



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

Date:  
08/29/2022  
Taxpayer ID number:  
  
Person to contact:

Release Number: 202247017  
Release Date: 11/25/2022

LEGEND

B = Scholarship Award  
C = number  
D = number  
E = number  
F = City, State  
G = HIGH SCHOOL  
x dollars = \$

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 grant program called the B to provide financial assistance to enable graduating high school seniors, and current vocational and technical training program students, to further their educations at accredited postsecondary institutions or qualifying vocational and technical training programs.

You anticipate awarding annual grants worth x dollars each, starting with C grant your first year, D your

second, and E for your third and subsequent years. Grant amounts will vary based on the actual costs and term lengths of your recipients' chosen areas of study. Although grants are not renewable, recipients may reapply and compete for future grants, but no preference will be given for prior selection.

You will publicize your grants on your website, the websites and platforms of guidance offices in the F area, and regional and national platforms providing relevant scholarship search services. Members of your selection committee will also promote your grants to potential applicants.

Eligible applicants must be current students or graduates of high schools in the greater F area and submit a complete application, personal statement, and letters of recommendation.

Selection criteria will include academic achievement, community service, work experience, extracurricular activities, and the character of the applicant as demonstrated by leadership and service to others, perceived future potential, and a strong work ethic. Financial need may also be considered if applicants provide proof of eligibility for federal supplemental food and nutrition programs. You will award scholarships on an objective and non-discriminatory basis.

Your selection committee will consist of no less than five graduates of G who have resided in the greater F area for a minimum of one year. Members must demonstrate a personal history and commitment to the betterment of the community, in addition to the requisite knowledge, experience, and abilities to serve on your committee. Members must commit to terms of at least one year and will be selected and replaced at the discretion of your board. Children, grandchildren, or other close relatives of your officers, directors, substantial contributors, and other individuals considered disqualified persons under Section 4946 of the Code are not eligible for scholarships. Further, your selection committee members and close relatives are not eligible for scholarships.

Grants will be disbursed to educational institutions or directly to grant recipients on a case-by-case basis. Where funds are disbursed to educational institutions, you will require each institution agree to disburse funds for qualified tuition or other expenses to those recipients who are enrolled full-time and remain in good standing with the institution. If a grant recipient fails to enroll, drops out, or does not remain in good standing, such institutions will be required to return all unused funds to you.

Where grants are awarded directly to scholarship recipients, you will require each recipient to sign and return an acceptance letter agreeing to the requirements and conditions of the grant. Those requirements and conditions include providing an official college/university, trade school or vocational training acceptance letter, a commitment to remaining in good standing with the educational institution, and a written narrative report describing the recipient's experiences and accomplishments over the pertaining academic year.

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

- 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