



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

Date: 05/17/2023

Taxpayer ID number:

Person to contact:

Name:

ID number:

Telephone:

Number: **202332022**

Release Date: 8/11/2023

LEGEND

X = Scholarship Program

Z = Recipient Location

y dollars = Grant 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, called X, to provide funding for primary and secondary educational pursuits to underprivileged children in Z.

The criteria used for selecting recipients of X shall include but is not limited to:

1) prior academic performance, performance of each applicant on tests designed to measure ability and aptitude for educational work; recommendations from instructors of such applicant and any others who have knowledge of the applicant's capabilities; and

2) additional biographical information regarding an applicant's personal, family, academic and other relevant experiences, financial need, and conclusions which the nominators, evaluators and your governing body may draw as to the applicant's need, motivation, character, ability, or potential.

Recipients are selected on an objective and nondiscriminatory basis. You will seek volunteer nominators to identify eligible candidates. The nominating volunteers shall be natives of Z appointed by your president. The nominators will seek out and identify potential candidates as well as help the candidates complete the scholarship application. Following submission of the application, the candidates will be assessed by evaluators chosen by your president. The evaluators will measure a candidate's qualifications, including need and merit. Following the completion and recommendation of the evaluator, the candidate's application and evaluation will be submitted to your governing body for approval. The governing body may reach out to the nominator or evaluator for further information in making its decision. No candidate, or relative of a candidate shall be related to or have any economic interest to a nominator, evaluator, officer or board member, or family member thereto. Any candidate with any said relationship to any of those individuals shall automatically be ineligible for said scholarship.

X must be used to fund tuition and qualified educational expenses (including room and board) at an educational institution in Z. The recipients will be chosen on the basis of merit and need. X will ordinarily be awarded for a one-year period but may be for a shorter or longer period. The amount granted will not exceed y dollars in any given year or instance. X is renewable on a case-by-case basis.

Unless otherwise provided X shall be paid directly to the educational institution for the use of the recipient. Each educational institution must agree, evidencing in writing (receipt or school records sufficing), to use the funds to defray the recipient's expenses of enrollment. Other qualified expenses not covered by the educational institution shall be paid directly to the vendor of said qualified expense. In the case where the recipient purchases an item that is a qualified expense, a receipt shall be submitted to you for reimbursement. An additional condition is that no part of X shall be used as payment for teaching, research, or other services by the recipient required as a condition for receiving the funding.

If you learn that all or any part of X is not being used in furtherance of the charitable purposes or for expenses not outlined herein, you shall take all reasonable and appropriate steps to recover the funds. In such case, you will withhold further payments until: (1) the funds are in fact recovered; (2) you have received the recipient's assurances that future diversions will not occur; and (3) you require the recipient to take extraordinary precautions to prevent future diversions from occurring. The phrase "all reasonable and appropriate steps," as used above, shall include legal action where appropriate, but need not include legal action if such action would in all probability not result in the satisfaction of execution on a judgment. Records pertaining to X shall be kept for no less than three years after the filing of your annual tax return for the period in which the last installment of X was paid.

You will retain the following records in connection with X:

- 1) all information obtained to evaluate the qualifications of potential recipients,
- 2) any additional information you obtain in complying with your administration procedures including but not limited to the amount of the X, the expenditures of X, and the receipts thereof.
- 3) information pertaining to unsuccessful applicants for awards shall be kept along with information on successful applicants.

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