



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

Date:  
03/10/2025  
Taxpayer ID number:

Person to contact:  
Name:  
ID number:  
Telephone:

Release Number: 202523028  
Release Date: 6/6/2025

#### LEGEND

B = Scholarship  
C = Company  
D = Individual  
E = Scholarship  
F = Individual  
G = Certification  
y 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 employer-related scholarship programs called B and E for the employees of C to pursue an education at a qualified educational institution defined in IRC Section 170(b)(1)(A)(ii). B and E were named for former employees of F who tragically passed away. For both B and E, you will appoint a scholarship committee that is independent from you and C. Each member of the selection committee is obligated to disclose any personal knowledge of and relationship with any potential grantee under consideration

and to refrain from participation in the award process in a circumstance where they would derive, directly or indirectly, a private benefit if any potential grantee or grantees are selected over others. No scholarship may be awarded to any member of your board or disqualified person or for a purpose that is inconsistent with the purposes described in IRC Section 170(c)(2)(B).

The selection of all recipients is conducted on an objective and nondiscriminatory basis, irrespective of race, color, sex, age, religion, marital status, national origin, veteran status, handicap, citizenship, or sexual orientation. You reserve the right to impose reasonable additional restrictions on the programs.

B and E will not be utilized for the purpose of recruiting employees. Further, it is very unlikely a prospective staff member for C would even know about B and E because they are not advertised to potential employees in any of the offer paperwork nor advertised on job postings. The scholarships are in no way intended to influence recipients to maintain their employment at C. There is no requirement that the recipients continue their employment with C after they receive the scholarships.

#### Details of B

The purpose of B is to assist prospective students with tuition in pursuing an education at a qualified educational institution defined in IRC Section 170(b)(1)(A)(ii). B was named in memory of D, a first-year staff member at C and is designed for another first-year staff member who embodies D's extraordinary team spirit, selflessness, and positive energy. You will grant one scholarship of y dollars each year to a first-year staff member of C. You will promote B through information targeting young professionals and via word of mouth.

Eligible individuals must have graduated from an educational institution as defined in IRC Section 170(b)(1)(A)(ii), must demonstrate sufficient academic ability to complete their chosen course of study, and must demonstrate character and motivation to achieve their academic goals as well as exhibit characteristics outlined by B and be employed at C.

Applicants can apply or be recommended by other first year staff members. Potential applicants should submit an application form or, if recommended by staff members, a completed form outlining the particular criteria on how the nominee meets the criteria of B. These forms should contain the specific information required by you. Applicants may also be required to provide transcripts and letters of recommendation.

The independent selection committee will use a thorough vetting process when making scholarship selections. All decisions regarding academic ability and character are made by the independent scholarship committee, based on relevant facts such as transcripts and letters of recommendation.

#### Details of E

The purpose of E is to award a scholarship to an individual who best exemplifies the positive attitude, outgoing nature, and intelligence of F and who has decided to pursue their G. Under E you will annually award one scholarship for y dollars. E is promoted through information targeting young professionals and through word of mouth.

Eligible individuals must have graduated from an educational institution as defined in IRC Section 170(b)(1)(A)(ii) and be employed at C. In addition, applicants must demonstrate sufficient academic ability to complete their chosen course of study, exhibit character and motivation to achieve academic goals, and embody characteristics defined by E.

Applicants for E can apply or be recommended by other staff members. Potential applicants should submit the application form or, if recommended by staff members, a completed form outlining how the nominee meets the

criteria of E. These forms should contain the specific information required by you. Applicants may also be required to provide transcripts and letters of recommendation.

The independent selection committee will use a thorough vetting process when making scholarship selections. All decisions regarding academic ability and character are made by the independent scholarship committee, based on relevant facts such as transcripts and letters of recommendation.

#### Oversight Procedures for B and E

Scholarships are to be used solely for qualified tuition as defined in IRC Section 117(b)(2), covering tuition or fees required for enrollment at a qualifying institution or technical certification program. You are required to receive a progress report or certificate of completion from each grantee at least once per year. This report should detail the utilization of the awarded funds, courses taken, and grades received during each academic period.

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.

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