



Income and Expenses Associated with TEACH Scholarships

Implications for Taxes

With the tax season upon us, this is a good time to clarify information regarding payments to recipients, potential tax consequences, and the issuance of 1099s. The 1099-NEC (Non-Employee Compensation) is used to report independent contractor payments. The 1099-MISC form, on the other hand, is used to report other income such as rent, prizes and awards, other income, payments to an attorney, etc.

Recipients receiving payments totaling \$600 or more during the calendar year will receive a 1099 form prepared by the TEACH agency.

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 of income and expenses associated with receiving a TEACH scholarship to the IRS. 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.

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.

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