What is It?

- Section 117 of the Internal Revenue Code (IRC) excludes, with certain exceptions, scholarship, fellowship, and grant funds from taxation. Specifically, scholarship, fellowship, and grant funds are not subject to income taxation if the recipient is a student at a primary, secondary, or postsecondary educational institution and the funds are used for the payment of tuition and required fees, books, supplies, and equipment.

- Scholarship, fellowship, and grant funds used for living expenses, such as room and board, are not excludable from income and are therefore subject to taxation. Until the 1986 tax bill, scholarship, fellowship, and grant funds used for higher education room and board expenses received tax-free treatment.

- Scholarship, fellowship, and grant funds received in exchange for teaching or research services are generally not excluded from tax under Section 117.

Who Benefits?

- Undergraduate and graduate students especially benefit from Section 117. A portion of the qualified scholarship, fellowship, and grant funds received by students is not subject to taxation, which in turn allows individuals and families to have more resources to help pay for higher education.

- Current law could be improved to harmonize Section 117 with other forms of federal student financial assistance. For example, funds withdrawn from Coverdell education savings accounts are not taxable and they can be used not only for tuition and fees, but also for room and board. Section 117 could be broadened to permit tax-free treatment for grants that cover room and board.

Additional Information