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Income and Expenses Associated with T.E.A.C.H. Scholarships Implications for 2019 Taxes

With tax season upon us, this is a good time to clarify information regarding payments to recipients, potential tax consequences and the issuance of 1099s.

In most situations, the issues are the same for center-based teachers/directors as well as family child care providers. However, family child care providers face some unique issues when addressing the reporting to the IRS income and expenses associated with receiving a T.E.A.C.H. scholarship. Because family child care providers may operate as a sole proprietor or an incorporated business, issues of tracking and reporting income and expenses will be different depending on the way in which the business is organized.

This article highlights some of the basic issues, but will not attempt to give tax advice. The final authority is the IRS and recipients and sponsors should be directed to either the IRS or a tax preparer for answers to tax questions.

Tuition and Books

IRS Publication 970 "Tax Benefits for Education" identifies the circumstances under which a scholarship is taxable or non-taxable. Much depends on the intent of the recipient being a candidate for a degree as well as the purpose for which the funds are given, i.e. tuition vs. books, vs. travel, etc. The deductibility of educational expenses depends on whether the course of study improves skills in a current profession or if the individual is receiving training to enter a new profession. So much depends on the point of view and intentions of the recipient that it is hard to make a definitive statement. The portion of tuition and books paid by the recipient may be deductible as educational expenses if the recipient qualifies for such a deduction. Providers should check to see if they qualify to take educational expenses as deductions on their taxes.

Release Time

Funds provided to family child care providers and center sponsors for release time are considered income, whether or not they use the funds to hire a substitute. If in fact a substitute is hired, payment to the substitute is considered a business expense and can be deducted for tax purposes. Payments of \$600 or more would be included in a 1099 prepared by the T.E.A.C.H. agency to be included in the provider's taxable income.



Travel Stipend

Travel stipends are considered income and will have to be included on the personal tax return. Any expenses such as mileage, gas or tolls can then be deducted as an expense. This amount will also need to be included in the calculation of the amount on the 1099. Please refer to IRS Publication 463 for information related to automobile expenses. Keep in mind that if no payment is issued (for example, when the travel stipend is being used to offset what recipients owe T.E.A.C.H.) the stipend amount will not be recorded on a 1099.

Bonus Award

Bonuses are considered “other income” and a 1099 will be issued to the recipient if the total amount of funding provided to them is \$600 or more. The amount will be shown on line 7 of the 1099 form. Normally, as long as the amount is recorded on the tax return as “other income” the recipient will not have to pay self-employment taxes.

Other Expenses

There are also expenses related to use of a home as a business that family child care providers can claim on their taxes, such as the cost of the home and its operating expenses based on the amount of time and space that is devoted to the child care business. Portions of items such as mortgage interest, real estate taxes, insurance, repairs, maintenance and utilities may be deductible. Again, family child care recipients should check with their tax preparer or the IRS for definitive answers. Please see IRS Publication 587 “Business Use of Your Home.”

It’s important to remember that if the total amount from any one of these categories or the aggregate amount from a combination of these categories adds up to \$600 or more, a 1099 must be issued by the T.E.A.C.H. administrative home.

Resources to Help

The National Women’s Law Center has a number of additional resources related to tax credits. You can find those at the bottom of their webpage here: <http://www.nwlc.org/tax-credits-outreach>.

Other resources may be available through a state Child Care Resource and Referral Agency or, for family child care homes, a state family child care provider association. Scholarship counselors should have a ready list of resources available to share with all recipients and sponsors should they inquire about these issues.

