

NO.: **IT-75R4**

DATE: June 18, 2003

SUBJECT: INCOME TAX ACT

Scholarships, Fellowships, Bursaries, Prizes, Research Grants and Financial Assistance

REFERENCE: Paragraphs 56(1)(n), (o), (r), (aa) and subsection 56(3) (also section 67; subsections 5(1), 6(3), 9(1), 56(2), 104(13), 105(1) and 118.5(1); paragraphs 6(1)(a), 56(1)(q), 60(q), 60(v.1), 110(1)(g) and 153(1)(s); and subparagraphs 56(1)(a)(iv), 60(n)(vi) and 115(2)(e)(ii)) of the *Income Tax Act* and the definition of “remuneration” under paragraph 100(1)(h), and sections 200 and 7700 of the *Income Tax Regulations*)

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*Manager, Technical Publications and Projects Section
Income Tax Rulings Directorate
Policy and Legislation Branch
Canada Customs and Revenue Agency
Ottawa ON K1A 0L5*

*or by email at the following address:
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Application

This bulletin, which is effective for the 2000 and subsequent taxation years, replaces and cancels Interpretation Bulletin IT-75R3, dated October 4, 1993. Unless otherwise stated, all statutory references throughout the bulletin are to the *Income Tax Act* (the Act). Italicized words refer to defined terms in the Act.

Summary

This bulletin discusses the taxation of scholarships, fellowships, bursaries, prizes, research grants and *financial assistance*. The differences between these types of receipts and benefits are examined. Depending on the nature and circumstances of the payment, the bulletin explains how each should be treated for tax purposes, including what amounts must be included in income, what amounts may be excluded and the deductibility of related expenses.

Discussion and Interpretation

Inclusions under Paragraphs 56(1)(n), (o) and (r)

General Overview

¶ 1. Paragraph 56(1)(n) generally includes in income all amounts, in excess of what may be referred to as the *scholarship exemption* (see ¶ 2), received in the year as, or on account of, a:

- scholarship;
- fellowship;
- bursary; or
- prize for achievement in a field of endeavour ordinarily carried on by the taxpayer (other than a prescribed prize – see ¶ 20).

The net amount is included in income in the year received. Amounts received in the course of business (see ¶ 19), amounts received from an office or employment (see ¶ 18), and payments received from a registered education savings plan (which are required to be included in income under paragraph 56(1)(q)) are not included under paragraph 56(1)(n).

¶ 2. For each taxation year, only one *scholarship exemption* is available to be applied against all income included under subparagraph 56(1)(n)(i). The *scholarship exemption* is calculated under subsection 56(3) and is discussed further in ¶s 43 and 44.

¶ 3. Grants received in a taxation year to enable a taxpayer to carry on research or any similar work are included in income under paragraph 56(1)(o). However, a taxpayer is only required to include in income that part of such grants that exceeds the total of any allowable expenses incurred by the taxpayer in the year for the purpose of carrying on the work. There is no *scholarship exemption* for research grants received. For more information about what is considered to be a research grant, see ¶s 21 and 22. Allowable research expenses are discussed in ¶s 31 to 36.

¶ 4. Paragraph 56(1)(r) requires that certain *financial assistance* received by an individual in the year be added in computing income. These amounts include earnings supplements provided under a project or program sponsored by a government, or government agency in Canada, to encourage individuals to obtain or keep employment.

Further, *financial assistance* received through programs established by the Canada Employment Insurance Commission (the C.E.I.C.) under Part II of the *Employment Insurance Act* and *financial assistance* received through certain programs similar to those established under Part II of the E.I. Act that are subject to an agreement with the C.E.I.C., are also included in income under paragraph 56(1)(r). A deduction under paragraph 110(1)(g) is available for tuition assistance included in income under subparagraph 56(1)(r)(ii) or (iii) and received in connection with basic adult education. When a taxpayer repays any amount that had previously been included in income under paragraph 56(1)(r), the taxpayer may claim a deduction under subparagraph 60(n)(vi), to the extent of the amounts or benefits repaid by the taxpayer but only for amounts for which a deduction has not been claimed under paragraph 110(1)(g). *Financial assistance* is discussed in ¶s 37 to 39.

¶ 5. The circumstances of each case must be examined in order to determine if the assistance received is an amount subject to tax as a scholarship, fellowship, bursary or prize as described in ¶ 1, if the amount is a research grant as outlined in ¶ 3, or if it is *financial assistance* (see ¶ 4). Factors relevant to this determination are discussed throughout the rest of this bulletin.

Scholarships and Bursaries

¶ 6. Scholarships and bursaries are amounts paid or benefits given to students to enable them to pursue their education. Scholarships and bursaries usually apply to education at a post-secondary level or beyond, such as at a university, college, technical institute or other educational institution. However, there are circumstances where scholarships or bursaries are awarded for education below the post-secondary school level. Scholarships and bursaries normally assist the student in proceeding towards a degree, diploma, or other certificate of graduation. Scholarships and bursaries may apply to any field of study, including an academic discipline (such as the arts or sciences), a professional program (such as law or medicine) or a trade or skill (such as plumbing or carpentry). Normally, a student is not expected to do specific work for the payer in exchange for a scholarship or bursary. If a scholarship or bursary program provides allowances or reimbursements to pay for specific educational costs, such as those for lodging, personal travel, tools, books or equipment, those amounts are generally included under subparagraph 56(1)(n)(i) (see ¶s 27 to 29). Subparagraph 56(1)(n)(i) can also apply to the value of benefits in kind, such as free accommodation or equipment.

¶ 7. During or immediately after a period of employment, employees and employers sometimes make agreements under which the employer agrees to pay all or part of the employee's education costs on the condition that the employee returns to work for the employer when the education is completed. In such cases, the amounts so paid are employment income to the student under subsection 5(1)

pursuant to subsection 6(3), and not scholarship or bursary income within the meaning of subparagraph 56(1)(n)(i).

¶ 8. If an employer-employee relationship has not yet been established and a student receives a scholarship or bursary in return for undertaking to enter the employment of the person granting the award upon completion of the studies or training, the payments received are considered to be scholarship income under subparagraph 56(1)(n)(i).

¶ 9. As a matter of good employee relations, an employer may pay tuition fees for, or give a grant or award to, one or more school-age or university-age children of employees. Such a payment is considered to be a scholarship or bursary. It is income of the child under subparagraph 56(1)(n)(i) if the payment is made as part of a plan to help a certain number of children who are selected on the basis of their scholastic records or other achievements or qualities. This treatment is particularly likely if the selection is made by a board or committee or by persons not connected with the employer, such as schoolteachers. In other cases, a payment to assist in the education of employees' children is normally considered to be employment income of the employee (the parent) by virtue of subsection 56(2) and paragraph 6(1)(a).

¶ 10. Training allowances given by certain granting authorities, including provincial student assistance plans, are considered to be scholarships or bursaries and are included in subparagraph 56(1)(n)(i). Certain training allowances are, alternatively, taxable to the recipient under paragraph 56(1)(r). See ¶s 37-39 for further information.

Fellowships

¶ 11. Fellowships are similar to scholarships and bursaries in that they are amounts paid or benefits given to persons to enable them to advance their education. However, the recipient is generally a graduate student and the payer is generally a university, charity, or similar body. Fellowships are generally awarded for doctoral studies and post-doctoral work. An amount received on account of a fellowship is normally included as a fellowship under subparagraph 56(1)(n)(i), but it can sometimes be included as a research grant under paragraph 56(1)(o). The treatment depends upon the primary purpose for which the fellowship was granted as determined by reference to the terms and conditions attached to the award. If the primary purpose of the award is to further the education and training of the recipient in his or her individual capacity, such as studying for a doctoral degree, the award is included under subparagraph 56(1)(n)(i), even though research is undertaken as a means to achieve that purpose.

¶ 12. On the other hand, if the primary purpose of the award is to carry out research for its own sake (for example, to further knowledge in a particular field by discovering new facts, or by reinterpreting existing knowledge), the award is considered to be a research grant and is included under paragraph 56(1)(o). Where the recipient's education and training is also furthered by such research, such a benefit

does not invalidate the primary purpose of the grant provided the benefit could be considered to be a secondary purpose of the grant or an inevitable but incidental benefit. (See ¶ 22 as well as the decision in *The Queen v. Amyot*, [1976] C.T.C. 352, 76 DTC 6217 (FCTD).)

¶ 13. In some cases an award, such as a leave fellowship, may be partly for the purpose of research and partly for the recipient's education and training. If so, it may become difficult to determine the primary purpose of the award. In such cases, the recipient may **not** include part of the fellowship or other award under paragraph 56(1)(o) and another part under subparagraph 56(1)(n)(i). In these borderline cases, the characterization of the amount may be left to the grantor to determine based on the primary purpose to the grantor. Such a determination must be reasonable in the circumstances and should be based on the general guidelines set out in ¶s 11 and 12.

Student Assistantships

¶ 14. As a condition of receiving *financial assistance*, a student (usually a graduate student or an upper-year undergraduate) may agree to do some teaching, marking of examination papers, demonstration of work, or research as a member of the staff of a university. If part of the assistance is paid in the form of a fellowship and the remainder as remuneration for the performance of the duties, those two parts are treated differently for tax purposes. The amount received as a fellowship is subject to subparagraph 56(1)(n)(i), while the amount received for services rendered as an employee is considered employment income under subsection 5(1).

¶ 15. If the university has not provided for separate payments of the fellowship and employment components of the *financial assistance*, the whole amount so paid to the student would technically be employment income under subsection 5(1), since the terms of the agreement require the student to render service in return for it. However, if this results in a rate of pay that is considerably in excess of the going rate for similar services, the student is not required to treat the whole amount as compensation for these services. In such cases, the student only needs to include in his or her income from employment the amount that is equal to what the university would have paid for similar services rendered by a person not receiving a fellowship or similar assistance. The remainder of the *financial assistance* is regarded as a fellowship and is included under subparagraph 56(1)(n)(i).

Student Loans

¶ 16. If a student receives a genuine loan to assist in financing the student's education, the loan is not considered to be an amount received as or on account of a scholarship, fellowship, or bursary for purposes of subparagraph 56(1)(n)(i). For a genuine loan to exist, provisions must generally be made for repayment within a reasonable time. In some cases, a forgivable loan may be included in income. If an amount included under subparagraph 56(1)(n)(i) or

paragraph 56(1)(o) is later repaid, paragraph 60(g) may allow the taxpayer to deduct the repayment. For more detailed information, see the current version of IT-340, *Scholarships, Fellowships, Bursaries and Research Grants – Forgivable Loans, Repayable Awards and Repayable Employment Income*.

Prizes

¶ 17. Subparagraph 56(1)(n)(i) includes the amount of a prize for achievement in a field of endeavour ordinarily carried on by the taxpayer (other than a prescribed prize – see ¶ 20). A prize can be considered to be an award to a particular person selected from a group of potential recipients and given for something that is accomplished, attained or carried out successfully. However, the type of prize contemplated in subparagraph 56(1)(n)(i) is restricted. The criteria for awarding the prize must be such that a recipient is rewarded for success in an area in which the recipient regularly applies effort. Therefore, an amount generally qualifies as a prize for purposes of subparagraph 56(1)(n)(i) if it is paid in recognition of a genuine accomplishment in a challenging area, whether it be of an academic, vocational or technical nature. A prize that is not included in subparagraph 56(1)(n)(i) is considered to be a “windfall” and is not required to be included in income unless it is also a business receipt (see ¶ 19) or income from employment (see ¶ 18). The following points indicate how subparagraph 56(1)(n)(i) applies to certain situations.

- An award of damages to an injured party. This is not considered to be a prize.
- Lottery winnings. Although this is a prize, the recipient is not being recognized for an accomplishment nor are the winnings likely to relate to a field of endeavour ordinarily carried on by the recipient. As a result, subparagraph 56(1)(n)(i) does not apply. See the current version of IT-213, *Prizes from Lottery Schemes, Pool System Betting and Giveaway Contests*.
- An award by a professional institution to the candidate obtaining highest marks in examinations set by the institution. This is a prize subject to the provisions of subparagraph 56(1)(n)(i).

¶ 18. If an employee receives, from his or her employer, a prize or other award related to sales or other work performance, the fair market value of such an incentive is regarded as remuneration for services. Accordingly, this amount must be included in income under subsection 5(1). Similarly, the fair market value of any award not regarded as remuneration that is received by an employee in respect of, in the course of, or by virtue of the employee’s office or employment is also included in *income from an office or employment* under paragraph 6(1)(a). For example, amounts received from an employer for exceeding sales targets, success in examinations, suggestion awards, and payments for exceptional service, are not eligible for the *scholarship exemption* provided under subsection 56(3). For more

information, see the current version of IT-316, *Awards for Employees’ Suggestions and Inventions*.

¶ 19. If there is no employer-employee relationship between the payer and the recipient of an amount and it can be established that the amount is a business receipt, the amount is included in income under subsection 9(1). However, if the amount received is a prize for achievement in a field of endeavour ordinarily carried on by the taxpayer and it cannot be regarded as a business receipt (and is not a prescribed prize as discussed in ¶ 20), then the amount is included under subparagraph 56(1)(n)(i). The usual subsection 56(3) exemption applies as discussed in ¶s 43 and 44.

Prescribed Prizes

¶ 20. A prize meeting all of the criteria of a “prescribed prize” is not included in computing the income of the recipient, even if the prize relates to accomplishments in the recipient’s ordinary field of endeavour. Section 7700 of the Regulations defines a prescribed prize as any prize that is recognized by the general public for meritorious achievement in the arts, the sciences or service to the public. For example, a Nobel Prize given to a scientist or the Governor General’s Literary Award given to a professional writer would qualify, as would many community service awards. Scholarships and bursaries awarded to students would not qualify. Furthermore, any amount that can reasonably be regarded as having been received as compensation for services rendered, or to be rendered, is not a prescribed prize.

Research Grants

¶ 21. Grants received in a taxation year to enable a taxpayer to carry on research or any similar work are included under paragraph 56(1)(o). However, such research grants are only included in income to the extent that they exceed the total of the allowable expenses (see ¶s 31 to 36) incurred by the taxpayer in the year for the purpose of carrying on the work. A research grant is generally a sum of money given to enable the recipient to pay expenses necessary to carry out a research project. The grant may also include an element of remuneration to the recipient. It is the nature and terms of the grant, rather than the name given to it, that determine whether it is included under subparagraph 56(1)(n)(i) or paragraph 56(1)(o).

¶ 22. For the purposes of paragraph 56(1)(o), “research” involves a critical or scientific inquiry aimed at the discovery of new facts, or the development of new interpretations or applications. It does not include research carried out for the sake of acquiring the experience or skill of conducting research, as may be the case with research carried out by undergraduate students. In order for a grant to be considered a research grant, the terms of the grant must establish that the primary purpose of the grant is to carry out research (see the comments in ¶ 12). The following factors may be helpful in this context:

- If only one of the major purposes of the grant is to enable the recipient to carry out a research project, this does not in itself establish the primary purpose. The comments in ¶ 13 should be referred to in cases where a grant has more than one major purpose.
- The term or terms relating to the research requirements for the grant must be specific. Vague and general references, such as “including research,” do not in themselves bring the grant within paragraph 56(1)(o).
- Generally, awards to undergraduates are included under subparagraph 56(1)(n)(i), even though some research for essays, projects, etc., is required as part of the course requirements.
- If the terms of the grant do not mention research, subparagraph 56(1)(n)(i) applies, even if a great deal of research is in fact done.

¶ 23. A corporation or other entity (such as a university or college) may decide to give a grant to a person outside its own organization to do specific research. Where this is done, the grant is considered to be a research grant to the recipient for purposes of paragraph 56(1)(o) whether the results of the research belong to the grantor or the recipient. If the recipient is an employee of the grantor and is retained on part salary while undertaking a specific research project, the part salary is included in the recipient’s income under subsection 5(1). Any amount received as a research grant (net of allowable expenses) is included in income under paragraph 56(1)(o). Individuals (such as university faculty members) whose duties of employment include research responsibilities are not entitled to treat a portion of their regular salaries as a research grant when they engage in the type of research work ordinarily expected of them under their terms of employment.

¶ 24. A research grant is not considered to be “received” at any time for the purposes of paragraph 56(1)(o) if all of the following circumstances apply:

- funds are made available to an individual who holds an academic appointment at a university, hospital, or similar institution, to enable the individual to carry on research or similar work;
- the funds are paid directly to the university, hospital, or similar institution;
- the funds are provided only to pay for the costs of the research project; and
- the funds were not used by the individual and were not otherwise available for the personal benefit of the individual.

In some cases, part of the research grant may be paid to a researcher or may otherwise be made available for the researcher’s personal benefit, but the remainder of the funds meet the criteria listed above. If so, only that part of the grant actually paid to, or otherwise available for the researcher’s personal benefit, will be considered to be “received” by the researcher as a research grant under paragraph 56(1)(o).

Allowances and Separate Grants

¶ 25. In this bulletin, “allowance” refers to any periodic or other type of payment that a student, researcher or other individual receives for expenses without having to account for its use. All amounts received as a scholarship, fellowship, bursary, prize for achievement, research grant or *financial assistance* must be included in computing income. These amounts must be included whether or not they are received as a fixed sum, as an allowance, or as a fixed sum plus additional allowances. The comments in ¶s 11, 12 and 22, which deal with whether or not a grant should be included under subparagraph 56(1)(n)(i) or paragraph 56(1)(o), also apply to allowances.

¶ 26. Each allowance and grant should be considered separately when determining if it is subject to paragraph 56(1)(n), (o) or (r). Therefore, it is possible for a graduate student to have an award that is included under subparagraph 56(1)(n)(i), a subsidiary allowance or separate grant (either from the same, or a different grantor) which is included under paragraph 56(1)(o) and to be receiving *financial assistance* which is included under paragraph 56(1)(r).

Reimbursements and Accountable Advances

¶ 27. The terms “reimbursement” and “accountable advance” are used in this bulletin with the following meanings.

- “Reimbursement” refers to payments to students, researchers or other individuals to repay them for amounts they spent in continuing their education or in carrying out research work.
- “Accountable advance” refers to amounts given to students, researchers or other individuals for expenses to be incurred by them in continuing their education or to carry out research work. These amounts must be accounted for by providing vouchers. Any amount not expended for its intended purpose must be returned.

¶ 28. Reimbursements or accountable advances to cover expenses incurred by students in furthering their education are subject to subparagraph 56(1)(n)(i). For example, students who receive scholarships to enable them to attend universities located at some distance from their homes may also receive reimbursements or accountable advances to cover travelling expenses between their homes and the university. This type of reimbursement or accountable advance is included under subparagraph 56(1)(n)(i).

¶ 29. A reimbursement or accountable advance to pay for the reasonable costs of a research project is only included in computing income to the extent that the expenses reimbursed represent *personal or living expenses* of the recipient (except allowable travelling expenses as outlined in ¶s 31 to 36). Expenses for which the recipient has received a reimbursement or accountable advance and which are not included in computing income are not deductible as allowable expenses under paragraph 56(1)(o).

Research Assistants

¶ 30. In some cases, a researcher may hire one or more assistants whose relationship to the researcher may be that of:

- co-researcher to the researcher;
- employee to an employer; or
- student to a professor.

If the relationship is that of **co-researcher** to the researcher, payments made out of a research grant to the co-researcher are regarded as a research grant for purposes of paragraph 56(1)(o). If the relationship is that of **employee** to an employer, payments made to the assistant are regarded as employment income taxable under subsection 5(1). In cases where the relationship of the assistant to the researcher is that of **student** to a professor, the student receiving payment for his or her share in the project may have undertaken the work not primarily for financial gain but because participation in it will assist the student in qualifying for a degree or other scholastic recognition in the field in which the research is being carried on. In this situation, the direction given by the researcher is usually of a general or consultative nature, and the student-assistant will have more freedom in carrying on his or her part of the project than an assistant would under an employee-employer relationship. If this is the case, payments made out of a research grant to the assistant are regarded as a research grant. On the other hand, duties and tasks may be required that do not have to be performed by a student participating in the research to further his or her own education. Certain types of clerical or laboratory work, for example, may require some degree of skill, but if that work is performed by the student assistant under the specific direction of a researcher or co-researcher and it is done primarily for financial gain, an employee-employer relationship is considered to exist. If so, payments received by the student assistant out of the grant are employment income included under subsection 5(1).

Research Expenses

¶ 31. Research grants only need to be included in income to the extent that the grants exceed allowable expenses incurred by the taxpayer in the year for the purpose of carrying on the work. The research expenses allowable under paragraph 56(1)(o) may not exceed the total research grants taxable in the year under that paragraph. In other words, research expenses cannot be applied to reduce other types of income such as scholarships, employment income or business income. By virtue of section 67, research expenses are also not deductible to the extent that they exceed an amount that is reasonable in the circumstances.

¶ 32. In this context, allowable research expenses do not include:

- *personal and living expenses* of the taxpayer (other than travelling expenses incurred by the taxpayer while away from home in the course of carrying on the work, including amounts spent for meals and lodging – see ¶ 33);

- expenses for which the taxpayer has been reimbursed (except to the extent that these reimbursements are included in income as part of a grant received); and
- expenses that are otherwise deductible in computing the taxpayer's income.

¶ 33. Travelling expenses (including all amounts spent for transportation and lodging while travelling) that the taxpayer incurs while away from home in the course of carrying on the work are allowable research expenses. If, while engaged in the research work, a taxpayer establishes a temporary base in a place other than his or her home, the taxpayer may be considered to be temporarily residing in that place (sojourning) rather than travelling. This is a question of fact in each case that depends on factors such as the type of accommodation, the length of stay, the existence of a permanent home elsewhere and the location of the taxpayer's family. If a taxpayer is temporarily residing in a place, amounts paid for meals and lodging in that place are considered to be *personal and living expenses* rather than travelling expenses. As such, they are not allowable research expenses. A taxpayer in receipt of a research grant is entitled to claim his or her own expenses for:

- travel between his or her home and the place where he or she temporarily resides while engaged in the research work;
- travel from one temporary location to another; and
- travel on field trips connected with the work.

The taxpayer may not claim the travelling expenses of his or her spouse, common-law partner or children or other third parties (see *Subbarao v. MNR*, [1986] 2 C.T.C. 2089, 86 DTC 1554 (TCC)).

¶ 34. Paragraph 56(1)(o) provides that, in order for research expenses to be deductible from the grant, the research expenses must be incurred in the same year in which the research grant is received. In some cases, research expenses may be incurred in the year immediately before or immediately after the year in which the grant is received. While those expenses cannot be deducted in the year in which they are incurred, they are considered to be deductible in the year in which the grant is received. However, for any expenses incurred in the year before the grant is received, those expenses incurred before the taxpayer is notified that the grant will be paid are not deductible from that grant. Research expenses incurred more than one year before, or more than one year after, the year in which the grant is received are not deductible from that grant.

¶ 35. The term “expenses” as used in paragraph 56(1)(o) is interpreted to include not only current expenses but also expenditures of a capital nature.

¶ 36. If research expenses are paid by the university, hospital or similar institution on behalf of a researcher in the circumstances outlined in ¶ 24, those expenses are not regarded as having been incurred by the researcher.

Financial Assistance

¶ 37. Paragraph 56(1)(r) requires that certain benefits and training-related amounts received by an individual in the year be added in computing income. These include amounts received as earnings supplements under government sponsored projects or programs. They also include *financial assistance* under programs established by the Canada Employment Insurance Commission (the C.E.I.C.) under Part II of the E.I. Act, or under similar programs established by other governments or government agencies in Canada, or other organizations, pursuant to agreements with the C.E.I.C. because of section 63 of the E.I. Act. Paragraph 56(1)(r) can apply to training benefit amounts (including allowances) for tuition, books, equipment, travel assistance, lodging or dependent care. Some examples of programs which are included under paragraph 56(1)(r) are the Human Resources Development Canada Skills Loans and Grants Program, the P.E.I. Skills Development Program and the New Brunswick Skills, Loans and Grants Program. Recipients of benefits and amounts discussed above will be taxed regardless of whether the benefits or payments are provided by the Canadian federal government, another level of Canadian government or an organization under a devolution agreement.

¶ 38. A deduction under paragraph 110(1)(g) is available for tuition assistance received under subparagraph 56(1)(r)(ii) or (iii) in connection with basic adult education. Basic education is primary or secondary level education or other similar forms of training. Generally, the deduction will be available in respect of tuition assistance received under a program established under the authority of the Department of Human Resources Development Act or a similar provincial program under a labour-market agreement. Some examples of training programs which are included under paragraph 110(1)(g) are the Employability Assistance for People with Disabilities initiative or the Opportunities Fund for Persons with Disabilities. The deduction is restricted to instances where the amount of the assistance is included in the student's income, the student is not permitted to claim a tuition fee credit under subsection 118.5(1) for the tuition fees paid under the program and the amount is not otherwise deductible in computing the taxpayer's income for the year. See the current version of IT-516, *Tuition tax credit*, for more information. The deduction applies only to tuition assistance and not to other types of assistance a student may receive in connection with the student's training.

¶ 39. To the extent of any amounts or benefits repaid by the taxpayer which were previously included in income under paragraph 56(1)(r) and for which a deduction was not claimed under paragraph 110(1)(g), a deduction under subparagraph 60(n)(vi) is allowed in the year of repayment. However, the subparagraph 60(n)(vi) deduction does not apply to repayments of employment insurance benefits under Part VII of the E.I. Act (i.e. because the employment insurance claimant's income for the year exceeds a stated limit). Such benefit repayments, which are payable on or before April 30 of the year following the year during which

the benefits were received, are deductible under paragraph 60(v.1) in computing a taxpayer's income for the taxation year to the extent that the amount was not deductible in computing the taxpayer's income for any preceding taxation year. Paragraph 60(v.1) does not require that the EI benefits be repaid before the taxpayer can deduct the amount of the repayment.

Amounts Received From a Trust

¶ 40. When a trust (including a trust which is a registered charity) pays a scholarship, fellowship, bursary, prize or research grant, that amount must be included in calculating the income of the recipient under subparagraph 56(1)(n)(i) or paragraph 56(1)(o) rather than as income from a trust under subsection 104(13) or 105(1). The recipient may therefore claim the *scholarship exemption* under subsection 56(3) or the expenses allowed under paragraph 56(1)(o), as the case may be.

Individuals From Other Countries Who Become Resident of Canada

¶ 41. Individuals from other countries who become residents or deemed residents of Canada for the purposes of their education or training are subject to tax in Canada on their world income from that time. This income would include both Canadian and foreign source awards they receive. However, awards received from foreign sources by such individuals resident in Canada may be exempt from income tax in Canada by virtue of an income tax agreement between Canada and the country in which the individual previously resided. For example, Article XX of the Convention between Canada and the United States of America With Respect to Taxes on Income and on Capital provides an exemption from tax in Canada for amounts that American students receive from within the United States for their maintenance or studies in Canada.

Non-Residents of Canada

¶ 42. Subsection 115(2) provides special rules pertaining to certain non-resident individuals. The main categories affected are:

- students;
- teachers;
- persons carrying on research; and
- individuals who previously were Canadian residents;

who are in receipt of remuneration from an office or employment or Canadian source scholarships, fellowships, bursaries, prizes, and research grants. In accordance with subparagraph 115(2)(e)(ii), a non-resident individual subject to the rules of subsection 115(2) is taxable on all amounts received from a source in Canada that would be required by subparagraph 56(1)(n)(i) and paragraph 56(1)(o) to be included in computing income for the year if the individual were resident in Canada throughout the year.

Deductions under Subsection 56(3)

Scholarship, Fellowship and Bursary Exemption

¶ 43. The *scholarship exemption* referred to in ¶s 1 and 2 exempts the first \$500 and in certain conditions (where the scholarships, fellowships and bursaries are received in connection with a taxpayer's enrolment in a program for which he or she may claim the education tax credit) up to \$3,000 of amounts that are included under paragraph 56(1)(n). Under subsection 56(3) the *scholarship exemption* represents the greater of:

- \$500; or
- \$3,000 when the amounts included under subparagraph 56(1)(n)(i) are in respect of a scholarship, fellowship or bursary received in connection with the taxpayer's enrolment in an educational program for which he or she may claim an education tax credit for the year. See the current version of IT-515, *Education Tax Credit* for further information.

The "scholarship, fellowship and bursary exemption" cannot exceed the related amount included under subparagraph 56(1)(n)(i).

Art Production Grant Exemption

¶ 44. Special rules apply to what may be described as "art production grants." Specifically, a taxpayer who receives any amount that is included under subparagraph 56(1)(n)(i) that is to be used by the taxpayer in the production of a literary, dramatic, musical or artistic work is entitled to a specific "art production grant exemption". In such cases, when calculating the exemption under subsection 56(3), the taxpayer may deduct whichever of the following amounts is greater:

- (a) \$500; or
- (b) up to \$3,000 of the amounts included under subparagraph 56(1)(n)(i) in respect of a scholarship, fellowship or bursary received in connection with the taxpayer's enrolment in an educational program for which he or she may claim an education tax credit for the year; or
- (c) the total amount of reasonable expenses incurred in the year to fulfil the conditions of receiving all art production grants, but not exceeding the total amount of such grants included for the year under subparagraph 56(1)(n)(i). (As discussed in ¶ 34 in relation to research expenses, expenses incurred in the immediately preceding or the immediately following year may also qualify.)

The "art production grant exemption" cannot exceed the related amount included under subparagraph 56(1)(n)(i).

The amount of reasonable expenses in (c) above cannot include:

- *personal and living expenses* of the taxpayer (other than expenses of travel, meals and lodging incurred in the course of fulfilling the conditions of the art production grants and while absent from the taxpayer's usual place of

residence for the period to which the art production grants relate),

- expenses for which the taxpayer is entitled to be reimbursed, and
- expenses that are otherwise deductible in computing the taxpayer's income.

The taxpayer may not claim the travelling expenses of his or her spouse, common-law partner, children or other third parties.

Value of Tuition Benefits

¶ 45. A tuition benefit is any amount or saving that a taxpayer receives, either directly or indirectly, for a course, educational or vocational program. Generally, where a tuition benefit must be included in income under the Act, the value would be the fair market value of the course or program as is determined by reference to the rates that would be applicable for the same individual for the same period, for enrolment in the identical course or program. The value of the tuition benefit is reduced by any amount paid by the taxpayer.

Benefits from Registered National Arts Service Organizations

¶ 46. Although paragraph 56(1)(aa) requires a taxpayer to include in income the value of benefits for workshops, seminars, training programs and similar development programs received or enjoyed in the year by virtue of the taxpayer's membership in a *Registered National Arts Service Organization* (R.N.A.S.O.), when R.N.A.S.O.'s pay scholarships, fellowships, bursaries or prizes which relate to the arts community or sector represented by the R.N.A.S.O., these are included under subparagraph 56(1)(n)(i) when calculating the recipient's income.

Information Returns

¶ 47. Under subsection 200(2) of the Regulations, every payer of a research grant, scholarship, fellowship, bursary or prize (other than a prescribed prize) must report the amount on a T4A *Statement of Pension, Retirement, Annuity and Other Income* and every payer of an amount that is required by paragraph 56(1)(r) to be included in computing a taxpayer's income must report the amount on either a T4A or a T4E *Statement of Employment Insurance and Other Benefits*.

Withholding of Tax

¶ 48. Tax does not have to be withheld at source from amounts that are included in calculating the recipient's income under either of paragraphs 56(1)(n) or (o). However, pursuant to paragraph 153(1)(s) and the definition of remuneration under paragraph 100(1)(h) of the Regulations, tax does have to be withheld at source in respect of amounts included in calculating the recipient's income under paragraph 56(1)(r) other than amounts that relate to child care expenses and tuition costs.

Explanation of Changes

Introduction

The purpose of the *Explanation of Changes* is to give the reasons for the revisions to an interpretation bulletin. It outlines revisions that we have made as a result of changes to the law, as well as changes reflecting new or revised interpretations of the CCRA.

Overview

This bulletin updates the former IT-75R3, which explained how scholarships, fellowships, bursaries, prizes and research grants were taxed, how certain related expenses were deducted, and the differences between the types of receipts and benefits. We revised the bulletin to incorporate paragraph 56(1)(n) changes and new subsection 56(3), which allows for the *scholarship exemption*. These changes were both enacted by S.C. 2001, c.17. We have made general revisions to improve the readability of the bulletin and to reflect recent CCRA opinions on these subjects.

The scope of the new bulletin was expanded to include a discussion of *financial assistance* that is taxable under paragraph 56(1)(r) and deductions under paragraphs 60(v.1), 110(1)(g) and subparagraph 60(n)(vi).

Legislative and Other Changes

New ¶s 1-5 provide an overview and introduction to the bulletin. New ¶s 1 and 2 are similar to the previous ¶ 1 but are expanded to include a discussion of new subsection 56(3), which was added in S.C. 2001, c.17.

New ¶ 4 covers *financial assistance* under paragraph 56(1)(r) and consequential changes were made in other paragraphs of the bulletin.

New ¶ 10 (formerly ¶ 9) is changed to remove the reference to subparagraph 56(1)(a)(iv) and replace it with a reference to *financial assistance* that is taxable under paragraph 56(1)(r). Amounts which are not taxable under subparagraph 56(1)(a)(iv) are taxable under paragraph 56(1)(r). The paragraph was also contracted to delete the reference to paragraph 56(1)(m), which taxed training allowances paid under the *National Training Act*. Paragraph 56(1)(m) was repealed effective January 1, 1998 by S.C.1996, c.23.

New ¶s 37-39 cover *financial assistance* that is taxable under paragraph 56(1)(r) and the paragraph 60(v.1), 110(1)(g) and subparagraph 60(n)(vi) deductions. These were not dealt with in the previous version of this bulletin.

New ¶s 43 and 44 cover new subsection 56(3).

New ¶ 45 discusses the value of tuition benefits to be included in calculating income under the Act.

New ¶ 46, concerning *registered national arts service organizations*, discusses the taxability of amounts under paragraph 56(1)(aa).

Throughout the bulletin, we have made other changes for clarification or readability purposes.