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: 202518024
Release Date: 5/2/2025

LEGEND
B = Program
C = State
D = Universities
m = range
n = number
x = $ maximum
y = $ maximum

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 that you will operate a scholarship program. You have previously received advance approval from the Service for your grant making program called B; under B, you have made qualifying distributions under both Sections 4945(g)(1) and 4945(g)(3). You are now revising your grant-making program to expand the criteria considered in selecting participants into B and are now requesting advance approval of your revised grant making.

Scholarships - IRC Section 4945(g)(1)

You will award scholarships to graduates of C high schools who are attending one of the following universities: D. Each of these universities is an educational institution described in Section 170(b)(l)(A)(ii) of the Code.

To be eligible, an applicant must be a citizen or lawful permanent resident of the United States and a resident of C for at least two consecutive years immediately prior to their expected graduation from high school. The applicant must also be enrolled, at the time of application, in a secondary school licensed and recognized by C or be pursuing a high school diploma in a home-school setting, and in their senior year. Applicants should have an overall grade point average of 3.5 and a ranking in the top 5% of their high school graduating class, with certain exceptions.

To promote the scholarship, you annually engage in a widespread publicity campaign throughout C by sending information regarding B to each high school guidance counselor, as well as teachers who have written recommendations for candidates in the past. In addition, to the extent that the names and addresses of such students are made available to you, you will send a personal email or letter to each high school junior in C who achieves scores in approximately the top 7% on standardized exams such as the SAT, to inform these students of their eligibility to apply for B and invite them to your public information sessions. You also will send a letter to each high school senior in C who meets the same threshold to invite these students to apply for B. In recent years, you have received approximately m applicants for the n scholarships awarded each year. You also maintain a website that provides information about B and the application process.

All applicants for B will initially be screened by a large panel of distinguished community members, B alumni and your staff in order to assess the candidate for academic achievement, leadership and involvement, service to the community, ability to communicate, and personal qualities. The panel then selects a group of semifinalists for a preliminary interview. Following this interview, finalists are named and invited for a personal interview with your selection committee. The selection committee then recommends recipients to your Board of Directors. The number of recipients selected each year is determined by your Board of Directors. You have selected approximately n recipients each year since the inception of the program.

The scholarship funds awarded by you are paid directly to the university that the scholarship award recipient is attending. The recipient university uses the scholarship funds to satisfy the award recipient's financial obligations to the university for tuition, fees, room and board, and related expenses. Any remaining funds are distributed by the university to the award recipient only if the recipient is enrolled and in good standing, which includes your criteria, at the institution to offset the costs associated with pursuing post-secondary education.

Previously, you have restricted the use of the scholarships awarded to undergraduate study. In response to the fact that many recipients complete a substantial number of university credits during their high school years, you anticipate making scholarship funds available to recipients pursuing a graduate degree at one the following universities: D. Similar to the previous scholarships awarded, the funds awarded to recipients pursuing graduate degrees will be paid directly to the university that the recipient is attending and used by the university to satisfy the recipient's financial obligations to the university for tuition, fees, room and board, and related expenses. Any remaining funds will be distributed by the university to the recipient to offset the costs associated with pursuing a graduate degree, including books, supplies, equipment, transportation, off-campus housing, health insurance and unreimbursed medical expenses, tutoring, and related expenses.

In 2022, you awarded each scholarship recipient approximately x per semester. You anticipate that this amount will increase over time. You also award additional funds to first-year scholarship recipients to cover travel expenses associated with participation in B Summer Seminar. While scholarship funds awarded by you have historically been uniform amounts, you anticipate that the amount of each scholarship award may vary from recipient to recipient in the future.

You award scholarships based on merit, demonstrated by academic and personal achievement, which will remain the principal factors considered in the selection of scholarship recipients. Merit will be determined by evaluating the following criteria:

(i) the applicants' past academic performance;

(ii) the applicants' performance on tests designed to measure ability and aptitude for college work;

(iii) the information included on the applicants' written submission, including essays and records of community service and leadership;

(iv) recommendations from the applicants' instructors and guidance counselors, and

(v) the conclusions the selection committee might draw from personal interviews.

Accordingly, in addition to considering the merit-based criteria described above, your selection committee may also consider applicants' geographic location within C, gender, linguistic background, race or ethnicity, income level, familial educational achievements, and other demographic characteristics in an effort to ensure that, to the extent practicable given the eligible population, that scholarship recipients represent the diverse and varied population of C. In the future, you may consider an applicant's financial need and/or an applicant's intended area of study in evaluating potential scholarship recipients.

Recipients will be selected on an objective and non-discriminatory basis. No member of the selection committee will be in a position to derive a private benefit, directly or indirectly, if potential grant recipients are selected over others. No grants will be made to your contributors, to members of your Board of Directors, to your officers, to any disqualified persons, to any member of your selection committee or to family members of any persons listed above or for a purpose that is inconsistent with your charitable, literary, scientific, and educational purposes.

Scholarships are awarded on a semester-by-semester basis and are renewable for up to eight semesters of post-secondary education. Recipients must meet the following conditions each semester in order for the scholarship to be renewed:

(i) achievement of a grade point average of at least 3.0;

(ii) maintenance of good academic standing and indication of satisfactory involvement and personal achievement in extracurricular activities;

(iii) continuing full-time enrollment as a student at D

(iv) for recipients enrolled in undergraduate degree programs, maintenance of an academic course schedule of no less than 24 credit hours per year;

(v) for recipients who complete those programs in fewer than eight semesters and enroll in graduate-degree programs, an academic course schedule regarded by the university as full-time.

You work closely with the universities to whom the scholarships are made to supervise the use of the scholarship funds awarded, including the periodic review of transcripts and course schedules. If you determine that any part of scholarship funds have been used for improper purposes, you will take all reasonable and appropriate steps to recover diverted funds or to ensure the restoration of diverted funds and the dedication of other funds held by the grant recipient to the purposes being financed. These steps will include legal action unless such action would not result in the satisfaction of execution on a judgment.

You retain records (in written or electronic form) relating to all scholarship funds for a period of four years after each award is granted. Such records will include (i) the scholarship applications, and any other information used by you to evaluate the recipient, (ii) a list showing the name and address of each scholarship recipient and the amount and purpose of each scholarship, and (iii) all reports, and other information obtained by you in administering the scholarship funds.

Study-travel grants - IRC Section 4945(g)(3)

In addition to scholarships, you award study-travel grants to the recipients of B. The study-travel grants awarded by you are intended to complement and broaden the recipients chosen field of study by affording educational experiences that will increase their understanding of the culture and history of other locales and peoples, or other academically enriching experiences that might not be available as part of a conventional baccalaureate or graduate degree program. In 2022, you awarded each recipient approximately y in study-travel funds.

All current recipients of B are eligible to apply for a study-travel grant. Applicants must provide detailed information about the proposed study-travel experience. Applicants are approved for study-travel grants if relevant university administrators confirm that the proposed program or experience will complement and broaden the applicants' chosen fields of study. All study-travel grant funds are paid directly to the university that the recipient is attending, with instructions that the funds be made available by the university to the recipient to offset the costs associated with the educational travel opportunity approved by you.

You work closely with the universities to determine whether grantees have performed the activities that the grants are intended to finance and have not diverted grant funds away from the original purposes of the grant. You may also require recipients to submit periodic progress reports.

If you determine that any part of a grant has been used for improper purposes, you will take all reasonable and appropriate steps to recover diverted grant funds or ensure the restoration of diverted funds and the dedication of other grant funds held by the grant recipient to the purposes being financed by the grant. These steps will include legal action unless such action would not result in the satisfaction of execution on a judgment.

You retain records (in written or electronic form) relating to all grants for a period of four years after each grant is awarded. Such records will include (i) the grant applications, and any other information used by you to evaluate the grant recipient, (ii) a list showing the name and address of each grant recipient and the amount and purpose of each grant, and (iii) all reports, and other information obtained by you in administering the grants.

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