

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

**Department of the Treasury**

**Date: May 12, 2016**

**Employer Identification Number:**

**Number: 201632025**  
**Release Date: 8/5/2016**

**Contact person - ID number:**

**Contact telephone number:**

**LEGEND**

**UIL: 4945.04-04**

**B = Fellowship Program**  
**C = Law School**

**w dollars = Amount**  
**x dollars = Amount**  
**y = Number**  
**z = Number**

**Dear :**

You asked for advance approval of your educational grant procedures under Internal Revenue Code section 4945(g)(3). This approval is required because you are a private foundation that is exempt from federal income tax.

**Our determination**

We approved your procedures for awarding educational grants. Based on the information you submitted, and assuming you will conduct your program as proposed, we determined that your procedures for awarding educational grants meet the requirements of Code section 4945(g)(3). As a result, expenditures you make under these procedures won't be taxable.

**Description of your request**

Your letter indicates that you will operate an educational grant program called B. The purpose of B is to increase the number of people who receive much-needed legal services and to help new lawyers pursue a career in public interest law. You will award fellowships for the recipients (fellows) to work as an employee for a host organization that provides civil legal services to the poor (including the working poor) and/or those deprived of their civil or human rights. The fellow will work on a new project developed with the host organization or on one of the host organization's ongoing projects. The host organization must be a domestic 501(c)(3) non-profit organization and have at least two lawyers on staff.

Each fellowship award will usually include a one-year salary of  $w$  dollars and a maximum of  $x$  dollars to help the host organization cover the cost of health benefits for the fellow. The host organization must provide health benefits that an employee of the host organization with similar experience and/or responsibility would be entitled to and agree to pay costs exceeding the  $x$  dollars provided by you. In addition, any changes you make in the amount of the fellowship award will be comparable to similar fellowships. Moreover, the fellowships will be awarded for one year with an option to renew for a second year upon the request of the fellow and host organization and within your sole discretion. You will award about  $y$  fellowships the first year and approximately  $z$  each year after that including new and renewal grants. In addition, you will award new fellowships once a year.

Students in their last year of law school at  $C$  are initially eligible for  $B$ . After you ensure that the application process and fellowship program are efficient and effective (approximately one to two years), you may open  $B$  to students in their last year at other law schools. You will advertise and publicize information  $B$  on the law schools' job boards as well as notify the career services offices so that they may inform students interested in pursuing public interest legal careers.

You require applicants to provide you a resume, law school transcripts, professional references, and write two essays. The first essay requires the applicant provide a detailed proposal that either describes a new project they will pursue with the host organization or a description of one of the host organization's ongoing projects. The proposal must include (1) an overview of the project, including the legal rights and client constituency they will address; (2) an explanation for the need for the project; (3) individual responsibilities and goals to be met by the project; and (4) how the goals will further the public interest.

The second essay requires applicants to describe their motivation to become a public interest lawyer and how their previous experiences have prepared them for the fellowship.

The host organization must also provide a separate letter as part of the application process. The letter should include (1) the organization's purpose and mission; (2) a statement of its interest in and commitment to the proposed project, including any plans for the fellow's training and professional development; (3) the proposed work environment for the fellow, including work space, support staff, and other resources; (4) the name of the fellow's immediate supervisor, his/her experience in the substantive area of the fellowship project, and plans for supervision; and (5) whether the organization will be able to provide the additional cost for health benefits if the employer's contribution exceeds dollars. If the organization will not be providing health insurance coverage, the host organization should provide a clear explanation (e.g., that the proposed fellow has waived coverage). The host organization must also agree to provide malpractice coverage to cover any of the fellow's activities during the course of the fellowship.

Recipients will be ranked and chosen by a selection committee which will generally consist of individuals who have a Juris Doctorate. Additionally, they must either serve on your board or win a majority vote by your board. Furthermore, if you decide to open B to students in their last year at other law schools, you may create selection committees for each school. You will also seek partnerships with private law firms near each university. You will ask that at least one lawyer from the firm serves on the fellowship selection committee to help select fellows from the local law school and provide mentorship to the fellow.

The recipients will be selected based on a variety of factors including academic performance, professional experience, character, and demonstrated commitment to the public interest as well as. The proposed project's quality and the demonstrated effectiveness of the host organization will also be considered. In evaluating these factors, the committee will look to the applicant's resume, essays, law school record, references, and host organization's letter of support.

You will provide grants directly to the fellow's host 501(c)(3) organization for the fellow's benefit. You will send supporting payments in quarterly installments each September, December, March, and June. Fellows must submit quarterly reports to the Foundation describing their experience. If no report is received or a report indicates that funds are not being used in furtherance of the intended purpose, the grant will be investigated. Payments will be withheld until satisfactory reports are received and an attempt will be made to recoup any diverted funds.

To qualify for renewal of the fellowship, you will require two additional reports. First, the fellow will submit a final report describing outcomes and plans for the next year. Second, you will require a progress report from the fellow's supervisor.

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, (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 whether 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 section 117(a) and is to be used for study at an educational organization described in section 170(b)(1)(A)(ii); or
  - A prize or award subject to the provisions of section 74(b), if the recipient of the prize or award is selected from the general public; or
  - To achieve a specific objective; produce a report or similar product; or improve or enhance a literary, artistic, musical, scientific, teaching, or other similar skill or talent of the recipient.

To receive approval of its educational grant procedures, Treasury Regulations section 53.4945-4(c)(1) requires that a private foundation show:

- The grant procedure includes an objective and nondiscriminatory selection process.
- The grant procedure results in the recipients performing the activities the grants were intended to finance.
- The foundation plans to obtain reports to determine whether the recipients have performed the activities that the grants were intended to finance.

**Other conditions that apply to this determination**

- This determination covers only 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 precedent.
- You cannot rely on the conclusions in this letter if the facts you provided have changed substantially. You must report any significant changes in 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 make 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 must 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 any questions, please contact the person listed at the top of this letter.

Sincerely,

Jeffrey I. Cooper  
Director, Exempt Organizations  
Rulings and Agreements