

## SCHOLARSHIP PROGRAMS OF AAUW-AFFILIATED ENTITIES

Approved by the AAUW Board of Directors, April 2014

Note: In all AAUW policies, the term “AAUW” refers to the nationwide organization. The term “AAUW-affiliated entity” or “entity” refers to all AAUW state organizations, branches, or comparable AAUW entities.

### OVERVIEW

Although AAUW-affiliated entities should consider financial support of AAUW’s national charitable work to be their primary philanthropic priority, some entities also provide financial support for local scholarships or awards for women and girls. These programs are important contributions to the community, they are valuable to the recipient, and they advance the AAUW mission. Clear guidelines and expectations for such programs are important and may have tax status implications for the entity and/or personal tax consequences for donors.

### DEFINITION OF TERMS

**AAUW-Affiliated Entities.** AAUW-affiliated entities are nonprofit organizations that have signed an AAUW Affiliate Agreement. All AAUW-affiliated entries must be designated by IRS as nonprofit organizations and must file with IRS annually, either through AAUW or independently. This includes branches, state organizations, and a category called “Other Affiliated Entities.” More information on AAUW-affiliated entities can be found in [AAUW Fundraising Policy 501](#).

**Donor Intent.** Donor intent is a fundamental principle of charitable giving that relates to the donor’s expectations in providing a donation of money, goods, or services to a recipient. The IRS considers donor intent the primary determinant for the recipient organization’s use of a gift. Respect for the “intent of the donor” has been recognized by courts for generations as a critical factor in legal matters as varied as tax consequences of current gifts to wills and estates. More information on donor intent can be found in [AAUW Fundraising Policy 501](#).

**Scholarship.** Throughout this document, the term “academic scholarship” is used to indicate financial awards given to high school or college students to assist with their college attendance, whether those awards are given directly to the student or are provided on the AAUW-affiliated entity’s behalf by a college or university. Academic scholarship as used here does not include an award for achievement in a science fair or competition; however, the amount of money awarded and the process used to select the recipient may have bearing on the applicable terminology.

**Award.** The term “award” when used herein as a noun has to do with a sum of money or other tangible gift provided to a student for attainment of a stipulated achievement, such as receiving first place in a science fair or graduating at the top of a high school class. As with scholarships,

the amount of money awarded and the process used to select the recipient may have bearing on the applicable terminology.

**Fellowship.** The term “fellowship” when used herein applies to a sum of money awarded to fund graduate school or postgraduate work.

**Grant.** The term “grant” when used here applies to a sum of money provided to a qualified applicant to fund a program or project that meets previously established criteria.

## NAVIGATING IRS REGULATIONS

### I. Basis for Scholarship Recommendations

**A. Academic Scholarships and Awards.** Financial assistance for college/university attendance may be considered either an academic scholarship or an award. Scholarships tend to be larger and to have more rigorous criteria, whereas awards tend to be smaller and have fewer criteria (e.g., a \$1,000 scholarship for a woman pursuing a STEM major versus a \$100 award for a high school valedictorian). Whether you are giving a scholarship or an award, you should consider selection criteria, recipient monitoring, and distribution procedures.

1. Academic scholarships and awards are typically based on financial need, academic merit, or both.
2. Academic scholarships and awards may be offered by IRS 501(c)(3) public charities, 501(c)(3) private foundations, and 501(c)(4) social welfare organizations.
3. Most AAUW entities have 501(c)(4) status, some have 501(c)(3) status, and some have both. Few, if any, are private foundations.
4. However, the best-practice standards for academic scholarship programs are based on the IRS requirements for private foundations, and these standards are generally more stringent than those for academic awards.
5. The amount that an entity plans to provide to each recipient may help the entity structure the program and help determine whether the program is a scholarship or an award program.
6. The implementation of the program determines the tax consequences of the program for the entity or the donor, not whether it is called a scholarship or an award or even the monetary value of the support.

**B. Financial Award for Specific Achievement or to Facilitate Program Participation.** Some AAUW-affiliated entities sponsor programs for women and girls that recognize achievement or assist participation in particular programs, projects, or events. For example, these might include a \$100 gift for the top science student in a class, funds to help a student attend the National Conference on College Women Student Leaders, or funds to cover the cost of tuition at a STEM camp.

1. Like academic scholarships and awards, this support may be offered by IRS-designated Code section 501(c)(3) public charities, 501(c)(3) private foundations, or 501(c)(4) social welfare organizations.
2. The amount provided may be helpful to the entity in structuring the program and, specifically, in establishing the criteria for selection.
3. The implementation of the program determines the tax consequences of the program for the entity or the donor, not whether it is called a scholarship or award or even the monetary value of the support.

## II. Local Scholarship/Award Programs, Entity Tax Status, and Tax Deductibility of Gifts

- A. Entity Tax Status.** The tax status of the receiving entity—501(c)(3) charity or 501(c)(4) social welfare organization—determines the tax deductibility of a donation of any gift to support any local scholarship or award program. Unless the entity ultimately receiving the gift as intended by the donor is an IRS-designated 501(c)(3) charity, the donation is not tax deductible.
- B. Program Structure.** Program structure and implementation are equally important to the IRS, which sets the standards for scholarship programs and determines the deductibility of a donation.
- C. Standards for Awarding Scholarships.** The standards required of the academic scholarship programs of private foundations are viewed as the best-practice standards for all organizations with academic scholarship programs. Although private foundations are subject to more extensive legal requirements than are public charities or social welfare organizations in regard to awarding and tracking academic scholarships, the following guidance reflects those standards.

**III. Compliance and Quality.** To facilitate IRS compliance, ensure accountability and transparency, protect the entity's tax-exempt status, and ensure program quality, AAUW recommends that all AAUW entities that fund academic scholarships adopt the following procedures.

- A. IRS Rules about Awarding Scholarships.** AAUW-affiliated entities that have academic scholarship programs must establish, publish, and follow best practices in award criteria:
  1. Use a blind process. Academic scholarships must be awarded on an objective and nondiscriminatory basis.
  2. Identify a charitable class. The group of eligible scholarship recipients must be sufficiently large to constitute a charitable class. A charitable class refers to an indefinite group of potential beneficiaries as opposed to a small group of identifiable individuals.

- a. Qualified as a class. Examples include all high schools senior girls in our town or state and all female third-year students with a STEM major at the local university (donations may be tax deductible).
    - b. Not qualified as a class. An example would be a specific, identifiable woman with financial need who is enrolled in one of these programs (donations are never tax deductible).
  3. State the purpose of the scholarship. The academic scholarship must be used for expenses directly tied to enrollment or toward completing a specified certificate or a degree at an educational institution.
  4. Identify the selection criteria. Proper criteria for selecting recipients should be specifically stated as the determining factors for eligibility and must be made available to all applicants.
    - a. These include, but are not limited to, prior academic performance, performance on tests to measure aptitude, recommendations from instructors, and financial need.
    - b. Criteria may also include conclusions the selection committee might draw from interviews.
  5. Use an impartial selection panel. Members of the selection panel and their families should not benefit from the selection of a recipient, which would constitute a conflict of interest and thereby disqualify them from serving on that panel.
    - a. Relatives of selection panel members should not be eligible for scholarships, or panel members should recuse themselves.
    - b. Relatives of officers, directors, and major contributors should not be eligible for academic scholarships awarded by their organization unless the process is absolutely “blind.”
  6. Supervise the scholarship and identify reporting requirements. The entity must supervise the scholarships it issues, establish the reporting criteria for the recipient, and notify applicants of these requirements in advance of the award—for example, proof of course completion or enrollment status verification.
  7. Identify optional award reporting criteria. The entity could also require recipients to write a brief report about how the scholarship helped them achieve their academic goals or to attend a branch meeting to share their experience directly with the members. The entity must include such requirements in the notice of award criteria.
  8. Provide oversight. If reports or other information provided to the entity indicate that the scholarship is not being used for the purposes intended, the entity should investigate why this occurred and, if applicable, withhold further payments until the situation is resolved.
- B. Records to Be Retained.** Entities should maintain the following documents in connection with their scholarship programs so that they can demonstrate adherence to best practices if their program or status (or the tax deduction of a donor) is challenged:
1. Information used to evaluate the qualifications of potential recipients

2. Information concerning the identification of recipients, including any relationships between the scholarship recipient and the organization providing the scholarship
3. The amount and purpose of each scholarship
4. Reports concerning the recipient's performance and use of funds (as noted above)

**C. Applications by AAUW-Affiliated Entities for IRS Recognition of 501(c)(3) Tax- Exempt Status.** AAUW-affiliated entities do not need to amend existing IRS status documents in order to offer scholarships. For new applications to the IRS for tax-exempt status by any entity intending to provide academic scholarships, AAUW recommends the inclusion of the following information:

1. The criteria for selecting scholarship recipients, including whether the entity selects the scholarship awardee directly or establishes the terms of the award to be implemented by a college selecting the individual awardee
2. The terms and conditions under which grants ordinarily are made
3. The procedures for supervising the scholarship awards
4. The procedures for review of grantee reports, investigation of suspected improper use of the grants, and recovery of diverted funds

**D. AAUW Fellowships and Grants.** AAUW's national fellowships and grants programs are entirely in compliance with all IRS regulations and best-practice standards (see AAUW National Fellowships and Grants, below). Compliance assistance is available to all AAUW-affiliated entities; for help, please e-mail [connect@aauw.org](mailto:connect@aauw.org).

#### IV. Impact on Donors

**A. Protecting Donors.** AAUW urges all AAUW-affiliated entities to protect members from inadvertently claiming tax deductions on their federal tax returns for scholarship donations that do not qualify by

1. Adhering to the compliance and quality standards identified in section II.
2. Ensuring that the information in sections III.A and III.B is clearly communicated to entity leaders, members, and donors.

**B. Donations Not Tax Deductible.** The following donations are not tax deductible.

1. Donations to entities designated as 501(c)(4) organizations to support their self-administered local scholarship programs
2. Donations given to entities designated as 501(c)(3) organizations for academic scholarships that do not follow the guidance found in section II

**C. Tax-Deductible Donations.** The following donations are tax deductible.

1. Donations to support scholarship programs of an IRS-designated 501(c)(3) entity that follow the guidance found in section II (and that, therefore, are acknowledged by the entity for tax purposes)
2. Donations that are given to an entity specifically to be passed through to AAUW national for AAUW's fellowships and grants program support (and that, therefore, are acknowledged by AAUW for tax purposes)
3. Donations that are given to a college or university for academic scholarships established by an AAUW-affiliated entity for female students at that school (and that, therefore, are acknowledged by the institution for tax purposes)
4. Donations that are given to an AAUW-affiliated entity specifically to be passed through to a college or university for academic scholarships established by the entity for female students at that school (and that, therefore, are acknowledged by the institution for tax purposes).

#### **V. Implications for Award Recipients**

Recipients who have questions about the tax consequences of the scholarship award should consult their tax adviser.

#### **AAUW NATIONAL FELLOWSHIPS AND GRANTS PROCEDURES AS A MODEL FOR AAUW-AFFILIATED ENTITIES**

1. The AAUW fellowships and grants program adheres to all the requirements articulated in this memo and maintains the highest best-practice standards in all aspects of the program, as substantiated by independent audit every year.
2. AAUW has an annual applicant pool of at least 10,000 students, of which 3,500 are deemed qualified. The selection process is conducted through an independent, highly reputable, third-party qualification and verification service that has direct access to the students' records. These applications are forwarded for application assessment by AAUW-selected expert panelists who select the awardees through a blind rating process.
3. Donations to the AAUW fellowships and grants program generally, and to any specific fellowship or grant program that AAUW administers, are tax deductible. AAUW national always specifically informs donors and members of the amounts of their donations and dues that are tax deductible. This is true whether the donation is made directly by the donor to AAUW or is made through an entity acting as AAUW's agent that delivers the donation to AAUW.
4. All donors to AAUW fellowships and grants programs receive a letter that can be used to substantiate the donation for income tax-deduction purposes for any donation of \$10 or more.