



This questionnaire has been prepared as a tool to assist University staff in determining scholarships and their taxability status for students. Staff are advised to contact the Taxation Manager, FBSD with any queries in relation to this document.

## Scholarships and their Tax Status

Questionnaire to determine whether payment awarded to student is:

- a) a scholarship, and
- b) taxable income for the student

No	All Questions must be answered <i>(Guidelines for answering questions is provided on the following pages)</i>	Yes	No	Comment
1	Is the student receiving a scholarship, bursary, educational allowance or educational assistance?			If no – not a scholarship
2	Is the payment being made to a full-time student?			If no – not a scholarship
3	Is the student enrolled at an educational institution e.g. a University?			If no – not a scholarship
4	Is there a condition that the student will continue to be, or will become, an employee of the University or authority making the payment?			If yes – not a scholarship
5	Is the student a party to, or entering into, a contract wholly and principally for their labour?			If yes – not a scholarship
6	Can the student be required, under the terms of the scholarship, to provide personal services (now or in the future) for the University (or a nominee)?			If yes – not a scholarship
7	Is the scholarship payment provided principally for educational purposes?			If no – not a scholarship

**All answers must fall into the unshaded area so that a payment to a student can be classified as a scholarship. These scholarship payments will be income tax exempt for the student.** Please advise the Human Resources Services Division (HRSD) to ensure that no withholding tax (PAYG) is deducted from the scholarship payment(s) to the student.

**If any individual answer falls into the shaded area, the payment can not be classified as a scholarship and will be taxable income for the student.** Please advise HRSD so that withholding tax (PAYG) is deducted from the payment(s) to the student.

**Scholarship Classification** *(please circle)*

**YES**

**NO**

Student name .....

Contract (if applicable) .....

Budget Centre .....

Staff name .....

Date .....

## **Guidelines for answering questions**

### **1 Receiving a scholarship**

#### **Definition of scholarship**

A scholarship is defined as financial aid to a scholar (student), awarded on merit. Scholarships are exempt from income tax. To be eligible for exemption, the scholarship, bursary, educational allowance, or educational assistance must be open to a wide range of candidates.

Eligibility for the scholarship may be restricted to a particular class of candidate (for example, students at a particular institution or of restricted means). However, it cannot be restricted to a particular person or group such as the members of a particular family.

Commonwealth education or training payments such as Austudy payment, ABSTUDY, Assistance for Isolated Children or Youth Allowance are not classed as scholarships.

#### **Employment payment**

Payments that are remuneration for past, present or future services are not scholarships. For example, amounts received by a trainee for services rendered, during their period of training. This includes training studentships and research grants received to have research performed, for the benefit of the provider that is incidental to the student's course of education.

#### **Payments from an education fund or education trust**

Payments of education expenses by an education fund or trust do not fall within the definition of a scholarship, bursary, or other educational allowance or educational assistance. These payments are not generally open to a wide field of candidates (often only to one person or the members of one family), nor are they generally awarded on merit.

#### **Educational prizes**

Educational prizes awarded for excellence do not have the character of a scholarship, bursary or other educational allowance or educational assistance. Generally, an award or prize is considered to be a personal windfall or gain and is not assessable income to the recipient.

### **2 Full time Student**

#### **Enrolment status**

The student must be enrolled at an educational institution in a full-time course of education.

#### **Employment while studying**

The student may be employed while enrolled and still receive a scholarship that is exempt from tax.

#### **Vacation scholarships**

These scholarships are provided during the vacation period, generally to support some part-time research work. Provided the student is enrolled full-time in the semesters before and after the vacation in question, they will also be considered to be a full-time student during the vacation.

Vacation scholarships are short duration scholarships which offer students a chance to gain experience in research outside normal semester times. Students may work on individual projects or as part of a team on ongoing research.

A vacation scholarship is not a contract for labour unless the scholarship is provided specifically to give the student vacation employment.

### **3 Place of Enrolment**

#### **Type of institution**

The full-time education must be at an educational institution eg. University, TAFE, school.

#### **Distance education**

If the student is undertaking their studies as part of distance education or via the internet (online), they will need to be an enrolled student with the educational institution. They will need to be enrolled full-time or undertaking a full-time study load.

#### **Overseas studies**

The educational institution can be outside of Australia. However, they must be enrolled as a full-time student.

### **4 Is the student an employee?**

#### **Who is the provider?**

The provider of the scholarship is generally the individual or organisation that pays the scholarship to the student. In many cases, this will be the school, college or University.

However, if the original supplier of the funds retains control over the allocation of the funds that it supplies to an intermediary, such as the University, it will be the scholarship provider. The supplier of the funds does not retain control over the funds only because the scholarship is in their name.

The scholarship provider can usually be identified by referring to any agreement or contract concerning the scholarship. The provider will have control over matters such as whether the scholarship is cancelled or renewed.

#### **Employee**

The student will be considered to be an employee if they are under the direction of the provider of the funds, and are entitled to benefits similar to other employees (for example, annual leave, sick leave, superannuation, workers compensation).

The greater the degree of control that the provider of the funds is able to exercise over the student (for example, ability to dictate hours of attendance, modes of dress, attendance at particular events or places), the more likely it is that the student will be considered to be their employee.

### **5 Becoming an employee or continuing as an employee**

#### **Employment condition**

Whether such a condition exists is determined at the time the scholarship is granted.

If the student is already under an employment contract for a stipulated period of time, the granting of the scholarship at a later date will not automatically mean that there is an employment condition attached to the scholarship.

Examples:

An enrolled university student tutors part-time at the university. The student later successfully applies for a scholarship from the university. The part-time employment is unrelated and independent to the granting of the scholarship.

On the other hand, if the University provides the student with a new scholarship on the condition that they remain an employee for a stipulated period, there is a condition attached to the scholarship binding them to continue to be an employee. The criteria of a scholarship are not met.

A condition that the student becomes an employee would exist if they received a scholarship on the condition that they work for a nominated employer for a set period (for example, two years) starting when they reach a certain point in, or immediately following the completion of their studies.

The student can be made to repay part or all of the scholarship if they fail to become an employee or remain an employee for the period required under the scholarship. In this example, a condition that they become or remain an employee exists under the scholarship and so the criteria of a scholarship are not met.

### **Vacation work**

If the student does vacation work for the scholarship provider and is paid for it separately from the scholarship, the scholarship would still be exempt from taxation. The income from the vacation work however, would be subject to tax.

If the student is required to work for the provider of the scholarship in their vacations and the scholarship includes payment for their vacation work, they are employed in those vacations as a condition of the scholarship. The payment is not a scholarship.

## **6 Terms of Scholarship**

### **Labour services**

The mere lodging of an annual progress report or the acknowledgment of the provider does not mean one is providing labour services.

### **Vacation scholarships**

Vacation scholarships are short duration scholarships which offer students a chance to gain experience in research outside normal semester times. Students may work on individual projects or as part of a team on ongoing research.

A vacation scholarship is not a contract for labour unless the scholarship is provided specifically to give the student vacation employment.

### **Cadetship/traineeship**

Amounts received by a trainee during their period of training are considered to be for services rendered. The recipient is viewed as providing labour services.

### **Research grants**

Amounts received to undertake research for the benefit of the provider that is incidental to the student's course of education are considered to be for services rendered. The student is viewed as providing labour services.

### **Personal Services**

The student may be required to provide services that do not constitute actual employment services, during or after the period of their studies, under the conditions of the scholarship. These services could include unpaid work for the provider, or a requirement to supply one or more reports of their research findings, written for the provider's use, which are not merely progress reports. The student could also be required to perform consulting work related to their studies for the provider or a nominee.

If it is likely that the student will be asked to provide services, but they are not bound to do so under the conditions of the scholarship, they can't be required to perform the services. In these circumstances the response to this question should be 'no'.

## **7 Educational Purposes**

It is the intent or motive of the provider that is important rather than the use of the funds by the student. For example, the fact that a scholarship holder used part of the scholarship to pay for a holiday would not prevent the whole scholarship being exempted from tax.

To meet this condition, the principal purpose of the scholarship must be the education of the student. Provision of accommodation, food and clothing is accepted as being necessary for the education of the scholarship holder. Any minor incidental purpose does not affect the exemption.

Whether the payment is principally for educational purposes is a question of fact and you should refer to the contract or agreement for more information.

As a general indicator, the more direction and control the provider has over the work of the student and the greater the benefits that accrue to the provider, the more likely it is that the payment is not principally for education purposes.