



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:

Name:

ID number:

Telephone:

Release Number: 202331008

Release Date: 8/4/2023

UIL: 4945.04.04

LEGEND

X = Services

Y = State

S = School 1

T = School 2

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 for students, who are seeking a college graduate or doctoral-level degree in X. You anticipate your grants will be paid directly to the awardee's educational institution for tuition, housing and other costs.

You seek to provide grants in focus areas with a high cost of living that have traditionally underfunded X. Due to the nexus with focus areas you anticipate starting with Y as an area of operation.

While you have not finalized specifics of the eligibility criteria, you plan on working with universities located in focus areas to identify students on a nondiscriminatory basis with financial need pursuing a degree in X. Since Y is your focused area, you anticipate widely advertising the grants at S, T and the local communities in the areas. The number of eligible students will depend on your partnership with S and T and other local universities.

You are hopeful to receive as least to qualified applicants. You anticipate awarding scholarships a year, depending on number of qualified applicants and available funds. To obtain a scholarship award a student must contact your foundation and present information related to their eligibility and educational institution. The trustee will review each scholarship application against the eligibility criteria. You represent that the trustee, trustee's spouse or any lineal descendant of the trustee, or spouse of any lineal descendant of the trustee are ineligible to receive a scholarship award.

Once grant awardees are selected you will review transcripts from students to confirm enrollment in an educational institution. When possible, you will pay grants directly to the academic institution. Any payments not directly paid to an education institution will require grantee awardee to report application of payments. If the trustee determines, scholarships may be renewable and offered to awardee in subsequent years, you will communicate with the awardee any advance requirements for renewal. You anticipate renewal requirements to be similar to the current award criteria. Awardee should be in good standing with the educational institution, pursuing a degree in X and located in your focused area. If you determine that any part of the grant award is not used for a proper purpose, you will take immediate action to recover divert funds, and withhold further payments of the award to that awardee or awardees educational institution.

Your trustees will review each scholarship application and determine eligibility for receiving a grant from the program. Relatives of your trustees are not eligible for scholarships.

You will retain all records pertaining to all grants made in accordance with the scholarship program. This may include but not limited to information secured to evaluate scholarship awardees, identification of awardee including any relationship to the awardee to ascertain if awardee is a disqualified person of your organization, purpose and amount of each grant and follow-up information you secure to confirm funds are used as intended.

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,

Stephen A. Martin
Director, Exempt Organizations
Rulings and Agreements