



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

Date:
01/08/2024
Taxpayer ID number:

Person to contact:

Release Number: 202414011
Release Date: 4/5/2024

LEGEND

UIL: 4945.04-04

B = Counties

c dollars = dollar amount

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 to partially offset tuition cost of students from B who are attending a four year college or technical school. The amount of the scholarship is c dollars for up to four years. Scholarships are based on student need and overall student achievement within the prescribed geographic area (B).

On the application, you ask the student for an estimation of their family's contributions, the parents' adjusted gross income, the student's number of family members, and the student's official transcript. In addition, you ask the student to provide details of in-school, out-of-school, and volunteer activities, along with two essays, and a letter of support.

Your scholarships can be renewed for three successive annual renewal periods. To be eligible for renewal, you require the recipient to be considered a full time student by the school and maintain a minimum 2.5 grade point average. If their grade point average falls below 2.5, you allow the student one semester to make up the shortfall.

You will pay all scholarships to the four year college or technical school where the student is attending. The scholarships will be directed to be applied equally to the semesters in the academic year and to be returned should the student withdraw. To be eligible for renewal in subsequent years, you require the student to provide a grade report showing their grade point average is within the prescribed parameters.

Your selection committee shall initially consist of two members. If either ceases to be a member by death, resignation, or mental incapacity, your surviving member will appoint an individual related to your grantor by blood to serve as a member. Your selection committee, by unanimous written consent served upon your trustee, may appoint any individual who is related to your trustee by blood as an additional member. Any such additional member will have all the rights and powers given to your initial members. Any of your selection committee members may waive for limited periods of time, or delegate to any other member of your committee, any or all of their rights by written notice delivered to your trustee, and to your other members. In the case of any delegation, your member to whom rights and powers are delegated may act or make any decision for your committee member making that delegation within the scope of the delegated rights and powers with the same effect as if your committee member making the delegation had participated in that action or decision. Your selection committee may at any time terminate its existence by unanimous consent, in which case, your trustee will assume all powers.

Relatives of your selection committee members, trustee, or contributors are not eligible for the scholarships. Your trustee will initially analyze all scholarship applications and will not forward any application that shows an applicant is related to any of your selection committee members, trustee, or contributors. Furthermore, the demographic page which identifies the name, address, telephone, date of birth, and last four digits of the social security number will be removed from the packets. Your selection committee will only see applications as identified as "applicant 1", "applicant 2" and so on.

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.

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, Letter 4792 (Redacted)