



Department of the Treasury
Internal Revenue Service
Tax Exempt and Government Entities
P.O. Box 2508
Cincinnati, OH 45201

Date: **March 14, 2022**

Taxpayer ID number:

Release Number: **202223017**

Release Date: 6/10/2022

Person to contact:

Name:

ID number:

Telephone:

LEGEND

X = Scholarship Program

Y = County

Z = Community Foundation

V = State

W = Unrelated Nonprofit Program

T = Country

S = Minimum Number of Students

R = Maximum Number of Students

N = Tax Year

u dollars = \$

q dollars = \$

UIL: 4945.04-04

Dear _____ :

You asked for advance approval of your scholarship procedures under Internal Revenue Code (IRC) Section 4945(g)(1). You requested approval of your scholarship program to fund the education of certain qualifying students.

This approval is required because IRC Section 4945 provides for the imposition of taxes on each taxable expenditure of a private foundation. IRC Section 4945(d)(3) provides that the term "taxable expenditure" includes any amount paid or incurred by a private foundation as a grant to an individual for travel, study, or similar purposes by the individual, unless the grant satisfies the advance approval requirement of IRC Section 4945(g).

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.

Additionally, 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 IRC Section 117(b)).

Description of your request

Your letter indicates you will operate X. The purpose of X is to provide scholarship to students from Y to attend two-year and four-year colleges. You stated that X will foster and support Y students in their personal and educational growth through financial assistance in attending college. You anticipate distributing u dollars in tax year N. X is administered through Z, a public charity, which also administers other scholarships for students in the State of V. Along with other scholarships administered by Z, X is publicized through a variety of print, broadcast, and internet-based media. Z also conducts outreach with high schools, colleges, and the community at large. You use Z's common application for scholarships, which applicants use to apply to all scholarships offered and administered by Z.

X has the following eligibility requirements:

- Be a resident of the State of V
- Demonstrate financial need
- Be in academic good standing

The following criteria used to select recipients of X:

- Be a high school senior or previous graduate of a high school located within Y V, with preference given to current high school seniors
- Candidates must have participated in the W program while in high school, with preference for candidates who have completed at least 3 years of W classes
- Attend an accredited two-year or four-year, public or private, not-for-profit post-secondary institution in V (outside of Y) or in the T
- Attend college as a full-time student (as determined by the college's financial aid office)

While number of grants distributed through X may vary from year-to-year, the intent is to award significant scholarships to both new and returning recipients each year with an overall goal of assisting S - R students per year. Your Board of Directors will determine the amounts of the grants each year through discussions and informed by data regarding the cost of a college education. You aim to award scholarships of q dollars per year to each recipient in tax year N, but this amount may vary depending on multiple factors. For renewal grants, the recipient must remain enrolled in a qualifying two-year or four-year public or private not-for-profit post-secondary institution in V (outside of Y) or in the T and must maintain a required minimum GPA.

You pay grants directly to schools under arrangements whereby the school will apply the grant funds only for enrolled students who are in good standing. You have contracted with Z for supervision of the scholarships. Z obtains reports and grade transcripts from recipients as part of its common application. You pay grant funds directly to the scholarship recipients' schools. In the event that the recipient or the recipient's school informs Z of a change in the recipient's status (i.e., enrollment), Z will determine at that time if the recipient is no longer eligible, and if not, recover the scholarship funds from the school on your behalf.

You represent that you will complete the following:

- Arrange to receive and review grantee reports annually and upon completion of the purpose for which the grant was awarded,
- Investigate diversion of funds from their intended purposes,
- 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
- 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 diversion from occurring.

You also represent that you will:

- Maintain all records relating to individual grants including information obtained to evaluate grantees,
- Identify 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 above.

Basis for our determination

IRC Section 4945 imposes excise taxes on the taxable expenditures of private foundations. 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 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.
- The effective date of our approval is April 30, 2021, which is the date your request was submitted.

Please keep a copy of this letter in your records.

If you have questions, you can contact the person shown at the top of this letter.

Sincerely,

Stephen A. Martin
Director, Exempt Organizations
Rulings and Agreements