

**Internal Revenue Service**

P.O. Box 2508  
Cincinnati, OH 45201

**Department of the Treasury**

Release Number: **201441027**

Release Date: 10/10/2014

Date: July 17, 2014

**Employer Identification Number:**

**Contact person - ID number:**

**Contact telephone number:**

**LEGEND:**

W = foundation program  
X= program name  
Y= foundation  
Z= county names  
b= dollar amount  
c= dollar amount

**UIL:**

4945.04-04

Dear :

You asked for advance approval of your educational grant procedures under Internal Revenue Code section 4945(g)(3). This approval is required because you are a private foundation that is exempt from federal income tax.

**Our determination**

We approved your procedures for awarding educational grants. Based on the information you submitted, and assuming you will conduct your program as proposed, we determined that your procedures for awarding educational grants meet the requirements of Code section 4945(g)(3). As a result, expenditures you make under these procedures won't be taxable.

**Description of your request**

You will operate a grant program called X to provide leaders of nonprofit institutions with an opportunity to take a leave from work in order to encourage a renewed sense of meaning in their careers, and to prevent "burnout," a common cause for leadership turnover in nonprofit organizations.

X is a joint program of you and Y. Pursuant to a grant agreement, Y will make annual grants to you for the purpose of X.

X is driven by the notion that effective institutions require creative and energetic leaders, and that such leaders need time to think and reflect if they are to keep their organizations operating and serving at the highest level. In addition, X seeks to provide up-and-coming

nonprofit managers an opportunity to test their skills and gain experience as institutional leaders during the time that their superiors are away on leave.

X will offer up to four nonprofit executive directors with individual stipends and expenses of up to b dollars to travel, reflect, or otherwise renew themselves in whatever manner they propose, for a period of at least three consecutive months.

While on leave, grantees of X must spend a minimum of three consecutive months away from work. The leave can combine more than one element or location, but should not involve work on independent projects like authoring books, visiting program sites affiliated with one's organization, or working part-time from home. The purpose of X is to give its participants time to reflect on their careers, to spend time with family, to travel, or to otherwise step back from their jobs in whatever means is most nourishing and effective.

You and Y may consider awarding additional support of up to c dollars to successful candidates' employing organizations to encourage the establishment of a permanent, revolving fund for professional staff development. The purpose of the fund would be to make it possible for other staff to have access to training programs or short-term leaves that might enhance their professional capacities.

In order for an individual to be eligible for X, he or she must live full-time in Z county, and serve in a leadership capacity in a nonprofit organization located in one of these two counties. The applicant must demonstrate financial need, such that taking an unpaid sabbatical from work would not be financially viable. Finally, applicants must be active members of W, which means that they have graduated from a learning group or coaching program.

X is primarily targeted to executive directors, but other senior level positions of similar managerial and financial oversight may be considered if their responsibilities are equivalent or near-equivalent to that of executive director.

Additional requirements for eligibility apply to the applicant's employing organization. Such nonprofit organizations located in Z Counties must have at least three full-time paid staff, and must need financial assistance to underwrite the candidate's leave. The employing organization must offer its endorsement of the leave request, and submit a work plan for organizational management training during the candidate's absence, and upon his or her return. In this way, organizations are expected to look to the candidate's sabbatical as an opportunity to develop the next level of leadership within the organization.

Specific criteria for selection will be based on whether individual candidates meet the following factors:

- Are outstanding leaders who have a demonstrated track record of contribution to the community;
- Work full-time for a nonprofit organization (employees of educational institutions and government agencies are not eligible);

- Hold primary or significant responsibility for management of the organization's funds;
- Have worked a minimum often consecutive years in the nonprofit sector (though not necessarily for one organization) without significant leave;
- Are willing to participate in the various programs of W and peer network of X alumni;
- Are recognized by their peers as exceptional individuals.

Substantial contributors, your managers, officers, directors, and employees, as well as their family members, are ineligible to participate in X.

Y's board and your Executive Director will each appoint between one and eight individuals to serve on an independent selection committee. This committee will review grant applications, conduct interviews, make site visits to applicant organizations, and recommend finalists to you and Y. Members of the selection committee will be chosen based on their knowledge of nonprofit organizations in Z Counties, their familiarity with nonprofit leadership and management, their personal experience with a sabbatical, and other relevant experience to be determined by you and Y. Upon resignation or removal of a committee member, whichever foundation initially appointed that member will be entitled to select a replacement member.

You will require that awardees send a brief written report to the them within three months of completion of X, recounting their experiences and expenditures. In addition, upon their return to work, grantees are expected to take part in a peer network with other X alumni and to be active participants in W's programs.

You will publicize X via your website, in mass email communications directed to nonprofit organizations in Z Counties, at public events hosted by either or both you and Y, and in communications to nonprofit sector partners. You aim to reach the broadest number of eligible applicants in order to attract a large pool of talented nonprofit leaders.

You will maintain records of X, including the names and addresses of its grantees, as well as accounts of their activities and any expenses paid to facilitate the sabbatical, including all information required by Revenue Ruling 56-304. Your records will include information obtained to evaluate applicants, confirmation that the grantee is not a disqualified person, records of the amount and purpose of any assets spent, how X was supervised, and how any possible diversion of funds was investigated and addressed.

You plan to initially award up to four grants per year, depending on the availability of funding, the particular needs of each recipient, and the overall success of X.

You intend to award only non-renewable grants.

Your staff will verify whether expenditures were made for their stated purpose, and any possible diversion of grant funds will be promptly investigated. If you discover that funds have, in fact, been misused, you will take all reasonable and appropriate steps to recover diverted funds, and will make no further distributions to that recipient, unless you are able

to obtain assurances that future diversion will not occur and that the grantee will take extraordinary precautions to prevent future diversion from occurring.

### **Basis for our determination**

The law imposes certain excise taxes on the taxable expenditures of private foundations (Code section 4945). A taxable expenditure is any amount a private foundation pays as a grant to an individual for travel, study, or other similar purposes. However, a grant that meets all of the following requirements of Code section 4945(g) is not a taxable expenditure.

- The foundation awards the grant on an objective and nondiscriminatory basis.
- The IRS approves in advance the procedure for awarding the grant.
- The grant is:
  - A scholarship or fellowship subject to section 117(a) and is to be used for study at an educational organization described in section 170(b)(1)(A)(ii); or
  - A prize or award subject to the provisions of section 74(b), if the recipient of the prize or award is selected from the general public; or
  - To achieve a specific objective; produce a report or similar product; or improve or enhance a literary, artistic, musical, scientific, teaching, or other similar skill or talent of the recipient.

To receive approval of its educational grant procedures, Treasury Regulations section 53.4945-4(c)(1) requires that a private foundation show:

- The grant procedure includes an objective and nondiscriminatory selection process.
- The grant procedure results in the recipients performing the activities the grants were intended to finance.
- The foundation plans to obtain reports to determine whether the recipients have performed the activities that the grants were intended to finance.

### **Other conditions that apply to this determination**

- This determination covers only the grant program described above. This approval will apply to succeeding grant programs only if their standards and procedures don't differ significantly from those described in your original request.
- This determination applies only to you. It may not be cited as precedent.
- You cannot rely on the conclusions in this letter if the facts you provided have changed substantially. You must report any significant changes in your program to the Cincinnati Office of Exempt Organizations at:

Internal Revenue Service  
Exempt Organizations Determinations  
P.O. Box 2508  
Cincinnati, OH 45201

- You cannot make grants to your creators, officers, directors, trustees, foundation managers, or members of selection committees or their relatives.
- All funds distributed to individuals must be made on a charitable basis and must further the purposes of your organization. You cannot award grants for a purpose that is inconsistent with Code section 170(c)(2)(B).
- You should keep adequate records and case histories so that you can substantiate your grant distributions with the IRS if necessary.

We've sent a copy of this letter to your representative as indicated in your power of attorney.

Please keep a copy of this letter in your records.

If you have any questions, please contact the person listed at the top of this letter.

Sincerely,

Director, Exempt Organizations