



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

Date:
05/10/2023
Taxpayer ID number:

Person to contact:

Release Number: 202331006
Release Date: 8/4/2023

LEGEND

L = City
M = School
N = Number
O = Number
P = D
y dollars = Amount

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 that will award an annual scholarship to a graduating high school senior. The scholarship was created in memory of P who believed strongly in the value of higher education.

Your purpose of the awards program is to provide a graduating senior with a substantial scholarship amount to help further their goal of higher education. You plan to provide N scholarships each year. You will award a minimum of a y dollars scholarship each year. You plan to award a single recipient; however, you maintain flexibility to split amongst multiple recipients if you feel the decision to pick a single person proves difficult, and multiples recipients are equally worthy.

Your y dollars award will be paid over four years of higher education, in four installments. The recipient must maintain a 3.0 cumulative GPA while pursuing his university degree, in order to continue to receive each additional payment.

The eligible applicant must be a graduating senior from M in L. The eligible applicant must be planning to attend an accredited institution of higher education and must have a minimum cumulative GPA of 3.5.

You consider several factors in selecting a recipient beyond the GPA requirement. You will give a preference towards applicants with strengths in the following areas:

1. Scholastic achievement: This could be in the form of an exemplary GPA, the number of Advanced Placement (AP) classes and their performance in these classes, SAT/ACT scores or awards or performances in other scholastic activities (math competition, chess tournament, etc.).
2. Participation in extra-curricular activities, athletics, and community involvement: This could be activities such as student council, sports teams, volunteerism, after school jobs, etc.
3. Letters of recommendations from one or two mentors (teacher, counselor, principal, employer, etc.). At least one letter must come from a teacher.
4. Character Essay: Each applicant shall submit a one page essay regarding a hardship they may have faced in their life.
5. Financial need: The applicant has a page to indicate any information they would like to share regarding why the scholarship will be financially important for them, and any financial circumstances they believe might be relevant.

You will also give a preference towards STEM focused students but it is not a requirement.

You publish your scholarship award with the guidance counselor at M for the accessibility of all graduating seniors. You also post the application materials on your website. The application is then submitted by email.

Your current selection committee consists of family members. In case of your inability to select a recipient, two closed friends of P have agreed to be substitutes as needed. Each person on your selection committee will independently review all completed applications. From the list, you will rank the top O candidates in order. If you have a clear consensus on the recipient (i.e. all three members have the same top choice), you will choose that recipient. If there is a not a consensus, your committee will enter into discussions and attempt to agree to eliminate any applicants from contention on which you can agree. If you agree on a recipient in discussions, that recipient will be chosen. If after a certain amount of time, you believe you are in a stalemate between two or more candidates, one of the substitutes will be brought in to make a final decision.

Relatives of the selection committee are not eligible for the award. Additionally, if any member of the selection committee believes there is a conflict of interest with an applicant they believe is deserving the award, that

committee member shall recuse themselves, and a substitute shall take their place.

Your scholarship payment shall be paid directly to the university or college of the recipient. The recipient signs and agrees that the scholarship cannot and shall not exceed the total school's cost of attendance when all other scholarships and sources of financial support are combined.

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