

## ***Carroll v. Commissioner, 60 T. C. 96 (1973)***

Payments for research performed under a basic research grant are not excludable as fellowship grants if they represent compensation for services.

### **Summary**

Robert W. Carroll, a university professor, received payments from the National Science Foundation (NSF) for research conducted during the summers of 1965 and 1967. The issue was whether these payments were excludable as fellowship grants under Section 117 of the Internal Revenue Code. The Tax Court held that these payments were compensation for services rendered and thus not excludable. The court reasoned that the primary purpose of the NSF grants was to fund the research itself, not to aid Carroll's personal educational development. This ruling clarifies the distinction between compensatory payments and true fellowship grants, impacting how similar grants are taxed.

### **Facts**

Robert W. Carroll, an associate professor at the University of Illinois, received Ph. D. in 1959 and was not pursuing any further degrees. In 1965 and 1967, he conducted research during the summer months under two NSF basic research grants (GP-4575 and GP-7374), for which he was the principal investigator. He received payments equal to his regular academic year salary rate, which were deposited into a university account and disbursed according to the grant terms. Carroll reported these payments as excludable fellowship grants on his tax returns, but the IRS Commissioner disallowed the exclusions.

### **Procedural History**

Carroll and his wife filed a petition with the U. S. Tax Court challenging the Commissioner's determination of tax deficiencies for 1965 and 1967. The Tax Court heard the case and issued a decision in favor of the Commissioner, ruling that the payments were not excludable fellowship grants.

### **Issue(s)**

1. Whether payments received by Carroll under the NSF basic research grants are excludable from gross income as fellowship grants under Section 117(a) of the Internal Revenue Code?

### **Holding**

1. No, because the payments were compensation for services rendered by Carroll in connection with the research projects, not grants to aid his personal educational development.

## **Court's Reasoning**

The court applied Section 117 and its regulations to determine that the payments were compensatory. Key points in the court's reasoning included: the NSF's purpose in making the grants was to fund the research, not to aid Carroll's education; the payments were structured as salary and treated as such by both NSF and the university; and the legislative history of Section 117 indicates that compensatory payments to non-degree candidates are taxable. The court distinguished this case from others where grants were found to be for the recipient's educational benefit, emphasizing that here, the research was the primary objective. The court cited numerous cases supporting the taxation of compensatory payments under Section 117, reinforcing its decision.

## **Practical Implications**

This decision affects how research grants are treated for tax purposes. It establishes that when payments are made for specific research services, they are likely to be considered compensation, not fellowship grants, and thus taxable. This ruling guides universities and research institutions in structuring grants to avoid unintended tax consequences for recipients. It also impacts how researchers report income from grants, particularly when the grants are for defined research projects rather than general educational support. Subsequent cases have cited Carroll in distinguishing between compensatory payments and true fellowship grants, influencing tax practice in this area.