

What to consider when establishing scholarship funds

Providing access to **education** opportunities

Whether you want to honor a loved one, add to your legacy, give back to your community or improve access to education, funding a scholarship can help you reach your philanthropic goals and support future generations of students.

Being thoughtful in your initial approach will help ensure that you structure your gift effectively. Start by asking yourself these questions:

- What kind of financial commitment am I willing to make, and over what period of time?
- What are the standard minimum requirements for a gift of this type, and what are the associated fees?
- What is my desired level of involvement, both initially and in the future?
- How much control do I want over selecting the scholarship's recipient(s)?

The UBS Family Advisory and Philanthropy Services team will work closely with you and your UBS Financial Advisor to help answer these questions and determine the most appropriate charitable vehicles to meet your goals.

Determining your financial commitment

Will this be a one-time gift, or will it be structured to repeat annually, each semester or even more frequently? It is important to note that some scholarship programs have a required minimum contribution—for instance, \$10,000 a year to sponsor one student for four years at a university. Do you intend this scholarship fund to exist in perpetuity, or do you have a specific time period in mind? If so, what are your start and end dates?



Your UBS Financial Advisor can help you choose the best scholarship vehicles to meet your goals.

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There are two important considerations when making your financial commitment: How you fund the scholarship program, and how the scholarship fund will be disbursed to recipients. Commonly used vehicles for scholarship funds include Donor-Advised Funds (DAFs) and private foundations.

A DAF requires an initial contribution that can range from \$5,000 to \$25,000. This initial gift will seed the vehicle, and the funds will then be granted to students over time.

Private foundations also require a significant initial gift, and it's generally not cost-effective to create one without an initial contribution of at least one million dollars. Additionally, you may need to work with an experienced consultant or attorney to define your scholarship program with the IRS. As with a DAF vehicle, a scholarship awarded by a private foundation will be granted to students over a defined period of time.

Administrative fees and expenses

There may be fees and expenses associated with the recipient organization, as well as ongoing administration fees for the charitable vehicle. Be aware of these fees and expenses as they relate to the size of the total gift and how they may impact the gift itself. For instance, if your goal is to deliver \$10,000 to a student every year, make sure that the organization administering the grant is upfront about what administrative costs or fees may be subtracted from that \$10,000 gift, or what fees may be required in addition to the gift.

Before you commit, make sure you're comfortable with the amount you plan to give.

How much do you want to contribute?

These contributions are an irrevocable gift to charity, so make sure you're comfortable with the amount you plan to contribute before finalizing your gift. You can always add funds in the future, but once given, you can't take them back.

What's in a name?

Many academic institutions will allow you to create a named program from which the grants will be distributed to students, contingent upon certain levels of commitment. Be sure to clarify this with the institution in writing before making your gift. Note that making a gift through a private foundation ensures that the grants can be made in your family or foundation name, regardless of amount.

Defining your involvement

Let's assume that all charitable vehicle options are available to you. The most important factor in choosing a method to fund your scholarship will be the amount of control and involvement you want to have. Which of these are right for you?

- I want to help define the criteria as well as help select the recipients.
- I want to help define the criteria by which students will be selected, but do not want to select the actual recipients.
- I want to take a mostly hands-off approach, helping define only the broadest criteria while an independent review committee will select the recipients

The most important factor in choosing how to fund your scholarship is the degree of involvement you intend to have.

Avoiding conflicts of interest

Note that the people in charge of selecting the recipients cannot receive any economic benefit from the scholarship process, and the relatives of applicants should not serve on review committees. Any real or perceived conflicts of

interest around the selection process should be detailed within the scholarship program's regulations.

College or university scholarship funds

Endowing a scholarship directly with a college or university foundation can be accomplished with as little as \$25,000 at some institutions. Most universities offer numerous small annual scholarships ranging from \$500 to \$1,000. Donors can generally define the selection criteria of students, which may include:

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- Entering, current or graduating students
- Full- or part-time students
- Students in financial need
- Broad academic criteria

The college's scholarship committee will select the appropriate students based on the previously agreed-upon criteria.

This approach is a good option for donors who want to support students at a particular academic institution without the administrative burden of promoting the program and reviewing applications. Generally, this benefits one institution, although in some cases it might encompass a university system with multiple campuses.

In either case, the donor does not participate in selecting the student beneficiaries. If you have a strong relationship with the board of the institution where you are considering establishing your scholarship (and your gift is deemed to be significant enough by the sponsoring academic institution), you may be able to participate in the larger selection committee, but you won't have a final say regarding the selected recipients.

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Donor-advised and community foundation scholarship funds

DAFs and community foundations often have advisors to help you narrow your philanthropic focus and implement your scholarship program. With DAFs, you are not beholden to a specific academic institution. This gives you the flexibility to support more than one institution at a time, or to change recipient institutions.²

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There are four ways to work with a DAF or community foundation:

1. Recommend a grant to a specific school to broadly support their financial aid programs and scholarships.
2. Recommend a grant for a restricted scholarship at a specific educational institution.
3. Recommend a grant to a public charity that administers scholarship programs.
4. Establish and recommend grants for a stand-alone scholarship fund or program in conjunction with a public charity.
 - a. The charity will be required to manage all aspects of the program in much the same way as a private foundation (see items 1–6 in the section below).
 - b. Working with charities that specialize in scholarships, certain youth organizations, and some supporting organizations or community foundations can be like working directly with a university, in that you may be able to participate in the review of prospective recipients but do not have final approval on the grant beneficiaries.⁴

Scholarship funds through private foundations

If you're looking for more control and involvement over the process, a private foundation can be an excellent option for establishing a scholarship fund. It will allow you to define fully the criteria qualifying an applicant for the gift, as well as select the recipients. Your financial commitment will also support the administrative costs associated with this structure.

Keep in mind that this option requires additional effort to publicize and market the scholarship program. In order to administer a scholarship program, a private foundation must apply for advanced approval by the IRS and comply with relevant regulatory requirements.⁵

Be aware of self-dealing rules

Granting to individuals must be objective and nondiscriminatory and cannot include disqualified people, including but not limited to the foundation's substantial contributors, foundation managers, or family members of contributors or managers. In other words, your private foundation should not be granting scholarships to any family members or substantial business partners, as these practices will incur excise tax penalties and can jeopardize the tax-exempt status of your foundation.⁶

Will receiving a grant qualify as a taxable event for the beneficiary?

Scholarship grants may create a taxable event for recipients. So before setting up the criteria for your scholarship award or prize, consult a tax advisor about any potential implications for the gift's taxability based on the IRS code.⁷ Generally,

a grant made to an individual for the use of study at an academic institution or a prize awarded for past academic accomplishments should not create a taxable event for the grantee.

The IRS must approve scholarships funded through private foundations.

Always consult with your own tax advisor before making any sort of educational gift. He or she will help ensure that your private foundation meets the basic requirements for being granted approval by the IRS, and what is required to remain in compliance with IRS regulations. At the very least, your private foundation will need to:

1. Offer the scholarship to a broad demographic of qualified prospective beneficiaries.
2. Fully define criteria for selecting recipients. The selection criteria must be objective and nondiscriminatory and align with the mission of the scholarship.
3. Establish a selection committee and define its relationship to the foundation.
4. Demonstrate that you have the systems in place to ensure compliance requirements of recipients (e.g., maintaining a minimum of a 3.0 GPA).
5. Document how your foundation will publicize the scholarship so potential applicants can learn about the opportunity.
6. Establish policies and procedures that will be followed if the funds are misused (or misappropriated).

Consult a tax advisor about potential implications for your gift's taxability based on the IRS code.⁸

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¹ Concordia University <https://www.cu-portland.edu/giving/ways-give/endowment/how-set-endowment>
Student Impact Scholarships at UNH <https://www.unh.edu/give/sis>.

² Fidelity Charitable & TPI: Funding Education.
[fidelitycharitable.org/docs/Supporting_Scholarships_via_Donor_Advised_Fund_6-8-2017.pdf](https://www.fidelitycharitable.org/docs/Supporting_Scholarships_via_Donor_Advised_Fund_6-8-2017.pdf)
Scholarship America
<https://scholarshipamerica.org/blog/how-to-start-a-scholarship-fund>
Community Foundations of Texas
<https://www.cftexas.org/how-to-fund-a-scholarship>.

³ Fidelity Charitable & TPI: Funding Education
[fidelitycharitable.org/docs/Supporting_Scholarships_via_Donor_Advised_Fund_6-8-2017.pdf](https://www.fidelitycharitable.org/docs/Supporting_Scholarships_via_Donor_Advised_Fund_6-8-2017.pdf)
Scholarship America
<https://scholarshipamerica.org/blog/how-to-start-a-scholarship-fund>
Community Foundations of Texas
<https://www.cftexas.org/how-to-fund-a-scholarship>.

⁴ UBS is not affiliated with the organizations or programs.

⁵ [irs.gov/charities-non-profits/private-foundations/grants-to-individuals](https://www.irs.gov/charities-non-profits/private-foundations/grants-to-individuals); Awarding Scholarships, Foundation Source.

⁶ [irs.gov/charities-non-profits/private-foundations/disqualified-persons](https://www.irs.gov/charities-non-profits/private-foundations/disqualified-persons).

⁷ [irs.gov/pub/irs-tege/eotopicn80.pdf](https://www.irs.gov/pub/irs-tege/eotopicn80.pdf).

⁸ [irs.gov/pub/irs-tege/eotopicn80.pdf](https://www.irs.gov/pub/irs-tege/eotopicn80.pdf).

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