



# ***IT 2177 - Income tax : educational allowances paid by employers (or associated entities) in respect of the children of employees***

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This document has been Withdrawn.

There is a [Withdrawal notice](#) for this document.

 This ruling contains references to repealed provisions, some of which may have been rewritten. The ruling still has effect. Paragraph 32 in [TR 2006/10](#) provides further guidance on the status and binding effect of public rulings where the law has been repealed or repealed and rewritten. The legislative references at the end of the ruling indicate the repealed provisions and, where applicable, the rewritten provisions.

TAXATION RULING NO. IT 2177

INCOME TAX : EDUCATIONAL ALLOWANCES PAID BY EMPLOYERS  
(OR ASSOCIATED ENTITIES) IN RESPECT OF THE CHILDREN OF  
EMPLOYEES

F.O.I. EMBARGO: May be released

REF

H.O. REF: J207/205 P4, 5  
J199/1 P10; 84/6402-2  
83/4010-2

DATE OF EFFECT:

B.O. REF: Perth J5/132 Vol.2

DATE ORIG. MEMO ISSUED:

F.O.I. INDEX DETAIL

REFERENCE NO:

SUBJECT REFS:

LEGISLAT. REFS:

I 1193284

EDUCATIONAL ALLOWANCES 26  
EMPLOYEE BENEFITS  
SCHOLARSHIPS

OTHER RULINGS ON TOPIC CITCM 766

PREAMBLE

The payment of educational allowances to employees, or persons other than employees, in respect of employees' children represents a benefit in terms of paragraph 26(e) and its value is assessable income in the hands of the employees, irrespective of the method of payment. The "benefit" to the employee is the relief from payment of education expenses in respect of the child for which the employee would otherwise be solely or jointly liable. Case L54 79 ATC 399, Case 61 23 CTBR (NS) 537 refers.

RULING

2. Two situations have come to the attention of this office, however, where it has been accepted that paragraph 26(e) does not operate to make particular educational allowances paid by employers liable to tax.

3. The first of the situations involves the creation by an employer of a scholarship scheme for the benefit of children of all employees. The scheme does not involve the payment of educational allowances to all children of employees but only to those children who are successful in fulfilling the conditions under which a scholarship may be awarded.

4. Where a payment is in the nature of a bona fide scholarship or bursary and the conditions for awarding the scholarship or bursary depend on criteria other than the employment of the parent of the child to whom the award is made, e.g. the scholastic ability of the child, the personal attributes of the child, etc., the payment will fall outside the operation of paragraph 26(e).

5. The advice in the preceding paragraph will apply only where the scholarship scheme has the same features as the scheme

described. It is not unusual for a scholarship scheme to be operated by an employer for a small select group of employees, e.g. the executive staff. In practice the scheme may involve the payment of educational allowances for all children of the executive staff. In this event, the educational allowances are not scholarships of the type referred in the preceding paragraph - the value of the scholarships would be assessable income in terms of paragraph 26(e) to the employees concerned.

6. The second situation arises in the specific situation where a payment, however made, is designed to compensate an employee for additional expenditure incurred by reason of transfer to a remote locality in the course of employment. Such a payment will not represent a benefit in terms of paragraph 26(e) where it is clear that it is made to alleviate necessary additional expenses of education caused by the relocation of employment and the remoteness of the locality from acceptable educational facilities. Mere relocation of the employee from one city to another and a decision by the employee to continue the child's education at the first location would not deny the operation of paragraph 26(e) in respect of an educational allowance paid by an employer, or associated entity, in these circumstances.

7. This ruling modifies the guidelines in CITCM 766.

COMMISSIONER OF TAXATION  
23 July 1985

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