



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

Date:
12/19/2023
Taxpayer ID number:

Person to contact:

Release Number: 202411015
Release Date: 3/15/2024

LEGEND

V = Numbers
W = Name
X = Name
Y = Law

UIL: 4945.04-04

z dollars = Amounts

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 you will operate a grant making program under which you will award scholarships under IRC Section 4945(g)(1) and grants under IRC Section 4945(g)(3). The purpose of your program is to provide individuals from historically marginalized communities with opportunities to attend, participate in, or create

programs that encourage personal educational or professional growth or increased cultural awareness. The focus of your scholarships and grants will be on assisting individuals primarily in the W area with demonstrable financial need from historically marginalized communities, including, but not limited to, people of color, those from under resourced municipalities, women and girls, X, and individuals covered by the Y, though eligibility will not be limited to individuals from these groups. The primary eligibility criterion for your scholarships and grants is the demonstration of financial need from a promising individual who would otherwise not have the means to attend an educational institution, or create programming or achieve other specific objectives.

You plan to publicize scholarship and grant availability by preparing application forms and informational packets to be circulated to counseling departments and pertinent administrative offices at various W primary, intermediate, secondary, and postsecondary educational institutions, including colleges, universities, and vocational and technical training programs, as well as relevant community cultural awareness organizations.

You anticipate that the majority of your distributions will be for scholarships as defined in IRC Section 4945(g)(1). You plan to award a combined total for both programs in the range of V scholarships and grants each year in the range of z dollars.

For all awards 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 also impose other restrictions from time to time, such as additional geographic limitations (e.g., limited to recipients from disadvantaged rural and urban areas). Individuals who are employed by you, employed by organizations controlled by a director of yours, members of its Board of Directors, or related by blood or marriage to employees or directors of yours or organizations controlled by a director of yours, will not be eligible for your scholarships and grants.

Details of Scholarships under IRC Section 4945(g)(1)

The purpose of your scholarships is to enable individuals from historically marginalized communities to attend classes or to pursue their studies at primary, intermediate, secondary, and postsecondary educational institutions. You intend to leverage scholarships to eliminate whether it is affordable, as a consideration for promising young people who do not otherwise have the financial means to attend the primary, intermediate, secondary, or postsecondary educational institution of their choice.

To be eligible to apply for a scholarship, the individual must:

- Attend a primary, intermediate, secondary, or postsecondary educational institution,
- Demonstrate financial need, and
- Demonstrate prior academic achievement.

The selection committee will consist of your board of directors, or person(s) delegated by your board of directors. The selection committee will evaluate scholarship applications based on the following criteria:

- Academic performance,
- Performance on tests designed to measure ability and aptitude for scholastic work at the relevant grade level,
- Recommendations from teachers, instructors, professors, school administrators, and others familiar with the applicant's academic aptitude,
- Financial Need,
- Participation in relevant extracurricular activities,
- Unusual personal or family circumstances,
- A short essay on their educational and personal goals, and
- Conclusions drawn from personal interviews with the applicant concerning the applicant's motivation, character, ability, and potential.

Your practice will be to pay the scholarships directly to the school to which the recipients will be attending, when possible. If funds are paid directly to the recipients, they will be required to sign an agreement before any funds are disbursed. The agreement will require the recipients to submit a full and complete report. The report must include a summary of the use of the funds awarded, and the courses taken and grades received in each academic period. The report must also be verified by the educational institution.

Scholarships can be renewed based on academic performance and continued financial need. You will verify that the recipients seeking renewal have timely filed all required scholarship reports and that their original and subsequent scholarships have not been used for purposes other than those for which they were awarded.

Details of Grants under IRC Section 4945(g)(3)

The purpose of your grants under IRC Section 4945(g)(3) is to enable individuals from historically marginalized communities to achieve a specific objective, such as the completion of discrete community-benefit projects that facilitate cultural awareness, or improving or enhancing a literary, artistic, musical, teaching, or other similar capacity, skill, or talent of the grantee.

To be eligible to apply for a grant, the individual must demonstrate prior academic or professional achievement, and demonstrate financial need. They also must meet one of the following:

- Attend or enroll in programming directed at improving or enhancing literary, artistic, musical, teaching, or other similar capacities, skills, or talents, or
- Create programming that achieve other specific objectives that facilitate the accomplishment of your educational and charitable purposes.

The selection committee will consist of your board of directors, or person(s) delegated by your board of directors. The selection committee will evaluate grant applications based on the following criteria:

- Prior academic and professional performance and achievement,
- Financial need,
- Recommendations from teachers, instructors, professors, school administrators, supervisors, and others familiar with an applicant's educational or professional aptitude,
- Unusual personal or family circumstances,
- A short essay on their articulated professional and personal goals,
- Written summary of the project proposal, and
- Conclusions drawn from personal interviews with the applicant concerning the applicant's motivation, character, ability, and potential.

Your grant recipients will be required to sign an agreement before any funds are distributed. The agreement will require the recipient to submit a full and complete report on the use of the grant funds, and the progress made by the recipient towards achieving the purpose for which the grant was made, at least yearly.

You plan to award single year and multi-year grants. If a grantee seeks renewal of a grant you will require reports as required by Treasury Regulation 53.4945-4(c)(3), a written report detailing the purposes for which additional funds are requested, and an explanation as to why the initial grant was insufficient. You will also verify that the recipient seeking renewal has timely filed all required grant reports and that their original and subsequent grants have not been used for purposes other than those for which they were awarded.

Oversight for all Awards

You will maintain the records required by Revenue Ruling 56-304, 1956-2 C.B. 306, regarding distribution of charitable funds to individuals. You will confirm and keep records evidencing that no recipients are disqualified persons. You will also record the name and address of each recipient, the amount and purpose of any funds spent, the manner of recipient selection, how the scholarship or grant was supervised, and how any possible diversion of funds was investigated and addressed.

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.

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

cc: