



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

Date:  
05/16/2024  
Taxpayer ID number:

Person to contact:

Release Number: 202432021  
Release Date: 8/9/2024

LEGEND

D = Name

y 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) 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 a grantmaking program for high school senior age students who complete and are in good standing with D, to be used for their post-secondary educational endeavors whether it be a secondary school, trade school, or for workforce preparation and participation. Your mission is to promote the limitless potential in young leaders through extraordinary experiences and nurturing relationships. Your grants allow the recipients the opportunity by providing resources to take the next step in their personal professional development. Funds can be used for items such as tuition, related expenses to attend a qualified educational institution and other expenses such as transportation expenses and equipment to help the recipients in their post-

secondary professional endeavors. Tuition and related educational expenses are typically described under IRC Section 4945(g)(1) while expenses for other post-secondary professional endeavors are typically described under IRC Section 4945(g)(3). All awards are made on a one-time basis, are not renewable, and are for a set number of dollars.

Individuals who complete D and are in good standing in D, in which students start in their freshman year of high school, are eligible for the grant. D is a program in which the vast majority of participants come from very disadvantaged backgrounds, who could not otherwise access high-quality enrichment and leadership development programs. Good standing means the participant has attended and participated in the minimum number of events and projects over their four years of high school. These consist of multiple leadership courses that have numerous after-school sessions. There are also several monthly youth leadership sessions on weekends that participants must attend.

To receive a grant, a qualifying participant from D would have to submit a proposal. The proposal must include a minimum of 2 paragraphs and explain what the participant plans to use the grant for, explain how this will help them in their post-secondary success and a 15-minute video.

Individuals who successfully complete D and complete the application process will receive a grant. A committee consisting of members of your governing body affiliated with D will administer the program.

In the case where the funds are to be used for matriculation, the scholarship grants will be paid directly to the institution or vendor on behalf of the recipient. The only exception would be in the case where the recipient has already paid for the higher learning, in which case, the recipient would be reimbursed for actual costs as allotted by the grant.

For other uses of the funds, such as an item or service that will be used for their career endeavors, you will pay for the item directly. However, you may have to give funds directly to the recipient in cases where it is not practical to pay a vendor or educational institution after receiving proper documentation.

Your employees' relatives are eligible for the program and must meet the same requirements and commitment to D. Due to the rigorous documentation required to meet the prerequisites and standards of completion of D, there is no bias. Files and records are kept ensuring that the proposed use of the funds meets the program guidelines. Since this is a one-time grant, not renewable and generally paid out directly by you for the intended purpose and not to the recipient, there is virtually no way for funds to be misused.

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.

IRC Section 4945(g)(1) Requirements:

- 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).

IRC Section 4945(g)(3) Requirements:

- 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 IRC Section 117(a) and is to be used for study at an educational organization described in IRC Section 170(b)(1)(A)(ii).
  - 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.
  - 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 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.

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