the Fall Term during Calendar Year 1. University must file a Form 1098-T for each individual enrolled for an academic period beginning during Calendar Year 1 and must report the aggregate amounts billed during Calendar Year 1 with respect to the individual. Accordingly, under section 6050S of the Code and the regulations, for Calendar Year 1, University may report the amounts billed during Calendar Year 1 for qualified expenses that relate to Academic Year 1, as well as other amounts previously billed during Calendar Year 1.

Although the Service expresses no formal opinion as to whether an individual taxpayer would be allowed an education tax credit under section 25A of the Code for amounts paid under the annual billing system, the Service notes that the annual billing system may create undesirable results for individuals seeking to claim an education tax credit. Under the annual billing system, an individual may pay tuition in Calendar Year 1 for an academic period that begins after March 31 of the following calendar year. The Form 1098-T will not alert taxpayers to this possibility because section 1.6050S-1(b)(3)(ii)(D) of the regulations requires institutions to indicate on Form 1098-T that amounts billed relate to academic periods beginning January 1 through March 31 of the following year, and not academic periods beginning after March 31.

The Service suggests that University consider alerting individuals to the fact that amounts reported on the Form 1098-T may relate to an academic period beginning after March 31 of the following calendar year and that, in general, the education tax credit is allowed for amounts of qualified expenses paid during the calendar year only for an academic period beginning during the calendar year or during January 1 through March 31 of the following calendar year.

### Conclusion

Accordingly, under section 6050S of the Code and the regulations, for Calendar Year 1, University must file Forms 1098-T for students enrolled for an academic period beginning during Calendar Year 1 and may include amounts billed during Calendar Year 1 for qualified expenses that relate to Academic Year 1, as well as other amounts previously billed during Calendar Year 1.

This ruling is directed only to the person requesting it. Section 6110(k)(3) of the Code provides that it may not be used or cited as precedent.

If you have questions, please contact (202) 622-4910.

Sincerely,

Assistant Chief Counsel  
(Administrative Provisions & Judicial Practice)

By: Donna Welch  
Senior Counsel, Administrative Provisions &  
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