



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

Date:  
06/05/2023  
Taxpayer ID number:

Person to contact:

Release Number: 202335018  
Release Date: 9/1/2023

UIL: 4945.04.04

#### LEGEND

X = Name

y dollars = Amounts

z dollars = Amounts

Dear :

You asked for advance approval of your scholarship procedures under Internal Revenue Code (IRC) Section 4945(g)(1) and advance approval of your educational grant procedures under IRC Section 4945(g)(3).

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.

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 provide in IRC Section 117(b)).

We also approved your procedures for awarding educational grants. Based on the information you submitted, and assuming you will conduct your program as proposed, we determined that your procedures for awarding educational grants meet the requirements of IRC Section 4945(g)(3). As a result, expenditures you make under these procedures won't be taxable.

#### Description of your request

Your letter indicates you will operate a grant making program called X, which provides grant funding to support successful college experiences for select first generation and/or financially challenged college students in order for them to attend a qualifying educational institution. Through X, you plan to award funds to supplement financial aid, merit scholarships, a student's work-based income, and a family's capability to contribute toward a college education as well as provide guidance during a participant's tenure in college. You predict that you will distribute in the range of y dollars over years, providing approximately z dollars per

year to each participant to attend school at full cost.

Eligibility criteria for X include (i) low family familiarity with the college process/attending college resulting in inadequate guidance, (ii) potential academic and/or cultural gaps due to a student's background, exposure, and the rigor of the student's high school curriculum, (iii) the student's ability to fund the monetary gap between what they can afford to contribute to college costs. Relatives of members of the selection committee, or of your officers, directors, or substantial contributors are not eligible for awards made under X.

X is publicized to students who match with X's college advisors in the spring of their junior or fall of their senior year of high school. This matching is achieved (i) via external college access programs or (ii) via recommendations from a current recipient or school that is aware of X.

Students who fit the eligibility criteria and match with the X's college advisors will hold an initial meeting to confirm the appropriateness of the match. Matched students then work with their advisor throughout the college application process and, once college applications are submitted, advisor will determine if the student merits continued support through matriculation. The decision of whether to offer a student to participate in X is based on the advisor's experience during the application and post-application process which allows for evaluation of the student's potential to succeed in X, as well as their willingness to welcome and maintain an ongoing advisory relationship. Your selection committee composed of your copresidents will make all final decisions in regard to recipients. If X grows, the selection committee will be broadened to include other advisors or staff as well as replace the Co-Presidents with a Program Director.

Any student selected to become a participant in X will remain an active recipient for their entire undergraduate college experience provided the student signs an agreement to adhere to the guidelines of X. Specifically, participants:

- Must attend a US-based, non-profit accredited educational institution that maintains a regular facility and curriculum and has a body of students in attendance.
- Must maintain a full-time course load in each semester, and anything less than full-time enrollment must be pre-approved by their advisor.
- Are not required to maintain a certain GPA but should their GPA fall below a 3.0, their status will be reviewed by their advisor to determine whether they should receive supplementary support. In cases where the fall in GPA is determined to be due to lack of effort, the participant's status will be reviewed by the advisor and your Co-Presidents, and their grant may be revoked.
- Are expected to graduate in four years but should circumstances result in requiring a fifth year to graduate and the participant is in good standing based on the advisor's assessment, they will be allowed to remain in X for an extra year.

Advisors' responsibilities to participants will include:

- Investing time to understand college resources specific to each participant. These resources include college advising, health and wellness resources, first generation or low socioeconomic resources, career services, etc.
- Maintaining time for scheduled check-ins and other required meetings as well as be available to make time for non-scheduled meetings should participants need to consult them.
- Traveling at least once per year to meet with a participant in person unless the participant and advisor mutually agree that this is unfeasible.
- Checking grade transcripts to ensure a participant's GPA is at or above 3.0.

Behaviors that may result in loss of the participant's privileges or probation include, but are not limited to:

- Failure to meet identified requirements of X,
- Failure to maintain good academic standing,

- Failure to engage with others within and outside of the university community with proper respect, including but not limited to respectful and timely communication.

Behaviors that may result in dismissal from X include, but are not limited to:

- Driving under the influence,
- Use or possession of a controlled substance,
- Use or possession of a false identification,
- Any instance regarding fraud, theft, misrepresentation, dishonesty, or deceit,
- Any arrest or any violation of the participant's university Honor Codes, regardless of judicial outcome or whether the University imposes sanctions.

The determination of whether a participant has not adhered to X's guidelines such that funding will be discontinued will be solely determined by X's advisors, and such a decision would be reviewed by your Co-Presidents before becoming final. All actions inconsistent with the standards of X will be examined and addressed on a case-by-case basis. You reserve the right to act on disciplinary matters in any way that it deems appropriate, in your sole discretion.

A participant may withdraw from X at any point during their undergraduate college experience without penalty, but by agreeing to participate initially, said participant consents to an exit interview to understand rationale and improve X going-forward.

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.

**IRC Section 4945(g)(1) Requirements:**

- 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).

**IRC Section 4945(g)(3) Requirements:**

- 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 IRC Section 117(a) and is to be used for study at an educational organization described in IRC Section 170(b)(1)(A)(ii).
  - A prize or award subject to the provisions of IRC Section 74(b), if the recipient of the prize or award is selected from the general public.
  - To achieve a specific objective; produce a report or similar product; or improve or enhance a literary, artistic, musical, scientific, teaching, or other similar skill or talent of the recipient.

To receive approval of its educational grant procedures, Treasury Regulation Section 53.4945-4(c)(1) requires that a private foundation show:

- The grant procedure includes an objective and nondiscriminatory selection process.
- The grant procedure results in the recipients performing the activities the grants were intended to finance.
- The foundation plans to obtain reports to determine whether the recipients have performed the activities that the grants were intended to finance.

**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