



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

Date:
05/02/2025
Taxpayer ID number:

Person to contact:

Release Number: 202530026
Release Date: 7/25/2025

LEGEND

B = State

C = Organization

x dollars = dollar amount

UIL: 4945.04-04

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. You award scholarships to C members and dependents to be used in the furtherance of higher education. Your board approved and adopted the scholarship procedures by board resolution. Your board will compose an essay question and solicit submissions from C membership. You will award five (5) x dollar scholarships, one to each division. In the event there are no submissions from a division, the scholarship will be awarded to the second highest score of all the entries. Notice of the scholarship will be provided in your newsletter, social media, email and fliers. You will maintain case histories showing recipients of your scholarships including names, addresses, purposes of awards, amount of each scholarship, manner of selection and relationship (if any) to officers, trustees, or donors of funds.

To be eligible, the applicant must be a senior, graduating from a high school in B who are enrolled in post-secondary or higher education. The applicant must be a C member or a legal dependent of a C member, and must be in good standing for at least one year.

You will share an essay question with C membership and solicit submissions from those that meet the eligibility criteria. Essays will be graded on a point scale with the following criteria:

- The central idea is clear and developed in answering the question,
- Usage of grammar and mechanics effectively communicates the idea,
- The essay demonstrates your values.

Each essay will be read by a committee of C members. The top scoring essay from each division will receive the scholarship. In the event of a tie, your state director will grade the tying entries to determine a winner. Your scholarship is not renewable. To ensure awardees meet the criteria, they will be asked to provide proof of registration before receiving the award such as an acceptance letter or tuition receipt.

The selection will be composed of the vice presidents from each of your divisions. Each committee member will read and score each essay submission.

Relatives of your selection committee will be eligible for scholarships. All information identifying the applicant will be redacted from the essays and the essays will be blind-graded. If the committee member believes he/she may know the applicant based on the content of the essay, the member will be instructed to recuse himself/herself. Upon recusal, the secretary of the division will grade the essay.

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 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, Letter 4792