



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

Date:
06/12/2023
Taxpayer ID number:

Person to contact:

Number: **202336032**
Release Date: 9/8/2023

LEGEND
N/A

UIL: 4945.04.04

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 scholarship program that will provide two types of educational and related grants to individuals: scholarships for study at an educational institution; and grants for travel, study, or similar purposes to enhance a particular skill or to produce a specific product.

You plan to provide scholarships to students, including but not limited to artists and musicians, to expand their post-secondary or professional education. The scholarships will be targeted to rural populations and will enable students to enroll in educational and professional training programs at institutions of higher learning,

professional training centers, and other educational institutes or programs. Scholarships will be need-based and will also take into account academic achievement and potential.

The grants for travel, study, or similar purposes will also be targeted to rural populations and will allow artists and musicians to work on specific projects or attend educational programs. In some cases, grant funds will cover expenses to allow an artist or musician to attend your cultural events. You may also provide free housing in your own facilities for artists and musicians while attending your events.

The amount and number of scholarships and individual grants you will provide each year will vary depending on factors such as the number of applicants, the relative financial needs of the applicants, and the estimated cost of the specific program, course, or project.

To be eligible for a scholarship, students must have graduated from high school (or the equivalent) and plan to attend an educational institution of higher learning, art or music school, vocational school, training program, or other well-known and/or accredited educational program.

To be eligible for grants for travel, study, or independent projects, the educational and professional credentials of potential recipients will be considered, along with their experience in and commitment to the particular field of art or music, and the connection of the proposed work or course of study to your mission and exempt purposes.

You will apply objective and consistent criteria in selecting scholarship and grant recipients. While demonstrated financial need will be your primary criteria for selecting recipients, you will also consider academic and/or professional achievements, and personal qualities. You will also look to the educational credentials of the potential recipients, including grades, academic awards and similar achievements, work samples submitted, as well as character (based on teacher recommendations) and skills that indicate potential for growth and a successful learning experience.

You will require an application or proposal for each scholarship and grant, and you will carefully evaluate how well each applicant meets the criteria based on the proposal or application before deciding which applicants to provide scholarships or grants to.

In determining eligibility criteria and in selecting award recipients, you will not discriminate on the basis of race, color, age, sex, gender, sexual preference or orientation, disability, religion, or national or social origin.

Relatives of members of the selection committee, or of your officers, directors, or substantial contributors are not eligible for awards made under your program.

Your board of directors will consider creating a scholarship committee to administer the scholarship and grant programs and review applications; however, final decisions about recipients will be made by the board.

You do not anticipate imposing specific requirements or conditions on recipients of scholarships or grants other than those that are part of the terms of the funding, such as completing the particular course of study, degree, or professional program. If you provide a scholarship for a more extensive course of study such as a master's degree, you may impose conditions such as a grade point average or completion within a certain time frame.

You will pay scholarship funds directly to the school or educational program wherever possible and will arrange for the school to apply the funds only if the recipient remains in good standing. In some cases, for example a grant for a specific project, you will require the recipient to sign a grant agreement restricting the use of the

funds and requiring a financial and narrative report or other evidence of the fulfillment of the purpose of the award.

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.

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

Enclosures:
Letter 437

cc: