

New Guidance from IRS on Treatment of CARES Act Payments to Students

On Dec. 14, 2020, the IRS added guidance to its FAQs on the Higher Education Emergency Relief Fund and Emergency Financial Aid Grants under the CARES Act, clarifying that higher education institutions are not required to report these emergency financial aid grants to students on Form 1098-T.

The Coronavirus Aid, Relief and Economic Security Act (CARES Act) of March 27, 2020, provided that institutions of higher education (IHEs) were permitted to use funds allocated by the U.S. Department of Education for certain purposes, including 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).”

Questions arose soon thereafter from IHEs and students whether these emergency grants would be taxable income to the students, and how they should be reported, if at all. NACUBO and ACE wrote to the Secretary of the Treasury and Commissioner of the IRS, and congressional committee chairs, respectively, on behalf of multiple higher education groups in April 2020 seeking clarification that these grants were non-taxable. Shortly thereafter, the IRS published FAQs indicating that these emergency grants were non-taxable qualified disaster relief grants under IRC Section 139.

However, the question whether IHEs were required to report these grants on Form 1098-T remained unanswered until this week. On December 14, 2020, the IRS added Q and A 3 to its [FAQs](#), specifically stating:

Q3: Do higher education institutions have any information reporting requirements under section 6050S for emergency financial aid grants awarded to students under section 3504, 18004 or 18008 of the CARES Act?

A3: No. The emergency financial aid grants are qualified disaster relief payments, as described in A1 above, and are not included in students’ gross income. As noted in A2 above, students may not claim deductions or credits for these amounts. The reporting of these grants to the IRS on Forms 1098-T could result in the issuance of underreporter notices (Letters CP2000) to students and furnishing such Forms 1098-T to students could cause confusion. Thus, the IRS will not require that these grants be reported pursuant to section 6050S of the Internal Revenue Code on Form 1098-T.

IHEs should also note that there is similarly no obligation to report these grants to the IRS on Forms 1099. The CARES Act reporting requirements to the Education Department for these and institutional support grants are still in place, however.

If you have any questions about the tax treatment of emergency financial aid grants or other CARES Act issues, please contact [Jane Sovern](#), [Philip Zaccheo](#), [Gail Norris](#) or the attorney at the firm with whom you are most regularly in contact.