



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

Date:
12/27/2024
Taxpayer ID number:
Person to contact:
Name:
ID number:
Telephone:

Release Number: 202512005

Release Date: 3/21/25

LEGEND

UIL: 4945.04-04

B= Scholarship

C= Company

x = number of scholarships

y = dollars

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 that you will operate a scholarship program (B) under IRC Section 4945(g)(1). The purpose of the program is to provide financial assistance in the form of a scholarship to dependent children of the full-time employees of C.

You intend to award x scholarships per year for courses at schools that are recognized under IRC Sections 509(a)(1) and 170(b)(1)(A)(ii). Your recipients will be awarded a one-time scholarship in the amount of y which is nonrenewable. You will honor the scholarship regardless of whether a recipient's parent terminates employment with C after the scholarship is awarded. The number of scholarships available each year is determined by calculating five percent of C's total full-time headcount at the beginning of the year.

Your eligible applicants must be a dependent child, stepchild, adopted child, or under legal guardianship of a full-time employee of C. The dependent child must be 24 years old or younger by the end of the calendar year that the scholarship check is written. Students graduating from a public or private high school, home school, or that have successfully completed high school diploma through GED with a cumulative GPA of 2.0 are eligible. Your scholarship application will feature an essay section, where the applicant should discuss how the scholarship will be used to help them achieve their goals, along with a description of their school, community, and work experiences. Students attending any post-secondary public or private university, community college, trade, or technical school under IRC Sections 170(b)(1)(A)(ii) are eligible for this scholarship. Your past and present foundation managers and their family members are not eligible for consideration

Your selection committee will be a three-person independent group consisting of non-foundation members. Two of the three members will have a background in education. Your selection criteria will be based on a review of the submitted applications, which may include for high school seniors ACT scores, class rank, school/community involvement and work experiences. For applicants who may have already completed a semester of college, a college transcript that includes their college GPA should be submitted. You will continue to take steps annually to ensure that the selection committee is independent.

Your scholarship will be publicized in all five company plants and communicated to employees. You plan to develop a banner in each of the plant's breakrooms to further publicize the program.

Your procedures for supervising the scholarship include maintaining thorough records of applicants such as applications and correspondence. Your scholarship records will also include minutes from the selection committee's meeting. Your scholarship funds will be paid directly to the educational institution on the recipient's behalf. The recipient will provide you with documentation from the educational institution that they will be attending. No services are required after receiving the award, aside from attendance at an educational institution qualifying under 170(b)(1)(A)(ii).

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.
- The effective date of our approval is November 07, 2023, which is the date your request was submitted.
- 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

Enclosures:
Letter 437