Scholarship Taxability Guide

Understanding Box 1 vs Box 5 on Form 1098-T

Scholarships aren't always tax-free. Use this quick guide to see whether part of your scholarship or grant counts as taxable income and how to find the answer right on your Form 1098-T.

Box 1 vs Box 5

Form 1098-T Box	What It Reports	What It Means for You
Box 1	Payments received for qualified tuition and related expenses	The amount you or someone else paid your school for tuition, mandatory fees, and required materials.
Box 5	Scholarships and grants received	Total amount of scholarships, fellowships, and grants your school applied to your student account.

How to Read It

Scenario	Box 1	Box 5	Tax Result	Explanation
Tax-Free Scholarship	$12,000	$10,000	$0 taxable	Scholarships were fully used for qualified expenses.
Partially Taxable	$10,000	$12,000	$2,000 taxable	$2,000 used for non-qualified expenses (e.g., room & board).
Fully Taxable	$0	$5,000	$5,000 taxable	Scholarship not used for any qualified tuition or fees.

Formula:

Box 5 – Box 1 = Taxable Portion

If the result is positive, that amount is taxable.

If zero or negative, your scholarship is fully tax-free.

Pro Tip

Don't double dip! You can't use the same tuition dollar for both a tax-free scholarship and an education tax credit (AOTC or LLC).