

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

**Department of the Treasury**

Release Number: **201451058**  
Release Date: 12/19/2014  
Date: **9/25/14**

**Employer Identification Number:**

**Contact person - ID number:**

**Contact telephone number:**

**LEGEND:**

UIL: 4945.04-04

X= County and State  
Y= State  
Z= College  
B= Minimum amount for Freshmen  
C= Minimum amount for Sophomores  
D= Minimum amount for Juniors

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(c)).

**Description of your request**

Your purpose is to provide scholarships to students who are residents of X and in any event shall be residents of the State of Y attending Z. The number of scholarships that will be awarded each year and the amount of each scholarship will vary depending on the amount of funds available to be distributed. The scholarship is advertised on Z's website.

Each year the trustee advises the scholarship committee of the amount of funds available to be awarded as scholarship. The members of the scholarship committee review the scholarship applications and rank the applicants based on financial need. The scholarship committee then submits its selection to the trustee along with the amount of the award. The trust document names the President and the Dean of Students of Z as the selection committee. 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.

Eligible students must be in need of financial assistance, with a particular emphasis on diligent students who may be average scholastically, and not necessarily in the upper part of the class, but who will be likely to benefit in terms of personal development.

The trustee pays the scholarship proceeds directly to the university/college the recipient attends for the benefit of the recipient. The trustee provides a letter to each university/college specifying that the university/college's acceptance of the funds constitutes the university/college's agreement to (i) refund any unused portion of the scholarship if a scholarship recipient fails to meet any term or condition 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/school will not agree to such terms the trustee will obtain the needed reports and grade transcripts from the scholarship recipient.

The dollar amount of each scholarship each year shall be in the sole discretion of the trust committee of the trustee, but in setting such amounts the trust committee shall attempt to make the total amount of each said scholarship approximately the equivalent, in economic value and benefit to the recipient, to that which would have been provided by scholarship during the academic year 1973-1974:

- (1) For a student of freshmen class standing at the beginning of the academic year in the amount of B;
- (2) For a student of sophomore class standing at the beginning of the academic year in the amount of C;
- (3) For a student of junior class standing at the beginning of the academic year in the amount of D.

Each scholarship shall be paid in such increments and at such times during the academic year as the trust committee of the trustee shall determine.

You will maintain case histories showing recipients of your scholarships, or educational grants, including names, addresses, purposes of awards, amount of each award, manner of selection, and the relationship (if any) to officers, trustees or donors of funds to you.

You will arrange to receive and review grantee reports annually and upon completion of the purpose for which the grant was awarded; to investigate diversions of funds from their intended purposes; and take all reasonable and appropriate steps to recover diverted funds, ensure other grants funds held by the grantee are used for their intended purposes, and withhold further payments to grantee until you obtain grantees assurances that future diversions will not occur and the grantees will take extraordinary precautions to prevent future diversions from occurring.

You will maintain all records relating to individual grants, including information obtained to evaluate grantees, identify whether grantee is a disqualified person, establish the amount and purpose of each grant, and establish that you under took the supervision and investigation of grants .

#### **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