



DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, D.C. 20224

OFFICE OF  
CHIEF COUNSEL

April 9, 2014

Number: **2014-0016**  
Release Date: 6/27/2014

CONEX-113835-14

UIL No: 117.00-00

The Honorable Richard Burr  
United States Senate  
Washington DC 20510

Dear Senator Burr:

I am responding to your letter dated March 28, 2014, in which you requested confirmation of the current federal tax treatment of college athletic scholarships. You also asked about the potential tax implications for athletic scholarships in light of the recent decision of a regional office of the National Labor Relations Board (NLRB) that all grant-in-aid scholarship football players at Northwestern University fall within the definition of employees under the National Labor Relations Act.

Regarding the NLRB decision, whether an individual is treated as an employee for labor law purposes is not controlling of whether the individual is an employee for federal tax purposes. Accordingly, the NLRB decision does not control the tax treatment of athletic scholarships. The treatment of scholarships for federal income tax purposes is governed by the Internal Revenue Code (Code).

Section 117 of the Code allows a taxpayer to exclude a qualified scholarship from gross income. A qualified scholarship means any amount received by an individual as a scholarship to the extent the individual establishes that, in accordance with the conditions of the grant, such amount was used for qualified tuition and related expenses. (section 117(b) of the Code.) Qualified tuition and related expenses means tuition and fees required for enrollment or attendance of a student at an educational organization and fees, books, supplies and equipment required for courses of instruction at such an educational organization. In general, a qualified scholarship does not include that portion of any amount which represents payment for teaching, research, or other services by the student required as a condition of receiving the qualified scholarship. (section 117(c) of the Code)

It has long been the position of the Internal Revenue Service that athletic scholarships can qualify for exclusion from income under section 117. Revenue Ruling 77-263, 1977-2 C.B. 47, addresses the tax treatment of athletic scholarships where the student athlete is expected to participate in the sport, and the scholarship is not cancelled in event the student cannot participate and the student is not required to engage in any other activities in lieu of participating in the sport. The ruling holds that the athletic scholarship awarded by the university is primarily to aid the recipients in pursuing their studies and, therefore, is excludable under section 117.

I hope this information is helpful. I am sending a similar letter to . If you have any questions, please contact me, or a member of your staff can contact , at ( ) .

Sincerely,

John A. Koskinen