



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

Date:  
10/26/2022  
Taxpayer ID number:

Person to contact:

Release Number: 202303014  
Release Date: 1/20/2023

#### LEGEND

M = Range of Numbers  
N = Range of Numbers  
x dollars = Range of dollar amounts  
y dollars = Range of dollar amounts

UIL: 4945.04-04

Dear :

You asked for advance approval of your scholarship procedures under Internal Revenue Code (IRC) Section 4945(g)(1) and advance approval of your educational grant procedures under 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 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.

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 provide in IRC Section 117(b)).

We also 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 the following:

- a) fellowship grants to an individual for study at an educational institution under IRC Section 4945(g)(1); and
- b) grants to teachers for study to enhance a skill or produce a specific product under Section 4945(g)(3).

4945(g)(1)

You state the fellowships made under IRC Section 4945(g)(1) will be awarded to students who enroll in graduate level courses in teaching and education. You plan to award approximately M fellowships per year approximately x dollars per grant to each student.

Your fellowship program for students under Section 4945(g)(1): this will be granted on a one-time basis with the option to re-apply in subsequent years. Renewal will be conditioned on whether the educational research project undertaken by the applicant is ongoing and looks promising to produce high-value results for advancing innovative educational practices. Re-applicants will also need to submit updated transcripts.

The details of the fellowship program for students will be publicized on the web to a wide variety of schools and school community portals, and at outreach events for students pursuing graduate degrees in education

4945(g)(3)

You state the educational grant program for teachers under IRC Section 4945(g)(3) will be awarded approximately N grants per year with approximately y dollars per grant to each teacher.

Grants would be provided to recipients on a one-time basis and typically would not be renewed. On a case-by-case basis, you may consider issuing a second grant to a qualified teacher who shows outstanding promise as determined by a new personal statement submitted by the applicant, upon reapplication.

The details of the educational grant program for teachers will be publicized to various schools throughout the country, as well as, to the general public through various media outlets including the Internet.

In determining eligibility requirements, you will not discriminate on the basis of race, color, creed, age, sex, gender, sexual preference or orientation, disability, national or social origin, or any other protected class.

No director, officer, disqualified person or any individual related by blood or marriage to any director or officer of your organization will be eligible for prizes or fellowships.

You would keep records adequate to show the name and address of each recipient, the amount distributed to each, the purpose for which the aid was given, the manner in which the recipient was selected, and the fact that the recipient is not related to any of your insiders.

You would require a report from the recipient at least once each year during the years that the fellowship and/or educational grant is paid, if applicable. This report must include a summary of the use of the funds awarded, and the recipient's continued need of the funds, if applicable. A final report will also be required.

If the report or other information (including the failure to submit reports) indicate that all or any part of the fellowship and/or educational grant was not being used in furtherance of the purposes of the fellowship and/or educational grant, you would investigate and will take corrective action. While conducting its investigation, you would withhold further payments, if applicable and to the extent possible until any delinquent reports required under the foregoing provisions have been submitted.

If you learn that all or any part of a fellowship and/or an educational grant was not being used in furtherance of its purposes, you would take all reasonable and appropriate steps to recover the fund and/or ensure restoration of the diverted fund to the purposes of the fund. If such a diversion occurred, and the recipient did not previously divert the fund to any use not in furtherance of the purposes of the fund, you would withhold any further payments to the recipient until it has received the recipient's assurance that future diversions will not occur and would require the recipient to take extraordinary precautions to prevent future diversions from

occurring.

If a recipient previously diverted funds received from you and you determined that any part of a fund has again been used for improper purposes, you would take all reasonable and appropriate steps to recover the grant fund and no further fund will be provided.

You will retain complete records in connection with all fellowships and educational grants awarded. These records include all information obtained by you to evaluate the qualifications of potential recipients, the identification of recipients, the purpose and amount of each fellowship or educational fund, the terms of payment of each fellowship or educational grant, and any additional and follow-up information you secured as part of the grant administration process, and to establish that it undertook the supervision and investigation of the fellowships and educational grants described above. The records described above would maintain by you for a period of seven years after the payment of the fellowship or educational grant has been completed.

As the fellowships and educational grants are new programs for you, you have not yet developed your selection committee or identified your specific members. At the outset, you anticipate that your selection committee will consist of your board of directors. At some point in the future the board may appoint subset of directors and possibly third parties with relevant experience as a selection committee. Neither the board of directors nor the selection committee members will be in a position to receive a private benefit, directly or indirectly, from the award of any of your scholarships or if certain potential recipients are selected over others.

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).

- 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 is in effect if your procedures comply with Sections 4.01 through 4.07 of Revenue Procedure 76-47 and either of the percentage tests of Section 4.08. If you establish another program covering the same individuals, that program must also meet the percentage test.
- This determination is in effect if your procedures comply with Sections 4.03 through 4.09 of Revenue Procedure 80-39 and either of the percentage tests of Section 4.10. If you establish another program covering the same individuals, that program must also meet the percentage test.
- 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