

## **Guiding A Scholarship Through Labyrinths Of Tax**

FE NEWSLINE

Chandigarh, Wednesday, June 26, 2002

Whether scholarship is chargeable to tax ?

Section 10(16) says that scholarship granted to meet the cost of education is not chargeable to tax. Vide letter F. No. 24/7/6 dated 24-3-1964 , non recurring grant upto a maximum of Rs. 5000 to teachers for purchase of special apparatus, books, consumables or for field work in connection with research in science subjects is exempt from tax. Vide Circular No. 3 dated 12-1-1961. Junior and Senior Research Fellowship granted by the CSIR (Council of Scientific and Industrial Research) New Delhi is exempt under section 10(16)

Case laws:

Where a company grants scholarships to the children of the employees at its sole discretion without any stipulation in the terms of the employment it would not be chargeable to tax in the assessment of employees, as held in CIT v. M.N. Nadkarni (1986) 161 ITR 544 (Bom).

Also, scholarship received outside India would still be eligible for exemption under section 10(16) irrespective of the fact whether it is subject to tax in such foreign country.-as held in A. Ratnakar Rao v. Addl. CIT (1981) 128 ITR 527 (Ker).

The exemption of scholarship depends on the intention of the person paying or disbursing. In the event it is paid only for meeting the cost of education, the fact that the recipient does not spend the whole amount towards education or that he is able to save something out of it is irrelevant and does not change the nature of the payment being one of scholarship, nor does it matter whether the recipient is an Indian or a foreigner. [CIT v. V.K. Balachandran (1984) 147 ITR 4 (Mad)]

Conclusion:

i) If the purpose of payment is to meet the cost of education of a person, no further explanation is called for in order to exclude the amount from the taxable income under section 10(16).

ii) The object of payment is to meet the cost of education. Thereafter, the question as to whether the quantum of payment is adequate or inadequate, or, is or is not in excess of requirement is irrelevant. Thus, even if a part of the scholarship amount is not spent towards education and some savings is made, it cannot be subjected to tax.

iii) Though scholarships are granted by the corporate entities by reason of the employees service with the entity, yet the statute liberally allows exemption of such scholarships from the taxable income of the employees. This can be a very good tool for reducing the tax burden of the employees but the terms of the employment should not contain any such benefits to the employee as a matter of contractual obligation. This can be used by the employer and the employee for mutual benefit.

(iv) Though there is no tax on gifts now, but a gift is considered to be a much abused means and is thus seen with a jaundiced eye by the revenue department. Provision of educational scholarships with

generosity, since the adequacy or inadequacy of the amount is not relevant, can be an alternate means of giving occasional gifts to each other.

Though in my opinion the excess amount cannot be used for any purpose other than expense on education but till the time it is actually spent, the amount can be kept in the bank and earn interest thereon.

This interest will be subject to tax [CIT v. V.K. Balachandran (1984) 147 ITR 4 (Mad)]