
SCHOLARSHIPS, BURSARIES & AWARDS

Education is one of the four charitable purposes. Although the term 'charitable' is not defined in the Income Tax Act - common law (court decisions) have determined what is 'charitable' in Canada for application by the Canada Revenue Agency (CRA).

By nature, grants to qualified donees or payments to individuals for educational purposes are charitable as long as the recipients are members of a charitable class and other criteria, as described below, are met.

ADVANTAGES OF A SCHOLARSHIP PROGRAM

- Focus on youth and education potentially attracts new audiences and creates awareness in a diverse population segment. The focus also attracts opportunities for volunteers in committees, and inspires philanthropy in award recipients.
- Supporting education is an attractive philanthropic offering as donors are making a difference in the lives of individuals.
- Foundations can work in partnership with a number of organizations, such as post-secondary institutions, school boards, schools and community organizations.

DISADVANTAGES OF A SCHOLARSHIP PROGRAM

- There is a lot of administrative work involved in publicizing scholarships, receiving and screening applications, coordinating review committees, disbursing funds, issuing T4As, and tracking recipients for multi-year scholarships.
- Foundations could implement a higher cost allocation for student award funds, as long as their donors are aware.
- Foundations grant a percentage of the value of their funds. Bursaries, scholarships and awards are usually a fixed amount to make promotion easy.

WHAT IS A SCHOLARSHIP OR BURSARY AS DEFINED BY THE CRA?

Scholarships and bursaries are amounts paid or benefits given to students to enable them to pursue their education. The term bursary is not defined in the Income Tax Act; however, its meaning is broad enough to encompass almost any form of financial assistance paid to enable a student to pursue his or her education.

Bursaries can include amounts paid to defray living expenses, as well as amounts that are directly related to the cost of the education. The extent to which a student has discretion over the use of funds received will not affect its categorization as a bursary (see *Simser v. The Queen*, 2004 FCA 414, 2005 DTC 5001).

Scholarships and bursaries usually apply to education at a post-secondary level or beyond, such as at a university, college, technical institute or other educational institution. However, there are circumstances where scholarships or bursaries are awarded for education below the post-secondary school level. Scholarships and bursaries normally assist students in proceeding towards a degree, diploma, or other certificate of graduation.

Scholarships and bursaries may apply to any field of study, including an academic discipline (such as the arts or sciences), a professional program (such as law or medicine), a trade (such as plumbing or carpentry), or a skill (such as certified first aid and truck driver training courses). Normally, a student is not expected to do specific work for the payer in exchange for a scholarship or bursary.

Additional standard definitions:

- **Scholarship:** Academic achievement is weighted most heavily in the selection of the recipient (e.g. Traditionally an entrance scholarship is awarded based on the high school grade average).
- **Bursary:** Financial need is weighted most heavily in the selection of the recipient.
- **Award:** A personal qualification or proficiency is considered an eligibility requirement, current usage is more liberal (e.g. Particular skills and achievements are recognized, such as scholar-athletes, musicians, etc.).
- A **scholarship, bursary or award** may contain components of all three: academic achievement, financial need and personal qualifications. To make selection easy, the weighting of each component should be pre-defined.

Given the nature of a community foundation, criteria often include a component of volunteerism, leadership, civic engagement, etc.

GRANTING TO QUALIFIED DONGNEES

Grants made by community foundations must be made to organizations recognized by CRA as “qualified donees”. For scholarships, the grant is usually issued to the recipient’s university, college, or school board to be applied to the student’s tuition through its own programs or services.

These educational institutions must be recognized by CRA as qualified donees - that is they must be registered charities that are verifiable on the CRA website’s list of charities. If listed under “Prescribed Universities” outside of Canada, grants may be made directly to these prescribed universities.

Can a community foundation pay scholarships, bursaries or awards directly to individuals?

An organization established to provide scholarships, bursaries, or prizes for scholastic achievement can qualify for registration as a charity under the “Advancement of Education” category for charitable purposes.

To advance education in the charitable sense means formal training of the mind, advancing the knowledge or abilities of the recipient, or improving a useful branch of human knowledge through research.

Community foundations should review its governing documents to determine if the organization can make payments to individuals for educational purposes. Paying scholarships directly to individuals is considered to be a direct charitable program or service, therefore, a community foundation that makes direct scholarship payments to individuals is accountable for the activity and must issue T4A tax forms to the students.

If a student is identified by a community foundation as a scholarship recipient, the foundation is considered to be the payer, although the scholarship payment may be issued to an educational institution which is almost always a qualified donee. Practices vary from one post-secondary institution to the next, so clarification of who will issue the T4A is required.

SCHOLARSHIP FUNDS AT A COMMUNITY FOUNDATION

There are two types of scholarship funds: designated and donor-advised. In both types, community foundation staff work with donors to develop criteria for selection. Donors can specify eligibility criteria that is broad or narrow provided that the program will benefit a broad charitable class of beneficiaries and that the process is non-discriminatory.

An educational institution’s selection committee chooses the recipient: A community foundation grants to the designated institution which chooses the recipient(s)

A foundation's selection committee recommends a specific recipient: A community foundation generally makes payment to the post-secondary institution of the student's choice. The student provides confirmation of enrollment, prior to the award payment.

Charitable class

"For the granting of a scholarship to be an acceptable charitable activity there must be a sufficient element of public benefit – that is, the criteria to qualify for the scholarship cannot be so narrow or restrictive that the benefit conferred would effectively be to a private group of persons. As discussed, this element is measured by looking at the relationship between the fund and those who are eligible to benefit from it. This is not an issue of how numerically large the group is, but rather whether the eligible beneficiaries are defined by a personal or private link to another person or legal entity."

Examples of an acceptable charitable class:

- All graduating grade 12 students at a local high school would constitute an acceptable charitable class.
- Students in a specific area of study would constitute an acceptable charitable class.

Examples of an unacceptable charitable class:

- Members of a single family would not constitute a charitable class.
- Members of a sorority or fraternity would not constitute a charitable class if gifts to initiate a scholarship fund have been charitably tax receipted.
- Children of employees of a company do not constitute a charitable class.

Establishing a scholarship fund for a local company to support the educational pursuits of employees' children would not constitute a charitable class.

Case law has indicated that providing for the education of children of employees or former employees represents too direct a relationship to be considered a charitable gift. Such benefits are usually best provided through the company's human resources department.

Selection committees

Generally, an independent committee (appointed by a community foundation with input from a donor) receives applications and makes recommendations to the board of directors on award recipients and amounts based on the eligibility criteria and other financial considerations.

In some cases, for example a particular high school's proficiency award, the recipient will be selected by a school principal or other appropriate official. In other cases, a community foundation will advise universities and colleges of the availability of bursaries and scholarships for students meeting certain criteria, and the student will apply through the institution's awards office.

Donor participation in a community foundation-initiated selection committee requires diligence to ensure that fair and objective selection processes are followed. Decision-making guidelines should be defined in advance, for example, by consensus or through voting. Using an online rating system ensures that a selection committee chooses top recipients who are the basis for further discussion and final recommendation.

If donors (or any members of the selection committee) know any of the applicants personally, they are required to declare a conflict of interest. As with any funds, a community foundation's independence and board approval are key, since a donor is not eligible for a charitable receipt for a contribution that will benefit the donor or anyone designated by the donor under the Income Tax Act.

RESOURCES

1. https://www.cof.org/content/scholarships-faqs#advantages_disadvantages
2. <https://www.canada.ca/en/revenue-agency/services/tax/technical-information/income-tax/income-tax-folios-index/series-1-individuals/folio-2-students/income-tax-folio-s1-f2-c3-scholarships-research-grants-other-education-assistance.html#p3.7>
3. <https://www.canada.ca/en/revenue-agency/services/charities-giving/charities/policies-guidance/qualified-donees.html>
4. <https://www.canada.ca/en/revenue-agency/services/charities-giving/charities/policies-guidance/summary-policy-e01-advancement-education.html>
5. (Information Letter CIL – 2001 – 022, Policy and Communications Division, Charities Directorate).
6. In *Oppenheim v. Tobacco Securities Trust Co. Ltd. and Others*: House of Lords: November 2,3,6: December 13, 1950 holds that “though the group of persons indicated was numerous, the nexus between them was employment by particular employers, and accordingly the trust did not satisfy the test of public benefit requisite to establish it as charitable.” https://scc-csc.lexum.com/scc-csc/scc-csc/en/item/3711/index.do#_ftnref30

Community Foundations of Canada is the national network for Canada's 191 community foundations. Together we are a philanthropic movement working across sectors to help Canadians invest in building strong and resilient communities.

