

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

**Department of the Treasury**

Number: **202103020**  
Release Date: 1/22/2021

**Date:** October 27, 2020

**Employer Identification Number:**

**Contact person - ID number:**

**Contact telephone number:**

**LEGEND**

UIL: 4945.04-04

X = States  
y dollars = amount  
z = number

Dear :

You asked for advance approval of your educational grant and loan procedures under Internal Revenue Code Sections 4945(g)(1) and 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 and loans. Based on the information you submitted, and assuming you will conduct your programs as proposed, we determined that your procedures for awarding scholarships meet the requirements of Code Section 4945(g)(1). We also determined your procedures for awarding educational loans meet the requirements of Code Section 4945(g)(3). As a result, expenditures you make under these procedures won't be taxable.

Also, awards meeting the requirements of Code Section 4945(g)(1) which are 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 that you will provide educational grants in the form of scholarships and educational loans. Your primary objective is to serve students with financial need in the states of X. You will identify and assist individuals who are qualified to obtain a college degree but lack the financial resources to do so without incurring substantial debt.

Scholarships will be awarded for the purpose of studying to obtain any of the following degrees at an accredited institution of higher education: (1) an associate's degree at a community college or junior college, (2) a bachelor's degree at a college or university, (3) any graduate degree in the nature of a master's degree, doctor's degree, or other advanced college or university degree, (4) any graduate professional degree in the nature of a law degree, master's of public administration, master's of business degree, doctors of medicine, dentistry, or other professional health or other professional degrees, and (5) any other degree post-high school offered by an accredited educational institution. Grants may be made for tuition, books, fees and room and board. In addition, all grants shall qualify as those subject to the provisions of Code Section 117(a) (as in effect on the day before the date of enactment of the Tax Reform Act of 1986) and must be used for study at an educational organization described in Code Section 170(b)(1)(A)(ii).

You do not currently award educational loans but may in the future offer long-term, low-interest loans to individuals under Code Section 4945(g)(3). Loans will be awarded on an objective and non-discriminatory basis at the discretion of your Board of Trustees and forgiveness and other terms will be considered on a case-by-case basis.

Award amounts are determined by your Board of Trustees and are currently capped at y dollars per individual with no more than z grants per year. You will publicize the program via educational institutions in the states of X. You will work with admissions and scholarship offices to announce and provide program materials.

Eligible applicants will consist of graduating high school students looking to attend college or an educational institution in the states of X. Applicants seeking to attend educational institutions in other states may be considered by your Board of Trustees on a case-by-case, but limited, basis.

Grants will be awarded on an objective and nondiscriminatory basis. The selection committee will be composed of your Board of Trustees. The order and priority for the selection criteria is: 1) financial need, 2) academic achievements/performance, and 3) community involvement/service. The applicant's financial need, cost of tuition, housing, books and expenses will be considered in determining the grant amount. Award letters will be sent detailing the terms and conditions of each grant and grantees are required to accept in writing. Terms and conditions include the specific purpose of the grant, its duration, the total amount of the grant, requirements for narrative reports, and due dates for such reports.

To maintain eligibility or renewal, a course and grade report from the educational institution is required at least yearly. Grantees must demonstrate that they are enrolled, progressing towards their degree, and anxiously engaged in learning as reflected by their grades. In cases of grantees whose study at an educational institution does not involve the taking of courses but only the preparation of research papers or projects, a brief report on the progress of the paper or project is required at least yearly. The report must be approved by the faculty member supervising the grantee or by another appropriate

university official. If the grantee is not attending school, a yearly progress report must be made to qualify for any renewal. You shall require each grantee to make further reports on the use of any grants, as you may determine, as may be necessary or desirable for you to comply with all of your obligations to maintain and continue expenditure responsibility pursuant to the Internal Revenue Code.

Your practice will be, to the greatest extent possible, to make grants directly to an educational institution on behalf of the student. The educational institution will confirm that the student is enrolled and in good standing. If you make the award directly to the student, you require reporting of the student's courses and grades from the educational institution. If you pay a fellowship or grant directly to an educational institution that agrees to supervise the use of the grant made to a grantee that is enrolled and in good standing, you will still maintain records with respect to individual grants and this information shall include: (1) the information used to evaluate the qualifications of potential grantees; (2) a complete identification of the grantees selected; (3) the amount and purpose of each grant; and (4) all grantee reports and other follow-up data in administering your grant program.

You shall exert all reasonable efforts and establish adequate procedures:

1. To see that the grant is spent solely for the purpose for which made;
2. To obtain full and complete reports from the grantee on how the funds are spent, and
3. To make full and detailed reports with respect to such expenditures.

If reports are submitted that indicate grants are not being used in furtherance of intended purposes, you will investigate the circumstances and withhold further payments until any delinquent reports or reporting deficiencies have been cured. You will require the grantee to agree that no further failures to comply shall occur and that extra precautions will be made to ensure grants are used strictly for intended purposes. If the grantee does not promptly cure or remediate any deficiencies, no further grants or payments shall be made, and repayments will be required for those semesters or terms. You will adopt reasonable procedures to recover grant funds not used for intended purposes.

You will retain the following records in relation to your grant program: (1) All information you secure to evaluate the qualification of potential grantees; (2) Identification of grantees (including any relationship of any grantee to you sufficient to make such grantee a disqualified person within the meaning of Code Section 4946(a)(1)); (3) Specification of the amount and purpose of each grant; and (4) The follow-up information which you obtain in complying with your grantmaking policies such as grantee reporting and supervision and investigation.

#### **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 Code Section 117(a) and is to be used for study at an educational organization described in Code Section 170(b)(1)(A)(ii); or
  - A prize or award subject to the provisions of Code 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 Regulation 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.

Long-term, low-interest loans that private foundations make for educational purposes can be considered grants under Code Section 4945(g)(3) and Revenue Ruling 77-434, 1977 2 C.B. 420.

**Other conditions that apply to this determination**

- This determination only covers the grant/loan program described above. This approval will apply to succeeding grant/loan 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/loans 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/loan 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