



Department of the Treasury
Internal Revenue Service
Tax Exempt and Government Entities
P.O. Box 2508
Cincinnati, OH 45201

Date:
11/27/2024
Taxpayer ID number:
Person to contact:
Name:
ID number:
Telephone:

Release Number: 202508007
Release Date: 2/21/25

LEGEND

B = County

C = State

D = Department

x = dollars

y = number of grants

z = years

UIL: 4945.04-04

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 that you will operate a scholarship. You may award scholarships to students who demonstrate financial need and either (1) a record of academic achievement or (2) the potential, and the desire, to pursue undergraduate education. Historically, B students trail behind statewide averages of recent high school graduates entering colleges in C. With roughly twenty-five and nine-tenths percent of children living in families with incomes below the federal poverty threshold, post-secondary education is often unattainable due to financial hardship.

You hope to offer scholarships of up to x dollars to qualified graduating high school seniors. The scholarship may be used only for tuition and other such fees required for enrollment or attendance at a qualifying institution and fees, books, supplies, equipment, and other materials required for courses. If, for any reason, a scholarship is used for expenses other than qualified tuition and related fees, the scholarship recipient must provide a report verified by the educational institution describing how the scholarship funds were used. You will notify educational institutions that interested and qualified students may apply for aid. Individuals who apply will be expected to document their financial need. When applicable, individuals may be asked to provide academic transcripts of prior academic work, and to submit an essay on a topic assigned by you. One or more of your board members may conduct interviews with potential scholarship recipients. Recipients will be selected by your board of directors or a board committee. You may appoint an advisory committee to assist in evaluating and selecting scholarship recipients.

There are no limitations or restrictions in the selection procedures based upon race, religion, national or ethnic origin, or other illegally discriminatory criteria. You will restrict eligibility to graduating high school seniors who reside in B and plan to pursue postsecondary education at an accredited postsecondary institution listed in the accreditation database provided by D. You may also impose other restrictions from time to time, such as a minimum grade point average of 3.2. Individuals who are employed by you, employed by organizations controlled by one of your directors, members of your board of directors, or related by blood or marriage to employees or director of yours, will not be eligible for the scholarship from you.

You will develop specific criteria when you are ready to implement the scholarship. Selection criteria may include recommendations from teachers or instructors who know the applicant's capabilities, additional biographical information regarding the applicant's career aspirations, educational and other relevant experiences, financial need, and applicant's responses to questions about their motivations, character, abilities or potential. Your application may also request information about an individual's employment status, ACT or SAT score, community services, and extracurricular activities. Preference may be given to applicants from military families or first-generation Americans, although there will be no limitations or restrictions in the selection procedures based upon race, religion, national or ethnic origin, or other illegally discriminatory criteria. You may make single-year grants or determine on a case-by-case basis according to the scholarship recipient's continued enrollment and academic performance in such prior year. You anticipate you will award up to y scholarships each academic year as determined by your budget. The scholarships will be reviewed annually and awarded per academic year for a maximum of z years, and the scholarship amounts shall remain the same for each recipient.

You will require each recipient to sign a Scholarship Agreement before any funds are disbursed. Using the reports required by said agreement, you will monitor and evaluate the expenditure of funds and the progress made by each recipient. Any apparent misuse of scholarship funds will promptly be investigated. If you discover that funds have been misused, you will require the recipient to return the funds immediately and you will make no further distributions to that recipient. You will maintain records required by Revenue Ruling 56-304, 1956-2 C.B. 306, regarding distribution of charitable funds to individuals.

Your staff and officers will select potential scholarship recipients. Your board of directors, or a selection committee appointed by your board of directors, will review applications, and select scholarship recipients. Every member of any selection committee charged with evaluating candidates for scholarships shall adhere to the relevant policies that may be adopted and amended from time to time, including without limitation a conflict of interest and confidentiality policy. You may also rely on an advisory committee to assist with evaluating the scholarship process and applicants.

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