

**Internal Revenue Service**

P.O. Box 2508  
Cincinnati, OH 45201

**Department of the Treasury**Release Number: **201834015**

Release Date: 8/24/2018

**Date: May 31, 2018****Employer Identification Number:****Contact person - ID number:****Contact telephone number:****LEGEND**

X = Name

Y = City

Z = Name

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. The effective date is September 26, 2017.

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 you will operate a scholarship program called X.

The purpose of X is to encourage Z graduates in Y to further their education at an accredited educational institution including four-year colleges and universities, community colleges, business schools, nurses training schools, and trade schools.

You will determine the annual number of scholarships by your required minimum distribution amount (under Code Section 4942), the number of applicants, and the financial need of each applicant. The amount of each scholarship will vary and will be based on the financial need of the student and the total amount of scholarship funds.

To be eligible to receive a scholarship, the applicant must be a graduate of Z who demonstrates financial need and has enrolled at an accredited educational institution.

You will publicize the availability of X to Z graduating seniors through the Y school board and superintendent. Students interested in the scholarship must submit a detailed application, provide relevant supporting documents, and complete an essay.

The selection committee, consisting of the superintendent and board members of the Y school district, will review and evaluate all applications.

In order to insure a confidential and objective competitive selection process, you will use a procedure that provides for a cover page listing personal information including name, institution, and applicant and parent addresses. The school will assign each application a scholarship number and that number will be placed on the pages reviewed by the selection committee rather than by individual name.

After the selection committee evaluates the applications, they will provide you recommendations of who should receive the award as well as the amount of the award. You will follow their recommendations.

Relatives of committee members, or of your officers, trustees, or substantial contributors, are ineligible to receive a scholarship.

The scholarships are renewable; to be eligible for renewal, the recipient must reapply, be in good academic standing, and continue to have financial need.

You will pay the scholarship proceeds directly to the educational institution that the recipient attends for the benefit of the recipient. You will provide a letter to each educational institution 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 educational institution will not agree to such terms, you will obtain the needed reports and grade transcripts from the scholarship recipient.

You have represented that 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, ensure other grant funds held by a grantee are used for their intended purposes, and 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 have represented that you will maintain all records relating to your scholarship 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 described in the paragraph immediately 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