



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

Date:  
08/23/2023  
Taxpayer ID number:  
  
Person to contact:

Release Number: 202346035  
Release Date: 11/17/2023

LEGEND

UIL: 4945.04-04

- W = name of grant program
- X = organization administering grant program
- Y = community served
- Z = university location
- b dollars = amount of fellowship
- c times = number multiplied to determine length of service requirement

Dear :

You asked for advance approval of your educational grant procedures under Internal Revenue Code (IRC) Section 4945(g)(3).

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 educational grants. Based on the information you submitted, and assuming you will conduct your program as proposed, we determined that your procedures for awarding educational grants meet the requirements of IRC Section 4945(g)(3). As a result, expenditures you make under these procedures won't be taxable.

**Description of your request**

Your letter indicates you will operate a grant program called W, which will be administered by the X, a limited liability company of which you are the sole member. The purpose of the program is to encourage students to consider a career as a Y communal professional.

Your program consists of two phases, both of which were previously approved. Phase 1 consists of a scholarship and other funding for college students to spend the spring semester at a university in Z, as well as additional educational activities, distance learning, mentoring, and implementing projects at the participant's domestic university and summer camp. Phase 2 invited Phase 1 participants that were likely to pursue a career as a Y communal professional to apply for a fellowship to attend graduate school.

Phase 1 of your program has not changed. However, you now wish to expand Phase 2 to include individuals who did not participate in Phase 1. The following is a description of the updated Phase 2 program.

Phase 2 of your program consists of two components: 1) Applicant agrees, in writing, to a work requirement that will begin following completion of the fellowship, and 2) Applicant receives a fellowship, up to b dollars per year, for up to years, to attend graduate school to study to become a , , educator, social worker, or not-for-profit-manager. Receipt of the grant for the fellowship is contingent upon the agreement to complete the work requirement.

The grants not only further the education of recipients, but furthers your independent, specific objective of serving the Y community in North America. The grants serve to improve and enhance the recipients' skills as young professionals looking to serve in high-level Y professional leadership positions.

The participant must commit to promptly serve as a professional in the Y capacity at a non-profit organization dedicated to serving the Y community in North America, full time, for c times the number of years the participant received funding for the program.

The organization and position in which the applicant serves must be previously approved by X in writing. If the Academic program is a Ph.D. program, the position must be a non-academic position. The position must be integral to the Y mission of the organization, as determined by X's staff in its sole discretion.

You will provide informational material to graduate school deans and directors of admissions, as well as senior staff at certain summer camps inviting them to share information about W with their colleagues, partners, or potential applicants who would benefit from W You also have a web page that describes W and has a link to the application. In the future you may also publicize on targeted social media campaigns.

You expect to award between five and ten grants in year one. The funds will be used to cover tuition, housing, and living expenses while attending the program. The participants must attend distance learning, conferences, field experiences, and other programs created while part of the program. X will reimburse participants for the costs if such events are held in-person.

The participant must provide X with a promissory note documenting their agreement to pay X the aggregate amount paid by X in connection with the fellowship amount if they fail to meet all the fellowship requirements.

Individuals must meet the following criteria in order to apply:

- Must have been working between and years;
- Must have an excellent academic record and have successfully graduated college;
- Must have applied to a recognized graduate school program, on a full-time basis, for the upcoming Fall semester prior to applying for the program; and
- Must have a vision of their potential professional contribution to Y life in North America.

program officers will be responsible for implementing the program, supervising the distance learning, field experiences, and conferences, and supervising the recruitment process.

Each applicant will fill out a grant application. The application includes name, address, education and work experience, short answer essay questions, academic documentation, and references.

The selection committee will rate each application in the following manner:

- The level of engagement in Y life of the applicant;

- The level of interest in pursuing a career as a Y communal professional;
- Aptitudes of the applicant in a career as a Y communal professional;
- Academic achievements;
- Strength of the short answers, essays, and letters of reference for such applicants; and
- Interview and interpersonal skills

The selection committee will consist of individuals with knowledge and expertise in operating educational programs for college students. The selection committee will be responsible for identifying any relationships between potential applicants and disqualified persons to ensure that individuals with such relationships are not chosen to participate in the program.

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 grants 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) and is to be used for study at an educational organization described in IRC Section 170(b)(1)(A)(ii); or
  - A prize or award subject to the provisions of IRC Section 74(b), if the recipient of the prize or award is selected from the general public; or
  - To achieve a specific objective; produce a report or similar product; or improve or enhance a literary, artistic, musical, scientific, teaching, or other similar skill or talent of the recipient.

To receive approval of its educational grant procedures, Treasury Regulation Section 53.4945-4(c)(1) requires that a private foundation show:

- The grant procedure includes an objective and nondiscriminatory selection process.
- The grant procedure results in the recipients performing the activities the grants were intended to finance.
- The foundation plans to obtain reports to determine whether the recipients have performed the activities that the grants were intended to finance.

### 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 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

Enclosures:  
Letter 437



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

Date:  
08/23/2023  
Taxpayer ID number:

Person to contact:

Release Number: 202346036  
Release Date: 1/17/2023

#### LEGEND

UIL: 4945.04-04

B = related organizations  
C = number of scholarships awarded  
D = supervising organization  
E = number of employees  
f percent = percent scholarships awarded  
y dollars = scholarship amount

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 program for the children of employees of B. The purpose your scholarship program is to pay for tuition, academic fees, books, and/or room and board at an accredited college or university.

You will select up to C scholarship recipients annually. The general supervision of the scholarship will be undertaken by D. Scholarships will be awarded in the order recommended by D, cannot be increased over the recommended amount, are not renewable, and applicants may not reapply in future years. Scholarships, in the

amount of y dollars annually, will be paid directly to the educational organizations to defray the listed college expenses.

You will publicize the program information through B's websites, the D, and the high school guidance counselors in communities where B's facilities are located. You also indicate that you may inform employees through a newsletter. There is no requirement that the recipient or the recipient's parent is expected to render future employment services to you or your sponsoring organization. There is no limitation to subject matter studied.

Applicants must meet the following criteria:

- Applicant must be a dependent of full-time-equivalent employee(s) with one year of continuous service to B, unless the employee did not complete one year of continuous service due to death or disability. Dependents are defined as a child, stepchild, adopted child, or non-resident child who is a dependent for federal income tax purposes. Dependents of employees with titles of Senior Vice President or above, including trustees or officer of the foundation, are ineligible. This also includes spouses, grandchildren, step-grandchildren of employees with titles of Senior Vice President, and your trustees or officers.
- Applicants must be graduating high school in the current academic year, or already enrolled in an accredited college or university. This does not include for-profit colleges, universities, or trade schools.
- Applicants must not be a student entering a US military Academy, participating in a ROTC scholarship, or receiving a full scholarship from another source.
- Applicants must enter an accredited college or university by the next academic year. Exceptions can be made by D for extreme circumstances, such as a significant health or family emergency. These exceptions must be in writing and shall be granted for up to one year. Exceptions are available to applicants regardless of parent's employment status or position.
- Applicants must not have been previously awarded a scholarship.

Your selection criteria will be based on class rank, essays, involvement outside of the classroom, and recommendations from school personnel and others not related to the candidates. Other than the eligibility criteria in the scholarship procedures, no consideration will be given to the employment of a candidate's parents or to B's line of business. Neither you nor B will give instructions to D as to who to select.

D will choose the independent selection committee members; they will not include current or former employee of you or your sponsoring organization. Committee members will be chosen based on background, and/or knowledge in the field of education. Relatives of members of the selection committee, your officers, directors, or substantial contributors are not eligible for scholarships.

The availability of your program will not be used to recruit new employees, to induce current employees to stay, or to encourage employees to follow a course of actions sought by B. A scholarship will not be terminated because the recipient's parent terminates their employment with B subsequent to the awarding of the scholarship, regardless of the reason for such termination. When you award the scholarship, there will be no requirement, condition, or suggestion, that the recipient, or the recipient's parent is expected to render future employment to you or B, or be available for such future employment.

The scholarships are available for any course of study at an accredited college or university and are in no way

limited to those that would be of particular benefit to you or B. There is no commitment, understanding or obligation suggesting the course of studies be undertaken to benefit either you or B.

You estimate that the potential number of applicants is substantial as B currently employs approximately E people who will qualify as eligible employees. The number of scholarships you award in any year will not exceed f percent of the number of eligible employee's children who: (i) were eligible; (ii) were applicants for a scholarship; and (iii) were considered by the selection committee in selecting recipients of scholarships that year.

For all scholarships issued you will retain information used to evaluate qualifications of candidates, complete identification of grantees, the amount and purpose of each grant, and all grantee reports or other follow-up data obtained in administering the grant program.

### **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 \_\_\_\_\_ 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).
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- 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