

INTERNAL REVENUE SERVICE

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The Honorable Russell D. Feingold
United States Senate
Washington, D.C. 20510

Attention: Ms. Kathie Klimowicz

Dear Senator Feingold:

This letter is in reply to your inquiry dated March 15, 2001, on behalf of a constituent who asked why the portion of an education scholarship that pays room and board is taxed.

A principle of our federal income tax system is that all income is taxed unless the Congress specifically exempts it. Section 61(a) of the Internal Revenue Code and *Commissioner v. Glenshaw Glass Co.*, 348 U.S. 426 (1955), 1955-1 C.B. 207.

In enacting § 117, the Congress provided, in general, for an exclusion from gross income for any amount received as a "qualified scholarship." In order to be a qualified scholarship, the amount received must be used only for qualified tuition and related expenses. Qualified tuition and related expenses are defined, in part, in § 117(b)(2) as (A) tuition and fees required for enrollment or attendance of a student at a educational institution, and (B) fees, books, supplies, and equipment required for courses of instruction.

As you can see, in enacting § 117 the Congress did not include payments for room and board in the definition of a qualified scholarship. Thus, such amounts are subject to tax.

I hope this information is helpful. Please call Sean M. Dwyer, Identification Number 50-19510, at (202) 622-4920, if you have any questions.

Sincerely,

Associate Chief Counsel
(Income Tax & Accounting)

By: _____
Robert A. Berkovsky
Chief, Branch 2