

**Internal Revenue Service**

P.O. Box 2508  
Cincinnati, OH 45201

**Department of the Treasury**

Release Number: **201509042**

Release Date: 2/27/2015

Date: 12/2/2014

**Employer Identification Number:**

**Contact person - ID number:**

**Contact telephone number:**

**LEGEND**

**UIL: 4945.04-04**

X= County and 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 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 provide scholarships to students who are residents of X, who meet the criteria set forth in your trust agreement to attend the university or college selected by the recipient. The criteria include:

- The character of the individual
- The intelligence of the individual, which shall be above average
- The scholastic record of the individual
- The need of the individual

The number of scholarships you award each year and the amount of each scholarship will vary depending on the amount of funds available to be distributed. The trust is

required to annually distribute the greater of the net income of the trust or the amount that must be distributed to satisfy Code Section 4942.

The local high schools post scholarship information in the counselors' offices, which are accessible to all students.

The scholarship advisory committee reviews the applications and advises you regarding the amount to be awarded to each applicant. Each year you advise the scholarship advisory committee of the amount of funds available to be awarded as scholarships. The members of the scholarship advisory committee review the scholarship applications and rank the applicants based on grade point average and financial need, as well as ensure recipients have been residents of X for at least two years. The scholarship advisory committee then submits its selection to you. 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. Students must apply each year.

You pay the scholarship proceeds directly to the university or college the recipient attends for the benefit of the recipient. You provide a letter to each university or college specifying that their acceptance of the funds constitutes their 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 you if the scholarship recipient fails to meet any term or condition of the scholarship. If the school will not agree to such terms you will obtain the needed reports and grade transcripts from the scholarship recipient.

You will arrange to receive and review grantee reports annually and upon completion of the purpose for which the grant was awarded, investigate diversions of funds from their intended purposes, and take all reasonable and appropriate steps to recover diverted funds.

You will ensure other grant funds held by a grantee are used for their intended purposes, and withhold further payments to grantees until you obtain their assurances that future diversions will not occur and that they will take extraordinary precautions to prevent future diversions.

You will maintain all records relating to individual grants, including information obtained to evaluate grantees, identify whether a grantee 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 October 4, 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