

THE TAX MAN COMETH

TAX ALERT- 2 (Scholarships)

Paul Hemeryck, CPA, State Treasurer

The IRS has shown significant interest in scholarships due, in part, to substantial abuse by various organizations..

If the scholarships are being given out by Lion charity organizations, 501(c)3 entities, the entity must file schedule H with the form 1023 for that they filed when they applied for tax exemption. If they did not, they should file one as soon as possible.

If a Lions Club is giving out scholarships, they need to have a firm policy that includes all of the same information.

The requirements that the IRS is insisting on would include the following information.

- 1a. Describe the types of educational grants you provide to individuals, such as scholarships, fellowships, loans, etc.
- b. Describe the purpose and amount of your scholarships, fellowships, and other educational grants and loans that you award.
- c. Specify how your program is publicized.
- d. Provide copies of any solicitation or announcement materials.
- e. Provide a sample copy of the application used.
2. Do you maintain case histories showing recipients of your scholarships, fellowships, educational loans, or other educational grants, including names, addresses, purposes of awards, amount of each grant, manner of selection, and relationship (if any) to officers, trustees, or donors of funds to you? If “No,” refer to the instructions.
3. Describe the specific criteria you use to determine who is eligible for your program. (For example, eligibility selection criteria could consist of graduating high school students from a particular high school who will attend college, writers of scholarly works about American history, etc.)
- 4a. Describe the specific criteria you use to select recipients. (For example, specific selection criteria could consist of prior academic performance, financial need, etc.)
- b. Describe how you determine the number of grants that will be made annually.
- c. Describe how you determine the amount of each of your grants.
- d. Describe any requirement or condition that you impose on recipients to obtain, maintain, or qualify for renewal of a grant.
5. Who is on the selection committee for the awards made under your program, including names of current committee members, criteria for committee membership, and the method of replacing committee members?

6. Are relatives of members of the selection committee, or of your officers, directors, or substantial contributors eligible for awards made under your program? If “Yes,” what measures are taken to ensure unbiased selections?

OR

As an alternative, the IRS has the come up with an alternative that lightens the burden if

1. The recipient was selected without any action on his or her part to enter the proceeding.
2. The recipient is not required to render substantial future services, and
3. The prize or award is transferred by the Club to a governmental unit pursuant to a designation made by the recipient.

In other words contact a high school or college or, tell them what you would like them to consider and let them pick a student from their own student body. Based upon their selection you can write a check to the college for the student tuition account.

By letting the school make the selection, you have eliminated a potentially huge tax problem that could cause your organization to lose its tax exempt status.

Stay tuned for more developments.

Paul Hemeryck, CPA, State Treasurer.