

## ***Bieberdorf v. Commissioner, 60 T. C. 114 (1973)***

Stipends received by a physician in a training program can be excluded from gross income as scholarship or fellowship grants if primarily for the recipient's education and not as compensation for services.

### **Summary**

Frederick Bieberdorf, a physician, received stipends during a training program in gastroenterology at Southwestern Medical School, funded by NIH. The IRS argued these should be included in his income as compensation. The Tax Court held that the stipends were excludable under section 117 of the IRC as scholarships or fellowships because they were primarily for Bieberdorf's education, not as payment for services. The court distinguished this case from others where stipends were taxable due to the nature of services performed by the recipients.

### **Facts**

Frederick Bieberdorf, a licensed physician, joined a training program at Southwestern Medical School funded by the National Institute of Health (NIH). The program focused on preparing physicians for academic careers in gastroenterology and liver diseases, with 75-80% of time spent on research and 20-25% on clinical activities at Parkland Memorial Hospital. Bieberdorf received stipends from these funds, which the IRS contended should be included in his income as compensation for services. However, the stipends were intended to further Bieberdorf's education and training, not as payment for services rendered to the grantor.

### **Procedural History**

The IRS determined deficiencies in Bieberdorf's income tax for 1968 and 1969, arguing that his stipends should be included in gross income. Bieberdorf petitioned the Tax Court, which heard the case and issued its decision on April 24, 1973, ruling in favor of Bieberdorf and allowing the exclusion of the stipends as scholarships or fellowships under section 117 of the IRC.

### **Issue(s)**

1. Whether the stipends received by Bieberdorf during his training program at Southwestern Medical School are excludable from his gross income as scholarship or fellowship grants under section 117 of the IRC.

### **Holding**

1. Yes, because the stipends were primarily for the purpose of furthering Bieberdorf's education and training, and not as compensation for services rendered to the grantor.

## **Court's Reasoning**

The court applied section 117 of the IRC, which allows for the exclusion of scholarship or fellowship grants from gross income, with a \$300 per month limit for non-degree candidates. The court cited regulations upheld by the Supreme Court in *Bingler v. Johnson*, which specify that amounts paid as compensation for services or primarily for the benefit of the grantor are not excludable. The court found that Bieberdorf's stipends were not compensation for services, as the clinical work he performed was minor and incidental to his educational pursuits. The court distinguished this case from others like *Fisher* and *Parr*, where the recipients' services were more substantial and integral to the grantor's operations. The court also noted that there was no obligation for Bieberdorf to work for Southwestern or NIH after the program, and the research he conducted was for his own educational benefit, not specifically for the grantor.

## **Practical Implications**

This decision clarifies that stipends in educational programs can be excluded from income if they are primarily for the recipient's education and not as compensation for services. Legal practitioners should analyze similar cases by focusing on the primary purpose of the payments and the nature of any services provided. This ruling may influence how educational institutions structure their programs and stipends to ensure they qualify for tax exclusion. Businesses and institutions funding such programs need to be clear about the educational purpose of their grants to avoid tax issues for recipients. Subsequent cases like *Vaccaro* have cited *Bieberdorf* in distinguishing between educational stipends and taxable compensation.