

**Internal Revenue Service**  
P.O. Box 2508  
Cincinnati, OH 45201

**Department of the Treasury**

Number: **201504019**  
Release Date: 1/23/2015

**Employer Identification Number:**

**Contact person - ID number:**

**Date: 10/29/14**

**Contact telephone number:**

**LEGEND**

UIL: 4945.04-04

B= Scholarship  
C= High School  
x = Number  
y = Number

Dear :

You asked for advance approval of your scholarship grant procedures under Internal Revenue Code section 4945(g). This approval is required because you are a Non-Exempt Charitable Trust (NECT) described in Section 4947(a)(1). You requested approval of your scholarship program to fund the education of certain qualifying students.

**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 Code section 4945(g)(1). As a result, expenditures you make under these procedures will not be taxable.

Also, 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 in Code section 117(b)).

**Description of your request**

Your letter indicates you will operate a scholarship program called B.

You engage in charitable activities by enhancing access to higher education. Specifically, you provide scholarships to students that graduated from C to attend an agricultural college of their choice.



Information about B is found on C's website. Applicants must submit an application to C and must provide biographical information as well as a description of athletic involvement, community service hours, and participation in fine arts activities, leadership positions as well as an essay addressing the following:

- The applicant's qualifications for a scholarship including activities, honors, citizenship, community service, and work experience.
- The applicant's reasons why a scholarship is needed and deserved.
- The applicant's future plans including where the applicant will be going to school, area of study, and eventual career goals.

The number of scholarships that you will award each year and the amount of each scholarship will vary depending on the amount of funds available to be distributed. The trust is required to annually distribute the greater of the net income of the trust or the amount that must be distributed to satisfy Code Section 4942. You estimate that you will award x awards annually and roughly y students are eligible to apply.

Each year you will advise your scholarship advisory committee which currently consists of the principal and the counselor from C the amount of funds available to be awarded as scholarships. The committee will then review and rank the applications. The committee submits its recommendations and the recommended amount of the award to you. You will make the final selection and determine the award amount. All scholarships are awarded on an objective and non-discriminatory basis. No scholarship may be awarded to any disqualified person as defined in Internal Revenue Code Section 4946. The scholarships are non-renewable.

You will pay the scholarship proceeds directly to the university/college the recipient attends for the benefit of the recipient. You will also provide a letter to each university/college specifying that the university/college's acceptance of the funds constitutes the university/college's agreement to (i) refund any unused portion of the scholarship if a scholarship recipient fails to meet any term or condition of the scholarship; and (ii) notify the trustee if the scholarship recipient fails to meet any term or condition of the scholarship. If the university/school will not agree to such terms the trustee will obtain the needed reports and grade transcripts from the scholarship recipient.

You will (1) arrange to receive and review grantee reports annually and upon completion of the purpose for which the grant was awarded, (2) investigate diversions of funds from their intended purposes, and (3) take all reasonable and appropriate steps to recover diverted funds, 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 diversions from occurring.

You represent that you will maintain all records relating to individual grants, including



information obtained to evaluate grantees, identify whether 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**

The law imposes certain excise taxes on the taxable expenditures of private foundations (Code section 4945). 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 of the following requirements of Code 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 Code section 117(a).
- The grant is to be used for study at an educational organization described in Code 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 may report any significant changes to your program by completing Form 8940 and sending it to the Cincinnati Office of Exempt Organizations at:

Internal Revenue Service  
Exempt Organizations Determinations  
P.O. Box 2508  
Cincinnati, OH 45201

- You cannot 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 Code 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.



Please keep a copy of this letter in your records.

If you have questions, please contact the person listed at the top of this letter.

Sincerely,

Director, Exempt Organizations