

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

**Department of the Treasury**

Date: March 31, 2016

Number: **201626026**  
Release Date: 6/24/2016

**Employer Identification Number:**

**Contact person - ID number:**

**Contact telephone number:**

**LEGEND**

UIL: 4945.04-04

X= Scholarship Program  
Y= School Name

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(b)).

**Description of your request**

Your letter indicates that you will operate an educational scholarship program called X.

The purpose of X is to provide scholarships to aid students with disabilities in attending Y, an educational institution described in section 170(b)(1)(A)(ii). You will coordinate with school administrators to solicit current and prospective students who may be eligible for

the program as well as develop and incorporate formal announcement materials, as necessary, while continuing to work directly with school administrators to engage in word of mouth solicitation. You may expand X to include other qualified educational institutions. You will base the amount of the individual scholarships on the recipient's need and the number of scholarships will be variable. This will annually be determined at your discretion and the amount of funds available for distribution which may be permissibly distributed while maintaining your status as a private operating foundation.

In determining eligibility, you will evaluate (a) documents relevant to determining financial need, (b) letters of recommendation from schools, teachers, counselors and parents/guardians, (c) proof of enrollment in the school, college, university, etc., (d) copies of tuition bills, (e) copies or other proof of any other grants or loans awarded, (f) copies of grade transcripts or evaluations of the individual's academic progress and (g) letters from the individual explaining in his/her words why he/she is deserving of the scholarship, if available. You will also consider information relevant to a student's developmental disabilities when determining eligibility of developmentally disabled students.

The following individuals shall not be eligible to apply for or receive a scholarship from you: (a) any employee of yours, as well as any family member of such an individual; (b) any executive, officer, or director of yours, as well as any family member of such an individual; and (c) any otherwise "disqualified person" with respect to you as defined by Section 4946 of the Code, as well as any family member of such an individual.

The scholarship recipients will be selected by a selection committee consisting of your trustees. Your trustees may select additional committee members who they deem as qualified based on their experience with or are interested in the education field or that they are a manager, director, officer or serve in a similar capacity for other organizations in which they have to make the similar decisions.

All scholarships awarded by you are expected to be paid to the accredited educational institution in which the recipient is enrolled and only in the event that the institution agrees to supervise the use of the scholarship. The conditions placed upon the scholarships shall be that: the recipient must be enrolled in an education institution, and the scholarship must be used to cover the cost of the student's tuition, fees, books, room and board, research, fees and other expenses associated with the completion of the recipient's degree. Any unused funds shall be transferred by the educational institution back to you. You will require an annual report from each educational institution for the purpose of confirming the recipient's enrollment and academic performance.

You represent that you will complete the following: (1) arrange to receive and review grantee reports annually and upon completion of the purpose for which the grant was awarded, (2) investigate diversion of funds from their intended purposes, and (3) take all reasonable and appropriate steps to recover the diverted funds, ensure other grant funds held by a grantee are used for their intended purposes, and (4) withhold further payments to grantees until you obtain grantees' assurances that future diversions will not occur and

that grantees will take extraordinary precautions to prevent future diversion from occurring.

You represent that you will maintain the following: (1) all records relating to individual grants including information obtained to evaluate grantees, (2) identify a grantee is a disqualified person, (3) establish the amount and purpose of each grant, and (4) establish that you undertook the supervision and investigation of grants described above.

#### **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.

We've sent a copy of this letter to your representative as indicated in your power of attorney.

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,

Jeffrey I. Cooper  
Director, Exempt Organizations  
Rulings and Agreements