



**Date:**  
 08/18/2022  
**Taxpayer ID number:**

**Person to contact:**

**LEGEND**

UIL: 4945.04-04

B = Name

C = Name

d number = Number

y dollars = Amount

z dollars = Amount

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 a scholarship program to provide financial assistance for high-achieving C members to pursue higher education at an accredited educational organization. C is an organization exempt under IRC Section 501(c)(3) whose purposes consist of youth development and agricultural education. You award d number scholarships each year in the amount of y dollars each, which will be paid over four years in annual increments of z dollars. To apply for the scholarship, the applicant is required to provide specifics including general academic information, a description of their activities, honors, and goals, financial

information, high school rank and guidance counselor verification. The application and supporting materials must be submitted by a specific date to be considered.

To be eligible for a scholarship, a student must be pursuing a degree at an accredited four-year institution of higher education, be a current member of the C youth development program, have exhibited livestock at the B at least once during the years preceding the application, and be graduating from high school during the school year the scholarship application is submitted.

A selection committee consisting of your board of directors will select recipients using the following criteria:

- Academic achievement
- Activities and leadership
- An essay
- Financial need
- References
- Exceptional circumstances

The selection committee will award points to applicants using objective criteria in each of the above areas. A total of points is available in each area, with a maximum of total points for the application. Applicants with the highest point totals will be awarded scholarships. The academic achievement component awards points are based on grade point average, standardized test score, class rank, and other honors and awards. The financial need component awards points are based on a descending scale based on whether the applicant's education is financed: solely by the applicant; mostly financed by the applicant; financed % or more by parents or other sources; or financed % by parents or other sources.

To maintain the scholarship, recipients must be full-time students at an institution of higher education. Each year prior to disbursing scholarship funds, you will require recipients to confirm they are enrolled for at least credit hours by submitting their class enrollment schedule to you. After you have confirmed their enrollment status, you disburse funds directly to the applicable institution of higher education to apply the funds for the enrolled student in good standing. If the terms of the scholarship are violated, you cancel the scholarship and make no further disbursements of funds.

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.
- 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 IRS at:

Internal Revenue Service  
Exempt Organizations Determinations

- You can't 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'll make this determination letter available for public inspection after deleting personally identifiable information, as required by IRC Section 6110. We've enclosed Letter 437, Notice of Intention to Disclose - Rulings, and a copy of the letter that shows our proposed deletions.

- If you disagree with our proposed deletions, follow the instructions in the Letter 437 on how to notify us.
- If you agree with our deletions, you don't need to take any further action.

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

Sincerely,

Stephen A. Martin  
Director, Exempt Organizations  
Rulings and Agreements

Enclosures:  
Letter 437