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Income Tax Folio S1-F2-C3, Scholarships, Research Grants and Other Education Assistance

Series 1: Individuals

Folio 2: Students

Chapter 3: Scholarships, Research Grants and Other Education Assistance

Summary

This Chapter discusses the taxation of scholarships, fellowships, bursaries, prizes, research grants, certain government financial assistance for education and training, forgivable loans and repayable awards. Paragraph 56(1)(n) generally includes in income all amounts, in excess of what may be referred to as the scholarship exemption, 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). Grants received in a tax year to enable a taxpayer to carry on research or similar work, net of allowable expenses incurred for the purpose of carrying on the work, are included in a taxpayer's income under paragraph 56(1)(o). Certain government financial assistance received in the year for education and training is included in computing a taxpayer's income under paragraph 56(1)(r). In some instances, a grant received to enable a taxpayer to pursue an education or research project may be considered a forgivable loan or a repayable award.

This Chapter examines the differences between the types of payments and benefits described above and explains how such amounts should be treated for income tax purposes. It provides the reader with an extensive review of the applicable legislation and is intended for readers who have a general understanding of the Act. Taxpayers seeking a less technical overview of the legislation pertaining to students and the various tax credits available may prefer to first review [Pamphlet P105 – Students and Income Tax](#) or the [Students information page](#) on the Canada Revenue Agency (CRA) (Canada Revenue Agency) website.

The CRA issues income tax folios to provide a summary of technical interpretations and positions regarding certain provisions contained in income tax law. Due to their technical nature, folios are used primarily by tax specialists and other individuals who have an interest in tax matters. While each paragraph in a chapter of a folio may relate to provisions of the law in force at the time it was written (see the [Application](#) section), the information provided is not a substitute for the law. The reader should, therefore, consider the Chapter's information in light of the relevant provisions of the law in force for the particular tax year being considered.

The CRA may have published additional guidance and detailed filing instructions on matters discussed in this Chapter. See the [CRA Forms and publications](#) web page for this information and other topics that may be of interest.

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Discussion and Interpretation

General overview

3.1 Paragraph 56(1)(n) generally includes in income all amounts, in excess of what may be referred to as the scholarship exemption that are 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).

3.2 The scholarship exemption is calculated under subsection 56(3) and exempts the first \$500, or where certain conditions are satisfied, up to the full amount described in paragraph 56(1)(n)(i). The net amount is included in income in the year received.

3.3 Amounts received in the course of business, amounts received in respect of, in the course of, or by virtue of, an office or employment 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).

3.4 Grants received in a tax 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 a research grant 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 ¶3.58. Allowable research expenses are discussed at ¶3.73. A grant received from an arm's length person to enable a taxpayer to pursue an education or research project may also be considered a forgivable loan or a repayable award. These concepts are discussed at ¶3.39 to 3.52.

3.5 Paragraph 56(1)(r) requires that certain financial assistance received in the year be included in computing a taxpayer's income. These amounts include certain earnings supplements and financial assistance provided through programs established or sponsored by a government or government agency in Canada, the Canada Employment Insurance Commission (CEIC) or by organizations under an agreement with the CEIC. Financial assistance is discussed at ¶3.79.

3.6 The tax treatment of a particular amount depends not upon the label affixed to it, but upon its true nature. In order to determine the taxability of an amount, it must first be ascertained whether, for income tax purposes, it is properly characterized as employment or business income, a scholarship, fellowship, bursary, prize, research grant, financial assistance or something else. This requires a consideration of all relevant facts and information. Factors relevant to this determination are discussed throughout the rest of this Chapter.

3.6.1 Beginning in the 2017 tax year, the education and textbook tax credits have been eliminated and will no longer be available for a student to claim. As a result, other income tax provisions relying on eligibility for the education tax credit, such as the scholarship exemption for a full-time student, will instead rely on eligibility as a qualifying student. The credits are still available for tax years up to, and including, the 2016 tax year. More information regarding the elimination of these credits can be found in Income Tax Folio S1-F2-C1, Qualifying Student and the Education and Textbook Tax Credits.

Scholarships and Bursaries

What is a scholarship or bursary?

3.7 Scholarships and bursaries are amounts paid or benefits given to students to enable them to pursue their education. The term **bursary** is not defined in the Act; however, its meaning is broad enough to encompass almost any form of financial assistance paid to enable a student to pursue his or her education. Bursaries can include amounts paid to defray living expenses, as well as amounts that are directly related to the cost of the education. The extent to which a student has discretion over the use of funds received will not affect its categorization as a **bursary** (see Simser v The Queen, 2004 FCA 414, 2005 DTC 5001).

3.8 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), a trade (such as plumbing or carpentry) or skill (such as certified first aid and truck driver training courses). Normally, a student is not expected to do specific work for the payer in exchange for a scholarship or bursary.

Allowances or reimbursements

3.9 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, equipment, technical aids, tutoring, note-taking, interpreting, specialized transportation, attendant care or dependent care, those amounts would generally fall within the scope of subparagraph 56(1)(n)(i) (see ¶3.68). Subparagraph 56(1)(n)(i) can also apply to the value of benefits in kind, such as free accommodation or equipment.

Scholarships or bursaries provided in employment situations

3.10 As a matter of good employee relations, an employer may pay tuition fees for, or give a grant or award to, its employees or its employees' family members (such as school-age or university-age children). The tax implications arising upon the award for the employee and/or the family member depends on the particular facts and circumstances in each case. A discussion of the most common types of arrangements is below.

Scholarship or bursary awarded to a current or former employee

3.11 During or immediately after a period of employment, employees and employers sometimes make agreements under which an employer agrees to pay all or a portion of an 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 education-related expenses paid by the employer will be considered to have been received **in respect of, in the course of or by virtue of an office or employment** and will not be included in computing the student's income under subparagraph 56(1)(n)(i).

3.12 The education-related expenses paid by the employer will be taxable to the student as employment income under section 6, subject to the exception where the course or training is determined to be primarily for the benefit of the employer (see ¶3.23 for further information). This will be the case notwithstanding any commitment of the student to repay all or a portion of the expenses paid by the employer in the event that they do not satisfy the terms and conditions of an employment agreement (for example, the student does not work for the employer for the requisite period after graduation).

3.13 Where a student is required to repay an employer for education expenses the employer previously incurred on their behalf, the student will be entitled to deduct the repayment under paragraph 8(1)(n) where the repayment is made by or on behalf of the student in the year pursuant to an arrangement requiring the reimbursement of any amounts received for a period throughout which the student did not perform the duties of the office or employment. However, the deduction under paragraph 8(1)(n) will be limited to the extent that:

- the amounts received were included in computing the student's employment income; and
- the total reimbursements do not exceed the total of the amounts received by the student for the period throughout

which the student did not perform the employment duties.

Scholarship or bursary awarded prior to employment relationship

3.14 If an employer-employee relationship has not yet been established and a student receives a scholarship or bursary in return for undertaking to commence employment with the person granting the award after completion of the studies or course of training, the payments received would normally be considered to be scholarship or bursary income under paragraph 56(1)(n).

3.15 The determination of whether an employer-employee relationship exists at the time an award is granted is a question of fact. Payments received by the student after an employer-employee relationship has been established, should generally be treated in accordance with the comments in ¶3.11.

3.16 Where the student is committed to return all or a portion of the scholarship or bursary in the future under certain circumstances (e.g., as a result of a breach of an employment agreement), the amount received will be considered a repayable award. This is discussed in more detail at ¶3.49.

Scholarship or bursary awarded to family members of employees

Employer and employee dealing at arm's length

3.17 Where an arm's length employer provides a **post-secondary** scholarship, bursary or free tuition to the family member of an employee under a scholarship program, the amount will be included in computing the particular student's income under subparagraph 56(1)(n)(i) provided the employee's salary was not decreased to fund or partially fund the amount. If the student is eligible to claim the education tax credit under subsection 118.6(2) (for years prior to 2017) or is a qualifying student (for years after 2016) in respect of the program, the entire amount may be exempt from tax pursuant to the scholarship exemption provided in subsection 56(3) (this is discussed further in ¶3.90). The employee will not be considered to have received a taxable employment benefit under paragraph 6(1)(a) with respect to the award, regardless of the criteria used to award the particular amount. This income tax treatment has been adopted as a result of the Federal Court of Appeal decisions in *R v DiMaria* and *R v Bartley*, 2008 FCA 390, 2009 DTC 5019. For information on what constitutes **arm's length**, see *Income Tax Folio S1-F5-C1, Related persons and dealing at arm's length*.

3.18 Under subparagraph 6(1)(a)(vi), any benefit received or enjoyed by the family member of a taxpayer under a program offered by the taxpayer's employer that is designed to assist the family member in furthering his or her education, will not be included in the taxpayer's income as an employment benefit, where:

- the employer and the taxpayer deal with each other at arm's length; and
- it is reasonable to conclude that the benefit is not a substitute for salary, wages or other remuneration of the taxpayer.

Subparagraph 6(1)(a)(vi) applies to benefits received or enjoyed by the family member with respect to the family member's attendance at an elementary, secondary or post-secondary school (private or otherwise), including tuition discounts provided by educational institutions to the family members of its employees. The amount of the benefit received or enjoyed by the family member under these programs will be included in computing the family member's income under subparagraph 56(1)(n)(i). Subsection 56(3) may permit an exemption from the family member's income for some or all of the benefit amount. The exemption is discussed at ¶3.90.

Employer and employee not dealing at arm's length

3.19 Where an employer provides an elementary, secondary or post-secondary school scholarship or bursary, or free tuition, to the family member of an employee under a scholarship program and the employer and employee are not dealing at arm's length, the income tax treatment will generally be as follows:

- if the employee is not a shareholder of the employer, or the benefit is not considered to be provided to the family member in the employee's capacity as a shareholder of the employer, the value of the benefit should be included in the employee's income pursuant to paragraph 6(1)(a). The employer will not be precluded from deducting the scholarship or bursary in computing its taxable income by virtue of paragraph 18(1)(a). Subject to satisfying the necessary requirements, the family member may also be eligible to claim the education tax credit under subsection 118.6(2) (for years prior to 2017, as per ¶3.6.1) in respect of the program.
- if the employee is a shareholder of the employer (i.e., the **Corporation**) and it is determined that the benefit provided to the family member is by virtue of the employee's interest in the Corporation as a shareholder (or in contemplation of the employee becoming a shareholder), the value of the benefit must be included in the employee-shareholder's income under subsection 15(1). In addition, the amount of any scholarship or bursary provided will not be deductible by the Corporation for income tax purposes pursuant to paragraph 18(1)(a). Subject to satisfying the necessary requirements, the family member may also be eligible to claim the education tax credit under subsection 118.6(2) (for years prior to 2017, as per ¶3.6.1) in respect of the program.

3.20 The determination of whether an employer and employee are dealing at arm's length, or whether a benefit is received by an employee-shareholder in his or her capacity as an employee or as a shareholder, involves findings of fact. There is a general presumption that an individual receives a benefit by virtue of his or her shareholdings in those situations where the shareholder, or shareholders, can significantly influence business policy, except where the individual is able to establish otherwise. Exceptions to this presumption would be a situation where the benefit is available to all employees of the Corporation under the same or similar circumstances, or a situation where the benefit is comparable in nature and quantum to benefits generally offered to employees who perform similar services and have similar responsibilities for other employers of a similar size.

Training allowances

3.21 Some training allowances given by certain granting authorities, including provincial student assistance plans, are considered to be scholarships or bursaries and are used in computing a taxpayer's income under subparagraph 56(1)(n) (i). Normally, a student is not expected to do specific work for the payer in exchange for a bursary. Where the training allowance is received under a government program or agency in connection with an employment-related activity and is included in income under paragraph 56(1)(r) it is not considered to be a scholarship or bursary. For more information about amounts taxed under paragraph 56(1)(r), see ¶3.79.

3.22 In Simser v The Queen, 2004 FCA 414, 2005 DTC 5001, the Federal Court of Appeal held that funds received by a taxpayer pursuant to the Special Opportunities Grant for Disabled Students with Permanent Disabilities (a program funded jointly by the Ministry of Education and Training for Ontario and the Department of Employment and Social Development) constituted a **bursary** within the meaning of paragraph 56(1)(n). See also Waters v The Queen, 2006 TCC 553, 2006 DTC 3662, concerning amounts received from the Ontario Ministry of Training, Colleges and Universities. However, as noted above, certain training allowances are taxable to the recipient under paragraph 56(1)(r).

Employer-paid education and training

3.23 An employer may pay or reimburse an employee for expenses incurred for the employee to participate in a training course or educational program. If the course or program is determined to be primarily for the benefit of the employer, the employee will not be considered to have received a taxable benefit (whether or not it leads to a degree, diploma or certificate). Where the course or program is determined to be primarily for the benefit of the employee, a taxable benefit will arise that should be included in the employee's income pursuant to paragraph 6(1)(a). A determination of who is the primary beneficiary of a particular course or program is a question of fact that must be made on a case-by-case basis. In either case, the student will generally be disqualified from claiming the education tax credit under subsection 118.6(2) (for years prior to 2017) and is generally not considered a qualifying student (for years after 2016) unless the amount paid by the employer is a scholarship, bursary or prize.

Further information

3.24 For further information on the income tax treatment of employer-paid educational costs, as well as guidelines that will assist in the determination of whether a taxable benefit arises, see [Guide T4130 – Employers' Guide, Taxable Benefits and Allowances](#).

Fellowships

3.25 The terms **fellowship** and **fellow** are not defined in the Act; however, a fellowship generally refers to an amount paid or benefit given for the purpose of advancing a person's education. As such, it is similar to a scholarship or bursary, with the distinction that a fellowship is generally awarded to a graduate student by a university, charity, or similar body for doctoral studies or post-doctoral work.

3.26 An amount received on account of a fellowship is generally characterized as one of the following for income tax purposes:

- employment income under subsection 5(1);
- fellowship income under subparagraph 56(1)(n)(i);
- a research grant under paragraph 56(1)(o); or
- a combination of the above.

3.27 The nature and characterization of the amount received must be determined on a case-by-case basis, taking into account all of the relevant facts of the recipient's situation. Such a determination will depend upon the primary purpose for which the award was granted as determined by reference to the terms and conditions attached to the award and the nature of the relationship between the recipient and the grantor.

Amounts determined to be employment income

3.28 An amount paid or benefit given to a person to facilitate the advancement of the recipient's education may be considered employment income pursuant to subsection 5(1) where the particular facts and circumstances indicate that an employment relationship exists between the recipient and the grantor. In such cases, the recipient may undertake training, studies and research of a type that is ordinarily expected of them under the terms of their employment. A common but not isolated example of such an arrangement is a medical post-doctoral fellowship, which is discussed further at ¶3.36.

3.29 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. While not an exhaustive list, some of the factors that might indicate the existence of an employment relationship would be:

- intention of the worker and the payer when they entered into the arrangement, such as in a written agreement that indicates that the worker is an employee or an offer of employment;
- the payer has the right to exercise control over the worker, such as what research or clinical activities will be done and how and when they will be conducted. The determination of the degree of control can be difficult when examining the employment of professionals. For example, due to their expertise and specialized training, doctors may require little or no specific direction in their daily activities. When examining the factor of control, it is necessary to focus on both the payer's control over the worker's daily activities, and the payer's influence over the worker. It is the control of a payer over a worker that is relevant, and **not** the control of a payer over the end result of a product or service purchased;
- the payer assigns tasks to be done, such as rotations, on-call duties, teaching, resident coaching, etc.;
- the payer determines and controls the method and amount of pay to the worker;
- the payer provides benefit plans which are normally provided to employees, such as registered pension plans or group accident, health and dental insurance plans;
- the payer provides paid vacation leave and other work-related paid leave; and
- the worker must perform the work, not subcontract the work or hire assistants.

3.30 Amounts that are considered to be **received in respect of, in the course of, or by virtue of an office or employment**, are specifically carved out of the application of paragraph 56(1)(n) (see ¶3.3). Instead, such amounts are included in employment income under either subsection 5(1) or paragraph 6(1)(a). Where the particular facts and circumstances indicate that an employment relationship does not exist between the recipient and the payer, the amount may be considered fellowship income under subparagraph 56(1)(n)(i) or a research grant under paragraph 56(1)(o).

Amounts determined to be fellowship income

3.31 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 (as opposed to post-doctoral work which is discussed in ¶3.36), the award will be characterized as a fellowship for income tax purposes. It would be used in computing the income of the recipient under subparagraph 56(1)(n)(i), even though research is undertaken as a means to achieve that purpose.

Amounts determined to be research grants

3.32 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 for income tax purposes and should be included in the recipient's income 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 ¶3.58 for further discussion on research grants.

Awards granted for more than one purpose

3.33 In some cases an award, such as a sabbatical 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 ¶ 3.28 to 3.32.

Student assistantships

3.34 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 (for doctoral as opposed to post-doctoral studies) 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).

3.35 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 used in computing the student's income under subparagraph 56(1)(n)(i).

Post-doctoral fellowships

3.36 The term **fellow** is generally understood and commonly used in at least two distinct circumstances for **post-doctoral** work:

- The term is used (as in **post-doctoral fellow** or **PDF**) to indicate an individual who has recently obtained his or her Ph.D. (usually within the past five years or possibly longer) who is engaged in advanced research activities at a university or at a facility or laboratory connected with a university. The aim of the individual is often to obtain sufficient experience and published research as a PDF to be considered for a position as a professor at a university (an **Academic PDF**); and
- The term is used, usually on its own, to refer to an individual who has completed both the required academic and professional training in a particular field (for example, a medical doctor), and who has been given a special grant to enable him or her to engage in specialized training or research. In the field of medicine, such fellows often receive the grant to work in a highly specialized area requiring clinical duties as a medical doctor within a hospital setting (a **Clinical Fellow**).

Taxation of amounts received by post-doctoral fellows

3.37 Post-doctoral fellows, such as Academic PDFs and Clinical Fellows, are primarily considered to receive employment income for purposes of subsection 5(1). In certain limited circumstances, however, amounts received by a post-doctoral fellow may be considered a research grant for purposes of paragraph 56(1)(o) (discussed further at ¶3.58).

3.38 Generally, post-doctoral fellows are not considered to be **students** as that term is used in the Act. For income tax purposes, post-doctoral fellows are viewed and treated like other taxpayers who are required to undertake a period of paid training after the completion of their studies prior to pursuing an independent professional career. Post-doctoral fellows are most similar to apprentices, articling students (for accounting and law, for example) and medical residents. As with the compensation received by these professionals, the compensation received by post-doctoral fellows is generally taxable. The nature and characterization of an amount received by a post-doctoral fellow should be determined on a case-by-case basis, taking into account all of the relevant facts and circumstances. For information concerning the scholarship exemption as it relates to post-doctoral fellowships, see ¶3.102.

Student loans

3.39 A student may receive an amount from an arm's length person to enable him or her to pursue an education or research project. Where the payment is made pursuant to an agreement that the student will commence employment with the payer upon completion of the educational program or research project, a breach of the agreement may give rise to an obligation for the student to repay all or a portion of the amounts that they have received. The discussion that follows in ¶3.40 to 3.52 explains the income tax implications for the student under such arrangements which are generally dependent upon the characterization of the amount as a forgivable loan or a repayable award.

Distinguishing “forgivable loans” and “repayable awards”

3.40 Forgivable loans and repayable awards have similar characteristics, however, they may be distinguished as follows: A forgivable loan refers to a loan made to enable a borrower to pursue an education or to carry out a research project and which the lender is committed to forgive if certain conditions are met by the borrower; on the other hand, a repayable award is a scholarship, fellowship, bursary or research grant which the recipient is committed to return if certain conditions are not met.

3.41 In order to determine whether an amount is a forgivable loan or a repayable award, the rights and obligations flowing from the agreement between the grantor and the recipient must be examined. If the agreement under which an amount is paid gives rise at the time of payment to an enforceable debt, the amount is generally considered to be a loan for tax purposes. If the agreement specifies that the amount paid does not become a debt of the recipient unless the recipient fails to fulfill certain conditions, the amount is generally considered to be a repayable award. In determining whether a bona fide loan or enforceable debt exists, the intent of the parties should be considered (i.e., was the intention to provide a grant that would be repayable in certain circumstances or to provide a loan that would cease to be repayable in certain circumstances). Establishing the intent of a particular agreement can be difficult as both repayable awards and forgivable loans rely on future conditions to determine whether or not the amount will be repaid.

Forgivable loans

3.42 If a student receives a genuine loan to assist in financing the student's education or research project, whether forgivable or not, 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) or research grant for purposes of paragraph 56(1)(o). For a genuine

loan to exist, there must be a borrower/lender relationship at the time the loan is made and provisions must generally be made for repayment within a reasonable time.

3.43 Where an employee receives a forgivable loan from an employer on condition that the employee return to employment with the employer upon completion of the period of education (or the research project) for which the loan was given, the amount received as a loan will not generally constitute income when received. If the loan (or part of the loan) is subsequently forgiven for the reason that the employment conditions are met, the amount forgiven constitutes employment income of the employee in the year of forgiveness under paragraph 6(1)(a) and subsection 6(15).

3.44 Similarly, where a taxpayer receives a forgivable loan from a person who was not the taxpayer's employer when the loan was granted but was the taxpayer's employer at the time of forgiveness, any amount forgiven in the year due to the satisfaction of the applicable employment conditions should be included in the taxpayer's employment income pursuant to paragraph 6(1)(a) and subsection 6(15).

3.45 Subsection 80.4(1) deems an **interest benefit** to arise where a taxpayer has received a low interest or interest-free loan in connection with a previous, current or intended office or employment. In general terms, the benefit is calculated as the amount of interest the taxpayer would have paid on the loan for the year at the prescribed rate (as outlined in subsection 4301(c) of the Regulations), minus the amount of interest the taxpayer paid on the loan in the year, or no later than 30 days after the end of the year. The amount of the benefit computed under subsection 80.4(1) is included in the taxpayer's income under subsection 6(9).

3.46 However, a deemed interest benefit will not arise if one of the following exclusions in subsection 80.4(3) apply:

- a. the rate of interest payable on the debt is equal to or greater than the rate of interest that would have been agreed upon in an arm's length transaction at the time the obligation was incurred; or
- b. another provision of Part I brings the loan or debt into the income of the taxpayer.

3.47 Where all or a portion of a loan described in ¶3.43 is forgiven and included in an employee's income in the year, paragraph 80.4(3)(b) will not retroactively apply to exclude the interest benefit included in the employee's income in a prior year under subsection 80.4(1) in respect of the loan. In such prior year or years, no part of the loan would have been included in income and the employee would have enjoyed the use of the funds in those years.

3.48 Where a forgivable loan has been taxed under subsection 15(2) in the hands of a shareholder, a subsequent forgiveness is not considered to be employment income even if the shareholder is also an employee at the time of forgiveness.

Repayable awards

3.49 If an employer-employee relationship has not yet been established and a taxpayer receives a scholarship, fellowship or bursary in return for undertaking to commence employment with the person granting the award after completion of the educational program, the award would be included in the taxpayer's income in the year received under paragraph 56(1)(n) to the extent that the award exceeds the applicable scholarship exemption under subsection 56(3). The fact that the taxpayer may be required to repay all or a portion of the scholarship, fellowship or bursary in the future (for example, where there has been a breach of the conditions of the award) will not change the characterization of the award for tax purposes.

3.50 Where, under the same circumstances and conditions, the taxpayer receives a research grant within the meaning of paragraph 56(1)(o) (see ¶3.58), the repayable award would be included in the taxpayer's income in the year received to the extent that it exceeds the total of the allowable expenses incurred by the taxpayer in the year for the purpose of carrying on the work.

3.51 Where the taxpayer and the payer had an employment relationship at the time of the payment to the taxpayer, see ¶3.11.

Repay all or a portion of a repayable award

3.52 Where a taxpayer repays all or a portion of a repayable award, the amount repaid is deductible in computing the taxpayer's income in the year of repayment pursuant to paragraph 60(q), provided that all of the following conditions are met:

- the taxpayer is an individual dealing at arm's length with the person to whom the amount was repaid (such person is referred to as the **payer** in paragraph 60(q));
- the amount repaid was included in computing the taxpayer's income in the year or a preceding tax year, as an amount described in paragraph 56(1)(n) (net of any applicable scholarship exemption, see ¶3.90) or 56(1)(o) (net of any allowable research expenses, see ¶3.73);
- the taxpayer is required to repay the amount to the payer as a result of the taxpayer's failure to fulfill a condition stipulated at the time the award was received;
- during the period for which an amount in (b) above was paid, the taxpayer did not provide services, other than occasional services, to the payer as an officer or under a contract of employment; and
- the amount was paid to the taxpayer to assist in furthering his or her education.

Prizes

3.53 Subparagraph 56(1)(n)(i) includes in computing a taxpayer's income, the amount of a prize for achievement in a field of endeavour ordinarily carried on by the taxpayer (other than a prescribed prize). Where the prize is included in income, subsection 56(3) may permit an exemption from income for some or the entire prize amount. The exemption is discussed at ¶3.90. 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 described by 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 ¶3.55) or income from employment (see ¶3.54). 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.
- An award by a professional institution to the candidate obtaining the highest marks in examinations set by the

institution. This is a prize subject to the provisions of subparagraph 56(1)(n)(i).

For further information on the tax treatment of lottery winnings and windfalls, see [Income Tax Folio S3-F9-C1, Lottery Winnings, Miscellaneous Receipts, and Income \(and Losses\) from Crime](#).

Amounts received in respect of employment

3.54 If an employee receives, from his or her employer, a prize or other award related to sales or other work performance (such as exceeding sales targets, success in examinations, suggestion awards or exceptional service), the fair market value of such an incentive is regarded as remuneration for services that must be included in the individual's employment income under subsection 5(1). Similarly, the fair market value of a prize or award that is not regarded as remuneration, but is considered to have been received by an employee in respect of, in the course of, or by virtue of the employee's office or employment, is included in income from an office or employment under paragraph 6(1)(a), subject to certain exceptions for small non-cash gifts and awards. A prize or other award that is considered to be income from an office or employment for purposes of subsection 5(1) or paragraph 6(1)(a), will be excluded from paragraph 56(1)(n). For more information on the taxation of non-cash gifts and awards, see [Guide T4130](#).

Amounts received in the course of business

3.55 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, it should be included in the recipient's business 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](#)), the amount should be used in computing the recipient's income under subparagraph 56(1)(n)(i).

Prescribed prizes

3.56 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 and that is awarded for meritorious achievement in the arts, the sciences or service to the public. It is a question of fact whether a prize is considered to have been recognized by the general public for purposes of section 7700 of the Regulations. In making such a determination, one should consider whether there is evidence suggesting a high level of public awareness of the prize and the extent to which the announcement or receipt of the prize is widely publicized by the media.

3.57 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 as prescribed prizes. 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

3.58 Amounts received in a tax year to enable a taxpayer to carry on [research or any similar work](#) are included in income as a research grant 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 ¶[3.73](#) to 3.78) 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 taxed as a scholarship under paragraph 56(1)(n) or as a research grant under paragraph 56(1)(o).

Meaning of “research”

3.59 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. In Ghali v The Queen, 2004 FCA 60, 2005 DTC 5472, the Federal Court of Appeal stated that “the words “research or any similar work” in paragraph 56(1)(o) may be defined as: a set of scientific, literary and artistic works and activities having as its purpose the discovery and development of knowledge.”

3.60 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 payment to be considered a research grant, the terms of the payment must establish that its primary purpose is to enable the recipient to carry out research (see the comments in ¶3.32). 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 ¶3.33 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 of themselves bring the grant within paragraph 56(1)(o);
- Generally, awards to undergraduates are taxed under paragraph 56(1)(n), even though some research for essays, projects, etc., is required as part of the course requirements; and
- If the terms of the grant do not mention research, paragraph 56(1)(n) applies, even if a great deal of research is in fact done.

Research grants awarded to non-employees

3.61 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.

Research grants awarded to employees

3.62 If the recipient is an employee of the grantor and is retained on part salary while undertaking a specific research project that is unrelated to the recipient's normal employment duties, the part salary is included in the recipient's employment 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). This would arise, for instance, where a university faculty member has been granted sabbatical leave by his or her employer to carry out research. Under such arrangements, an employee usually receives a full or partial continuation of salary throughout the leave period that is taxable as employment income under subsection 5(1). The employee is usually not under the direction of the employer during the sabbatical leave period despite the fact that the employee continues to receive such salary. Amounts received during the sabbatical leave period to enable the employee to carry on the research (for example, payments that have been approved by the university as

approved expenses under the employee's research program) will generally be considered research grants for purposes of paragraph 56(1)(o). See Ghali, wherein the Federal Court of Appeal considered the taxability of amounts received by a University professor from his employer while on a sabbatical leave.

3.63 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. For example, an individual employed by a university to teach a course as well as conduct research, will be considered to receive employment income in respect of both activities as each fall within his or her normal employment duties.

Amounts not received as a research grant

3.64 For the purposes of paragraph 56(1)(o), a research grant is not considered to be **received** at any time if all of the following circumstances apply:

- The 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.

3.65 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 remaining 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 for purposes of paragraph 56(1)(o) to have been **received** by the researcher as a research grant.

Allowances and separate grants

3.66 In this Chapter, **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. This includes amounts received as a fixed sum, as an allowance, or as a fixed sum plus an allowance.

3.67 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 described by 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 financial assistance which is included under paragraph 56(1)(r).

Reimbursements and accountable advances

3.68 The terms reimbursement and accountable advance are used in this Chapter 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.

3.69 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 used in computing a student's income under subparagraph 56(1)(n)(i).

3.70 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 ¶3.75). 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

3.71 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.

3.72 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 will be regarded as employment income taxable under subsection 5(1).

Research expenses

3.73 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.

3.74 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 ¶3.75);
- 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.

Travelling expenses

3.75 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 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. All relevant factors must be analyzed together such that no specific criteria pertaining to any one factor alone may distinguish between travelling and temporarily residing. While no particular type of accommodation would, on its own, be a determining factor, a relatively short-term stay in a regular hotel room would normally be consistent with travelling, whereas the rental of an apartment on a monthly basis would tend to indicate that a person was temporarily residing at the location.

3.76 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 home and the place of temporary residence while engaged in the research work;
- travel from one temporary residence 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 CTC 2089, 86 DTC 1554 (TCC)).

Expenses incurred before or after year of grant

3.77 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.

3.78 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. If research expenses are paid by the university, hospital or similar institution on behalf of a researcher in the circumstances outlined in ¶3.64, those expenses are not regarded as having been incurred by the researcher.

Financial assistance

Amounts included under paragraph 56(1)(r)

3.79 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 in the year:

- a. as earnings supplements provided under a project sponsored by a government or government agency in Canada to encourage individuals to obtain or keep employment;
- b. as financial assistance under a program established by the Canada Employment Insurance Commission (the C.E.I.C.) under Part II of the Employment Insurance Act (the E.I. Act), or under similar programs established by a government or government agency in Canada, or by an organization, under an agreement with the C.E.I.C. pursuant to section 63 of the E.I. Act;
- c. as financial assistance provided under a program established by a government, or government agency, in Canada that provides income replacement benefits similar to those provided under a program established under the E.I. Act; or
- d. under the Wage Earner Protection Program Act in respect of wages (within the meaning of that Act).

3.80 Paragraph 56(1)(r) can apply to training benefit amounts (including allowances) for tuition, books, equipment, travel assistance, lodging or dependent care. 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.

Financial assistance while participating in employment-related activity

3.81 Where amounts are paid to an employer and the employer subsequently pays employment and vocational supports as remuneration to an individual, the amounts received by that individual would generally be considered as income from employment pursuant to subsection 5(1). The basis used to determine the amount of the payment to the individual would not alter the nature of the payments for income tax purposes. Alternatively, an amount paid as an earnings supplement directly to an individual would generally be taxable under paragraph 56(1)(r) as government financial assistance.

Deduction for certain financial assistance

3.82 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 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 Employment and Social Development Act or a similar provincial program under a labour-market agreement. 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. 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 tax credit under subsection 118.5(1) for the tuition fees paid under the program; and
- the amount is not otherwise deductible in computing the student's income for the year.

3.83 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 tax year to the extent that the amount was not deductible in computing the taxpayer's income for any preceding tax year. Paragraph 60(v.1) does not require that the EI benefits be repaid before the taxpayer can deduct the amount of the repayment.

Social assistance payments

3.84 Social assistance payments that are made on the basis of a means, needs, or income test are included in a taxpayer's income pursuant to paragraph 56(1)(u) in the year of receipt, except to the extent that such amounts are otherwise required to be included in the taxpayer's income or the income of the taxpayer's spouse or common-law partner. A taxpayer including a social assistance payment in income under paragraph 56(1)(u) is entitled to an equivalent deduction under paragraph 110(1)(f) in computing taxable income. The purpose of this system is to ensure that such payments are not subject to income tax but are taken into account for the purposes of determining the amount of certain refundable and non-refundable tax credits.

3.85 Where the primary purpose of a payment is to provide assistance to enable a taxpayer to pursue an education and may therefore fall within the meaning of the term bursary for income tax purposes, the assistance should generally be included in computing the taxpayer's income pursuant to subparagraph 56(1)(n)(i) rather than 56(1)(u). The nature and characterization of an amount received by a taxpayer is a question of fact that must be determined on a case-by-case basis. See Simser, where funds received by a taxpayer, pursuant to the Special Opportunities Grant for Disabled Students with Permanent Disabilities, were considered a bursary and included in computing the taxpayer's income under subparagraph 56(1)(n)(i) rather than paragraph 56(1)(u).

Amounts received from a trust

3.86 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 a resident of Canada

3.87 A non-resident of Canada who becomes a resident or a deemed resident of Canada for the purposes of the individual's education or training will be subject to tax in Canada on their world income from that time. This income will include both Canadian and foreign source awards received by the individual. However, awards received from foreign sources by an individual 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 (as

amended by the [Fifth Protocol](#)) provides an exemption from tax in Canada for payments received by a student who is, or was immediately before visiting Canada, a resident of the United States, and who is present in Canada for the purpose of the individual's full-time education or full-time training, provided that such payments arise outside Canada, and are for the purpose of the maintenance (i.e., reasonable living expenses), education or training of the individual. For more information concerning Canada's tax treaties with other countries, see [Tax Treaties](#) on the Department of Finance Canada pages on Canada.ca.

Non-residents of Canada

3.88 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 were previously resident in Canada;

who are in receipt of remuneration from an office or employment or Canadian source scholarships, fellowships, bursaries, prizes, and research grants.

3.89 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 paragraph 56(1)(n) and (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)

3.90 The scholarship exemption under subsection 56(3) (referred to in ¶3.1 to 3.2) exempts the first \$500 of total scholarships, fellowships, bursaries and prizes that have been included in computing a taxpayer's income under subparagraph 56(1)(n)(i) for a particular tax year. This \$500 is commonly referred to as the [basic scholarship exemption](#). Subsection 56(3) permits an exemption in excess of **\$500** where a scholarship, fellowship or bursary is received in connection with a taxpayer's enrolment in certain educational programs (see ¶3.91 to 3.97) or is used by a taxpayer in the production of a literary, dramatic, musical or artistic work (see ¶3.98 to 3.100). The total scholarship exemption computed under subsection 56(3) cannot exceed the related amount used in computing a taxpayer's income under subparagraph 56(1)(n)(i). See ¶3.101 for further information concerning the basic scholarship exemption.

3.90.1 As referred to in ¶3.6.1, the education and textbook tax credits have been eliminated and will no longer be available for a student to claim for the 2017 and subsequent tax years. As a result, other income tax provisions relying on eligibility for the education tax credit, such as the scholarship exemption for a full-time student (see ¶3.91), will instead rely on eligibility as a qualifying student. See [Income Tax Folio S1-F2-C1, Qualifying Student and the Education and Textbook Tax Credits](#) for further discussion.

Full-time student

3.91 Paragraph 56(3)(a) permits the full amount of a scholarship, fellowship or bursary to be excluded from income if the particular award is received in connection with the taxpayer's enrolment in an educational program in respect of which the taxpayer:

- may deduct the education tax credit as a full-time student in computing the taxpayer's taxes payable for the tax year, for the immediately preceding tax year or for the following tax year, or
- is a qualifying student (as defined in subsection 118.6(1)) in the tax year, in the immediately preceding tax year or in the following tax year.

An award will be considered to be received in connection with the taxpayer's enrolment in an educational program where it satisfies the conditions outlined in paragraph 56(3.1)(a) (see ¶3.96).

Student in elementary or secondary school

3.92 Paragraph 56(3)(a) permits the full amount of a scholarship, fellowship or bursary to be excluded from income if the particular award is received in connection with the taxpayer's enrolment in an elementary or secondary school educational program.

Part-time student

3.93 Paragraph 56(3)(a) permits a taxpayer to exclude from income an amount relating to a scholarship, fellowship or bursary received in connection with the taxpayer's enrolment in an educational program in respect of which the taxpayer:

- may deduct the education tax credit under subsection 118.6(2) as a part-time student for the tax year, for the immediately preceding tax year or for the following tax year, or
- is a qualifying student (as defined in subsection 118.6(1)) in the tax year, in the immediately preceding tax year or in the following tax year.

In accordance with paragraph 56(3.1)(b), the amount of an award that may be excluded from the income of a part-time student is limited to the sum of the following:

- the cost of materials related to the program; and
- the fees paid to the designated educational institution in respect of the program.

3.94 The **cost of materials related to the program** includes the cost of items that are essential for the completion of the program and are expected to have a lifespan use generally limited to the program length, such as books, lab coats, brushes and paints. However, it does not include, for example, the cost of e-book readers, personal computers, generic software or musical instruments.

3.95 The limitation stated in paragraph 56(3.1)(b) with respect to part-time students does not apply to taxpayers who are eligible for the disability tax credit or cannot be enrolled in an educational program on a full-time basis because of a mental or physical impairment. Refer to the [Scholarship Exemption - Part-time enrollment](#) webpage to assist in calculating the scholarship exemption available and the amount of the scholarship, fellowship or bursary (if any) that should be included in the income of the part-time student.

Meaning of "received in connection with the taxpayer's enrolment"

3.96 For purposes of the scholarship exemption, paragraph 56(3.1)(a) provides that a scholarship, fellowship or bursary is not considered to be **received in connection with the taxpayer's enrolment** in an educational program except to the extent that it is reasonable to conclude that it was intended to support the taxpayer's enrolment in the program, having regard to all the circumstances, including:

- any terms or conditions that apply in respect of the award;
- the duration of the program; and
- the period for which support is intended to be provided by the award.

3.97 The CRA (Canada Revenue Agency) will generally consider an award to be intended to support a taxpayer's enrolment in a program unless it significantly exceeds the taxpayer's tuition fees, living expenses and other expenses associated with undertaking the program. Such a determination will be a question of fact that must be made on a case-by-case basis. A part-time student will be subject to the limitations provided under both paragraphs 56(3.1)(a) and (b) (the latter of which is discussed at ¶3.93 to 3.95).

Awards for the production of a literary, dramatic, musical or artistic work

3.98 Paragraph 56(3)(b) permits a taxpayer to exclude from income an amount relating to a scholarship, fellowship, bursary or prize that is to be used by the taxpayer in the production of a literary, dramatic, musical or artistic work (this is commonly referred to as the **art production grant exemption**). In order for the art production grant exemption to apply, the amount of the grant must be used in computing the taxpayer's income under subparagraph 56(1)(n)(i).

3.99 The art production grant exemption is calculated as the total amount of reasonable expenses (see ¶3.100) incurred in the year to fulfill the conditions of receiving each art production grant, up to, but not exceeding, the total amount of each grant that is used in computing the taxpayer's income under subparagraph 56(1)(n)(i). As discussed in ¶3.77 in relation to research expenses, expenses incurred in the immediately preceding or the immediately following year may also qualify.

3.100 The amount of **reasonable expenses** cannot include:

- personal or living expenses of the taxpayer (other than expenses of travel, meals and lodging incurred by the taxpayer in the course of fulfilling the conditions of each art production grant and while absent from the taxpayer's usual place of residence for the period to which the art production grant relates);
- expenses for which the taxpayer is entitled to be reimbursed;
- expenses that are otherwise deductible in computing the taxpayer's income; or
- travelling expenses relating to his or her spouse, common-law partner, children or other third parties.

3.100.1 For more information on the income tax treatment and reporting of an amount that is to be used by a taxpayer in the production of a literary, dramatic, musical, or artistic work, and the art production grant exemption, see ¶1.63 to 1.77 of Income Tax Folio S4-F14-C1, Artists and Writers.

Basic scholarship exemption

3.101 Where the total scholarship exemption computed under paragraph 56(3)(a) (see ¶3.91 to 3.95) and paragraph 56(3)(b) (see ¶3.98 to 3.100) is less than the total of all scholarships, fellowships, bursaries and prizes used in computing the taxpayer's income under subparagraph 56(1)(n)(i), the taxpayer may exclude up to an additional \$500 from income in accordance with paragraph 56(3)(c). However, the taxpayer's total scholarship exemption computed under subsection 56(3) must not exceed the total amount used in computing the taxpayer's income under subparagraph 56(1)(n)(i).

Post-doctoral fellowships

3.102 As announced in the 2010 Federal Budget, post-doctoral fellows are precluded from claiming the education tax credit and consequently, the scholarship exemption, for fellowship awards with effect from the **2010 and subsequent tax years** (see ¶1.19 in [Income Tax Folio S1-F2-C1, Qualifying Student and the Education and Textbook Tax Credits](#)). These measures were clarifying in nature and did not represent a change in interpretation or policy concerning the income tax treatment of post-doctoral fellowships. Generally, post-doctoral fellows such as Academic PDF's and Clinical Fellows, were not eligible for the full scholarship exemption prior to the 2010 amendment. Such individuals are primarily considered to receive employment income as discussed in ¶3.37 to 3.38. This continues to apply for tax years after 2016 as post-doctoral fellows generally do not meet the requirements of the definition of a qualifying student.

Amounts received from a Registered Education Savings Plan

3.103 A student is eligible for the scholarship exemption available under subsection 56(3), only in respect of amounts used in computing the taxpayer's income under subparagraph 56(1)(n)(i). Subparagraph 56(1)(n)(i) specifically excludes as a scholarship, fellowship, bursary or prize, payments received from a registered education savings plan (RESP), which are required to be included in income under paragraph 56(1)(q). Consequently, amounts received from an RESP are ineligible toward calculating the scholarship exemption available under subsection 56(3).

Value of tuition benefits

3.104 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

3.105 Paragraph 56(1)(z.1) requires a taxpayer to include in income the value of benefits received or enjoyed in the year in respect of workshops, seminars, training programs and similar development programs because of the taxpayer's membership in a Registered National Arts Service Organization (RNASO). However, when RNASOs pay scholarships, fellowships, bursaries or prizes which relate to the arts community or sector represented by the RNASO, these are used in computing the recipient's income under subparagraph 56(1)(n)(i). For further information on RNASOs, see [Designation and registration as a National Arts Service Organization](#).

Information returns

Amounts reported on a T4A or T4E Slip

3.106 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 Slip, Statement of Pension, Retirement, Annuity and Other Income](#). 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 Slip or a [T4E Slip, Statement of Employment Insurance and Other Benefits](#), as appropriate.

3.107 The payer of a research grant, scholarship, fellowship, bursary or prize (other than a prescribed prize) must report the amount on a T4A Slip, even though the recipient may be entitled to exclude all or a portion of the amount from income because of the scholarship exemption. It is the responsibility of the recipient to determine the amount of any exemption available under subsection 56(3).

3.108 An arm's length employer might provide a scholarship, bursary, or free tuition to the family member of an employee under a scholarship program, for attendance at an elementary, secondary or post-secondary school (private or otherwise). The amount will be included in computing the particular student's income under subparagraph 56(1)(n)(i) provided the employee's salary was not decreased to fund or partially fund the amount. The payer must report the amount on a T4A Slip to the family member. The amount should not be included in the employee's income as a taxable benefit under paragraph 6(1)(a) or reported on the employee's T4 Slip. Under subparagraph 6(1)(a)(vi), such benefits are specifically excluded from an employee's income where the employer and employee deal with each other at arm's length and it is reasonable to conclude that the benefit is not a substitute for salary, wages or other remuneration of the taxpayer. See ¶3.18 for more information.

Amounts reported on a T4 Slip

3.109 Where the recipient of an amount is an employee of the payer and the amount is considered to be employment income of the recipient under either subsection 5(1) or paragraph 6(1)(a) (see ¶3.11), the amount should be reported on a T4 Slip, Statement of Remuneration Paid and not on a T4A Slip.

3.110 This paragraph has been deleted. (see the Chapter History entry)

3.111 If the recipient of a research grant is an employee of the grantor and is retained on part salary while undertaking a specific research project (as discussed in ¶3.62), the salary portion is included in the recipient's income under subsection 5(1) and should be reported on T4 Slip. Any amount received as a research grant should be reported on a T4A Slip and included in income under paragraph 56(1)(o) (net of allowable expenses).

Information for recipients

3.112 Taxpayers in receipt of a research grant, scholarship, fellowship, bursary or prize may refer to Line 13010 – Scholarships, fellowships, bursaries, study grants, and artists' project grants on the CRA website for general information on the reporting of such amounts on their income tax return.

Withholding of tax

3.113 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 government financial assistance included in calculating the recipient's income under paragraph 56(1)(r) other than such amounts that relate to child care expenses and tuition costs.

3.114 Amounts that are taxable as employment income under section 5 (including cash and non-cash employment benefits) are subject to tax withholdings at source pursuant to paragraph 153(1)(a), the definition of **salary and wages** in subsection 248(1) as well as sections 101, 102 and the definition of **remuneration** in section 100 of the Regulations. See Guide T4130 for general information concerning the withholding requirements for cash and non-cash benefits.

Application

This updated Chapter, which may be referenced as S1-F2-C3, is effective December 7, 2020.

When it was first published on March 28, 2013, this Chapter replaced and cancelled Interpretation Bulletin IT-75R4, Scholarships, Fellowships, Bursaries, Prizes, Research Grants and Financial Assistance, Interpretation Bulletin IT-340R, Scholarships, Fellowships, Bursaries and Research Grants – Forgivable Loans, Repayable Awards and Repayable Employment Income, and the related Special Release Interpretation Bulletin IT-340RSR.

The history of updates to this Chapter as well as any technical updates from the cancelled interpretation bulletins can be viewed in the [Chapter History](#) page.

Except as otherwise noted, all statutory references herein are references to the provisions of the Income Tax Act R.S.C., 1985, c.1 (5th Supp.), as amended and all references to a Regulation are to the Income Tax Regulations, C.R.C., c. 945, as amended.

Links to jurisprudence are provided through CanLII.

Income tax folios are available in electronic format only.

Reference

Paragraphs 56(1)(n), (o), (r), (z.1) and subsections 56(3) and 56(3.1) (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 Act and the definition of **remuneration** under subsection 100(1), and sections 200 and 7700 of the Regulations).

Date modified:

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