



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

Date: 04/22/2024

Taxpayer ID number:

Person to contact:

Name:

ID number:

Telephone:

Release Number: 202429024

Release Date: 7/19/2024

## LEGEND

UIL: 4945.04-04

B = Counties

C = State

D = County

E = Number of Grants

dollars = Dollar Amount

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 to enable graduating high school seniors and currently enrolled students at two- and four-year universities, colleges, or technical schools further their education. Your scholarships are limited to students residing in B counties in C who attend or will attend four-year universities in C or two-year colleges or technical schools in D.

Initially, you will award up to E scholarships, each worth no more than x dollars per year; however, the actual number and amount of scholarships awarded annually may vary based on your available resources.

Scholarships are limited to one academic year and are not renewable, but recipients who meet the eligibility criteria may reapply if they maintain a minimum GPA of 2.5 on a 4.0 scale. You will advertise your scholarships through your website and e-mail blasts to local high schools, colleges, and technical schools.

Eligible applicants must submit a completed application form that includes a copy of their most recent transcript showing an overall GPA of 2.5 on a scale of 4.0 and an essay describing the need for the scholarship and how they intend to use their education to improve the community. Applicants must also self-report their standardized test scores and financial need based on family size and total annual income on your application.

Selection criteria will include financial need, extracurricular activities, community service, honors and awards, leadership abilities, and academic achievement, including class rank, GPA, and standardized test results. Priority consideration will be given to applicants demonstrating the greatest levels of financial need.

Scholarship applications and supporting documentation will be processed in the order of receipt. Your selection committee will consist of three members of your board of directors and two members of your advisory committee who will review the applications and make a decision as to whom will receive your scholarships.

Scholarships will be paid directly to your recipients' schools and applied to the accounts of students currently enrolled and in good standing with the schools. Scholarships may be used for any of the following expenses: tuition, books, registration fees, transportation, meal plan supplements, lab fees, and supplies. All scholarship funds must be used within one 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  
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