Sharvy v. Commissioner, 67 T. C. 630 (1977)

Tax-exempt fellowships and teaching assistantships do not constitute self-support for income averaging purposes under section 1303(c)(1).

Summary

Richard Sharvy sought to use income averaging for his 1969 tax liability, claiming he provided over half his support in the base years of 1965-1968. He received National Defense Education Act (NDEA) fellowships and a teaching assistantship, all excludable from gross income under section 117. The Tax Court held that these funds did not constitute support furnished by Sharvy himself, as they were educational grants from the university. Consequently, Sharvy did not meet the support requirement for income averaging eligibility under section 1303(c)(1), and his petition was denied.

Facts

Richard Sharvy was a full-time student at Wayne State University from 1964 to 1968, receiving NDEA fellowships during the 1964-65, 1965-66, and 1966-67 school years, totaling $3,400, $3,600, and $3,800 respectively. Part of these fellowships ($1,000 per year) was designated as dependency allowances for his wife and son, which he forwarded to them. In 1967-68, he also received $1,000 per quarter as a teaching assistant and $2,833 as an assistant professor. These funds were excluded from his gross income under section 117. Sharvy filed his 1969 tax return using income averaging, asserting he provided over half his support in the base years 1965-1968.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in Sharvy's 1969 tax and denied his use of income averaging. Sharvy petitioned the U. S. Tax Court, which heard the case on stipulated facts and decided in favor of the Commissioner, ruling that Sharvy did not meet the support test required for income averaging.

Issue(s)

1. Whether amounts received from NDEA fellowships and a teaching assistantship, excludable from gross income under section 117, constitute support furnished by Sharvy himself for purposes of the income averaging support test under section 1303(c)(1).

Holding

1. No, because these funds were educational grants provided by the university, not support furnished by Sharvy himself.

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Court’s Reasoning

The court applied the legislative history of the income averaging provisions, which aimed to relieve taxpayers with fluctuating incomes subject to progressive tax rates. The support test under section 1303(c)(1) requires that an individual (and spouse) provide at least half of their support during base period years. The court determined that the NDEA fellowships and teaching assistantship, though excludable from gross income, were provided to aid Sharvy’s educational pursuits and not as compensation for services rendered. Therefore, these funds were characterized as support furnished by the grantor, Wayne State University, not by Sharvy. The court emphasized that allowing such funds to count as self-support would undermine the purpose of the support test. The court also cited *James B. Heidel*, where similar scholarship funds were not considered self-support for income averaging.

Practical Implications

This decision impacts how students and others receiving tax-exempt educational grants should approach income averaging. It clarifies that such grants do not count toward the support test, even if used for personal expenses. Taxpayers must look to other income sources to meet the support requirement. This ruling may affect financial planning for students relying on fellowships or scholarships, as they must ensure other income sources meet the support test if they wish to use income averaging. Subsequent cases have reinforced this principle, maintaining the distinction between income types for tax purposes.

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