

**Internal Revenue Service**

P.O. Box 2508  
Cincinnati, OH 45201

**Department of the Treasury**

Number: **202127043**  
Release Date: 7/9/2021

**Employer Identification Number:**

**Date: April 13, 2021**

**Contact person - ID number:**

**Contact telephone number:**

**LEGEND**

UIL: 4945.04-04

- M = Scholarship Name
- N = Country 1
- P = Country 2
- Q = Country 3
- R = University
- S = Nonprofit organization 1
- T = Nonprofit organization 2
- V = Name
- x = Number range
- z dollars = Dollar amount range

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 M. Your purpose is to make grants to universities and nonprofit entities to develop new programs and support existing programs devoted to educating youth about activities in the civic sector, encouraging them to engage in such activities, and developing civic leadership. You will also develop curriculum materials for such programs, and provide financial support or conferences devoted to the above-described goals.

The purpose of your fellowship program is to “improve or enhance a literary, artistic, musical, scientific, teaching or other similar capacity, skill or talent” of each fellowship recipient.

The fellowship program provides recent college graduates in N, P and Q with professional and civic skills through a year-long placement within a mission-oriented organization in N, P or Q. The fellowship is open to college graduates who are residents of N, P and Q, who meet the eligibility requirements.

Fellows who are selected will: (i) be hosted for one-year as a full-time employee of an organization in his or her country; (ii) receive a stipend; (iii) attend training sessions conducted by leaders in their field; (iv) meet with a mentor; (v) attend networking events; and (vi) attend conferences to meet other fellows and receive further training. In addition, fellows will be required to submit monthly reports, a mid-year report, and a final written project.

It is your goal that once a fellow has completed the fellowship program that he or she will have enhanced skills to use in a chosen career field in the public/civic sector. In addition, you aim to create a strong alumni network of former fellows who will continue to be involved with the fellowship program going forward. The fellowship program has placed fellows with several internationally known non-profit organizations.

You do not directly “operate” the fellowship program now because you have no authority to direct that certain persons be selected as fellows and provides no direct funding or earmarked funding to fellows. Instead, you currently provide expenditure responsibility grants to R (a 501(c)(3) public charity operating in N), S (a nonprofit organization operating in P), and T (a nonprofit organization operating in Q). Among other things, the expenditure responsibility grant agreements dictate that each grantee must choose fellowship recipients on an objective and nondiscriminatory basis. You provide specific screening criteria and a rubric to evaluate applicants to ensure that recipients are selected on an objective and non-discriminatory basis. The local grantee’s use of the specific screening criteria and the rubric are contractually mandated through the expenditure responsibility grant agreements.

Going forward, you may fund fellowships through direct grants to the fellows, payments to facilitating organizations, grants to the organizations that operate the program, or a combination of the foregoing methods. To the extent possible, you will obtain equivalency determinations for grantees that have not already been recognized as tax-exempt public charities under Section 501(c)(3). Where you make grants to entities without an equivalency determination or public charity status, you will exercise expenditure responsibility, and in these cases, expenditure responsibility grant agreements will require grantees to follow the fellowship selection procedures described herein. Regardless of who you are working with to run the fellowship program, the selection procedures described herein shall be followed.

It is possible that in the future the fellowship program may operate in other countries and some of the specifics of the procedures used (e.g. adding persons to the panel that interviews applicants) could change, but the overall substance of the process, including the nondiscriminatory and objective basis for choosing fellows, will remain as discussed herein.

The fellowship program will further your exempt purposes. The fellowship program will allow individuals to improve and enhance their capacities, skills, and talents. In particular, the fellowship program aims to develop competency in four areas:

(1) Civic Leadership - You understand civic leadership as the capacity to comprehend the context of an issue, diagnosis of an issue and use of analytical and human skills to address it.

(2) Professional Development and Program Management - This competency focuses on developing the capacity of each fellow to operate effectively in any professional environment and to create added value for his or her organization by bringing program management skills.

(3) Finance and Administrative Skills - This competency focuses on the legal, financial and administrative skills necessary to run a program/organization in accordance with national and international best practices.

(4) Ethics - This competency focuses on providing tools to the fellows to build their ethical decision making "compass."

You take your obligation seriously to ensure that the funding you provide does not finance terrorism or otherwise finance a non-charitable purpose. You shall ensure that the Specially Designated Nationals and Blocked Persons lists, maintained by the U.S. Department of Treasury, are reviewed against persons or entities with which you engage in transactions (including fellows, facilitating in-county nonprofits and the organizations that host fellows) to ensure that such persons or entities are not listed.

In addition, you shall ensure that appropriate, risk-based inquiries are made, so that funds provided do not support terrorism or other non-charitable activities. For example, you may require a person or entity that it wishes to transact with to provide financial reports or other documentation. You will also, directly or indirectly, require (as necessary) that all funding from you stop and funds previously provided be paid back if you have reason to believe that a person or organization is engaging in certain prohibited activity, including but not limited to support of terrorism.

The number of fellowships will be determined annually based on the amounts of funds available. It is anticipated that there will be x fellowships awarded each year. The exact amount devoted to an individual fellow will vary from country to country and may fluctuate to some degree from year to year, but generally the annual cost of funding a fellow is currently expected to be approximately z dollars.

You will publicize the fellowship program through its own website and social media channels, emails to persons known to be interested in the fellowship, and through former fellows (called "Alumni ambassadors"). In targeting communication, you will look to university career offices and clubs, civil society organization, international organizations, and corporate responsibility units within organizations.

In addition to work that you do directly, local grantees (e.g. facilitating organizations) will also publicize the fellowship program in similar ways.

You do not anticipate making any educational loans.

You ensure that fellowship recipients are selected based on an objective and nondiscriminatory basis.

The fellowship program is open to the following persons:

- Public university graduates: open to all graduates
- Private university graduates: need-based scholarship granted for at least 2 years
- Persons graduated from universities (as described above) within the last two years
- Persons with a proven record of being civically engaged
- Persons ready to commit to a one-year full-time fellowship
- Persons available to attend the V
- Males applying from N must either be exempt from military service, already received the certificate of exemption, or have finished their service
- Have local residency status in N, P or Q and authorization to work in the country of the fellowship to which the individual is applying.

Additional objective criteria as may be determined from time to time such as English proficiency.

Applicants apply and then each application is reviewed using the screening criteria and rubric. Your review assessment criteria will include leadership activities and civic/community activities and quality of personal statement. Each criterion will be rated from low (1) to high (5).

Applicants deemed qualified based on this process then move on to the interview phase. The interview is conducted by a panel: one representative of the grantee organization in the relevant country (N, P or Q), one representative from an organization that has, or currently hosts a fellow, and one representative who is a local professional known to you or the grantee organization. The composition of the panel could change but the panel will always be composed of independent persons with the qualifications to select fellows.

Each applicant interview will last between 30 and 60 minutes. Applicants are given an interview assessment rubric to assist them in preparing for the interview. The rubric recommends addressing values, attitudes, knowledge, skills and practice, the details of

the fellowship and logistical questions. Applicants also receive a list of possible interview questions.

You have different applications for each of your fellowships in N, P and Q. Each panel member then evaluates the applicant based on the interview rubric. Based on the panel decisions, fellowships are awarded in accordance with the availability of funds for the given year.

Currently, the selection panel is composed of the following persons: one representative of the grantee organization in the relevant country (N, P or Q), one representative from an organization that has, or currently, hosts a W, and one representative who is a local professional known to you or the grantee organization. The composition of the panel could change but the panel will always be composed of independent persons with the qualifications to select fellows. Following your methodology, the panel then decides whether to award a fellowship. The members of the panel are chosen based on input from you and local facilitating organizations in each country. To the extent that a panel member must be replaced, you, in conjunction with local facilitating organizations, select a new member, but such member must be in the same class of representative that he or she is replacing (e.g. if a panel member from the grantee organization resigns her position, the replacement member must also be a representative of the grantee organization).

Once a fellowship has been awarded to a fellow, in addition to working with the organization with which the fellow is paired, the fellow also must attend the annual conference where fellows from all three countries generally will meet, submit monthly reports, meet with a mentor at least 10 times during the fellowship, attend trainings, submit a mid-year report, attend a mid-year conference with all other fellows in his or her country, and complete a final research paper. Currently, the grantee organizations ensure compliance with the foregoing requirements in accordance with an expenditure responsibility grant agreement.

If a fellow does not fulfill your requirements, the fellow will be warned that his or her fellowship could be canceled. If the fellow continues to be in non-compliance, the fellowship will be canceled, and any unused funds paid to date shall be returned to you. In addition, to the extent that it is determined that a fellow has misused fellowship funds, the fellow shall be required to pay back such misused funds.

### **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 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.

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 any questions, please contact the person listed at the top of this letter.

Sincerely,

Stephen A. Martin  
Director, Exempt Organizations  
Rulings and Agreements