



November 17, 2005

MEMORANDUM

Ref.: 05-35-70

TO: Presidents

FROM: Mary Alice Grobins

SUBJECT: IRS Requirements for Collecting Student Social Security Numbers

The purpose of this memo is to inform you about a recent Internal Revenue Service (IRS) finding that could affect your college. Additionally, it provides some suggestions you might find useful for your future actions. Colleges are required to collect student social security numbers for the purpose of filing annual reports to the IRS of eligible fees paid by students that might qualify for Hope Scholarship or Lifetime Learning tax credits.

Everett Community College was recently the subject of an IRS audit including a review of the college's 1098-T reporting for 2003. The IRS found the college's efforts to collect student Social Security Numbers to be inadequate. Therefore, the college was notified it will be assessed a fine of \$28,800 (\$100 for each of the 288 instances of 1098-T's reported without a SSN).

There is general concurrence with Everett's view that the IRS finding does not adequately consider the college's considerable efforts to comply with the federal requirements for soliciting student SSNs and are hopeful that a formal appeal will be successful. However, we are concerned the exposure to the system for this liability could have serious implications. A review of the reporting for 2004 by CIS revealed that of the roughly 254,000 1098-Ts filed, approximately 22,000 were without SSNs. The simple math shows this to be an exposure of \$2.2 million to the system, just for 2004!

What colleges should do:

- For prior year exposures, the best thing a college can do at this time is to pull together documentation of its efforts in 2003 and 2004 to collect SSNs. A review of Everett's documentation might be a helpful exercise to get this process started. Your business officer should have received a copy of this information at the last BAC meeting. It is also available electronically from SBCTC.
- To address the ongoing exposure, SBCTC facilitated a taskforce from the admissions/registration and business offices of the colleges to review existing practices in light of the IRS audit finding. That group has developed recommended changes to existing language on admissions forms as well as revised practices for soliciting SSNs from students

not providing them through the admissions process. Those recommendations are included as an attachment to this memo. It is not too late to take action for the current tax year!

Questions about the recommendations should be directed to Nani Jackins-Park or Chuck Greenough at 360-704-4305 or 360-704-4380 respectively.

cc: Earl Hale
Business Officers
Registrars
Controllers/Accounting Mangers
Financial Aid Officers

Background on 1098-T Reporting

Following is the current understanding of the requirements relating to the collection of Social Security Numbers (SSNs) for the purposes of federal reporting of qualifying tuition and fees for both the Hope Tax Credit and the Lifetime Learning Tax Credit.

(Note: Reporting requirements are the same for both tax credit options.)

- > IRS requires that colleges collect the name, SSN and amount of all qualifying payments and report that information on IRS form 1098-T. The information on the 1098-T provides the IRS with a basis for amounts claimed by a taxpayer as qualifying expenditures for the Hope Scholarship Tax Credit and/or Lifetime Learning Tax Credit.
- > The requirement to collect 1098-T information is subject to the following exceptions:
 - No reporting is required for nonresident alien individuals.
Note: If such an individual requests this document, then we are required to provide one.
 - No reporting is required for courses for which no academic credit is offered. Academic credit is defined as credit for course work leading to a post-secondary degree, certificate, or other recognized post-secondary educational credential.
Note: On this basis, reporting is not required for Basic Skills enrollments. Also, non-credit continuing education programs should not be reported.
 - No reporting is required for otherwise qualified fees billed to a governmental entity or employer.
 - No reporting is required for qualified tuition and related expenses if paid in their entirety with scholarships or waived in their entirety.
- > Colleges are required to notify students of the college's obligation to collect students' names and SSNs.
- > If a student refuses to provide his or her SSN, the IRS requires the college to demonstrate due diligence in attempting to collect the information and maintain documentation to that effect. The IRS suggests use of the W-9S form for this purpose but allows use of other means for gathering this information.
 - Due Diligence - The IRS Treasury Regulation 1.6050S-1(e)(3)(iii) states that a college must request the individual's Taxpayer Identification Number (TIN) (which is an SSN or ITIN-*Individual Taxpayer Identification Number*) in writing and must clearly notify the individual

that the law requires the individual to furnish a TIN. Additionally, the IRS auditor asserted that form letters not specifically addressed to the non-reporting student were not sufficient. Further, the IRS auditor found the language used by the college included references to other non-IRS related issues and therefore might confuse a student as to the intent of the letter and IRS requirements.

- IRS can levy penalties on the college of \$100 per incident (\$50 returns to IRS and \$50 for statements) for failure to show due diligence in collecting SSNs.
 - IRS can levy penalties of \$50 on the student for refusing to provide their SSN. The recommendation from the IRS auditor was for the letter to clearly state the IRS requirement to provide the SSN and the potential penalty assessed by the IRS to the student for refusal.
- > FERPA rules around collection and use of SSN deal with prohibiting their use as a student ID. FERPA rules do not apply to collection of SSNs for 1098-T reporting.
- > State law, RCW 28B.10.042 prohibits use of SSN as a student identifier except for “*employment, financial aid, research, assessment, accountability, transcripts, or as otherwise required by state or federal law*”. Therefore state laws do not restrict collection of SSNs for 1098-T reporting.

Recommendations - that all colleges implement procedures to assure:

- 1) collection of SSNs for all students paying qualified tuition and fees for reportable course work (see below for revised proposed language for inclusion on admission/registration forms where students are asked to supply SSN).
- 2) for those students paying qualified fees and who refuse to provide an SSN, retention of documentation demonstrating the college’s efforts to obtain the SSN. This is an annual requirement to be performed on or before December 31 of each year for which a 1098-T is required to be filed. A sample letter has been developed in an attempt to meet the requirements identified in the IRS audit finding (see sample letter below).
- 3) clear assignment of responsibility for maintaining required documentation
- 4) registrar and business offices immediately undertake development of these procedures collectively.

Revised Proposed Admission/Registration Form Language

To comply with federal laws, we are required to ask for your Social Security Number (SSN) or Individual Taxpayer Identification Number (ITIN). We will use your SSN/ITIN to report Hope Scholarship/Life Time tax credit, to administer state/federal financial aid, to verify enrollment, degree and academic transcript records, and to conduct institutional research. If you do not submit your SSN/ITIN, you will not be denied access to the college; however, you may be subject to civil penalties (refer to Internal Revenue

Service Treasury Regulation 1.6050S-1(e)(4) for more information). Pursuant to state law (RCW 28B.10.042) and federal law (Family Educational Rights and Privacy Act), the college will protect your SSN from unauthorized use and/or disclosure.

Sample SSN Solicitation Letter

<Date>

<Name>

<Street>

<City, State, Zip>

Dear <Name>

To comply with Internal Revenue Service Treasury Regulation 1.6050S-1(e)(4) and Section 6109 of the Internal Revenue Code, the College must request your Social Security Number or Individual Taxpayer Identification Number (ITIN) in order to furnish you and the Internal Revenue Service with an annual statement (IRS form 1098-T) of tuition and fees that may qualify for Hope Scholarship or Lifetime Learning tax credit.

If you do not submit your SSN or ITIN, you will not be denied access to the college; however, you may be subject to IRS civil penalties of \$50 for failing to furnish a correct SSN or ITIN (refer to Internal Revenue Code Sections 6109 and 6723 for more information). Pursuant to state law (RCW 28B.10.042) and federal law (Family Educational Rights and Privacy Act), the college will protect your SSN/ITIN from unauthorized use and/or disclosure.

Please review the attached IRS Form W-9S and all accompanying instructions, complete Part I, **and return the form by [Date]** to:

College
Attn: Department
Street
City, State, Zip