

Internal Revenue Service

P.O. Box 2508
Cincinnati, OH 45201

Number: **202036006**

Release Date: 9/4/2020

Date: JUNE 11, 2020

Department of the Treasury

Employer Identification Number:

Contact person - ID number:

Contact telephone number:

LEGEND

UIL: 4945.04-04

X =

b dollars =

Dear :

You asked for advance approval of your scholarship grant procedures under Internal Revenue Code (IRC) 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 IRC 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 IRC Section 117(b)).

Description of your request

Your letter indicates you will operate a scholarship program.

Your purpose is to strengthen the US government and increase its ability and determination to defend and extend freedom throughout the world by improving the training and education of men and women for government service.

You fulfill your purpose by providing scholarships to participants of X. Under X, graduate students at select partner universities receive full scholarships, living stipends, and health insurance coverage in exchange for a commitment to work for the federal government for a minimum of three of their first seven years after graduation.

Graduate students at your partner universities can apply to become Fellows through their graduate programs. In general, you provide funding to each of the partner universities to support two to five Fellows per graduating class. Each partner university selects the individual Fellows in accordance with its own application process and approval procedures. Fellows are selected on a nondiscriminatory basis from among the graduate students accepted to the program who are willing to make the commitment to working for the federal government and are generally evaluated on their academic performance, professional experiences, and career goals.

Historically, you have supported X with grants to the partner universities. The partner universities then manage the grant funds and control the distributions to the Fellows to cover tuition, room and board, associated academic and living expenses, and health insurance. You intend to maintain these procedures for most fellowship awards.

In situations where substantial overhead costs make this cost prohibitive, you intend to restructure the flow of funds for certain Fellows so that they receive the scholarships funds directly, restricted to cover costs of tuition, books, health insurance costs and university health fees, and living expenses associated with attendance at their graduate program.

You requested approval for the procedures set forth below:

- (a) Recipients of the scholarships will be chosen from among students who have been accepted as Fellows at a partner university; thus, recipients will be chosen from a pool of applicants admitted to study at one of the partner universities graduate programs and selected through the nondiscriminatory procedures of that university.
- (b) Although each partner institution manages the selection process for Fellows independently, all of the programs generally select students based on applicants' demonstrated leadership potential, sincere commitment to federal public service, and prior academic achievements.
- (c) You will make the determination, solely in your discretion, which Fellows receive a direct scholarship, and which receive a scholarship paid and managed through the partner universities. These decisions will be based on whether the overhead costs charged by partner institutions to administer the funds are considered excessive relative to your costs to distribute the funds directly to the Fellows.
- (d) You will not discriminate on the basis of race, religion, creed, color, sex, age, physical or mental disabilities, sexual orientation, or national origin. All awards will be made on an objective and nondiscriminatory basis.
- (e) Any unused funds will be transferred back to the you.
- (f) The exact number and amount of scholarships in a given year will depend on a number of factors, including the number, qualifications, and particular needs of the applicants. The amount of the Scholarship for a particular Fellow may vary based on the financial needs of the Fellow and expected costs of his or her graduate program but may be as high as *b dollars* per year. At this time, you anticipate

awarding scholarships to approximately two to four Fellows each year and that could increase to as many as ten scholars in future years.

- (g) No scholarships will be awarded to your founders, directors, officers, or staff, or their families, or to any disqualified person with respect to you, or for a purpose that is inconsistent with the purposes set forth in IRC Section 170(c)(2)(B).
- (h) Where you award a Scholarship directly to a Fellow, you will require the Fellow to furnish annual reports of the courses taken and grades received during each academic period. The reports must be verified by the institution in which the recipient is enrolled. Where a Fellow's course of study involves the preparation of research and projects instead of coursework, you will require the recipient to furnish annual progress reports that are approved by a supervising faculty member or other appropriate university official. Upon completion of a Fellow's course of study at an institution, you will require the recipient to furnish a final report.
- (i) A Scholarship may be renewable at the end of each academic year, through the completion of the Fellow's current program. Fellows must meet certain criteria to be eligible for scholarship renewal, including compliance with all reporting requirements described above.
- (j) If a required report is not submitted, if the submitted report is unsatisfactory, or if you learn that all or any part of the funds from a scholarship it has awarded are being diverted from their intended purposes, it will take all reasonable and appropriate steps to recover the funds or to ensure restoration of the diverted funds to the purposes of the program. These steps would include legal action if deemed appropriate under the circumstances.
- (k) You will retain complete records with respect to all scholarships awarded, as required by the applicable Treasury Regulations. These records will include all information obtained by you to evaluate applicants, the identification of recipients, the completed application of each recipient, the amount of each grant, periodic reports from recipients, and any additional information that you have obtained in the course of the grant-administration process.
- (l) You will report all scholarships awarded on an annual basis on your Form 990-PF.

Basis for our determination

The law imposes certain excise taxes on the taxable expenditures of private foundations (IRC 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 IRC 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 IRC Section 117(a).
- The grant is to be used for study at an educational organization described in IRC 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 IRC 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,

Stephen A. Martin
Director, Exempt Organizations
Rulings and Agreements

cc: