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AUTHOR Shea-Farrow, Nancy
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Please note that the following document, although believed to be correct at the time of issue, may not represent the current position of the CRA. Prenez note que ce document, bien qu'exact au moment émis, peut ne pas représenter la position actuelle de l'ARC.

PRINCIPAL ISSUES: What is the proper income tax treatment of a post-doctoral fellowship (PDF) and a travel/conference allowance received from a trust that is administered by a registered charitable organization.

POSITION: It depends on the facts. A PDF is generally taxable as employment income, research grant or fellowship income.

REASONS: General comments given.
XXXXXXXXXX

2014-053785
N. Shea-Farrow

November 6, 2014

Dear XXXXXXXXXXXX:

Re: Technical Interpretation Request – Post-doctoral Fellowships

We are writing in response to your letter of June 19, 2014, requesting our comments on the taxation of a post-doctoral fellowship and a travel/conference allowance paid to an individual on behalf of XXXXXXXXXXXX by the XXXXXXXXXXXX (the "Association").

You have told us that a post-doctoral fellowship of \$XXXXXXXXXX is given to an individual who is pursuing research in XXXXXXXXXXXX with a focus on XXXXXXXXXXXX. The post-doctoral fellowship includes up to an additional \$XXXXXXXXXX in support for conference and XXXXXXXXXXXX travel expenses.

According to the documentation that you have provided, selection is based on academic excellence or exceptional promise and demonstrated commitment to a career in XXXXXXXXXXXX, with the requirement that individuals have a clearly defined research project. University support for the post-doctoral project must be demonstrated. The individual may not be employed other than to teach XXXXXXXXXXXX at the university where the individual is conducting his or her research. The research must comply with Association's XXXXXXXXXXXX and have received the appropriate research license and ethical approvals necessary for the research. Equal payments will be made quarterly XXXXXXXXXXXX by transferring funds from the Association's bank account to the individual's bank account.

It is also our understanding that the travel/conference allowance may only be used for direct costs involved in conducting research and in participating in related conferences. A claim will only be paid after a financial report detailing the expenditures and original receipts and boarding passes have been submitted to the Association.

Our Comments

This technical interpretation provides general comments about the provisions of the Income Tax Act (“Act”) and related legislation (where referenced). It does not confirm the income tax treatment of a particular situation involving a specific taxpayer but is intended to assist you in making that determination. The income tax treatment of particular transactions proposed by a specific taxpayer will only be confirmed by this Directorate in the context of an advance income tax ruling request submitted in the manner set out in Information Circular IC 70-6R6, Advance Income Tax Rulings and Technical Interpretations.

An amount received by a post-doctoral fellow is generally characterized as employment income, a research grant or fellowship income. The determination of the character of the income will depend upon the primary purpose for which the amount was granted with reference to the terms and conditions attached to the amount and the nature of the relationship between the recipient and the grantor.

Employment Income

Where the particular facts and circumstances indicate that an employment relationship exists between the recipient and the grantor, an amount paid to an individual will be taxed as employment income under section 5 of the Act. Normally, when an employer-employee relationship exists, the employer expects work to be done, dictates how and when it should be done and remuneration is provided for such services. Paragraph 3.29 of Income Tax Folio S1-F2-C3, Scholarships, Research Grants and Other Education Assistance (Folio S1-F2-C3) lists some of the factors that might indicate the existence of an employment relationship.

Employment income must be reported by the payer on a T4, Statement of Remuneration Paid. The amount to be reported on the T4 is the amount that is received in a tax year by the individual.

Based on the information you have provided, it does not appear that the post-doctoral fellowship is employment income; therefore, it is most likely a research grant or fellowship income.

Research Grant

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. Research grants are included in income under paragraph 56(1)(o) of the Act to the extent that the grant exceeds allowable expenses incurred by the taxpayer in the year for the purpose of carrying on the work.

It is the nature and terms of the grant, rather than the name given to it, that determine whether it is taxed as a research grant or as fellowship income. If the primary purpose of the amount 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 amount is considered to be a research grant. It may be that the recipient’s education and training is also furthered by such research, but such a factor does not alter the primary purpose of the grant (i.e., its character does not change), provided the educational or training benefit could be considered to be a secondary purpose of the grant or an inevitable but incidental benefit. Folio S1-F2-C3 provides additional information on research grants and allowable research expenses.

Amounts that are received in a tax year by an individual in respect of a research grant are reported in box 104 of a T4A, Statement of Pension, Retirement, Annuity and Other Income (T4A) by the payer of the grant.

Fellowship Income

Whereas the primary purpose of a research grant is research, if the primary purpose of an award is to further the personal education and training of the recipient, it may be fellowship income included under subparagraph 56(1)(n)(i) of the Act. As such, it is similar to a scholarship or bursary. However, this is more likely to apply when the individual, for example, is studying for a doctoral degree and is therefore still a student rather than an individual engaged in post-doctoral work.

Amounts received in a tax year by an individual in respect of fellowship income under subparagraph 56(1)(n)(i) of the Act are reported in box 105 of a T4A by the payer.

Scholarship Exemption

Paragraph 56(3)(a) of the Act applies to fully exempt an amount that would otherwise be included in an individual's income under subparagraph 56(1)(n)(i) of the Act when the amount is received in connection with the individual's enrolment as a student in an educational program that is eligible for the education tax credit. A post-doctoral fellow engaged in research activity is not eligible for the education tax credit. Therefore, the individual is not eligible for the full scholarship exemption and is limited to a maximum scholarship exemption of \$500.

Travel/Conference Allowance

You have described a travel conference/allowance that may only be used for direct costs involved in conducting research and in participating in related conferences and are only paid after proper forms and original receipts are submitted. This may be a reimbursement for income tax purposes. A reimbursement refers to payments to students, researchers or other individuals to repay them for amounts they spend in continuing their education or in carrying out research work.

A reimbursement to pay for reasonable costs of a research project is only included in income to the extent that the expenses reimbursed represent personal or living expenses of the recipient. Expenses for which the recipient has received a reimbursement and which are not included in computing income are not deductible as allowable research expenses under paragraph 56(1)(o) of the Act.

If the reimbursement is only for bona fide research expenses, no amount needs to be reported on a T4A. If this determination cannot be made, the full amount should be reported on a T4A as a research grant. As noted, only the amount of the research grant that exceeds allowable expenses is included in income by the recipient.

We trust our comments will be of assistance.

Yours truly,

Pamela Burnley, CPA, CA
Tax Credits and Ministerial Issues
Business and Employment Division
Income Tax Rulings Directorate
Legislative Policy and Regulatory Affairs Branch