

SN: 4945.00-00

Internal Revenue Service

Department of the Treasury

Washington, DC 20224

199906050

Person to Contact:

Telephone Number:

Refer Reply to:

Date:

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Dear Sir or Madam:

This is in reference to your letter of August 21, 1998, requesting advance approval of your grant-making procedures under section 4945(g) of the Internal Revenue Code.

You are exempt under section 501(c)(3) of the Code and have been classified as a private foundation within the meaning of section 509(a).

In furtherance of your exempt purposes, you will provide grants under B. B is designed to support the investigation of novel ideas in your areas of interest in health, particularly molecular pharmacology and health services research. The purpose of B is to support the investigation of new and even untested hypotheses by young investigators seeking to establish independent directions or established investigators pursuing new directions. Grant awards are paid to and administered by a sponsoring organization or institution, which must be either a nonprofit health care organization or an accredited medical school or university in the United States, to be used to support research to be conducted by identified investigators. Sponsoring organizations must be exempt under section 501(c)(3) and not private foundations within the meaning of section 509(a).

Applications will be reviewed initially by a qualified medical research scientist or physician selected by your Board of Trustees (the "grants chairman"). The grants chairman will select a group of persons to evaluate the applications (the "independent reviewers"). The independent reviewers will be persons qualified to evaluate whether a research project is likely to open or further the development of new or independent directions in the health area. Each application will be assigned to one or more independent reviewers for an in-depth evaluation. Based on the written comments of the independent reviewers, the

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grants chairman will select the applications to receive further consideration by your Board of Trustees. Applicants will be notified in writing, generally within six months of receipt of the application, as to whether you make a grant to support the proposed research project. Each project proposal accepted by you will generally be funded within six months of receipt of the application. Grants will be awarded without regard to sex, race or religion.

You will award grants in an amount up to x , each to be paid to the qualified sponsors, to be used to support the proposed research project to be conducted by the identified investigator(s) for a one-year period. Upon reapplication, a second one-year grant of up to x may be made for a previously accepted proposal. All grant funds will be used solely for direct and indirect costs of carrying out the grant project, with no more than eight percent of the grant funds used for indirect costs.

A written report must be filed with your office promptly following the expiration of the one-year grant period, describing the progress made toward the project goals and accomplishments of the investigator(s) with respect to the grant and accounting fully for the use of the grant funds received. The report must include sufficient information from which you can determine whether the investigator(s) have performed the activities the grant was intended to support. Any grant funds that remain unused at the end of the one-year grant period must be returned to you.

If you become aware, either because of the contents of a report or through some other source, that all or any part of the grant is not being used in furtherance of the proper purposes of the grant, you will investigate. During such investigation you will withhold and seek to have the qualified sponsor withhold any payments not yet made under the grant, to the extent possible. If upon investigation you find that funds from the grant have been improperly diverted or used for purposes other than in furtherance of the specified purpose of the grant, you will take all reasonable and appropriate steps either to recover the grant funds or to insure the restoration of diverted funds and the dedication of other grant funds held by the qualified sponsor or the investigators to the purposes for which the grant was made. You will withhold any further payment to the qualified sponsor after you become aware that a diversion may have taken place until you have received the qualified sponsor's assurances that future diversions will not occur and will require the qualified sponsor to take extraordinary precautions to prevent future diversions from occurring.

You will maintain records pertaining to all grants made, including the following: (1) all information you secure to evaluate project proposals; (2) identification of investigators, including any relationship of any investigator to you sufficient to make such investigator a disqualified person with respect to you within section 4946(a)(1) if the Code; (3) specification of the amount and purpose of each grant; (4) follow-up information which you obtain in complying with section 53.4945-4(c)(3) and (4) of the regulations.

Section 4945 of the Code provides for the imposition of taxes on each taxable expenditure of a private foundation.

Section 4945(d)(3) of the Code provides that the term "taxable expenditure" means any amount paid or incurred by a private foundation as a grant to an individual for travel, study, or other similar purposes by such individual, unless such grant satisfies the requirements of section 4945(g).

Section 4945(g)(3) of the Code provides, in part, that the provisions of section 4945(d)(3) will not apply to an individual grant awarded on an objective and nondiscriminatory basis pursuant to a procedure approved in advance if the purpose of the grant is to achieve a specific objective, produce a report or other similar product, or improve or enhance a literary, artistic, musical, scientific, teaching, or similar capacity, skill, or talent of the grantee.

Section 53.4945-4(c)(1) of the Foundation and Similar Excise Taxes Regulations provides that, in order to secure the advance approval required by section 4945(g), a private foundation must demonstrate to the satisfaction of the Commissioner that (1) its grant procedures includes an objective and non-discriminatory selection process; (2) this procedure is reasonably calculated to result in performance by grantees of the activities that the grants were intended to finance; and (3) the foundation plans to obtain reports to determine whether the grantees have performed the activities that the grants are intended to finance. No single procedure or set of procedures is required.

Based upon the information submitted, and assuming your program will be conducted as proposed, with a view to providing objectivity and nondiscrimination in the awarding of grants, we rule that your procedures for the awarding of grants comply with the requirements of section 4945(g)(3) of the Code. Thus, expenditures made in accordance with these procedures will not constitute "taxable expenditures" within the meaning of section 4945(d)(3) of the Code.

This ruling is conditioned on the understanding that there will be no material changes in the facts upon which it is based. It is further conditioned on the premise that no grants will be awarded to creators, officers, directors, trustees, or members of the selection committee, or for a purpose inconsistent with the purposes described in section 170(c)(2)(B) of the Code.

Please note that this ruling is only applicable to grants awarded under your program as outlined above. Before you enter into any other scholarship programs you should submit a request for advance approval of that program.

We are informing your key District Director of this action. Please keep a copy of this ruling with your permanent records.

This ruling is directed only to the organization that requested it. Section 6110(j)(3) of the Code provides that it may not be used or cited as precedent.

Sincerely yours,

Gerald V. Sack

Gerald V. Sack
Chief, Exempt Organizations
Technical Branch 4