

Funding Education

Approaches and Considerations for Supporting Scholarships
via a Donor-Advised Fund



The
Philanthropic
Initiative

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Many donors see education as one of the most important ways to make a difference with their philanthropy.

There are many ways to approach education funding. For those who wish to increase educational opportunities for others, funding scholarships can be an important philanthropic strategy.

Philanthropic support for scholarships can be significant, even transformational, for the recipients. Scholarships can be funded with tax-deductible donations, and many donors use their donor-advised fund (DAF) to provide scholarship support. While there are different ways to structure scholarship support, such support must be provided in a way that complies with federal rules and regulations. The purpose of this guide is to help donors understand their options and determine the approach that best fits their goals and interests.

SCHOLARSHIP SUPPORT OPTIONS

When supporting scholarships, there are several IRS rules related to the awarding of scholarships that are important to understand. For example, tax-deductible donations for scholarships cannot be designated for the benefit of a specific individual identified by the donor. (Additional restrictions are highlighted in the FAQ section.)

Those who wish to provide scholarship support can:

	Provide general/unrestricted support	Provide support based on key criteria
 Support a specific educational institution	OPTION 1: Recommend a grant to a specific college/university or high school to support financial aid/scholarships generally	OPTION 2: Set up and recommend grants for a restricted scholarship at a specific college/university or high school
 Support a specific class, population, or demographic of students	OPTION 3: Recommend a grant to a qualified public charity that runs scholarship programs	OPTION 4: Set up and recommend grants for a stand-alone scholarship fund/program



Option 1:

Recommend a grant to a specific college/university or high school to support financial aid/scholarships generally

Perhaps the simplest way to provide scholarships is to provide scholarship support for students attending a particular educational institution. A first step is to contact the advancement or development office at the institution of interest. Under this model, the institution would be in charge of selecting students and disbursing funds in the form of financial aid. It is possible to support either an existing scholarship fund or a new fund. Providing this type of support with a DAF is straightforward. Donors can also use their DAF to support multi-year, non-binding funding arrangements through a letter of intent between the donor and the educational institution.

Example

A donor recommends a grant to her alma mater to support undergraduate scholarships for low-income students attending that college.

OPTION 1			
Example Grant Recipient	Who to Work With	Steps Involved	Selection of Scholars
College or university (for an endowed fund or to be expended annually)	Development officer at the specific college or university	<ol style="list-style-type: none"> 1. Work out the specific details with the institution (including intent of grant and any expectations regarding recipients) 2. Craft a letter of intent in consultation with the sponsoring organization of the DAF, and recommend the grant 	<p>Managed by the college or university</p> <p><i>Donor typically has no involvement after recommending the grant</i></p>



Option 2:

Set up and recommend grants for a restricted scholarship at a specific college/university or high school

Donors who want a more targeted focus for use of scholarship support, such as providing support for students with a specific academic interest or from a specific region, can work with the educational institution to create a scholarship program for students who fit particular criteria. As with option 1, a first step is to contact the advancement or development office at the institution of interest.

Example

A donor decides to set up a scholarship at the high school his mother attended, targeting students with a strong interest in healthcare who aspire to work in the medical field. The donor works closely with the high school to create a scholarship fund for this purpose. The donor participates in interviews with selected applicants but does not have a dominant voice in who is selected to receive scholarships.

OPTION 2

Example Grant Recipient	Who to Work With	Steps Involved	Selection of Scholars
High school or college/university (for an endowed fund or to be expended annually)	Development officer at college/university where students would attend OR Principal or guidance counselor at high school from which scholarship recipients will graduate	Define overall goals and criteria. For example, do you want scholarships to support students with certain characteristics or attributes?	Managed by the high school or college/university <i>Donor and/or related persons cannot have sole or majority discretion regarding recipients</i>



Option 3:

Recommend a grant to a qualified public charity that runs scholarship programs

Donors who wish to support a specific population or demographic of students, irrespective of the school they attend, may want to support a nonprofit organization with an existing scholarship program or work with a nonprofit to create a scholarship fund for students who fit certain criteria. Donors can fund this type of scholarship by recommending a grant to the nonprofit organization from their DAF. To learn more about a particular nonprofit organization’s scholarship programs, contact the organization directly to understand its recruitment and selection processes, types of support provided to scholarship recipients, performance measures and evaluation systems, and track record of success (e.g., graduation rates, career paths, and loan burdens of scholarship recipients upon graduation).

Example

A donor decides to support a scholarship fund set up by a local Boys & Girls Club to make college more affordable for low-income youth in the community served by that Boys & Girls Club.

OPTION 3			
Example Grant Recipient	Who to Work With	Steps Involved	Selection of Scholars
501(c)(3) public charity that manages a scholarship program	CEO or development director of the public charity	<ol style="list-style-type: none"> 1. Learn about the scholarship program(s) administered by the public charity 2. Decide whether you want to recommend a grant to support the program(s) 	<p>Managed by the public charity</p> <p><i>Donor and/or related persons cannot have sole or majority discretion regarding recipients</i></p>



Option 4:

Set up and recommend grants for a stand-alone scholarship fund/program

Donors who want to provide educational opportunities for students who meet specific criteria may want to create their own unique program. These donors can work with a qualified public charity that can design and manage a scholarship program in collaboration with the donor. Setting up this type of scholarship program provides the donor with the flexibility to design the program as they desire, provided that the program is consistent with the mission and purposes of the public charity. The public charity typically manages all aspects of the program, including the application and selection processes, communications with applicants, monitoring and evaluation, and in some situations, ongoing support to scholarship recipients. Donors can be directly involved in the program as long as they do not have a controlling voice in who is selected to receive scholarships. In particular, neither the donor nor related persons may have sole or majority discretion over selection of scholarship recipients. This type of arrangement will typically involve an agreed-upon fee to support the work required of the public charity.

Example

A donor asked The Philanthropic Initiative (TPI) to design a college success program to support low-income students graduating from high schools throughout Massachusetts. This program selects 25 scholars every year. As these scholars go through college, they receive financial scholarships for four years, one-on-one mentoring, career networking and peer support, and flexible financial support.

OPTION 4

Example Grant Recipient	Who to Work With	Steps Involved	Selection of Scholars
Qualified public charity that will set up and manage the scholarship program; funding is often provided on an annual basis	Options include TPI, scholarship management organizations, and many community foundations	<ol style="list-style-type: none"> 1. Define goals and ideas for the program 2. Work with the identified organization to design a program that will further these goals 	Managed by the public charity <i>Donor and/or related persons cannot have sole or majority discretion regarding recipients</i>

Question & Answer

Q: Can I provide scholarship support to a family member as a charitable gift?

A: No. Tax-deductible donations can only be used to support scholarships when recipients are selected from a sufficiently broad “charitable class” as defined by the IRS.

Q: What is a sufficiently broad “charitable class”?

A: The group of individuals that may properly receive assistance from a charitable organization is called a charitable class. A charitable class must be large or indefinite enough that providing aid to members of the class benefits the community as a whole. Examples of broad charitable classes may include low-income students, female students, students with specific interests, and students from a particular community or particular school. Donors cannot take a charitable deduction for a scholarship that is earmarked for the benefit of a specific individual, even if that individual is unrelated to the donor.

Q: What if I want to provide scholarship support for students attending colleges that meet full financial need?

A: More than 75 four-year higher education institutions claim to meet full financial need for students they accept, by covering the gap between the total cost of attendance and the amount a family is expected to pay with financial aid and loans. Scholarship support given to these colleges and universities can be important as it can help to ensure the full financial need of students can continue to be met. It can also reduce the debt burden, if any, these students carry after graduation. Financial aid scholarships to these institutions can be unrestricted or restricted, just as they can be at any other higher education institution.

Q: What types of costs can be covered by scholarships?

A: Scholarship funds can be used for tuition, fees, books, and required supplies. Other types of support may be considered taxable income to the student.

Q: As the donor supporting a scholarship program, what types of engagement with scholarship recipients are allowable?

A: While donors cannot have a dominant voice in the process of selecting scholarship recipients, they may participate in the selection process of the organization maintaining the scholarship program. Once scholarships are awarded or a scholarship program is created, the donor can support events for the scholars run by the university or organization maintaining the scholarship program.

Q: When can I name a scholarship?

A: If desired, a donor who supports a new scholarship program at an educational institution or other nonprofit organization can be recognized, including having the scholarship program or fund named after the donor.

Q: If I already have established a named fund or program at a university, can I support that fund with my DAF?

A: Yes. DAFs can make grants to 501(c)(3) public charities, including colleges and universities, to support scholarship

programs run by those public charities. A donor’s desire to support a scholarship program may be documented in a non-binding letter of intent between the donor and the charity.

Q: Can donors support a scholarship program using both their DAF and funds from outside of a DAF (e.g., funds from a private foundation or other assets)?

A: Yes. Both DAF and private foundation resources can be used to fund an established scholarship program. If a private foundation would like to create and manage its own scholarship fund, it first needs to obtain IRS approval for a proposed program designed to comply with IRS regulations (to ensure that funds will be solely used for charitable purposes as determined by the IRS).

Q: What types of reporting or updates from scholarship recipients can I request, and how can I go about requesting such reports?

A: Specific types of information, such as letters from scholarship recipients and other reports, can be required as conditions of receiving a scholarship. The organization that manages the scholarship is typically best suited to obtain materials and updates from scholarship recipients.

Q: How can I be sure that the entity I support actually uses the money for scholarships?

A: A donor may enter into a non-binding letter of intent between the donor and the charity, which includes reporting requirements to keep the donor apprised of the use of funds within the charity’s scholarship program.

Q: How can I support scholarships for students outside the United States?

A: If a donor wishes to support students outside the US who will be attending an educational institution in the US, the donor can do so through any of the four options described in this guide. Donors can:

- Recommend a grant to a specific US institution for general scholarship support for international students (Option 1).
- Provide targeted support for international students attending a US institution by creating and funding a scholarship program at that US institution (Option 2).
- Support a nonprofit organization that manages its own scholarship program for international students attending US institutions (Option 3).
- Work with a qualified public charity to create a unique scholarship program to support international students attending US institutions (Option 4).

For the options above, if students are attending college outside of the US, the college receiving the scholarship must demonstrate that it meets the requirements of Section 170(b)(1)(A)(ii) of the Internal Revenue Code. According to these requirements, a school must normally maintain a regular faculty and curriculum, and have a regularly enrolled body of students in attendance at the place where the school’s educational activities are regularly carried on.

About The Philanthropic Initiative

The Philanthropic Initiative (TPI), a pioneer in the field of strategic philanthropy advising, helps companies, foundations, families, and individuals increase the impact of their giving. For over 33 years, TPI has helped donors and funders attain new levels of lasting philanthropic impact. With its unparalleled track record as philanthropic advisors, TPI has directed more than \$1 billion in giving and influenced billions more on behalf of our clients. We work to promote effective giving and improve the practice of philanthropy around the globe.

TPI has extensive experience partnering with clients to design and manage scholarship and college success programs that truly change students' lives. These programs include conventional scholarship programs as well as customized college access and success programs that have been highly effective in enabling students to succeed through college and beyond.

About Fidelity Charitable®

Fidelity Charitable® is an independent public charity that has helped donors support more than 382,000 nonprofit organizations with nearly \$73 billion in grants. Established in 1991, Fidelity Charitable launched the first national donor-advised fund program. The mission of the organization is to grow the American tradition of philanthropy by providing programs that make charitable giving accessible, simple, and effective. For more information about Fidelity Charitable, visit www.fidelitycharitable.org.

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