

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

**Department of the Treasury**

Release Number: **202139010**  
Release Date: 10/1/2021

**Date: July 6, 2021**

**Employer Identification Number:**

**Contact person - ID number:**

**Contact telephone number:**

**LEGEND**

B – Scholarship  
C = County, State  
D – number  
w dollars = amount

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 provided in Code Section 117(b)).

**Description of your request**

Your letter indicates you will operate a scholarship program called B. The purpose of B is to make a lasting difference in the lives of recipients by providing them a quality education despite economic conditions. Scholarships will be awarded for post-secondary education to students who are in financial need and who are graduating, or have graduated, from a high school located in C.

You plan to award approximately D scholarships annually. Scholarship amount per recipient will be up to w dollars per academic year for up to four years. Award amounts will be distributed directly to the educational institution (educational organizations described in Code Section 170(b)(1)(A)(ii)). You will publicize B on your website and via distribution of materials to high schools and the local media.

Those eligible to apply are students who are graduating, or have graduated, from a high school in C with proof of acceptance or admittance to an accredited post-secondary institution. Applicants must submit the application for B along with a selected portion of their FAFSA (Free Application for Federal Student Aid).

Scholarships will be awarded on an objective and nondiscriminatory basis. Selection criteria will be primarily focused on financial need but will also include other factors such as academic record, extracurricular activities, character, place of residency (preference for residents of C), academic goals, and recommendations of teachers, counselors, and principals. The selection committee will be your board of directors. In the future, you may establish a grant committee to supervise B. Your founders, directors, officers, staff, and families of or any disqualified person with respect to you will not be eligible for B.

Scholarships will be renewed each year if the recipient demonstrates financial need and provides a copy of transcripts to evidence minimum credit hours per term and satisfactory academic performance. You will maintain case histories showing recipients of B, including names, addresses, purpose of award, amount of grant, manner of selection, and relationship (if any) to your officers, directors, trustees, and donors.

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, (3) take all reasonable and appropriate steps to recover the diverted funds and 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 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 if 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