



Show Me the Money: Providing Scholarships and Other Financial Assistance

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Mission of Pro Bono Partnership of Atlanta:

To maximize the impact of pro bono engagement by connecting a network of attorneys with nonprofits in need of free business legal services.

Pro Bono Partnership of Atlanta Eligibility & Other Information

- In order to be a client of Pro Bono Partnership of Atlanta, an organization must:
 - ✓ Be a 501(c)(3) nonprofit organization.
 - ✓ Be located in or serve the greater Atlanta area.
 - ✓ Serve low-income or disadvantaged individuals.
 - ✓ Be unable to afford legal services.
- *Visit us on the web at www.pbpatl.org*
- Host free monthly webinars on legal topics for nonprofits
 - ✓ To view upcoming webinars or workshops, visit the [Workshops Page](#) on our website

Should You Award Scholarships or Financial Assistance?

- What is the basic difference? Whether the award will be taxable.
- Scholarships are nontaxable to the recipient, but only if your organization follows certain criteria and makes the appropriate filings with the IRS.

Laws Applicable to Scholarships:

- §4945(g)(1) of Internal Revenue Code
- §4946(g) of Internal Revenue Code
- §117(a)(g) of Internal Revenue Code

Requirements for Scholarships

- Must be awarded on an objective and nondiscriminatory basis
- May not be awarded to an officer, manager or trustee of your organization, member of selection committee, a substantial contributor, certain US government officials, or family members of any of these individuals
- The group of applicants from which recipients are selected must be sufficiently broad to be considered a charitable class

Requirements for Scholarships (cont.)

- To be excluded from gross income, it must be a “qualified scholarship” received by an individual who is a candidate for a degree at and used for study at an educational institution described on Section 170(b)(1)(A)(ii) of the Internal Revenue Code
 - ✓ “Qualified Scholarship”: used for qualified tuition and related expenses at such an institution
 - Tuition and required fees, books, supplies and equipment

Rules for Public Charities

- No member of the selection committee can benefit in any way from choosing the scholarship recipients (e.g., committee members cannot have relatives in the applicant pool).
- You can donate money to a 501(c)(3) school and recommend that they grant scholarships to certain applicants, but the school must have the final say on which students actually receive scholarships.
- You must ensure that any non-U.S. citizen who receives a scholarship is not a published “Specifically Designated Nationals” terrorism watch list.

Rules for Private Foundations

All the above rules for public charities apply to private foundations, plus the following:

➤ **If you give scholarships to selected students:**

You must obtain pre-approval of your selection procedure from the IRS by submitting a request for pre-approval at least 45 days before you make your first award.

➤ **If you fund scholarship programs at educational institutions:**

If the grant is conditioned on certain students receiving scholarship funds, the rules that apply to the scholarship awards to selected students described above apply.

➤ **If your foundation is affiliated with a business entity:**

If employees of the business or their children are eligible for scholarships, your program must strictly follow a number of additional rules for the funds to be nontaxable.

Conditions Required for Employee-Related Scholarships to be Nontaxable

- Use as inducements prohibited
- Independent Selection Committee
- Minimum Eligibility Requirements
- Objective Basis for Selection
- Eligibility not contingent upon continued employment
- Course of Study
- Other objectives
- If these conditions are not met, the IRS may consider the grant a taxable expenditure and the foundation could lose its exempt status.

Required IRS Filings

In addition to meeting the applicable requirements above, your organization must file Schedule H of Form 1023 and provide the following information to the IRS:

- Criteria used for selecting recipients, including the rules of eligibility.
- How and by whom the recipients are or will be selected.
- If awards are or will be made directly to individuals, whether information is required assuring that the student remains in school.

Required IRS Filings (cont.)

- If awards are or will be made to recipients of a particular class, for example, children of employees of a particular employer:
 - Whether any preference is or will be accorded an applicant by reason of the parent's position, length of employment, or salary.
 - Whether the recipient must accept employment with the company upon graduation as a condition of the award.
 - Whether the award will be continued even if the parent's employment ends.
- A copy of the scholarship application form and any brochures or literature describing the scholarship program.

Scholarship or Financial Assistance?

If your organization is unable to meet the applicable criteria set forth above, or would prefer not to have to comply with them, then you should provide financial assistance, not a scholarship.

- Available funds for awards and the financial and personnel resources available to create and administer the program are some factors to consider in making this decision.
- If you are already providing awards and are not complying with applicable scholarship laws and regulations, consider calling your awards financial assistance rather than a scholarship.

Creating a Scholarship or Financial Assistance Program:

Best Practices

Applications

- Tips for Creating Forms
- Standardize Deadlines
- Don't Charge Fees
- Don't ask for Social Security Numbers
- Proofread!

Selection Criteria

- Be as Specific as Possible
- Identify Objectives
- Relate Objectives to Concrete Criteria
- Limit Essays and Other Subjective Criteria
- Create a Review and Scoring Process

Communications With Applicants and Recipients

- Post scholarship information on websites and/or databases
- Create online application forms and materials
- Send email acknowledgements and notifications

How to Pay the Funds

- For scholarships, it is usually best to pay to the educational institution directly. If funds are paid to recipient directly, they must verify that money is spent on tuition fees, or supplies to keep funds non-taxable
- For Financial Assistance, can pay directly to the recipient

Evaluating the Effectiveness of Your Program

- Track and Evaluate Measurable Outcomes
 - ✓ Retention and Graduation Rates
 - ✓ Other Awards Won by Your Recipients
 - ✓ Average Recipient Debt at Graduation
 - ✓ Enrollment in Graduate and Professional Schools

Managing Your Program

- Internally: Assign Specific Personnel and Establish Internal Procedures for Management
 - ✓ National Scholarship Providers Association
- Outsourcing: Scholarship Management Organizations
 - ✓ Eliminate burdens and limit costs
 - ✓ Avoid possibility of actual or perceived conflicts
 - ✓ Get assistance with outreach

For More Information:

If you would like more information about the services of Pro Bono Partnership of Atlanta, contact us at:

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