Rapoport v. Commissioner, 74 T. C. 98 (1980)

A stipend received by a university employee under a research professorship program is taxable income if it is considered compensation for services rather than a fellowship grant.

Summary

In Rapoport v. Commissioner, the U. S. Tax Court ruled that a stipend Amos Rapoport received from the University of Wisconsin-Milwaukee under a research professorship program was taxable income, not a tax-exempt fellowship grant. Rapoport, a professor, was awarded a three-year stipend to conduct research, but the court found the stipend was compensation for past and future services due to his ongoing employment relationship with the university. The decision emphasized the importance of distinguishing between compensation for employment and true fellowship grants, particularly when the recipient is an employee of the grantor institution.

Facts

Amos Rapoport, a professor at the University of Wisconsin-Milwaukee (UWM), was awarded a three-year research professorship starting in the 1974-75 academic year. The award provided a $10,000 annual research fund, which Rapoport could allocate for his support and research expenses. During 1975, he received $13,975 for his support. The research professorship was limited to current UWM faculty members, and recipients remained university employees, receiving benefits and having taxes withheld. Rapoport was free to conduct research of his choosing anywhere, but the stipend would cease if he resigned from UWM. The university viewed the professorship as a reward for past services and a means to attract quality faculty.

Procedural History

Rapoport filed a petition in the U. S. Tax Court challenging a $3,707 deficiency determined by the Commissioner of Internal Revenue for the 1975 tax year. The Commissioner argued that the stipend Rapoport received was taxable income rather than a tax-exempt fellowship grant. The Tax Court issued its decision on April 23, 1980, holding that the stipend was taxable income.

Issue(s)

1. Whether the stipend Amos Rapoport received from the University of Wisconsin-Milwaukee under the research professorship program constituted a fellowship grant excludable from gross income under section 117(a) of the Internal Revenue Code.
2. If the stipend was a fellowship grant, whether Rapoport was a candidate for a degree within the meaning of section 117(b)(1) of the Internal Revenue Code.

Holding

© 2025 SCOTUSreports.com. All rights reserved.

1. No, because the stipend was considered compensation for Rapoport's services to UWM, not a fellowship grant aimed at furthering his individual education and training.
2. The court did not reach this issue due to its decision on the first issue.

Court's Reasoning

The court applied section 117(a) and the relevant regulations, which define a fellowship grant as an amount to aid an individual in study or research. The court found that Rapoport's stipend did not qualify as a fellowship grant because it was essentially compensation for his services to UWM. Key factors included: Rapoport's ongoing employment relationship with UWM, the stipend's dependence on continued employment, and the university's intent to reward past services and attract quality faculty. The court cited Bingler v. Johnson, emphasizing that fellowship grants should be "no-strings" educational grants without substantial quid pro quo. The court concluded that the primary purpose of the research professorship was to benefit UWM, not to further Rapoport's individual education.

Practical Implications

This decision clarifies that stipends received by university employees under research programs are likely to be considered taxable income if they are tied to employment status and viewed as compensation for services. Universities should carefully structure such programs to ensure they qualify as true fellowship grants if tax-exempt status is desired. The ruling may influence how universities design research professorships and similar awards, potentially affecting the recruitment and retention of faculty. Subsequent cases, such as those involving sabbatical leave stipends, have distinguished Rapoport based on the specific terms of the awards and the employment relationships involved.

© 2025 SCOTUSreports.com. All rights reserved.