



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

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Contact Person:

Identification Number:

Telephone Number:

Employer Identification Number:

Legend:

Prize Program =

Dear :

This is in reply to your request for a private letter ruling that the monetary prizes you will award to individuals, pursuant to your proposed Prize Program, will not be taxable expenditures within the meaning of sections 4945(d)(3) and 4945(d)(5) of the Internal Revenue Code.

Facts

You have been recognized by the Internal Revenue Service as an organization described in section 501(c)(3) of the Code and are classified as a private operating foundation described in section 4942(j)(3).

You were established for charitable, scientific, educational, and religious purposes. Your specific objectives are to increase and disseminate mathematical knowledge; to educate mathematicians and other scientists about new discoveries in the field of mathematics; to encourage gifted students to pursue mathematical careers; and to recognize extraordinary achievements and advances in mathematical research.

In addition to your present activities, you propose to adopt a new Prize Program to advance mathematical knowledge and recognize achievement in mathematics. Under this program, you will make monetary awards on an objective and non-discriminatory basis to individuals who are able to solve any of several specific mathematical problems that have resisted solution over the years. The prizes would be awarded under the following rules and restrictions: a proposed solution to a prize problem would be considered complete when it has been published in a mathematics journal of worldwide repute and the solution has general acceptance in the mathematics community two years after its publication.

Your Board of Directors will publicize this program widely. Anyone who is not a "disqualified person" with respect to you (as defined in section 4946 of the Code), or is not a current member of your Scientific Advisory Board, is eligible to receive an award. The awards are not intended

to finance any future activities of the recipients, and you impose no conditions as to how recipients may expend the awards.

Ruling Requested

The monetary prizes you will award to individuals under the proposed Prize Program will not be taxable expenditures within the meaning of sections 4945(d)(3) and 4945(d)(5) of the Internal Revenue Code.

Law

Section 170(c)(2)(B) of the Code includes an organization that is organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes.

Section 4945 of the Code imposes excise taxes on each taxable expenditure made by a private foundation.

Section 4945(d) of the Code states that the term "taxable expenditure" means any amount paid or incurred by a private foundation for the purposes described in section 4945(d)(1) through 4945(d)(5).

Section 4945(d)(3) of the Code describes a grant to an individual for travel, study, or other similar purposes by such individual, unless such grant satisfies the requirements of section 4945(g).

Section 4945(d)(5) of the Code refers to any purpose other than one specified in section 170(c)(2)(B).

In Rev. Rul. 75-393, 1975-2 C.B. 451, a private foundation encourages and assists in the development of a particular field of literary criticism. The foundation pays its annual net income to a person who has written the best work of literary criticism during the preceding year. The award recipient is determined by a majority vote of a selection committee, consisting of the heads of the English Departments of three prominent universities. The committee reviews all major publications in which eligible works may appear. In addition, the organization solicits the submission of eligible works by communicating the availability of the award to the general public in a variety of ways. The award is granted in recognition of past outstanding achievement in the literary field, and is not intended to finance any activities and no conditions are imposed on the manner in which the recipient may expend the award. The ruling concludes that because the awards are granted in recognition of past achievements in the field of literary criticism; they are not intended to finance any future activities of an individual grantee; and no conditions are imposed on the manner in which the awards may be expended by the recipients, they are made for purposes other than those stated in section 4945(d)(3) of the Code. Thus, they are not taxable expenditures within the meaning of that provision.

In Rev. Rul. 76-460, 1976-2 C.B. 371, a private foundation sponsors an annual competition among students attending schools specializing in teaching a particular craft. The purpose of the competition is to raise the quality standards in the craft courses in the schools. A Competition Committee of the foundation awards grants to the students who they judge to be the best. There is no requirement that the selected individuals perform any further activity and there is no

restriction as to the use to which the individuals may put the grants. The ruling concludes that the grants are made in recognition of past achievements in the craft course. They are not intended to finance any future activities of an individual grantee. No conditions are imposed on the manner in which the awards may be expended by the recipients. Therefore, because the grants are made for purposes other than those stated in section 4945(d)(3) of the Code, they are not taxable expenditures within the meaning of that section.

The ruling also concludes that the grants are made for educational purposes within the meaning of section 170(c)(2)(B) of the Code and therefore are not taxable expenditures within the meaning of section 4945(d)(5).

In Rev. Rul. 77-380, 1977-2 C.B. 419, *Situation 1*, grants are made by a private foundation to individuals in the field of journalism, primarily in recognition of past achievement. The grants are not intended to finance any future activity of the recipient. There are no conditions or requirements to be met subsequent to receiving the grants. Therefore, because the awards are not grants to individuals for travel, study, or other similar purposes by these individuals, the grants are made for purposes other than those stated in section 4945(d)(3) of the Code, and are not taxable expenditures within the meaning of that section.

Analysis

Under section 4945(d)(3) of the Code, an amount paid or incurred by a private foundation is a taxable expenditure, within the meaning of section 4945, if it is a grant to an individual for travel, study, or other similar purposes, unless it meets the requirements of section 4945(g). Thus, an amount paid or incurred by a private foundation to an individual that is not for the purpose of travel, study, or for other similar purposes is not a taxable expenditure under section 4945(d)(3).

Rev. Rul. 75-393, *supra*, Rev. Rul. 76-460, *supra*, and Rev. Rul. 77-380, *supra*, *Situation 1*, conclude that grants made by a private foundation in recognition of past achievements that are not intended to finance any future activities of the grant recipient and which impose no conditions on the manner in which the awards may be expended by the recipient are not considered grants made to individuals for travel, study or other similar purposes under section 4945(d)(3) of the Code, and therefore are not taxable expenditures within the meaning of section 4945(d)(3).

The monetary prizes you will award to individuals under the Prize Program will be granted in recognition of specific past achievements in the field of mathematics. They are not intended to finance any future activities, and you impose no conditions on the manner in which the recipients may expend the awards. Therefore, because the prizes you will award are similar to the prizes awarded by the private foundations in the above revenue rulings, they are not described in section 4945(d)(3) of the Code because they are not made for travel, study, or other similar purposes. Therefore, the monetary prizes you will award to individuals under the proposed Prize Program will not be taxable expenditures within the meaning of section 4945(d)(3).

Under section 4945(d)(5) of the Code, an amount paid or incurred by a private foundation is a taxable expenditure, within the meaning of section 4945, if it is made for any purpose other than

one specified in section 170(c)(2)(B) (relating to religious, charitable, scientific, literary, or educational purposes).

The monetary prizes you will award to individuals under the Prize Program will be granted on an objective and nondiscriminatory basis to further your charitable, educational and scientific purposes within the meaning of section 170(c)(2)(B) of the Code. Therefore, they will not be taxable expenditures within the meaning of section 4945(d)(5).

Ruling

The monetary prizes you will award to individuals under the proposed Prize Program will not be taxable expenditures within the meaning of sections 4945(d)(3) and 4945(d)(5) of the Internal Revenue Code.

This ruling is based on the understanding there will be no material changes in the facts upon which it is based.

This ruling does not address the applicability of any section of the Code or regulations to the facts submitted other than with respect to the sections described.

This ruling is directed only to the organization that requested it. Section 6110(k)(3) of the Code provides it may not be used or cited by others as precedent.

This ruling will be made available for public inspection under section 6110 of the Code after certain deletions of identifying information are made. For details, see enclosed Notice 437, *Notice of Intention to Disclose*. A copy of this ruling with deletions that we intend to make available for public inspection is attached to Notice 437. If you disagree with our proposed deletions, you should follow the instructions in Notice 437.

If you have any questions about this ruling, please contact the person whose name and telephone number are shown in the heading of this letter.

In accordance with the Power of Attorney currently on file with the Internal Revenue Service, we are sending a copy of this letter to your authorized representative.

Sincerely,

Steven Grodnitzky
Manager, Exempt Organizations
Technical Group 1

Enclosure
Notice 437