



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

Date: 04/12/2023

Taxpayer ID number:

Person to contact:

Name:

ID number:

Telephone:

Release Number: **202327021**

Release Date: 7/7/2023

UIL: 4945.04-04

LEGEND

B = number

C = number

D = Local Non-Profit 1

E = City

F = Local Non-Profit 2

G = City

H = school

x dollars = \$

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 grant program to provide need-based educational scholarships for individuals. The purpose of your program is to help students in underserved communities pay their cost of room, board, and tuition while attending a college or university, or post-high school trade school.

You anticipate awarding approximately B grants per year worth in between x dollars, for the first several years of the program. Your goal is to increase the number of scholarships awarded to approximately C annually, as funding allows.

You will publicize your program in local charities that provide assistance to students in underserved communities, such as D in E, and F in G. You will also advertise in high schools in low-income communities in the E area, such as H.

To be eligible for your program, first time applicants must:

- Be students and graduates of high schools located in underserved communities in E,
- Be entering or currently enrolled full-time at a 2-year community college or 4-year college/university or trade school,
- Provide a letter of recommendation from his/her school counselor, teacher, mentor, or someone from an outside charitable, educational, or religious organization that can speak to the applicant's character,
- Write an essay describing their purpose for applying, their career goals, and any other special circumstances that makes their situation unique.

Your selection criteria will be the same as those used to determine eligibility, with preference based on financial need and the unique characteristics of the applicant. You will also give preference to those students who are the first in their family to attend college. You will consider the applicants grade point average, personal essay, and letters of recommendation.

You will determine financial need by having applicants submit a copy of their Free Application For Student Aid (FAFSA) and a list of any scholarships that have been awarded to the applicant. You may request copies of the applicants and/or parents federal tax return if appropriate.

Recipients may be eligible to renew their scholarships if they maintain a minimum 2.0 grade point average (or the equivalent if the school or program does not use a grade point average based on a 4.0 scale). However, renewals will require the recipient to reapply for the scholarship.

Your selection committee consists of your trustees. The trustees will review the applications and determine the recipients and the amount of each scholarship award, taking into account the number of scholarship applicants, their financial need, and your financial resources.

Funds will be paid directly to the educational institution at which the recipient will be attending. You do not anticipate that formal reporting will be necessary, but you will request confirmation from the institution that the scholarship recipient is in good standing at the school prior to awarding the scholarship. You will require recipients submit a copy of their transcript at the end of the semester (or similar grade reporting period) to determine if the recipient has maintained the required grade point average, and you will request confirmation that the student remains in good standing at the end of the applicable reporting period. Students who have not met these requirements will not be eligible for a scholarship renewal.

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.

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