

Internal Revenue Service

P.O. Box 2508
Cincinnati, OH 45201

Department of the Treasury

Number: **201522009**
Release Date: 5/29/2015

Employer Identification Number:

Contact person - ID number:

Date: 3/3/2015

Contact telephone number:

LEGEND

Y= County, State
Z= Name of Community College
\$x= Amount
\$y= Amount
m= Number
n= Number
p= Number
q= Number
r= 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 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 provided in Code section 117(c)).

Description of your request

Your letter indicates that you will operate a scholarship program to provide scholarships to residents of Y who enroll in Z, a local community college. You state that the purpose of your scholarship program is to enhance the level of education in the Y community and thereby, improve the quality of life in the Y community at large.

You state that up to m number of scholarships will be awarded each year at \$x per year. This breaks down to \$y per semester. Scholarships are available for a maximum of n semesters per recipient. Scholarship payments will be made directly to Z.

Your scholarship eligibility criteria are:

1. Be a resident of Y
2. Be admitted to Z under Z's admission standards
3. Enrolled in a minimum of p college credits at Z per semester

Before you will issue a scholarship, the individual must apply and be accepted to admission at Z. Therefore, Z's admission standards are the first criteria that the individual must pass.

The current eligibility requirements for admission to Z are:

1. The student must have a high school diploma or General Education Development Diploma
2. Be 18 years or older
3. Z believes the student would benefit from its educational programs, or the student has satisfied the conditions of early admission of secondary school students

Z's admission standards could change without your knowledge. You state that if you become aware of a change in Z's admission standards that do not align with your purpose, you will cease issuing scholarships.

Because part of the purpose of the scholarship program is to improve the quality of life in the Y community, the second criterion for the individual is that he or she lives in Y.

Since you are looking for conscientious individuals who seek to better him or herself through higher education, the third criterion for the individual is that he or she be enrolled in a minimum of p college credits at Z per semester.

The scholarship recipients will be selected on a first-come first-serve basis. You indicate that the issuance of scholarships on a first-come first serve basis is related to the purpose of your scholarships, which is to induce a large number of students in the Y community to attend college and therefore, enhance the general level of education in the Y community. You provide that by enhancing the level of education in the Y community, the Y community at large will be improved, as more people will be able to reach closer to their full potential. In addition, enhanced education in the Y community will lead to a stronger workforce and the development of future business and community leaders.

You state that the characteristics of a probable Z student make traditional scholarship selection based on financial need or academic merit not suited to your goal of inducing a large number of potential students to attend college. As Z is a community college, you indicate that potential applicants might not have a strong academic background from high

school, might not be freshly out of high school and might be currently gainfully employed, but seeking to better themselves through education.

You state that the group of eligible applicants living in Y is sufficiently large to constitute a charitable class. Based on the information obtained from the U.S. Census Bureau, approximately q individuals in the Y community are eligible to apply for your scholarships each year. However, you estimate the likely scholarship applicant pool to be approximately r individuals in the Y community each year.

Any person who is considered a "disqualified person" with respect to you within the meaning of Internal Revenue Code Section 4946(a) are not eligible to receive scholarships.

The scholarship will be publicized through information made available by Z to its prospective students. Students attending high school in Y may also be made aware of your scholarship program through their high school guidance counselors.

You represent that you will (1) arrange to receive and review recipient reports annually and upon completion of the purpose for which the scholarship 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 scholarships, including information obtained to evaluate recipients, identify whether a recipient is a disqualified person, establish the amount and purpose of each scholarship, and establish that you undertook the supervision and investigation of scholarships.

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,

Tamera L. Ripperda
Director, Exempt Organizations