

## Instructions for Guide Sheet for Advance Approval of Individual Grant Procedures

### PART 1

#### 1 **Is the private foundation required to obtain advance approval of grant procedures for its grants to individuals for travel, study, or other similar purposes?**

Private foundations that make grants to individuals for scholarships, fellowships, educational loans, prizes and awards, and grants to produce a report, or to improve or enhance a literary, artistic, musical, scientific, teaching or other similar capacity, skill, or talent of a grantee are required to obtain advance approval of grant procedures. IRC 4945(d)(3) and (g).

Example: Grants by a private foundation to vocational high school students to purchase basic tools are made to improve or enhance a “similar capacity or skill of the grantee.” Rev. Rul. 77-212, C.B. 1977-1 C.B. 356.

*Salaries, Consultants’ Fees, Personal Services:* Private foundations are not required to obtain advance approval for salaries paid to employees or for amounts paid to consultants or other persons for personal services, including reimbursement for travel expenses. Rev. Rul. 74-125, 1974-1 C.B. 327.

*Charitable Purposes:* Private foundations are not required to obtain advance approval of individual grant procedures where the grant is not “for travel, study, or other similar purposes.” For example, if a foundation makes grants to indigent individuals to enable them to purchase furniture, advance approval is not required since such grants do not require travel, study, or other similar purposes. Reg. 53.4945-4(a)(2).

*Prizes and Awards:* Private foundations that make grants for prizes and awards where the recipients are not required to render services in exchange for the prize or award are not required to obtain advance approval since they are not “for travel, study, or other similar purposes.” Rev. Ruls. 76-460, 1976-2 C.B. 371, 77-380, 1977-2 C.B. 419, and 75-393, 1975-2 C.B. 451. Reg. 53.4945-4(a)(3)(ii).

On the other hand, where a grant is labeled a prize or award but services are required in exchange for the award or prize, advance approval is required since the grant is “for travel, study, or other similar purposes.” Rev. Rul. 76-461, 1976-2 C.B. 371.

Example (1): Literary award for best newspaper editorial paid by a private foundation to an individual without any past, present or future service required would not require advance approval since the prize or award does not have any “strings” attached whereby the recipient must perform a service.

Example (2): Literary award for best newspaper editorial paid by a private foundation to an individual, the recipient delivers a talk at a seminar, would require advance approval since the prize or award does have a “string” attached whereby the recipient must perform a service.

TIP: Requests for advance approval of grant procedures involving prizes or awards where no past, present or future services are required may be declined by explaining that advance approval is not required.

*Grants to Another Organization:* If a private foundation makes a grant to another organization for use in making grants to an individual for travel, study, or other similar purposes, and if the individual recipient is designated by the private foundation or the private foundation controls the selection process, the grant is treated as made by the private foundation to the individual rather than to the organization. Reg. 53.4945-4(a)(4)(i) and (ii). Conversely, if the private foundation does not designate the individual recipient or control the selection process, the grant is treated as made to the organization. Rev. Rul. 81-293, 1981-2 C.B. 218.

Example: A private foundation that makes grants to a public charity that makes grants only to children of a particular employer is required to request advance approval of its individual grant procedures. Rev. Rul. 81-217, 1981-2 C.B. 217.

TIP: Frequently, the public charity will provide a private foundation with a written explanation about how its administration of the grant program will meet the IRC 4945(g) advance approval procedures. The written explanation can be used to establish that the foundation's grant-making program will comply with the advance approval procedures. For example, National Merit Scholarship Corporation and Scholarship America (formerly known as Citizens' Scholarship Foundation of America, Inc.) will be able to provide written explanations.

*Educational Loans:* Educational loans made to individuals are grants for which a private foundation is required to request advance approval. Rev. Rul. 77-434, 1977-2 C.B. 420

## **2 Does the grant program further the charitable or educational purposes of the grantor foundation?**

The private foundation must operate its individual grant program in a manner consistent with the accomplishment of its exempt purposes. Reg. 53.4945-4(b)(1).

For example, the grant program must not discriminate on the basis of race. Rev. Rul. 71-447, 1977-1 C. B. 230. Also, the grant program cannot serve impermissible private interests, such as scholarships awarded on a preferential basis to family members of the grantor. See Rev. Rul. 85-175, 1985-2 C.B. 276.

## **3 Does the group of potential candidates represent a charitable class?**

The group from which grantees are selected must be sufficiently broad so that the giving of grants to members of the group will fulfill a charitable purpose rather than serve private interests. For example, members of a fraternity may represent a charitable class, provided the class of eligible recipients is open-ended. See Rev. Rul. 56-403, 1956-2 C.B. 307. However, scholarships awarded to pre-selected individuals would not represent a charitable class. See Rev. Rul. 67-367, 1967-2 C.B. 188.

## **4 Are the criteria used in selecting grant recipients related to the purposes of the grant?**

The criteria used in selecting grant recipients must relate to the purpose of the grant. For example, criteria for a scholarship might include prior academic performance, performance on tests,

recommendations, financial need and personal interviews. Reg. 53.4945-4(b)(3). Scholarships may be awarded on the basis of need and/or merit. Rev. Rul. 69-257, 1969-1 C.B. 151.

- 5 Is the person or group of persons who select recipients of the grant in a position to derive a private benefit, either directly or indirectly, if certain potential grantees are selected over others? If “Yes,” the issue needs to be resolved. If “No,” there is no issue.**

The person or group of persons making the selection should not be in a position where they would derive a private benefit, such as selecting family members. Reg. 53.4945-4(b)(4).

- 6 Will the private foundation either (1) receive a report, at least annually, from the recipient showing that the activities the grant is intended to finance were performed, or (2) pay a scholarship or fellowship grant to a school that has agreed to use the grant for a grantee that is enrolled and in good standing?**

For scholarships or fellowships, an annual report would include courses taken, grades received, and verification by the educational institution. For scholarships or fellowships where courses are not taken, a brief annual report describing the project that is verified by the supervising faculty member or another appropriate university official is required. For other grants, an annual report on the use of the funds and progress made is required. Reg. 53.4945-4(c)(2) and (3). However, reports are not required if the private foundation pays scholarships or fellowships to an educational institution on behalf of individual recipients, provided the educational institution agrees to use the funds for their intended purposes only if the recipient is in good standing. Reg. 53.4945-4(c)(5).

- 7 Will the private foundation investigate any misuse of funds and withhold further payments to the extent possible if (1) the foundation does not receive a required report, or if (2) reports or other information indicate that grant proceeds are not being used for the purpose for which grants were made?**

Reg. 53.4945-4(c)(4).

- 8 Will the private foundation take all reasonable and necessary steps to (1) recover grant funds, or to (2) ensure restoration of such funds and their dedication to the purposes the grant funds are financing?**

Reg. 53.4945-4(c)(4).

- 9 Will the private foundation maintain records relating to grants to individuals?**

Records include information obtained to evaluate grantees, identify grantees in terms of whether the individual is a disqualified person, and specify the amount and purpose of each grant. Records also include information required to obtain annual reports and information regarding investigations and recovery or restoration of misused grants. Reg. 53.4945-4(c)(6).

## **PART 2**

- 1 Will the program be used by the employer, the private foundation, or the creator of the foundation for a purpose other than to recruit employees or to induce employees to continue employment or to follow a course of action sought by the employer? If “Yes,” the issue needs to be resolved. If “No,” there is no issue.**

Rev. Proc. 76-47, sec. 4.01 and Rev. Proc. 80-39, 4.03.

- 2 Will the selection committee consist wholly of individuals totally independent (except for participation on the committee) and separate from the private foundation, its creator and the employer? If “Yes,” there is no issue. If “No,” the issue needs to be resolved.**

Rev. Proc. 76-47, sec. 4.02 and Rev. Proc. 80-39, sec. 4.04.

- 3 Will any public announcement of the awards be made? If “Yes,” answer Question 4. If “No,” proceed to Question 5.**
- 4 Will the public announcement be made either by the selection committee or by the private foundation? If “Yes,” there is no issue. If “No,” the issue needs to be resolved.**

Public announcements through the employer’s newsletter of the grants awarded will not violate the prohibition regarding recruitment or inducement to continue employment or otherwise follow a course of action sought by the employer described in Question 1, above, provided the foundation or selection committee is identified as the grantor. See Rev. Proc. 81-65, 1981-2 C.B. 690.

- 5 Will the grants be awarded solely in the order recommended by the selection committee? If “Yes,” there is no issue. If “No,” the issue needs to be resolved.**

Rev. Proc. 76-47, sec. 4.02 and Rev. Proc. 80-39, sec. 4.04.

- 6 Are the grants fixed as to the amount to be awarded? If “Yes,” there is no issue and proceed to Question 8. If “No,” answer Question 7.**

Rev. Proc. 76-47, sec. 4.02 and Rev. Proc. 80-39, sec. 4.04.

- 7 Once the selection committee has made its recommendations, is the number of grants to be awarded fixed? If “Yes,” there is no issue and proceed to Question 9. If “No,” answer Question 8.**

The number of grants to be awarded may be reduced but may not be increased from the number recommended by the selection committee. Only the selection committee may increase the number of grants awarded. Rev. Proc. 76-47, sec. 4.02 and Rev. Proc. 80-39, sec. 4.04.

- 8 Does anyone other than the selection committee have the authority to increase the number of grants to be awarded after the selection committee has made its recommendation? If “Yes,” this issue needs to be resolved. If “No,” there is no issue.**

- 9 Will the grant program impose identifiable minimum eligibility requirements? If “Yes,” answer Question 10. If “No,” the issue needs to be resolved.**

No persons will be considered eligible if they would not reasonably be expected to attend such an educational institution, even if they meet minimum standards. If an employee must have been employed for some minimum period by the employer to be eligible to receive, or to make the employee’s children eligible to receive a grant, the minimum period of employment may not exceed

three years. Eligibility must not be related to factors such as the employee's position, services or duties. Rev. Proc. 76-47, sec. 4.03 and Rev. Proc. 80-39, sec. 4.05.

- 10 Will the grant program's minimum eligibility requirements limit the selection committee's consideration to those employees or children of employees who meet minimum admission standards to an educational institution for which grants are available? If "Yes," there is no issue. If "No," the issue needs to be resolved.**
- 11 Will selection of grant recipients be based solely upon substantial objective standards completely unrelated to the employment of the recipients or their parents and to the employer's line of business? If "Yes," there is no issue. If "No," the issue needs to be resolved.**

Substantive objective standards include prior academic performance, performance on tests designed to measure ability and aptitude for higher education, recommendations from instructors or other individuals not related to the potential awardees, financial need and conclusions drawn from personal interviews as to motivation and character. Rev. Proc. 76-47, sec. 4.04 and Rev. Proc. 80-39, sec. 4.06.

- 12 Will a grant be terminated because the recipient or the recipient's parent terminates employment with the employer subsequent to the awarding of the grant regardless of the reason for such termination of employment? If "Yes," the issue needs to be resolved. If "No," there is no issue.**

If a grant is awarded for a period of more than one academic year, subject to renewal, the standards for renewal will be based solely upon nonemployment related factors such as need and maintenance of scholastic standards. Renewal may not be denied because the recipient or parent has previously terminated employment with the employer. At the time the grant is awarded or renewed, there must not be a requirement, condition or suggestion that the recipient or parent is expected to render future employment services for the foundation or the employer. Rev. Proc. 76-47, sec. 4.05 and Rev. Proc. 80-39, sec. 4.07.

- 13 Will the course of study for which grants are available be limited to those that would be of particular benefit to the employer or to the private foundation? If "Yes," the issue needs to be resolved. If "No," there is no issue.**

The recipient must have a free choice to use the grant in the pursuit of a course of study that is not of particular benefit to the employer or to the foundation. The fact that one or more courses would be of particular benefit to the employer or foundation is not problematic, provided the recipient has a free choice overall. Rev. Proc. 76-47, sec. 4.06 and Rev. Proc. 80-39, sec. 4.08.

*Example:* A private foundation established by an oil company offers scholarships to individuals interested in pursuing degrees leading to Bachelor of Science. The fact that particular courses may include studies in oil geology does not violate the requirement that grants not be limited to a course of study of particular benefit to the employer or to the foundation.

- 14 Will the terms of the grant and the course of study for which grants are available be consistent with a disinterested purpose of enabling recipients to obtain an education solely for their personal benefit? If "Yes," there is no issue. If "No," the issue needs to be resolved.**

The terms of the grant and the courses of study for which grants are available must not include any commitments, understandings or obligations, suggesting that the studies are undertaken for the benefit of the employer or foundation. Rev. Proc. 76-47, sec. 4.07 and Rev. Proc. 80-39, sec 4.09.

- 15 Does the private foundation award grants to children of employees? If “Yes,” continue. If “No,” skip to Question 20.**

Although not specified in the published procedures, spouses are covered by the rules applicable to children of employees rather than employees.

- 16 Will the private foundation limit the number of grants it intends to award to children of employees to 25% of the number of children who were (1) eligible, (2) applicants for such grants, and (3) considered by the selection committee? If “Yes,” skip to Question 20. If “No,” continue.**

*Rounding Rule:* When applying any of the percentage tests, a private foundation may round upwards the number of allowable grants to the nearest whole number, provided that at least four grants are otherwise allowed. Rev. Proc. 94-78, 1994-2 C.B. 833.

*Qualified Disaster Rule:* Scholarships, fellowships or educational loans awarded under an employer-related grant program that otherwise satisfies the requirements of either Rev. Proc. 76-47 or Rev. Proc. 80-39 are exempt from any of the percentage tests if awarded to employees or children of employees who are seriously injured or killed as a result of a qualified disaster. A qualified disaster defined in IRC 139 includes a disaster that results from a terrorist or military action, a Presidentially declared disaster, or a disaster that results from an accident involving a common carrier, or from any other event, which is determined by the Secretary to be of a catastrophic nature. Rev. Rul. 2003-32, 2003-1 C.B. 689.

*Scholarships and Educational Loans:* If the same individuals are eligible for both scholarships or fellowships and educational loans, then the percentage tests will apply on a combined basis. If the same individuals are not eligible for both scholarships or fellowships and educational loans, then the tests will be applied separately. Rev. Proc. 80-39, sec. 4.10(4).

*Renewals:* Renewals of grants awarded in prior years are not considered in determining the number of grants awarded in a current year. Rev. Proc. 76-47, sec. 4.08.

- 17 Will the private foundation limit the number of grants it intends to award to children of employees to 10% of the number of children who can be shown to be eligible even though they did not apply? If “Yes,” proceed to Question 18. If “No,” skip to Question 20.**

Rev. Proc. 76-47, sec. 4.08 and Rev. Proc. 80-39, sec. 4.10.

- 18 Will the private foundation apply the 10% limit to children of employees by applying the procedures described in Rev. Proc. 85-51 that require a survey for determining whether children of employees are eligible recipients even though they did not apply for a grant? If “Yes,” skip to Question 20. If “No,” proceed to Question 19.**

Rev. Proc. 85-51, 1985-2 C.B. 717 provides that, for purposes of determining how many employees' children are eligible for a scholarship or loan under the 10 percent test, a private foundation may

include as eligible only those children for whom it has written information demonstrating that they are eligible even though they did not apply for a grant. Specifically, the foundation may include as eligible only those children for whom they have a written statement demonstrating that they (1) meet the foundation's eligibility requirements, (2) are enrolled or plan to enroll for admission at an educational institution, and (3) are not in their final year of enrollment.

- 19 Will the private foundation limit the number of grants it intends to award to children of employees based on all the facts and circumstances? If "Yes," the private foundation must explain why it cannot meet the 25% or 10% test. If "No," the issue needs to be resolved.**

Relevant facts and circumstances may include: the likelihood that the program may be used for employee recruitment or to retain employees, the independence of the selection committee, standards for scholarship eligibility and selection, limitations on the recipient's choice of course of study, the number of grants available, the number of children of employees who would be eligible for them, the percentage of eligible children of employees applying for grants who normally (i.e., on an average basis) receive grants under the program, and whether and how many grants are awarded to individuals who are not children of employees.

Example (1): An employer-related scholarship grant program could award one grant annually without regard to the percentage test under all the facts and circumstances, including the facts that the company had a workforce of 3,000 employees, the foundation intended to award one fixed scholarship, and the foundation's program otherwise satisfied Rev. Proc. 76-47. Rev. Rul. 86-90, 1986-2 C.B. 184.

Example (2): An employer-related scholarship program awards grants to all children of employees who meet an eligibility requirement that they achieve a ranking on a national test that places them in the top one-half of one percent of all individuals who take the test in the particular state in which the employer is located. As a result, so few children of employees either apply for a scholarship or would be eligible even though they do not apply that no scholarships could be awarded under either the 25 percent or 10 percent tests. This program would be eligible for the facts and circumstances test.

Rev. Proc. 76-47, sec. 4, and Rev. Proc. 80-39, sec. 4.02.

- 20 Does the private foundation award grants to children of employees? If "Yes," continue. If "No," stop.**
- 21 Will the private foundation limit the number of grants it intends to award to employees to 10% of the number of employees who were (1) eligible, (2) applicants for such grants, and (3) considered by the selection committee? If "Yes," there is no issue. Stop. If "No," proceed to Question 22.**

Rev. Proc. 76-47, sec. 4.08, and Rev. Proc. 80-39, sec. 4.10.

- 22 Will the private foundation limit the number of grants it intends to award to employees based on all the facts and circumstances? If "Yes," the private foundation must explain why it cannot meet the 10% test. If "No," the issue needs to be resolved.**

Question 19, above.