



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

Date:  
08/01/2023  
Taxpayer ID number:

Person to contact:

Release Number: 202343040

Release Date: 10/27/2023

#### LEGEND

UIL: 4945.04-04

B = age

C = age

D = number

E = number

x dollars =

y dollars =

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 to provide tuition and other financial assistance to students of all ages who seek to attend a school that they cannot afford due to their economic circumstances to further your charitable purpose. You were formed to address challenges facing our society relating to diversity, equity, and inclusion. Your scholarship program will provide students who are socioeconomically

disadvantaged accessing educational opportunities otherwise unavailable to them. Any primary, secondary, preparatory, high school, college, or university current or prospective student who wishes to attend an accredited educational organization described in IRC Section 170(b)(1)(A)(ii) and can demonstrate financial need are eligible to apply.

You also operate a grant program to youths and young adults to improve and enhance their capacity, skill, or talent in the fields of, and with the objective of actuating a career in, science, art, sports, academia, or other similar fields. The grant will be limited to youths and young adults between the ages of B and C. The grant program is designed to assist youth and young adults who demonstrate talent, potential, and perseverance in their chosen fields of interest and financial need. Recipients can use the grant for travel, training, equipment, registration fees, living and other expenses related to pursuit of a career in their field of interest. The grant will be used to improve or enhance a literary, artistic, musical, scientific, teaching, athletic, or other similar capacity, skill, or talent. For example, a grant may be used to support an individual's training and development in a particular sport if the applicant demonstrates both talent and interest in pursuing a career in that sport.

You currently operate through outreach and on a word-of-mouth basis. Your two directors are \_\_\_\_\_ and they are frequently approached with opportunities to support various organizations. If such organizations have programs that are aligned with your charitable purposes, your directors will inform such organizations of your grant-making programs and the application process. You plan to award between D and E awards per year for each type of grant. Each recipient is expected to receive between x dollars and y dollars annually. Grants are not renewable but recipient can re-apply.

You will use an essay application process. Applicants will describe their circumstances, including any that have caused hardship, the sources of their need, and the goals and opportunities that they intend to pursue. Your Board of Directors will review applications to select grant recipients. Selection will be made on the basis of need, personal character, perseverance in the face of challenges, and the motivation to overcome difficult circumstances. No relatives of members of the selection committee, or of your officers, directors, or substantial contributors are eligible for the awards.

You will disburse the grant directly to school for tuition and related fees, such as uniforms or school extracurricular activities. Payments will be suspended if a recipient takes a temporary leave of absence from a school. If the recipient re-enrolls, you will assess the situation to determine if payments will be resume. You may also make relatively small payments to recipients directly to cover purchases helpful to or necessary for their educational success, such as a laptop, books, and school supplies. Prior to disbursing any amount directly to recipients, you will require submission of a budget for the amount requested with backup documentation. You will also require all recipients to maintain receipts showing proof of purchases made with disbursed funds, and to return any funds not expended in accordance with the proposed and approved budget.

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