IRS

Fulbright Grants

Fulbright grants received by a U.S. citizen from an agency which dispenses and administers Fulbright grants (domestic or foreign) fall into two types of income for tax purposes. If you are a U.S. citizen recipient of a Fulbright grant, you must determine which category of income your grant falls into in order to determine how the grant is taxed for US Federal Income tax purposes.

Fulbright grants may be either of the following:

1)
scholarship/fellowship income, or
2)
compensation for personal services, which is usually considered wages.

For tax purposes, a scholarship/fellowship may be defined as an amount given to an individual which has the following characteristics:

1)
It is paid to aid the individual's pursuit of study, training, or research;
2)
It does not constitute compensation for personal services - past, present, or future; and
3)
It is paid more for the benefit of the grantee than the grantor.

For tax purposes, compensation for personal services represents an amount paid to an individual in exchange for his performance of personal services - past, present, or future. Compensation for personal services usually takes the form of either wages or self-employment income.

In 1961 the Internal Revenue Service issued Revenue Ruling 61-65 dealing with Fulbright grants. Portions of that Revenue Ruling read as follows:

> "It is held that the amounts received for study and research abroad, under the Fulbright Act and the United States Information and Educational Act of 1948, by United States citizens are scholarship or fellowship grants within the meaning of section 117 of the Code. . . "
>
> "On the other hand, amounts paid to United States citizens for lecturing or teaching abroad are not paid to enable the recipients to pursue studies or research but are compensation for services rendered and are includible in their gross incomes under section 61 of the Code."

Thus, if the proceeds of a Fulbright grant were paid to enable the Fulbright grantee to perform study, training, or research abroad mostly for his/her own benefit, then such grant constitutes scholarship/fellowship income. On the other hand, if the proceeds of the Fulbright grant were paid as compensation for lecturing or teaching abroad, then the grant is compensation for personal services and is usually considered to be wages.

When to Report a Fulbright Grant

Taxable Fulbright grant payments are reportable in the year in which they are received. For example, a Fulbright grantee with a ten-month grant who begins the grant in September 2013 and will receive two grant checks in tax year 2013 and two grant checks in tax year 2014. For tax year 2013, figure the income tax liability only on the amount of taxable grant funds received in calendar year 2013. For tax year 2014, figure the income tax liability only on the amount of taxable grant funds received in calendar year 2014.

A Fulbright grantee, who begins a grant in January 2014, will usually receive the first check in December 2013 and thereby incurs an income tax liability for 2013.

How to Report a Fulbright Grant as a Scholarship/Fellowship

If your Fulbright grant is scholarship/fellowship income as described above, then you should report the income on line 7 of Form 1040, and add the note "SCH" in the margin next to line 7. If you are reporting wage income from another source on line 7, simply add the amount of the Fulbright scholarship/fellowship income to the wage income also shown on line 7.

If you were a candidate for a degree, and your study, training, or research performed under the Fulbright grant was a part of your pursuit of a degree, then you may deduct from your taxable Fulbright grant income any amounts you spent on (1) tuition, (2) fees, (3) books, (4) supplies, and (5) equipment required for your courses. You should attach a schedule to your Form 1040 itemizing your gross Fulbright grant income, less these 5 deductions, in order to arrive at a net taxable amount of the grant. This net taxable amount should be reported on line 7 of Form 1040.

If you were not a candidate for a degree, then the entire gross amount of the Fulbright grant is taxable and reportable on line 7 of Form 1040 as a scholarship or fellowship. If during the tax year, you paid foreign income taxes on your Fulbright grant, then you may be eligible to claim a Foreign Tax Credit on line 47 of Form 1040. You should use Form 1116, Foreign Tax Credit, in order to compute the amount of foreign tax credit to report on Form 1040. See Publication 514, Foreign Tax Credit for Individuals, for more information on the foreign tax credit.

See Publication 970, Tax Benefits for Education, Chapter 1, for an explanation of the taxation of scholarships and fellowships.

How to Report a Fulbright Grant as Wages

If your Fulbright grant is wages, because you performed lecturing or teaching services as a condition for receiving the Fulbright grant, then you should report the entire gross amount of the grant as wages on line 7 of Form 1040 – even if you never received a Form W-2 from the Fulbright agency which paid you the grant.

Deductions, Exclusions and Credits

When a Fulbright grant is considered as wages, then several possibilities may be available to reduce your U.S. federal income tax on these wages. For example:

1)
If your tax home is in the United States, and you are temporarily in a foreign country away from your tax home in the USA for less than 1 year, then you may be able to deduct your airfare, local transportation, lodging, and food expense as itemized deductions reported on Form 2106, Employee Business Expenses (or Form 2106-EZ) and Schedule A of Form 1040. See Chapter 26 of Publication 17, Your Federal Income Tax, for an explanation of the Tax Home concept and Away-From-Home expenses. See also Publication 463, Travel, Entertainment, Gift, and Car Expenses.
2)
If you are outside the USA for longer than 1 year, and your tax home is in a foreign country, and you meet certain other conditions, you may be able to exclude from your income an annual amount known as the Foreign Earned Income Exclusion. The Foreign Earned Income Exclusion is explained in Publication 54, Tax Guide for U.S. Citizens and Resident Aliens Abroad. The Foreign Earned Income Exclusion is computed on Form 2555, Foreign Earned Income ,or Form 2555-EZ, and is reported as a negative number in parentheses on Form 1040, line 21 Other Income.
3)
If you are not able to claim either of the deductions or exclusions explained above, and you pay income tax to a foreign country on the Fulbright Grant wages you earn in the foreign country, then you may be able to deduct a Foreign Tax Credit on line 47 of Form 1040. You should use Form 1116, Foreign Tax Credit, in order to compute the amount of foreign tax credit to report on Form 1040. See Publication 514, Foreign Tax Credit for Individuals for more information on the foreign tax credit.
4)
If you meet certain qualifications, you may qualify to take deductions for work-related educational expenses. See Publication 17, Your Federal Income Tax, Chapter 27. See also Publication 970, Tax Benefits for Education, Chapter 12.

Estimated Tax Payments

Because virtually all Fulbright grants paid overseas are not subject to withholding of U.S. federal income tax, most Fulbright grant recipients must pay estimated tax payments on the taxable portion of their Fulbright grants. See Form 1040-ES, Estimated Tax for Individuals, for the requirements for making estimated tax payments before leaving the United States; especially if you have not paid taxes this way before.

A fast, accurate and convenient way to make or schedule estimated tax payments is through the Electronic Federal Tax Payment System (EFTPS). This system enables you to schedule a payment to the Internal Revenue Service from your U.S. bank account. Later, you can check on the status of the payment(s) or change the scheduled amount(s). See the discussion on Estimated Tax in Chapter 1 of Publication 54.

Grant Paid in Foreign Currency

With one exception for Fulbright Grants explained below under "Blocked Income", you must express the amounts you report on your U.S. tax return in U.S. dollars. If you receive all or part of your income or pay some or all of your expenses in foreign currency, you must translate the foreign currency into U.S. dollars. You must translate into dollars all items of income, expense, etc. (including taxes), that you receive, pay, or accrue in a foreign currency and that will affect computation of your income tax. Use the exchange rate prevailing when you receive, pay, or accrue the item. If there is more than one exchange rate, use the one that most properly reflects your income, or you may have to use an average exchange rate for a period of time in which many transactions in a foreign currency occur. For information on currency conversions, please refer to Foreign Currency and Currency Exchange Rates. If you must do a currency conversion, please attach a schedule to your U.S. federal individual income tax return showing the details of the currency conversion calculations.

Blocked Income

If, because of restrictions in a foreign country, your income is not readily convertible into U.S. dollars or into other money or property that is readily convertible into U.S. dollars, your income is "blocked" or "deferrable" income. See Publication 54, Chapter 1 for more information for reporting and paying tax on Fulbright Grants when there is blocked income.

References/Related Topics

- U.S. Citizens and Resident Aliens Abroad
- Publication 54, Tax Guide for U.S. Citizens and Resident Aliens Abroad

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