



Department of the Treasury
Internal Revenue Service
Tax Exempt and Government Entities
P.O. Box 2508
Cincinnati, OH 45201

Date:
02/27/2025
Taxpayer ID number:

Person to contact:
Name:
ID number:
Telephone:

Release Number: 202521027
Release Date: 5/23/2025

LEGEND

X = Company
n = Number of Scholarship
x dollars = Yearly Amount
y dollars = Total Amount

UIL: 4945.04-04

Dear :

You asked for advance approval of your employer-related scholarship procedures under Internal Revenue Code Section (IRC) 4945(g)(1). You requested approval of your scholarship program to fund the education of certain qualifying students.

This approval is required because IRC Section 4945 provides for the imposition of taxes on each taxable expenditure of a private foundation. IRC Section 4945(d)(3) provides that the term "taxable expenditure" includes any amount paid or incurred by a private foundation as a grant to an individual for travel, study, or similar purposes by the individual, unless the grant satisfies the advance approval requirement of IRC Section 4945(g).

Our determination

We approved your procedures for awarding employer-related scholarships. Based on the information you submitted, and assuming you will conduct your program as proposed, we determined that your procedures for awarding employer-related scholarships meet the requirements of IRC Section 4945(g)(1). As a result, expenditures you make under these procedures won't be taxable.

Awards made under these procedures are scholarship or fellowship grants and are not taxable to the recipients if they use them for qualified tuition and related expenses (subject to the limitations provided in IRC Section 117(b)).

Description of your request

Your letter indicates you will operate a scholarship grant program for children and dependents of full-time employees of X.

You award n scholarship grant annually to children and dependents of full-time employees of X for courses at schools or accepted for credit at schools recognized under IRC Sections 509(a)(1) and 170(b)(1)(A)(ii). Grants awarded are for x dollars per year, and up to y dollars per recipient. The grants will be renewable based on whether the student maintains his/her status as a full-time student in good standing during the prior year and submission of a completed renewal application by the deadline. Should a recipient fail to maintain these requirements, they may reapply for formal selection as a new applicant. To reapply, recipients must

complete all application requirements. You publicize your scholarship grant program via the company's website, company-wide email list and postings in workplace offices. There is no set number of individuals who are eligible to apply annually. The number of eligible individuals depends on how many employees have children or dependents that meet the scholarship grant criteria.

Your specific eligibility requirements include the following:

- At the time the application is submitted, the applicant must be enrolled or anticipate being enrolled at an accredited vocational / technical, 2-year or 4-year institution in the United States for the upcoming fall semester as a full-time student (minimum of 12 credit hours per semester).
- Applicant must be a legal dependent of an eligible employee. Eligible employee means a full-time, active, benefits-eligible employee who is employed by X.
- Applicant must be at least a high school senior and not older than 25 years of age as of the application deadline.

Your selection criteria include:

- A review of essays submitted by the applicant.
- A review of evidence of community and school involvement provided by the applicant.
- A review of the applicant's grade point average.

Scholarship grants, after awarded, are no longer contingent upon the recipient's parent or guardian continued employment with X. The parent/guardians' employment with X is only considered at the time of initial application. Once awarded, the recipient is entitled to continue to receive payments up to the maximum amount awarded, as long as the scholarship renewal criteria are met which consist of continued full-time attendance and good standing at the school. The parent/guardian's employment status is not considered for renewal of awarded scholarships.

Your scholarship selection committee will be comprised of three of your board members and one company employee. No members of the selection committee or their relatives will be eligible to apply for your scholarship grants.

Funds will be disbursed directly to the academic institutions to be used for tuition and other academic fees. You will require recipients to provide a transcript at the end of each academic term. If the funds are misused in any way, future funding will be discontinued, and the recipient will be required to reapply for future scholarship grant funds.

Basis for our determination

IRC Section 4945 imposes excise taxes on the taxable expenditures of private foundations. A taxable expenditure is any amount a private foundation pays as a grant to an individual for travel, study or other similar purposes. However, a grant that meets all the following requirements of IRC Section 4945(g) is not a taxable expenditure.

- The foundation awards the grant on an objective and nondiscriminatory basis.
- The IRS approves in advance the procedure for awarding the grant.
- The grant is a scholarship or fellowship subject to IRC Section 117(a).
- The grant is to be used for study at an educational organization described in IRC Section 170(b)(1)(A)(ii).

Revenue Procedure (Rev. Proc.) 76-47, provides guidelines to determine whether grants a private foundation

makes under an employer-related program to employees or children of employees are scholarship or fellowship grants subject to the provisions of IRC Section 117(a). If the program satisfies the seven conditions in sections 4.01 through 4.07 of Rev. Proc. 76-47 and meets the percentage tests described in Section 4.08 of Rev. Proc. 76-47, we will assume the grants are subject to the provisions of IRC Section 117(a).

You represented that your grant program will meet the requirements of either the 25% or 10% percentage test in Rev. Proc. 76-47. These tests require that:

- The number of grants awarded to employees' children in any year won't exceed 25% of the number of employees' children who were eligible for grants, were applicants for grants, and were considered by the selection committee for grants, or
- The number of grants awarded to employees' children in any year won't exceed 10% of the number of employees' children who were eligible for grants (whether or not they submitted an application), or
- The number of grants awarded to employees in any year won't exceed 10% of the number of employees who were eligible for grants, were applicants for grants, and were considered by the selection committee for grants.

You further represented that you will include only children who meet the eligibility standards described in Rev. Proc. 85-51, when applying the 10% test to employees' children.

In determining how many employee children are eligible for a scholarship under the 10% test, a private foundation may include only those children who submit a written statement or who meet the foundation's eligibility requirements. They must also satisfy certain enrollment conditions.

You represented that your procedures for awarding grants under this program will meet the requirements of Rev. Proc. 76-47. In particular:

- An independent selection committee whose members are separate from you, your creator, and the employer will select individual grant recipients.
- You will not use grants to recruit employees nor will you end a grant if the employee leaves the employer.
- You will not limit the recipient to a course of study that would particularly benefit you or the employer.

Other conditions that apply to this determination

- This determination only covers the grant program described above. This approval will apply to succeeding grant programs only if their standards and procedures don't differ significantly from those described in your original request.
- This determination is in effect if your procedures comply with Sections 4.01 through 4.07 of Revenue Procedure 76-47 and either of the percentage tests of Section 4.08. If you establish another program covering the same individuals, that program must also meet the percentage test.

- This determination applies only to you. It may not be cited as a precedent.
- You cannot rely on the conclusions in this letter if the facts you provided have changed substantially. You must report any significant changes to your program to the IRS at:

Internal Revenue Service
Exempt Organizations Determinations
TE/GE Stop 31A Team 105
P.O. Box 12192
Covington, KY 41012-0192

- You can't award grants to your creators, officers, directors, trustees, foundation managers, or members of selection committees or their relatives.
- All funds distributed to individuals must be made on a charitable basis and further the purposes of your organization. You cannot award grants for a purpose that is inconsistent with IRC Section 170(c)(2)(B).
- You should keep adequate records and case histories so that you can substantiate your grant distributions with the IRS if necessary.

We'll make this determination letter available for public inspection after deleting personally identifiable information, as required by IRC Section 6110. We've enclosed Letter 437, Notice of Intention to Disclose - Rulings, and a copy of the letter that shows our proposed deletions.

- If you disagree with our proposed deletions, follow the instructions in the Letter 437 on how to notify us.
- If you agree with our deletions, you don't need to take any further action.

Please keep a copy of this letter in your records.

If you have questions, you can contact the person shown at the top of this letter.

Sincerely,

Stephen A. Martin
Director, Exempt Organizations
Rulings and Agreements

Enclosure:
Letter 437