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IRS releases FAQs on higher education emergency relief grants to students being excluded from income (COVID-19)

The IRS today posted a set of “frequently asked questions” (FAQs) concerning the treatment of funds used by higher education institutions in response to the coronavirus (COVID-19) pandemic under the “Coronavirus Aid, Relief, and Economic Security Act” (CARES Act) (Pub. L. No. 116-136, enacted March 27, 2020).

The [FAQs](#) (dated May 7, 2020) address emergency financial aid grants paid to students under the CARES Act for unexpected expenses related to the disruption of campus operations on account of the COVID-19 pandemic, and conclude that these grants are not includible in the students’ income because the amounts are qualified disaster relief payments under section 139 of the Internal Revenue Code.

Text of the two FAQs is provided at the end of this *TaxNewsFlash*.

Background

Provisions of the CARES Act allow higher education institutions to use certain funds:

- To support students and higher education institutions with expenses and financial needs related to the COVID-19 pandemic
- To support graduate and undergraduate students experiencing “unexpected expenses and unmet financial need” as the result of the COVID-19 pandemic

The CARES Act further directs the Secretary of Education to allocate certain funds to higher education institutions to directly support students facing urgent needs related to the COVID-19 pandemic, and to support institutions as they cope with the immediate effects of the COVID-19 pandemic, including school closures. These funds may be used: (1) to defray the institutions’ expenses, including lost revenues and payroll for employees; and (2) for “emergency financial aid grants to students for

expenses related to the disruption of campus operations due to the COVID-19 pandemic (including eligible expenses under a student's cost of attendance, such as food, housing, course materials, technology, health care, and child care)." Recipient higher education institutions must pay no less than 50% of these funds to students as emergency financial aid grants.

Lastly, there are separate provisions of the CARES Act concerning funds allocated to Howard University and Gallaudet University.

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?

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 qualified disaster relief payments under section 139 of the Internal Revenue Code. This grant is not includible in your gross income.

Q2: I received an emergency financial aid grant under the CARES Act and used some of it to pay for course materials that are now required for online learning because my college or university campus is closed. Can I claim a tuition and fees deduction for the cost of these materials, or treat the cost of these materials as a qualifying education expense for purposes of claiming the American Opportunity Credit or the Lifetime Learning Credit?

A2: No. Because the emergency financial aid grant is not includible in your gross income, you cannot claim any deduction or credit for expenses paid with the grant including the tuition and fees deduction, the American Opportunity Credit, or the Lifetime Learning Credit. See section 139(h) of the Internal Revenue Code.

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