



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

Date:  
11/14/2024  
Taxpayer ID number:  
  
Person to contact:

Release Number: 202506012  
Release Date: 2/7/25

**LEGEND**

B = Name  
C = Name  
D = Name  
E = Number  
x dollars = 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 an employer-related scholarship program called C. The purpose of C is to provide scholarships to eligible children of employees of B to attend a qualified educational institution. You have entered into an agreement with D who is exempt under IRC Section 501(c)(3), to administer, supervise, and disburse the scholarships for C.

Under C, you will award up to E scholarships for x dollars. The number of awards will be granted in proportion to the number of applications received and per Revenue Procedure 76-47.

To promote C, you will publicize information through printable flyers that are distributed to deskless employees, digital flyers on screens in the offices, and an in-person campaign event as well as mail post cards to employees' homes. There will also be a PowerPoint presentation conducted for managers.

To be eligible for a scholarship under C, applicants must: (a) be dependent children, age 24 and under, of full-time B employees who have a minimum of one year employment with B excluding contractors and certain level executives as of the application deadline; b) be high school seniors or graduates or current postsecondary undergraduates; and (c) plan to enroll in full-time undergraduate study at an accredited two-year or four-year college, university or vocational-technical school for the entire academic year.

There is no requirement that the recipient or the recipient's parent is expected to render future employment services to you or B. There is no limitation to subject matter studied.

To apply for C, applicants must complete a detailed application and submit it online or through a provided QR code. They must submit as part of the application the following:

- (a) Current, complete transcript of grades
- (b) SAT or ACT test scores if college transcript is not provided
- (c) Parent or guardian's employee ID number, date of hire, and operating company
- (d) One online recommendation form

Recipients will be selected by an independent selection committee, organized and managed by D. Relatives of members of the selection committee, or of your officers, directors, or substantial contributors will not be eligible for awards made under C.

The selection committee will use selection criteria created by D which include academic performance, demonstrated leadership and participation in school and community activities, work experience, the statement of career and educational goals and objectives, unusual personal or family circumstances and the recommendation form. Financial need will not be considered.

The scholarships will be paid by D directly to the schools on behalf of the recipients after confirming the recipient is currently enrolled.

Scholarships under C are renewable up to three years until a bachelor's degree is earned, whichever occurs first, on the basis of satisfactory academic performance (maintaining a cumulative grade point average of 2.0 on a 4.0 scale), and full-time enrollment. The employment eligibility requirement does not apply to previous recipients.

If a renewal student does not maintain at least a 2.0 GPA or full-time enrollment, such student will be notified that the student has one (1) semester to satisfy the requirements, or the scholarship will be forfeited.

D will:

- Be responsible for monitoring and renewing awards
- Notifying recipients who are not satisfying scholarship and renewal requirements
- Providing you with reports to summarize C's activities and results

You represent that you will complete the following:

- Arrange to receive and review grantee reports annually and upon completion of the purpose for which the grant was awarded,
- Investigate diversion of funds from their intended purposes,
- Take all reasonable and appropriate steps to recover the diverted funds and ensure other grant funds held by a grantee are used for their intended purposes, and
- Withhold further payments to grantees until you obtain grantees' assurances that future diversions will not occur and that grantees will take extraordinary precautions to prevent future diversion from occurring.

You also represent that you will:

- Maintain all records relating to individual grants including information obtained to evaluate grantees,
- Identify a grantee is a disqualified person,
- Establish the amount and purpose of each grant, and
- Establish that you undertook the supervision and investigation of grants described above.

#### **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.

We've sent a copy of this letter to your representative as indicated in your power of attorney.

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