



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

Date:
01/04/2023
Taxpayer ID number:

Person to contact:

Release Number: 202313012
Release Date: 3/31/2023

LEGEND
T = State
U = Name
V = Name
W = Name

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 a scholarship program. Your purpose is to serve students with financial need in the state of T. The purpose of your program is to provide scholarships to students attending an accredited institution of higher education, pursuing (1) an associate's degree at a community or junior college, (2) a bachelor's degree at a college or university, (3) any other degree which is post-high school offered by an accredited college. The number and total dollar amount of the scholarships to be awarded for an academic year are determined by the Board of Directors. A minimum of scholarship will be awarded to a student from each of the designated high schools consisting of U, V, and W. Any scholarships remaining after awards

to students from the designated high schools will be offered to graduating students at other T high schools attending an accredited college. Your program is publicized through counseling offices at high schools in T, which will announce and provide program materials and application forms to students.

In order to be eligible for the scholarship, the individual must:

- Be a graduating high school student seeking to attend an accredited institution of higher learning
- Be pursuing a degree at a post-high school offered by an accredited institution

Relatives of members of the selection committee, or of your officers, directors, or substantial contributors are ineligible for awards made under your program.

The selection committee will consist of the Board of Directors and other family members who will select recipients on an objective and nondiscriminatory basis. The selection committee will evaluate applications and supporting materials based on criteria in the following order:

- Financial need
- Academic performance and achievements
- Community involvement and service

The selection committee will select the most qualified individuals and determine the individual grant amount awarded to a particular recipient based on their financial need, cost of tuition, housing, books, and expenses. You will notify the recipients in writing and will require the recipients to accept the grant in writing. Your practice will be to pay scholarships directly to the educational institution on behalf of the student. The educational institution will confirm that the student is enrolled and in good standing.

Funding is available for up to four years, if eligible. To be eligible, the recipient must submit a course and grade report from the educational institution at the end of each semester showing that they are enrolled, progressing towards their degree, and engaged in learning. If the recipient qualifies for renewal, the grant will be the same amount as the previous year, unless a different amount is determined by the Board of Directors.

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
TE/GE Stop 31A Team 105
P.O. Box 12192
Covington, KY 41012-0192

- 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,

Director, Exempt Organizations
Rulings and Agreements

Enclosures:
Letter 437

cc: