



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

Date:  
02/12/2024  
Taxpayer ID number:

Person to contact:

Release Number: 202419029  
Release Date: 5/10/2024

#### LEGEND

B = Name  
C = Name  
D = Names  
E = Name  
F = Name  
G = Number  
H = Number  
y dollars = Amounts  
z dollars = Amounts

UIL: 4945.04.04

Dear :

You asked for advance approval of your educational grant procedures under Internal Revenue Code (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 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 program under IRC Section 4945(g)(3) through which you will award B and C. You work with rural communities in several states consisting of D in E. During the next years, you may add additional communities in E. You will employ a local resident from each community to serve as the community officer. Community officers will work to identify residents with charitable project proposals that would benefit the community or provide a solution to an identified problem.

Under your grant program, there will be no limitations or restrictions in the selection procedures based upon race, religion, national or ethnic origin, or other illegally discriminatory criteria. You may also impose other restrictions from time to time, such as additional geographic limitations (for example, limited to recipients from disadvantaged rural and urban areas). Individuals who are employed by you, employed by an organization controlled by a director of yours, members of the Board of Directors, or related by blood or marriage to employees or directors of yours or organizations controlled by a director of yours, will not be eligible for your grants. Relatives of members of the selection committee, or of your officers, directors, or substantial contributors are also not eligible for the awards.

#### Details of B

The purpose of B is to award funds to individuals to complete discrete community-benefit projects that will improve the quality of life for residents living in rural communities where you operate.

An example of a project that B might fund is supporting an individual's efforts to conduct outreach and awareness for a free citizen-led support group for individuals with Parkinson's Disease. The grant might help with expenses like advertising the service in a local newspaper, printing brochures to be placed around the community, or renting a room at a local senior center for meetings. You anticipate awarding about G grants per identified community which totals H grants annually in the range of y dollars.

Successful project proposals would identify a known problem affecting the quality of life for community residents and advance a solution that a broad section of the community could benefit from. Further, the execution of community projects should be by individuals acting as volunteers and any project proposals should specify that funds will only be used to purchase supplies or services necessary to complete the proposed project. Projects funded by B should be in one of the following areas: economy, education, engagement, the environment, health, housing, transportation, and water.

Eligibility for B will be available to adult residents living within any of your communities of operation. You will publicize B through: (1) engagement by your community officers and staff via your events, one-on-one meetings, presentations, and other volunteer projects; (2) promotion on your website, including an online form inviting project requests; and (3) your advertisements, press releases, and storytelling via social and traditional media outlets.

You will require applicants to submit a standard form which requires applicants to describe their proposal by explaining the problem they wish to solve, and an explanation on how they will solve it. Details such as a timeline, specific activities and financial information are also required.

Grantee projects will be selected based on an assessment of community need, the community-benefit derived as a result of the project, and the project's prospects for success. In cases where community officers are not familiar with a potential grantee's capabilities, an assessment of those capabilities will be solicited through interviews with community members, local employers, and/or other charitable or service organizations. In each case, final selection and approval will be made by your staff authorized by the Board of Directors based on application materials.

#### Details of C

The purpose of C is to provide grants to individuals for researching and implementing innovative solutions to specific and persistent quality-of-life challenges experienced by citizens residing in rural communities.

C will be available to adults living within the states in E affected by the identified community issue. Because

you are focused on rural well-being, eligible grantees will be living and working in rural areas as defined by F. You may include additional eligibility criteria, based on subject matter, skill, or training. For example, a water irrigation project may limit eligibility to farmers and ranchers who use water for productive purposes on their land, whereas a workforce development initiative may limit eligibility to educators or tradespeople.

An example of a project that C might fund is identifying and implementing new solutions to water quantity. A grant might support an individual farmer's effort to test an innovative, new low-water irrigation technique as a response to western drought conditions. By paying for supplies and services, the grant would supply the funds needed to implement the solution.

Awards under C will be in the range of z dollars. You anticipate funding up to G awards per quarter with each round of grants to focus on one specific rural issue and may award up to H grants per year as you explore specific rural challenges and their solutions.

You will publicize C through: (1) conducting outreach through your partner organizations, associations and affiliated groups related to the identified sector or issue; (2) promotion on your website, including a link inviting grant requests; (3) engagement with university-affiliated research centers, and independent think tanks focusing on quality of life issues in order to access individuals with solutions as well as share results and replicate identified solutions; and (4) your advertisements, press releases, and storytelling via social and traditional media outlets.

To apply for C, applicants must submit a standard form which requires applicants to describe their proposal by explaining the problem they wish to solve, and an explanation on how they will solve it. Details such as a timeline, specific activities and budgets are also required.

Proposals will be reviewed by the local community officers, who will then make recommendations to you. Your management and staff will review, and approve or reject, projects based on the application material. Selection criteria will include applicant eligibility verification (For example, the applicant resides in a rural area as defined by F, in one of the states where you operate), along with a project feasibility assessment.

In each case, final selection and approval will be made by your staff authorized by the Board of Directors based on application materials.

#### Procedures for B and C

You will require each recipient to sign a grant agreement before any funds are disbursed. After signing a grant agreement and receiving a grant award, grantees are required by contract to use the grant funds to complete the project. Every grant agreement specifies the activities to be performed and a list of approved expenditures. After completion of a project or an innovative solution, the work is personally verified by your staff and a final report is submitted by the grantee, which includes a verification of approved expenditures.

For both B and C, compensation of grant recipients is prohibited as a project expenditure, i.e., the grant does not cover compensation to the grant recipients themselves for services provided. The grant may cover payments to third-party service providers hired by the grant recipient to help implement the project (such as hiring a service provider to prepare outreach materials).

You have not developed any plans for grant renewals. You may make one-time grants only. In cases where a previous grantee applies for a subsequent unrelated grant, you will review prior grant reports, which includes an attestation by the grantee of the use of previous grant funds, in addition to the project proposal.

You will monitor and evaluate the expenditure of funds and the progress made by each recipient. Any misuse of funds will be promptly investigated. If you determine funds have been misused you will require the recipient to return funds immediately, and you will make no further distributions to that recipient.

You will also maintain records as required by Revenue Ruling 56-304, 1956-2 C.B. 306, regarding the distribution of funds.

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 grants 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); or
  - 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; or
  - 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 4792  
Letter 437