

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

**Department of the Treasury**

Release Number: **201427021**  
Release Date: 7/3/2014  
Date: April 8, 2014

**Employer Identification Number:**

**Contact person - ID number:**

**Contact telephone number:**

**LEGEND:**

B= scholarship name  
C= high school  
D= city/state  
x= number  
y= number  
z = dollar amount

**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 won't 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**

You will operate a scholarship program called B to enhance access to higher education by providing scholarships to students of C in D who will attend an accredited four year college or university located in the United States of America.

There are approximately 150 graduating seniors eligible to apply for a scholarship, and between x and y scholarships are awarded annually. Each scholarship is z dollars, or nearly equal to that amount as possible, in order to distribute all funds allocated for scholarships each year.

Your trustees notify the high school of the amount available for distribution and the high school's guidance office informs the students of the availability of the scholarship through emails and morning announcements.

Scholarships are granted to graduating seniors based on academic achievement and financial need. Your scholarship committee reviews academic achievement information and information regarding the parent's gross income, other grants, scholarships or loans received and the projected costs of the school the student plans to attend when determining recipients.

If more funds are available then qualified graduating seniors, prior recipients can renew their scholarship by demonstrating academic achievement and financial need by providing information on their family's gross income, other grants and scholarships awarded and cost of the school the student attends.

Your selection committee consists of the Principal and Vice Principal of the high school and the D Superintendent of Schools. The trustee has no discretion regarding the selection of the scholarship recipients and all scholarships are awarded on an objective and non-discriminatory basis. No scholarship may be awarded to any disqualified person as defined in Code Section 4946.

The trustee pays the scholarship proceeds directly to the university or college the recipient attends for the benefit of the recipient. The trustee provides a letter to each university or college specifying that the university or college's acceptance of the funds constitutes the university or college's agreement to (i) refund any unused portion of the scholarship; and (ii) notify the trustee if the scholarship recipient fails to meet any term or condition of the scholarship. If the university or college will not agree to such terms the trustee will obtain the needed reports and grade transcripts from the scholarship recipient. Expenditure responsibility would be done by sending a grant letter to the student and having them attest to the terms of the scholarship before any funds are disbursed. If the student does not attest to the terms, they would not receive the scholarship.

The terms of the scholarship described in the letter to the university or college state that the scholarship will be used to defray the recipients expenses only if the recipient is enrolled at the subject institution, the funds will be used entirely for educational purposes and cannot be used for any purpose that would cause the grant to be deemed a taxable expenditure.

You will arrange to receive and review grantee reports annually and upon completion of the purpose for which the grant was awarded, investigate diversion of funds from their

intended purposes and take all reasonable and appropriate steps to recover diverted funds, ensure other grant funds held by a grantee are used for their intended purposes and withhold further payments to the grantee until you obtain grantees' assurance that future diversions will not occur and that the grantee will take extraordinary precautions to prevent future diversions 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 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