



Scholarship and Fellowship Programs

**HELP DESERVING INDIVIDUALS
REACH THEIR FULL POTENTIAL**

Your foundation can help deserving individuals pay for study, research, or travel. However, the noblest of intentions are not free from legal and compliance hurdles. Many donors are unaware that if the foundation wants to be involved in selecting scholarship or fellowship recipients, the program must be approved, in advance, by the IRS. If your program does not obtain advance IRS approval, your foundation could incur penalty taxes and, in worst cases, place its tax-exempt status in jeopardy.

In Approving These Programs, the IRS Looks For:

- A selection process that is objective and nondiscriminatory;
- A large selection pool of potentially eligible individuals known as a “broad charitable class;”
- Selection criteria that aligns directly with the charitable purpose of the scholarship program; and
- Systems to monitor recipients’ use of the funds and the progress made toward achieving the grant purpose.

Foundation Source can help you design your foundation’s program to meet the necessary legal requirements and align with your mission, and also obtain advance approval from the IRS. Once you get this approval, you can award scholarships, fellowships, or grants to help an individual acquire a skill or complete an important project such as writing a historical account, creating a community mural, or composing a musical score.

But Can’t I Just Pay Scholarship Funds Directly to the School and Avoid All the Hassle?

A grant to an educational institution that is earmarked for a specific individual’s tuition is treated by the IRS as though the grant were made directly to the individual. Therefore, such an approach would still require advance IRS approval. The same is true where a foundation funds a scholarship program at an educational institution, but is significantly involved in the selection process. However, if your foundation funds a scholarship program sponsored by an educational institution, and you are not involved and have no input in the selection of individual recipients, IRS approval may not be required.

What Process is Involved In Creating a Scholarship Program?

Foundation Source experts will conduct an in-depth interview with you to understand your intentions and goals. What type of individuals do you want to help? What level of assistance do you wish to provide? We will then draw upon our work with many other foundation scholarship programs to custom-tailor yours. Specifically, we will help develop:

1. A description of the “class” of eligible recipients;
2. The criteria to be used in selecting recipients;
3. The qualifications of those who will select the recipients;
4. An explanation of how the program will be widely publicized;

- 5. A description of the process to monitor the use of scholarship funds;
- 6. Procedures that will be followed if those funds are misused; and
- 7. Purpose of the grants, amount of the grants, and/or whether they will be renewable

FOUNDATION SOURCE CAN HELP YOU DESIGN YOUR FOUNDATION'S PROGRAM TO MEET THE NECESSARY LEGAL REQUIREMENTS AND ALIGN WITH YOUR MISSION /



Once our legal and philanthropic experts have worked with you to define your scholarship program, we will develop the appropriate documentation and submit it to the IRS for pre-approval. If necessary, we will continue to work with the IRS to answer questions or fine-tune the details of your program as appropriate. Once your program is approved by the IRS, then you are ready to go!

How Far In Advance Should I Start Developing My Scholarship Program?

The length of time it will take to establish a program depends upon the time required for pre-approval by the IRS. For this reason, we encourage you to begin the process well in advance of when you plan to fund your first round of awards. This allows adequate time to iron out a design and develop processes consistent with your goals. If the program is contemplated at the time your foundation is established, a request for advance IRS approval of the program can be incorporated into your Application for Tax Exempt Status.

What Can We Do to Streamline the Process of Reviewing Applications?

With **Applications**, our web-based grants management services, you can organize, review and track in progress and completed applications.

LOOKING TO LEARN MORE?

We're here to help! Contact us today at 800.839.0054 or send us an email at info@foundationsource.com.

www.foundationsource.com

©2026 Foundation Source Philanthropic Services Inc.
All rights reserved. v0626

The information provided in this document is for general information purposes only, and does not constitute legal, tax or investment advice.

FOUNDATIONSOURCE
Your Partner in Giving