



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

Date:  
10/23/2023  
Taxpayer ID number:

Person to contact:

Release Number: 202403021  
Release Date: 1/19/2024

#### LEGEND

B = State  
C = Adjective  
D = Number  
E = Location  
y dollars = 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 for the B high school students who are American citizens of C descent. You expect to provide at least D scholarships for y dollars annually to high school graduates who plan to attend college in the United States. You will publicize in newspapers that are known to have a large C readership in the E area.

In order to apply for the scholarship awards, the applicants must:

- Be a student at a high school in B who plans to attend a four-year college or university with at least a 3.0 grade point average,
- Submit a personal statement on why they wish to be considered for the scholarship,
- Submit a copy of their high school transcript,
- Submit two letters of recommendation from a teacher, administrator, or other person who knows the applicant's abilities and character, and
- Submit a copy of their recent federal income tax return or FAFSA report.

In the future, you may open applications to students who are already in college with similar criteria. The selection committee consists of your trustee who will evaluate each application to determine the applicant's overall needs and qualifications. Relatives of members of the selection committee, or of your officers, directors, or substantial contributors are not eligible for awards made under the programs.

Criteria the selection committee uses are:

- Financial need,
- Leadership which includes degree of responsibility in students and community offices and the amount of time the office(s) required, classes taken in high school or college while in high school, career goals, and honors and awards,
- Grade point average which includes the course level, number of courses taken, student involvement in extracurricular school activities, and special circumstances if less than 3.0 grade point average, and
- Letters of recommendation.

A significant weight in the selection process shall be given to the applicants' financial need. With all other factors being equal, the applicants with the greatest financial need will receive priority in the final selection process.

Currently, you don't plan to offer any scholarship renewals. In the future, if you choose to offer scholarship renewals, each recipient must submit a written request either by letter or email along with the following:

- A statement requesting renewal within 60 days of the end of the academic year,
- A copy of their transcript for the immediate prior academic year that shows a minimum of a 3.0 grade point average,
- A copy of their recent federal income tax return or FAFSA report to demonstrate financial need, and
- A copy of their college or university attendance cost for the upcoming academic year.

Scholarship awards will be paid directly to the recipients. Each recipient is required to provide proof of their college or university enrollment, a copy of their receipt from the college or university, a copy of the college or university attendance cost, a list of courses the recipient has enrolled in, and a copy of the college transcript for the completed academic period.

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

Enclosures:  
Letter 437