

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

**Department of the Treasury**

Number: **201508012**  
Release Date: 2/20/2015

**Employer Identification Number:**

**Contact person - ID number:**

**Contact telephone number:**

**Date: 11/25/2014**

**LEGEND**

**UIL: 4945.04-04**

X= County, State

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 provided in Code section 117(b)).

**Description of your request**

You provide scholarships to residents of X to enhance access to higher education. Preference is given to those not eligible for equivalent financial assistance from governmental sources or other private sources.

Scholarships are awarded based on an extensive interview by your scholarship committee, academic performance, and references from the community regarding service. Returning candidates do not have another interview; however the application procedure is the same every year until they are out of the scholarship program.

Each year you advise the scholarship committee of the amount of funds available to be awarded as scholarships. The number of scholarships you award each year will vary depending on the amount of funds available to be distributed. You are required to annually distribute the greater of income or the amount that must be distributed to satisfy Code Section 4942.

You publicize the scholarship by making contact with the guidance counselors at each of the high schools in the county in which you award scholarships. The candidates are to submit a detailed application form.

The members of the committee review the academic achievement and financial need of graduating seniors, and notify the trustee of the students selected to receive scholarships. You have no discretion regarding the selection of scholarship recipients. 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.

You pay the scholarship proceeds directly to the university/college the recipient attends for the benefit of the recipient. You provide a letter to each university/college specifying that the university/college's acceptance of the funds constitutes the university/college's agreement to (1) refund any unused portion of the scholarship if a scholarship recipient fails to meet any term or condition of the scholarship, and (2) notify you if the scholarship recipient fails to meet any term or condition of the scholarship. If the university/school will not agree to such terms you will obtain the needed reports and grade transcripts from the scholarship recipient.

You represent that you will (1) arrange to receive and review recipient reports annually and upon completion of the purpose for which the grant was awarded, (2) investigate diversions of funds from their intended purposes, and (3) take all reasonable and appropriate steps to recover diverted funds.

You will also ensure other scholarship funds held by a recipient are used for their intended purposes, and withhold further payments to recipients until you obtain recipients' assurances that future diversions will not occur and that the recipients will take extraordinary precautions to prevent future diversions.

You represent that you will maintain all records relating to individual grants, including information obtained to evaluate recipients, identify whether a recipient is a disqualified person, establish the amount and purpose of each grant, and establish that you undertook 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. The effective date of our approval is August 16, 2013, which is the date your request was submitted.
- 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