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DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

UIL No. 4945.000-00

Date: FEB 21 2001

Contact Person:
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I.D. Number:
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Telephone Number:
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T:EO:B4

Employer Identification Number:**********

Legend:

B= *********

C = *******

D= ********

Dear Applicant:

This is in reference to your letters of November 15, 2000, and January 30, 2001 requesting a ruling that grants made under the program described below will not constitute taxable expenditures within the meaning of section 4945(d)(3) and that amounts distributed to students will constitute scholarship grants within the meaning of section 117(a). This letter modifies the private letter ruling dated January 19, 2001 that you received.

You are a Nonprofit Corporation exempt from Federal income tax pursuant to section 501(c)(3) of the Code classified as a private foundation under section 509(a) of the Code.

You propose to institute a scholarship program to assist qualified African American high school students who are in their senior year at B, a high school in the city of C, and who will pursue post-secondary education at educational institutions described in section 170(b)(1)(A)(ii) of the Code. African American students comprise 52% of B's present senior class. You intend, at a future date,

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to expand the program to include qualified African American students in other high schools in the area surrounding C which have enrolment characteristics similar to B. When fully operational you anticipate that you will award two four-year scholarships a year. The selection of two qualified African American students will represent approximately 1 % of the African American students who are in the present Senior class of B.

You intend to make periodic payments to D, a publicly supported 501(c)(3) organization, which will have complete responsibility for selecting the scholarship recipients and administering the scholarship aid program. It will monitor the progress of your scholarship recipients and provide you with periodic progress reports. It will select awardees on an objective and non-discriminatory basis through its selection committee. Qualification consideration will be given to high school academic achievement, community service , and school attendance. One of the conditions of granting the scholarship will be that the student intends to pursue a degree in computer science, chemical engineering, and/or business administration. The fact that the recipient subsequently changes his or her major to another undergraduate degree will not of itself adversely affect the student's right to continue to receive a scholarship, however, failure to maintain a minimum average of 3.0 on a 4.0 scale will be grounds for discontinuance.

No individual related to you, your principal donor, or D , will serve on the selection committee. The scholarship recipients will have no relation to you, your principal donor or D.

Section 4945 of the Code provides for the imposition of taxes on each taxable expenditure of a private foundation.

Section 4945(d)(3) of the Code provides that the term "taxable expenditure" means any amount paid or incurred by a private foundation as a grant to an individual for travel, study, or other similar purposes by such individual, unless such grant satisfies the requirements of section 4945(g).

Section 4945(g)(1) of the Code provides that section 4945(d)(3) shall not apply to an individual grant awarded on an objective and nondiscriminatory basis pursuant to a procedure approved in advance by the Secretary, if it is demonstrated to the satisfaction of the Secretary that the grant constitutes a scholarship or fellowship grant which is subject to the provisions of section 117(a) and is to be used for study at an educational institution described in section 170(b)(1)(A)(ii) of the Code.

Based upon the information you submitted, and assuming your program will be conducted as proposed , with a view to providing objectivity and nondiscrimination in the awarding of grants, we rule that your procedures in the awarding of scholarship grants comply with the requirements of section 4945(g)(1) of the Code. Expenditures made in accordance with these

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procedures will not constitute "taxable expenditures" within the meaning of section 4945(d)(3) of the Code, and as such are eligible for the exclusion from income provided for in section 117(a) of the Code to the extent that such grants are actually used for qualified tuition and related expenses within the meaning of section 117(b)(2) of the Code.

This ruling is conditioned on the understanding that there will be no material change in the facts upon which it is based. It is further conditioned on the premise that no grants will be awarded to your organization's creators, officers, directors, trustees, or members of the selection committee, or for a purpose that is inconsistent with the purposes described in section 170(c)(2)(B) of the Code.

The approval of your grant-making procedures is a one time approval of your system of standards and procedures for selecting recipients of grants that meet the requirements of section 4945(g)(1) of the Code. Thus, approval will apply to succeeding grant programs only as long as the standards and procedures under which they are conducted do not differ materially from those described in your request.

We are informing the TE/GE office of this action. Please keep a copy of this ruling with your permanent records.

This ruling is directed only to the organization that requested it. Section 6110(k)(3) of the Code provides that it may not be used or cited as precedent.

Sincerely yours,

Gerald V. Sack

Gerald V. Sack
Chief, Exempt Organizations
Technical Branch 4

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