



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

Date: 06/13/2024

Taxpayer ID number:

Person to contact:

Name:

ID number:

Telephone:

Release Number: 202436019

Release Date: 9/6/2024

UIL: 4945.04.04

LEGEND

X = Program Name

y dollars = Dollar Amount

z dollars = Dollar Amount

Dear :

You asked for advance approval of your educational grant procedures under Internal Revenue Code (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 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 X, a grants program to support individuals on a specific charitable project as described in IRC Section 4945(g)(3).

Your mission is to empower underrepresented and underestimated entrepreneurs to unlock their full potential. You seek to inspire and support underestimated entrepreneurs by providing access to non-dilutive capital at the earliest stage of business development. You will help underrepresented individuals with their crowdfunding campaigns by promoting their stories and encouraging others to give. Grants under X will normally range from y dollars to z dollars.

You will promote the availability of grants through: (1) engagement by your officers and staff via your events, one-on-one meetings presentations, and other volunteer projects; (2) promotion on your website, including an online form inviting project requests; and (3) advertisements, press releases, and storytelling via social and traditional media outlets.

Every recipient will be a yet-to-be recognized entrepreneur who is establishing a new for-profit or nonprofit enterprise. Recipients must either (1) demonstrate financial need by completing an application that will include a net worth statement and an income statement or (2) regardless of their personal financial status, demonstrate that their project will significantly further a charitable purpose such as combatting community deterioration, alleviating poverty, or eliminating discrimination. Although you will continue to modify and update your selection criteria, you will ensure that your potential recipients are within the target demographic, of a charitable class, located in a blighted area, and motivated to get their business off the ground.

There will be no limitations or restrictions in the selection procedures based upon race, religion, national or ethnic origin, or other illegally discriminatory criteria. Individuals who are employed by you, employed by an organization controlled by one of your directors, members of its governing body, or related by blood or marriage to employees or your directors or organizations controlled by your directors, will not be eligible for grants under your program.

Your staff and governing body will identify and select potential grantee projects. Your management and staff will review and approve or reject projects based on application materials. Your governing body establishes and annually reviews requirements and persons with approval authority to ensure unbiased selections.

Each selected recipient will be required to sign a Grant Agreement before any funds are disbursed. Using the reports required by the Grant Agreement, which will be submitted at least annually, you will monitor and evaluate the expenditure of funds and the progress made by each recipient. Any apparent misuse of grant funds will be promptly investigated. If you discover that funds have, in fact, been misused, you will require the recipient to return the funds immediately and make no further distributions to that recipient. You will also maintain the records required by Revenue Ruling 56-304, 1956 C.B. 306, regarding distribution of charitable funds to individuals.

Currently, you will make one-time grants only. However, in cases where a previous grantee applies for a subsequent unrelated grant, you will review prior grant reports, which include an attestation by the grantee of the use of previous grant funds, in addition to the project proposal.

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 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 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/make loans] 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