

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

Department of the Treasury

Release Number: **201423034**
Release Date: 6/6/2014
Date: March 14, 2014

Employer Identification Number:

Contact person - ID number:

Contact telephone number:

LEGEND:

X= scholarship name
Y= school name
Z= city/state
x = dollar amount
y = dollar amount
z = number

UIL:

4945.04-04

Dear _____ :

You asked for advance approval of your scholarship grant procedures under Internal Revenue Code section 4945(g). This approval is required because you are a private foundation that is exempt from federal income tax. You requested approval of your scholarship program to fund the education of certain qualifying students.

Our determination

We approved your procedures for awarding scholarships. Based on the information you submitted, and assuming you will conduct your program as proposed, we determined that your procedures for awarding scholarships meet the requirements of Code section 4945(g)(1). As a result, expenditures you make under these procedures will not be taxable.

Also, awards made under these procedures are scholarship or fellowship grants and are not taxable to the recipients if they use them for qualified tuition and related expenses (subject to the limitations provide in Code section 117(b)).

Description of your request

Your letter indicates you will operate a scholarship program called X. X will enhance access to higher education by providing two four-year scholarships, annually, to graduates of Y in the Z school district.

In order to be considered for the scholarship, the student must be a graduating senior at Y and complete an application. Each year in late September or early October you will

distribute applications to all Y seniors in their English classes. You will also distribute the application in the career center and via email to those Y students attending courses at any of the local community colleges. There are approximately z students in the senior class at Y.

A scholarship committee made up of department representatives at Y will review the applications and rate the applications according to academic achievement and financial need. Your application form will contain and your committee will consider the following when reviewing and rating the applicants:

- Colleges where the student plans to apply along with the students top-choice and career choice;
- List of senior year coursework, cumulative grade-point-average, and SAT/ACT scores;
- Activities(both in and out of school) which the student has participated that show his/her ability to work with others;
- In-school and out-of -school honors and awards;
- Part-time and full-time jobs the recipient has held since entering high school;
- Any other achievements.

In early December, the applications are collected and each student who filled one out is required to be interviewed by your scholarship committee. Each student is asked a standard set of questions designed to provide the committee with insight that cannot be determined from the application itself.

After these preliminary measures are complete, the committee will meet once each week and work through the nomination and selection process for each of the scholarships that will be awarded until the field of applicants is reduced to several outstanding candidates (according to the criteria provided with each scholarship). At this point the committee will vote for the final selection and will work through this process for each of the awards you grant until the process is complete. Your scholarship committee will rank the applicants first using the student's grade-point-average (GPA) and then scores on college entrance examinations in reading and math. The students will then be ranked by financial need after being ranked for academic achievement.

The committee will then notify you of the students selected to receive your scholarships. Your scholarships are for four years as long as the student remains in school and in good standing. The scholarship award will range from x dollars to y dollars annually.

You will pay the scholarship proceeds directly to the university or college of the recipient's choosing. You will also provide a letter to the recipient's educational institution specifying that the institution agrees to notify the trustee and refund any unused portion of the scholarship if the student fails to meet any term or condition of your scholarship. If the recipient's educational institution will not agree to the terms as stated above, you will obtain the needed reports and grade transcripts from the recipient.

To avoid any conflict of interest, your selection committee does not allow any staff member with qualifying children or other family members who are being considered for a scholarship to serve on the committee that year. Department representatives who serve on the scholarship committee rotate annually. If any conflict situation should arise, the committee member is required to inform the chair of the conflict and abstain from the discussion and selection with regards to the conflict situation.

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 the provisions of Code section 117(a).
- The grant is to be used for study at an educational organization described in Code section 170(b) (1) (A) (ii).

Other conditions that apply to this determination

- This determination only covers 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 a precedent.
- You cannot rely on the conclusions in this letter if the facts you provided have changed substantially. You must report any significant changes to 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 award 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 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.

Please keep a copy of this letter in your records.

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

Sincerely,

Director, Exempt Organizations