



Rev. Print document. -263



REVENUE RULINGS

GREATARCADHITS ADVERTISEMENT

Internal Revenue Service
Revenue Ruling

Rev. Rul. [77-263](#)

1977-2 C.B. 47

Section [61](#) -- Gross Income Defined
Section [117](#) -- [Scholarships](#)

IRS Headnote

Athletic scholarships. The value of athletic scholarships, which may not exceed expenses for tuition, fees, room, board, and necessary supplies, awarded to students by a university that expects but does not require the students to participate in a particular sport, requires no particular activity in lieu of participation, and does not cancel the scholarship if the student cannot participate is excludable from the recipient's gross income under section [117](#) of the Code.

Full Text

Rev. Rul. [77-263](#)

Advice has been requested whether, under the circumstances described below, the value of scholarships awarded by a university to students who expect to participate in the university's intercollegiate athletic program is excludable from their gross incomes under section [117](#) of the Internal Revenue Code of 1954.

A university that participates in an intercollegiate athletic program as a member of a collegiate athletic association provides scholarships to certain incoming freshmen who expect to participate in the university's athletic program. The awarding of such scholarships is controlled by rules established by the association governing the conduct of intercollegiate athletics, the manner in which scholarships are awarded, and the value of the scholarships. These rules include the following requirements: To be eligible to participate in intercollegiate athletics and to be eligible for an athletic scholarship, a student must be accepted at the university according to the [admissions](#) requirements applicable to all students at the university and must be a full-time student. The athletic scholarships are awarded by the agency of the university that is responsible for awarding scholarships to students in general. Once an athletic scholarship is awarded for a given academic year, it cannot be terminated in the event the

student cannot participate in the athletic program, either because of injury or the student's unilateral decision not to participate, and the student is not required to engage in any other activities in lieu of participation in a sport.

Under the association's rules, the amount of a scholarship may not exceed the expenses for tuition and fees, room and board (or commuting and lunches), and books and supplies necessary for the student's studies. The amount of the scholarship is required to be reduced by the amount of any other scholarship or grant awarded the student and by the amount of wages from any employment of the student during the school year. If the amount awarded the student by the university exceeds the amount of the commonly accepted educational expenses, it is not considered a scholarship by the association but is pay for participation in intercollegiate athletics and disqualifies the student from further participation in intercollegiate athletics.

The university requires that all prospective students demonstrate academic ability; however, once a student has been admitted to the university, no minimum grade average is required for the student to obtain or retain either an academic or an athletic scholarship. Generally, the university's requirements for granting financial aid are academic ability and financial need. However, a student's financial need is not considered in awarding an athletic scholarship.

The association requires an incoming freshman to have a specified minimum high school grade average. Further, to be eligible to have an athletic scholarship renewed for succeeding years, the association requires the student to achieve a specified minimum grade average at the end of each enrollment year.

Section 61 of the Code and the Income Tax Regulations thereunder provide that, except as otherwise provided by law, gross income means all income from whatever source derived including, but not limited to, compensation for services, including fees, commissions, and similar items.

Section 117(a) of the Code provides, subject to certain limitations and qualifications, that gross income of an individual does not include amounts received as a scholarship at an educational institution or as a fellowship grant.

Section 1.117-3(a) of the regulations provides that a scholarship generally means an amount paid or allowed to, or for the benefit of, a student, whether an undergraduate or a graduate, to aid such individual in pursuing the individual's studies. The term includes the value of contributed services and accommodations and the amount of tuition, matriculation, and other fees that are furnished or remitted to a student to aid the student in pursuing the student's studies.

Section 117(b)(1) of the Code provides that, in the case of an individual who is a candidate for a degree at an educational institution, the exclusion provided by section 117(a) shall not apply to that portion of any amount received that represents payments for teaching, research or other services in the nature of part-time employment required as a condition to receiving the scholarship or fellowship grant. However, if teaching, research or other services are required of all candidates (whether or not recipients of scholarship or fellowship grants) for a particular degree as a condition to receiving such degree, such teaching, research or other services shall not be regarded as part-time employment within the meaning of section 117(b)(1).

Section 1.117-4(c) of the regulations provides, in part, that amounts paid or allowed to, or on behalf of, an individual to enable the individual to

pursue studies or research are considered to be amounts received as a scholarship or fellowship grant for the purpose of section [117](#) of the Code if the primary purpose of the studies or research is to further the education and training of the recipient in the recipient's individual capacity and the amount provided by the grantor for such purpose does not represent compensation or payment for services. However, any amount paid or allowed to, or on behalf of, an individual to enable the individual to pursue studies or research is not considered to be an amount received as a scholarship or fellowship grant for the purposes of section [117](#) if such amount represents compensation for past, present, or future employment services or for services that are subject to the direction or supervision of the grantor, or if such studies or research are primarily for the benefit of the grantor. Any of these conditions will negate the existence of a scholarship or fellowship grant as defined in the regulations.

In *Bingler v. Johnson*, 394 U.S. 741 (1969), 1969-2 C.B. 17, the Supreme Court of the United States held that the definitions supplied in section [1.117-4\(c\)](#) of the regulations are proper, comporting as they do with the ordinary understanding of "scholarships" and "fellowships" as relatively disinterested, "no-strings" educational grants, with no requirement of any substantial quid pro quo from the recipients, and that the thrust of the provision dealing with compensation is that bargained-for payments, given only as the quo in return for the quid of services rendered, whether past, present, or future, should not be excludable from income as "scholarship" funds.

In *James B. Heidel*, 56 T.C. 95 (1971), the United States Tax Court considered whether the value of an athletic scholarship received by the petitioner during his four years at a university could be considered "support" for purposes of the income averaging provisions. To average income, a taxpayer must have furnished at least one half of the taxpayer's own support in each of the four base period years. Amounts received as a scholarship, as defined in section [1.117-3\(a\)](#) of the regulations, are not considered in determining support. In concluding that the petitioner did not furnish at least one half of his own support for one of the base period years, the court said that it did not believe that the value of the scholarship could be considered support furnished by the petitioner for himself within the rationale of *Bingler* and section [117](#) of the Code.

In the instant case, the university requires no particular activity of any of its scholarship recipients. Although students who receive athletic scholarships do so because of their special abilities in a particular sport and are expected to participate in the sport, the scholarship is not cancelled in the event the student cannot participate and the student is not required to engage in any other activities in lieu of participating in the sport.

Accordingly, in the instant case, the athletic scholarships are awarded by the university primarily to aid the recipients in pursuing their studies, and therefore, the value of the scholarships is excludable from the recipients' gross incomes under section [117](#) of the Code.

CONTENT PROVIDED BY CHARITABLEPLANNING.COM IN CONJUNCTION WITH [KALLINA & ASSOCIATES, LLC](#)

© 2006-2014, CPC Holdings, LLC

