

**Internal Revenue Service**

P.O. Box 2508  
Cincinnati, OH 45201

**Department of the Treasury**

Release Number: **201527046**

Release Date: 7/2/2015

Date: **April 7, 2015**

**Employer Identification Number:**

**Contact person - ID number:**

**Contact telephone number:**

UIL: 4945.04-04

**LEGEND**

X = Name of Scholarship

Y = State

b = Quantity

c = Quantity

d = Dollar Amount

e = Dollar Amount

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 private foundation that is exempt from federal income tax. 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 won't 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 provide in Code section 117(b)).

**Description of your request**

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

Your purpose is solely to provide financial assistance to needy students of higher education.

The purpose of X is to provide financial assistance to needy students of higher education.

The program includes two scholarship classifications. The two classifications are for a high school scholarship, referred to as the High School Program, and for a college scholarship, referred to as the College Program.

The number of scholarships awarded and the amount of such scholarships shall be determined by your Board of Directors and will depend on your available funds. Generally, you anticipate awarding b scholarships annually under the High School Program and c scholarships annually under the College Program. Each scholarship granted under the High School Program is generally in the amount of d dollars and each scholarship granted under the College Program is generally in the amount of e dollars.

You publicize the program annually to high schools and post-secondary institutions in Y, generally by way of communication to the guidance office. Current publicity for the High School Program is focused within urban and rural school districts.

To qualify for the overall program, an eligible individual:

- a. Must meet the minimum admissions standards of an educational institution as defined in section 170(b)(1)(A)(ii) of the Internal Revenue Code;
- b. Must be reasonably expected to attend an educational institution as defined in section 170(b)(1)(A)(ii) of the Code, which is located in Y; and
- c. Must demonstrate financial need.

To qualify for the High School Program, an eligible individual:

- a. Must be a graduating high school student who anticipates enrolling in a two- or four-year post-secondary program;
- b. Must have taken the SAT/ ACT exam;
- c. Must reside in Y; and
- d. Must have a cumulative average of "C" or a 2.0 Grade Point Average (GPA).

To qualify for the College Program, an eligible individual:

- a. Must be a student in good standing currently enrolled in a two- or four-year post-secondary program at a Y college or university, a graduating college student, a college graduate who anticipates enrolling in a graduate program, or a current graduate student;
- b. Must have completed one semester of credit hours prior to submitting an application;
- c. Must demonstrate financial need on a Student Aid Report or with equivalent documentation;
- d. Must reside in Y; and
- e. Must have at least a 2.0 GPA.

The Scholarship Committee will select scholarship recipients. The Scholarship Committee will evaluate the candidates based on the following criteria:

- a. Financial need;
- b. Scholastic and academic achievement;
- c. Citizenship and character;
- d. Leadership potential;
- e. Service to school and community;
- f. Recommendations; and
- g. Special interests.

The Scholarship Committee's primary focus among these criteria is financial need. Undergraduate students applying for the College Program will generally be favored over other applicants, but post-graduate students will be considered.

Your Board appoints the Scholarship Committee. Committee members are appointed based on their interest level and time available to devote to the scholarship review process. You are considering appointing at least one member to the Scholarship Committee who is particularly knowledgeable in education and not otherwise serving on your Board of Directors.

Members of the Scholarship Committee will not be in a position to derive a private benefit, directly or indirectly, if certain recipients are selected over others.

Individuals who are not eligible to receive scholarships are your directors, officers, and executive staff and their family members; other disqualified persons with regard to you, and their family members; and members of the Scholarship Committee and their family members.

Scholarship renewals are not permitted, although a scholarship recipient may apply again for a scholarship in subsequent years.

You will make all scholarship payments directly to the selected post-secondary institutions, including private or public universities, community colleges, junior colleges, and trade schools. Such distributions will be made under the condition that the educational institution agrees to use the scholarship funds:

- a. To defray the recipient's educational expenses, or
- b. To pay the funds (or a portion thereof) to the recipient only for educational purposes, and if the recipient is currently enrolled and in good standing, consistent with the purposes and conditions of the scholarship.

Eligibility to maintain a scholarship granted under both the High School Program and the College Program requires that a recipient is enrolled in a two- or four-year post-secondary program and in good standing with the educational institution.

You will maintain case histories showing each scholarship recipient, including the recipient's name and address, the purpose of the award, amount of each grant, and manner of selection.

You will also maintain records of all information obtained to evaluate the qualifications of all potential recipients and records to substantiate that you exercised oversight and investigation, if any.

If you conclude that a recipient has not attended an educational institution, you will take appropriate action to seek a refund of the recipient's scholarship award.

Specifically, if you determine that any part of a scholarship has been used for improper purposes and the recipient has not previously diverted funds to an improper use, you shall:

- a. Take all reasonable and appropriate steps to recover the funds, or insure the restoration of the diverted funds and the dedication of the recipient's remaining scholarship funds to appropriate purposes; and
- b. Withhold further awards or payments to the recipient after becoming aware that a diversion may have taken place until you have (i) received the recipient's assurances that future diversions will not occur, and (ii) required the recipient to take extraordinary precaution to prevent future diversions.

In cases where a recipient has previously diverted scholarship funds received from you, and you determine that any part of a scholarship has again been used for improper purposes, you shall:

- a. Take all reasonable and appropriate steps to recover the funds, or to insure the restoration of the funds and the dedication of the recipient's remaining scholarship funds to appropriate purposes; and
- b. Withhold further payments until (i) the misused funds are recovered, (ii) you have received the recipient's assurances that future diversions will not occur; and (iii) you require the recipient to take extraordinary precautions to prevent future diversions.

### **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. The effective date of our approval is November 18, 20 , which is the date your request was submitted.
- 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 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.

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, please contact the person listed at the top of this letter.

Sincerely,

Director, Exempt Organizations