



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

Date:
10/03/2024
Taxpayer ID number:

Person to contact:

Release Number: 202452018
Release Date: 12/27/24

LEGEND

UIL: 4945.04-04

B = Name
C = Numbers
D = Name
E = Number
F = Name
x dollars = Amounts

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 scholarship program called B. The purpose of B is to provide comprehensive financial support to students from the working and middle classes in order for them to attend a higher educational institution described in IRC Section 170 (b)(1)(A)(ii). Under B, you will award grants under

both Sections 4945(g)(1) and 4945(g)(3). The grants that cover tuition and related expenses in order for the recipient to attend a qualified educational institution will generally be considered grants under IRC Section 4945(g)(1). Grants that fund the college application process and other ancillary expenses as well as a summer career stipend which will be based on need will generally be considered grants under Section 4945(g)(3).

Under B, you anticipate that recipients will be selected in their junior year of high school so that assistance can be provided prior to college. Selecting students in their junior year of high school allows the recipients to apply to their top choice schools without having to consider costs.

To promote B, you will utilize your web site and social media. You will also partner with third-party opportunity programs, charter, public and private high schools, and community-based organizations to leverage their established processes and structural capacity to identify high-potential students from the working and middle classes. From the candidates identified by such organizations, you expect to select student recipients for each cohort year. Initially, C students are expected to be selected from D while E students are expected to be selected from local community-based organization(s). You also intend to expand B to identify students through additional partners.

To be eligible for B, students must be in their junior year of high school, come from a working- or middle-class background and demonstrate financial need. For purposes of determining whether a potential recipient is income qualified, you will review location-specific data gathered by F. Recipients may also be lower-income individuals as defined by F. Furthermore, potential recipients must demonstrate merit which is determined based on a specific grade point average based on whether they attend a public or private school, essays, extracurricular activities, volunteer work, community involvement and letters of recommendation.

Recipients will be selected by a selection committee consisting of your officers tasked with managing the process of approving and awarding grants. Relatives of members of the selection committee, or of your officers, directors, or substantial contributors will not be eligible for awards.

The selection committee will rate the applicants based on their financial need, academics, essays, letters of recommendation, volunteer work, community service and their extracurricular activities.

Generally, the grants will be awarded in amounts in the range of x dollars depending on the educational institution that each recipient attends and are renewable contingent upon continued attendance by the recipient at the applicable educational institution with acceptable academic performance.

You will generally pay grants directly to the educational institution by check once the recipient is attending the educational institution. A small portion of the funds will go directly to the recipient through a debit card system that allows you to track spending and view receipts.

You will exercise regular and meaningful supervision of the grant recipients by, for example, requiring regular documentation and reports from the recipients during the term of the grant, and maintaining regular communication throughout the year. You will take steps to verify all applicant's documentation before approving any grants under B and once approved, will verify receipt of funds. In cases in which you determine that any part of the grant has been used for improper purposes, you will take all reasonable and appropriate steps to recover diverted funds. You may further use a close-out survey to ensure student accountability.

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.

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