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

Date:
02/06/2025
Taxpayer ID number:

Person to contact:
Name:
ID number:
Telephone:

Release Number: 202518018
Release Date: 5/2/2025

UIL: 4945.04-04

LEGEND
B = City, State
C = Scholarship Number
D = Fraternity
x dollars = Scholarship Amount

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 you will operate a scholarship program to advance the educations of historically underrepresented students in the B metropolitan area who demonstrate academic excellence, a commitment to their community, and plan to pursue undergraduate (four-year) degrees at accredited universities. Scholarships are not limited to any particular course of study and may be used to defray the costs of tuition and/or fees, books, supplies, or other equipment required for courses of instruction.

You will publicize your scholarship program through both your website and high schools in the B metropolitan area, and may consider publicizing through secondary schools and other related institutions in the future.

You anticipate awarding scholarships in the amount of x dollars to C recipients per year, but the actual number and amount of your scholarships awarded annually will vary based on your available funds and application pool. Your scholarships are renewable for a period of up to four academic years for recipients that maintain a minimum 3.0 GPA on a four-point scale and provide a required report at the end of each academic year to your scholarship selection committee.

Eligible applicants in the B metropolitan area must apply via a two-page written application submitted through regular mail. Completed applications must also include the following: a minimum of two letters of recommendation (one from a faculty member and one from a community member); transcripts demonstrating a minimum 3.0 GPA on a four-point scale; and an essay on the applicant's commitment to their community.

Selection criteria will include academic achievement; demonstrated service to school and/or community; letters of recommendation; participation in extracurricular activities; and responses to the required essay that demonstrate a commitment to the betterment of the applicant's community.

Your board of directors will appoint a scholarship selection committee that will be responsible for selecting your scholarship recipients. Your committee will include at least one member who is knowledgeable in the field of education; otherwise, your committee will be composed of members of the D. Any committee members with a family or business relationship to a scholarship applicant will recuse themselves from any such discussions or decisions regarding your scholarships.

At the end of each academic year, your recipients must file a report with your selection committee that includes a copy of their most recent transcript and an outline of their academic progress. If any recipient fails to provide this report within sixty days of the required reporting period, or if your committee concludes that a recipient has not attended an educational institution upon review of such a report, you will take appropriate actions to seek a refund of the recipient's scholarship award.

You will pay scholarships directly to educational institutions. Scholarships should be applied to the accounts of students in good standing or paid directly to students in good standing to pay for allowable educational expenses. You may also make disbursements of scholarship payments to an education fund for the benefit of the recipient, or directly to a recipient upon proof of payment of allowable educational expenses.

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 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 scholarship 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 scholarships 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 scholarship 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

cc: