



## Scholarship Selection Process Policy

Dollars for Scholars affiliates across the country have been increasing the number of scholarships in their portfolio by attracting additional donors and partnering with other local organizations. This is great news, and is highly encouraged by Scholarship America. However, as affiliates work with these new and existing donors who establish named scholarships, they need to be very conscious of the laws surrounding these kinds of gifts.

Scholarships funds tend to fit into three main categories:

- 1) Those that originate from a “general scholarship fund” managed by the affiliate without regard to individual donors or donor groups.
  - This general scholarship fund pools contributions from a variety of donors, proceeds of fundraisers, and donations which are not individually tracked to a recipient.
- 2) Those that originate from a “specific, named fund” where the donor DOES or DID or WILL receive a taxable benefit for the contribution.
  - This fund bears the name of the donor or fund sponsor and is tracked through to a specific recipient or recipients.
- 3) Those that are sponsored scholarship funds from other organizations, where the affiliate holds the funds temporarily (until the upcoming award cycle) and the contributing organization MAY or MAY NOT receive any taxable benefit or recognize any charitable gift or donation.
  - This includes fraternal organizations, faculty and alumni groups, service and social clubs, companies or company employees, and other 501(c)3 organizations.

It is the second two examples that cause problems for the affiliate if the donor relationship is not handled properly. Often donors want to make the selection decisions for “their” scholarship recipients. If affiliates allow this practice, they are entering dangerous territory where both legal and procedural problems exist.

Scholarship America has carefully reviewed the documents available through the National Scholarship Providers Association ([scholarshipproviders.org](http://scholarshipproviders.org)) – of which Scholarship America is a member – and the Council on Foundations ([cof.org](http://cof.org)). Further, we have consulted Scholarship America’s legal team. After lengthy and detailed consideration, Scholarship America has determined that it is a clear violation of the [Pension Protection Act of 2006](#) to allow donors to control the selection process of scholarship recipients.

**Donors (or donor representative) may participate in the selection process ONLY if their participation is part of a larger committee.** Donors relinquish control of award decisions to the sponsoring charity (your affiliate) when they make their donation.



## Scholarship Selection Policy

To protect individual chapters from breaking federal law and in order to protect Scholarship America's 501(c)(3) status, the following Scholarship Awards Policy must be followed for *all scholarships awarded through a Dollars for Scholars affiliate*, regardless of their type or their donor.

1. Each affiliate shall have a single awards selection committee that comprises affiliate leadership and may also include donor and community representatives. The entire selection/awards committee, however, must be appointed by the affiliate as the sponsoring charity.
2. The donor (or designee) may participate in selection of scholarship recipients only as a member of a larger awards selection committee. The donor (or designee) cannot be the leader or chair of the awards selection committee.
3. The awards selection committee cannot be controlled, directly or indirectly, by any combination of the donor, donor's designee or any related party of the donor (or designee).
  - For example, the number of donors and/or donor representatives (e.g., designees and related parties) cannot be a majority of members of the committee.
  - This part of the policy clearly prevents the board of a professional or alumni group, church, or other organization that has established a scholarship from serving as the entire award selection committee. Similarly, a fund donor or sponsor's family cannot constitute the entire award selection committee or even a majority of the group.
4. The affiliate must award scholarships in an objective and nondiscriminatory manner following a plan (Affiliate Award Policy) preapproved by the affiliate's board of directors. The board should develop and formally adopt "master" procedures applicable to all scholarship funds of the sponsoring organization.

ChapterNet has been developed to follow this policy by:

- Establishing single evaluation and awards selection committees.
- There is no function to separate out applicants to any individual scholarship during the evaluation phase
- There is no function to allow individual awards committee members to see or award any one scholarship

By following the above policy, an affiliate will avoid the potential consequences established by the IRS, including:

- A 20 percent tax on the amount of the awards that were made based solely on the selection(s) made by the donor or fund sponsor
- Leaders – as individuals - who knowingly approve the distribution could be subject to a 5 percent tax on the donations themselves
- Prohibition from making any scholarship disbursements for a period of years.

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For more information about the Pension Protection Act and its implications for scholarship providers, visit the [Council of Foundations](#) or view a presentation made to [NSPA](#).