



Department of the Treasury
Internal Revenue Service
Tax Exempt and Government Entities

Date:
09/12/2024
Taxpayer ID number:

Person to contact:

Release Number: 202449019

Release Date: 12/6/2024

LEGEND

B = Name

w dollars = Amount

x percent = Number

y dollars = Amount

z 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 under IRC Section 4945(g)(1). You are dedicated to supporting the most vulnerable and underserved segments of the B population, focusing your efforts on young individuals who have encountered challenges within various systems, including the child welfare system, foster care, juvenile justice, and homelessness, as well as those who are not currently engaged in education or employment. Your key program areas include the following:

- Innovative programs that serve B youth at different stages of their lives;

- Trauma informed support services that foster healing, health, and stabilization for vulnerable and disadvantaged B youth.

You intend to address these issues through your scholarship program by assisting B youth to attend courses at a trade school, college, or university that is described in IRC Sections 509(a)(1) and 170(b)(1)(A)(ii).

Your scholarship program will be open to vulnerable and disadvantaged B youth, all of whom currently participate in your other charitable programs, and who are seeking to enroll in a college, university, or trade school program after high school graduation.

You will develop cohort models where candidates can become eligible for your scholarships through participating in and completing phases of engagement in your other charitable programs. For example, a cohort may have five milestones to achieve. At the completion of each milestone, candidates can receive up to w dollars toward their tuition but no more than x percent of the total annual cost of tuition per milestone achieved. The scholarship aims to cover up to y dollars of the recipient's eligible yearly expenses for attendance, as determined by the educational institution, that are not already addressed by other forms of financial aid or support. Your program will provide options for scholarships to be renewed annually; for example, if the candidate is attending a four-year college, he or she can apply to renew the scholarship amount each year, with a maximum of z dollars per candidate across four years. You plan to provide at least one scholarship per year.

To apply for your scholarships, each candidate will be required to submit a scholarship application to receive the eligible amount and must provide supporting documentation including school transcripts, letters of reference, a personal statement, and/or acceptance letters or enrollment information for a college, university, or vocational program.

Scholarship recipients for both the initial and renewal scholarships will be selected based on academic and non-academic criteria that are appropriate for the vulnerable and disadvantaged B youth by a selection committee comprised of your staff from different departments, such as finance, program, investments and research and evaluation departments.

Specifically, because many of these individuals face significant challenges that affect academic performance, your academic criteria will include consistent class attendance, engagement with assignments and lessons, and being on track to graduate. Non-academic criteria include completing the engagements in your other charitable programs, exhibiting personal growth, and reflecting cultural values. You may also develop other objective and non-discriminatory criteria to evaluate candidates as appropriate.

All decisions will be made by individuals who will not be able to derive a private benefit, directly or indirectly, if certain potential recipients are selected over others. Relatives of members of the selection committee, or of your officers, directors, or substantial contributors are not eligible for awards. Disqualified persons, including officers, trustees, and their family members, also will not be eligible to receive scholarships.

You will enter into written agreements with individual recipients to ensure that the funds are used in support of your charitable and educational purposes and that they remain compliant with the requirements to receive and retain the funding. These agreements will require the recipients to use the funds only for the purposes for which the scholarships were made, comply with reporting requirements, and acknowledge your authority to withhold and/or recover awarded funds in case such funds are misused.

You will typically pay scholarship funds directly to the educational institution under arrangements whereby the school will apply grant funds only for enrolled students who are in good standing and will only pay the funds to

the individual recipients in extenuating circumstances.

If a grant recipient does not account for all funds, any unaccounted funds must be returned to you for use in the furtherance of your exempt purpose. You will promptly investigate any apparent misuse of grant funds and failure to provide required reports. While a matter is being investigated, you will withhold further payments to the individual until you have determined that no part of the grant has been misused and missing reports have been submitted. If you discover that funds have been misused, you will take all reasonable and appropriate steps to secure the repayment of diverted funds. In addition, if such diversion occurs, you will withhold any further payments until you have received assurances from the grant recipient that future diversions will not occur, and you will require the individual to take extraordinary precautions to prevent future diversions from occurring.

You will retain necessary records pertaining to all grant payments including:

- (a) All information secured to evaluate the qualification of potential grantees;
- (b) The identification of all grant recipients (including any relationships of any grantee to you that would be sufficient to make such grantee a disqualified person within the meaning of IRC Section 4946(a)(1));
- (c) Specification of the amount and purpose of each grant; and
- (d) The follow-up information which you obtain in administering the grants.

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