

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

Department of the Treasury

Release Number: **201728023**
Release Date: 7/14/2017
Date: **April 21, 2017**

Employer Identification Number:

Contact person - ID number:

Contact telephone number:

LEGEND
Y = State
Z = Club

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 provide in Code section 117(b)).

Description of your request

Your letter indicates you will operate a scholarship program. You will provide scholarship grants for primary or secondary school students, undergraduate or graduate students at a college or university conducting research to earn a professional degree or other students who study at an educational institution that provides programs of study that are creditable towards a bachelors or higher degree or offers training to prepare a student for gainful employment.

The criteria for selection will be applied to candidates on an objective and non-discriminatory basis. The group from which grant recipients are selected will be sufficiently broad so that giving grants to one or more members of the group fulfills a charitable purpose; however selection from such a group is not necessary if one or more

grant recipients are selected on the basis of their exceptional qualifications to carry out the purposes of the grant or it is otherwise evident that the selection is particularly calculated to effectuate the charitable purpose of the grant rather than benefitting designated persons or a particular class of persons.

Criteria that you may use to select grant recipients may include, but are not limited to, prior academic performance, performance on tests designed to measure aptitude, recommendations from instructors, additional biographical information on applicant's career such as academic and other relevant experiences, financial need, and your conclusions regarding applicant's motivation, character, ability or potential. You may also give preference to applicants who attend school in the state of Y, or who have attended a particular school or who have participated in Z. Preference may also be given to applicants of a particular sex, race, ethnic background or religion as long as the preference does not violate public policy.

The availability of the scholarship program will be advertised to the general public by having your staff or members of the selection committee contact high school, college and graduate school administrators and managers of relevant community institutions. You intend to request that these administrators and managers nominate potential candidates or encourage potential awardees to submit applications for scholarship aid.

You shall appoint members to a selection committee who are charged with the evaluation of candidates for scholarship grants. All appointments to the committee shall be made by your board of directors. Each member of the selection committee shall adhere to your relevant policies as they may be adopted. A member shall disclose any personal knowledge of and relationship with any potential grantee under consideration and refrain from participation in the award process. No grant may be awarded to any member of your board of directors, any substantial contributor, any of your employees or any other disqualified person as defined in IRC 4946(a). The committee shall forward its recommendations to your staff who shall furnish the same to your board of directors who must approve each award made under the program.

Applicants for the scholarship grants shall be required to submit such application forms and supporting materials as you deem appropriate based on a timeline you will establish. Grants will ordinarily be awarded for a one year period but may be for a shorter or longer period and may be renewable for a period appropriate to the purposes of the scholarship.

Scholarship grants shall be used only for qualified tuition and related expenses including fees, books, supplies and equipment required for courses of instruction, and room and board. An additional condition is that no part of the scholarship grant shall be used as payment for teaching, research or other services by the scholarship recipient required as a condition for receiving the scholarship.

Scholarship grants shall be paid by you directly to the educational institution for the use of the scholarship recipient. Each educational institution must be described in Internal Revenue Code 170(b)(1)(A)(ii) and must agree in writing to use the grant funds to defray

the recipient's expenses or to pay the funds or portions thereof to the recipient only if the recipient is enrolled as such educational institution and his or her standing at the institution is consistent with the purposes and conditions of the grant. You reserve the right to impose additional, minor reasonable restrictions and/or requirements upon awarding of scholarship grants and the administration of such grants. Material changes would need the approval of your board of directors.

Scholarship grant recipients shall be notified after you have given final approval for the awards. You agree to provide each recipient with a letter notifying him/her of the grant and specifying that the amounts must be used exclusively for tuition at post-secondary institutions that normally maintain a regular faculty and curriculum, and for fees, books, supplies, eligible equipment and for room and board expenses payable to the institution, unless otherwise agreed to. The letter shall inform the student that no funds will be disbursed until you receive confirmation that the student is enrolled in the educational institution at which time funds may be released to the institution. The letter shall also describe the reporting requirements which the recipient must adhere to and the dates at which such reports are due back to you. Each recipient shall be required to sign and return a copy of the letter indicating his/her acceptance of the scholarship and its terms.

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 diversions from occurring.

You represent that you will maintain the following: (1) all records relating to individual grants including information 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.

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,

Stephen A. Martin
Director, Exempt Organizations
Rulings and Agreements