



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

Date:
05/29/2024
Taxpayer ID number:

Person to contact:

Release Number: 202434016
Release Date: 8/23/2024

LEGEND

W = Name
B = Name
C = Name
D = Name
E = Number
F = Number
y dollars = Amount
z 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 grant making programs consisting of a scholarship program under IRC

Section 4945(g)(1) and a grant making program called W under IRC Section 4945(g)(3). Your purpose is to provide community service and raise funds for philanthropic and community support for people in local communities. Under your programs, you will award scholarships and grants to members of B which is a federal credit union. B is exempt under IRC Section 501(c)(1) and chartered by C. B has several branches in the state of D.

Scholarship program details

The purpose of the scholarship program is to award scholarships to students who have demonstrated outstanding services to their community, to attend a post-high school educational institution for members of B

Each year you will award a total of E scholarships for y dollars. The scholarships are one-time awards and are not renewable. You will publicize the scholarships in emails, on social media, on B's website and with a press release. You also will work with local school districts to publicize this information.

In order to be eligible for a scholarship, the applicant must:

- Be a member of B or eligible to join
- Submit an essay or video
- Complete and sign the application form by the deadline
- Submit a letter of recommendation from an unrelated person who is familiar with the applicant's community service
- Show proof of enrollment in a post-secondary school educational institution before funds are disbursed

Employees of B, volunteer officials of B (board members) and their relatives are not eligible to receive scholarships. Relatives of members of the selection committee, or of your officers, directors, or substantial contributors are also not eligible for scholarships made under your program.

Scholarship recipients will be selected by a selection committee consisting of your Executive Director, officers of B and others who are willing to volunteer their time to review and score the applicants.

To select recipients, the selection committee will use a rubric, awarding points based on criteria to determine recipients. Points will be awarded based on:

- Financial need based on annual household income
- Academic achievement with prioritization on high GPA's
- The community service essay/video that will be judged on both the service performed and on the literary/video quality including the grammar, spelling and general flow of the video
- The letter of recommendation to determine if there are concrete reasons the applicant merits receiving the scholarship for their community service activities

Recipients of scholarships must attend a post high-school educational institution and provide proof of enrollment. If not, the funds are saved for the following year.

Details of W

The purpose of W is to award grants to teachers who are nominated by students they've inspired in order to cover out-of-pocket classroom expenses. You will publicize the grants through emails, on social media, on B's website and with a press release. You will also work with local school districts to publicize this information. Under W, you will annually award a total of F grants for z dollars.

To be eligible for an award under W, an individual must be currently teaching grade school, middle school, or

high school in a school in a district within B's field of membership and must be nominated.

Recipients will be selected by a selection committee consisting of your Executive Director, officers of B, and others who are willing to volunteer their time to review and evaluate the candidates.

Employees of B, volunteer officials of B (board members) and their relatives are not eligible to receive grants. Relatives of members of the selection committee, or of your officers, directors, or substantial contributors are also not eligible for awards made under W

Selection committee members will select the recipients based on the information in the nomination on how the teacher goes above and beyond with their teaching style and the extraordinary impact the teacher has made compared to other teachers.

Under W, you will verify with the school that the teacher is currently teaching in the district and the funds go directly to the school. If not, you will choose an alternative recipient.

Oversight for both

You will maintain case histories showing the recipients of your scholarships and the grants under W, including the names, addresses, purposes of the awards, amount of each grant, manner of selection, and relationship (if any) to officers, trustees, or board members.

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.
- The effective date of our approval is _____, which is the date your request was submitted.
- 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 Marten
Director, Exempt Organizations
Rulings and Agreements

Enclosures:
Letter 437