



Department of the Treasury
Internal Revenue Service
Tax Exempt and Government Entities

Date:

01/14/2026

Taxpayer ID number:

Person to contact:

Name:

ID number:

Telephone:

Release Number: 202614037

Release Date: 4/3/26

LEGEND

B = Company

C = State

D = Administrator

e dollars = Amount

f = Number of Scholarships

g dollars = Amount

h = Number of Scholarships

J = Counties

K = GPA

L = Percentage of Children

M = Percentage of Children

UIL: 4945.04-04

Dear Applicant:

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 two scholarship programs. One for children of B employees and another for residents of C counties within B's service territory. Both programs will be administered by a third party such

as, or similar to, D. The total number of scholarships awarded will be determined by your president each year. At present you intend to distribute e dollars across f awards through B employee's children and g dollars across h awards for residents of C counties within B's service territory. You will promote these opportunities on your website and through additional channels.

Scholarship for Children of B:

Children of B employees will not be eligible for your other scholarship program. This scholarship will be open to dependent children and stepchildren of B employees who have at least one year of employment with B as of the first day of the year in which the award would be made. Employees must still be employed when the awards are announced. Children of deceased employees who were employed for at least one year and were employed at the time of death, and the children of retired employees who are presently in pay status on B's monthly retirement payroll are also eligible. Additional criteria may be imposed in accordance with applicable law. The number of scholarships awarded in any year shall not exceed the greater of L of the number of employee's children who (i) were eligible,(ii) were applicants for such scholarships, and (iii) were considered by the committee in selecting the recipients of scholarships in that years, or M of the number of employee's children who can be shown to be eligible for the scholarships regardless of whether they submitted an application in that year.

Residents of C counties within B's service territory:

This scholarship will be available to high school seniors in C counties served by B which in all counties in C except J counties. Additionally, applicants must have a minimum cumulative GPA of K.

Both scholarships will follow standard scholarship selection criteria established by D. These criteria will include academic performance, leadership, and involvement in school and community activities, as well as work experience. Additionally, applicants will be evaluated based on a statement of educational and career goals they will be asked to provide: any unusual personal or family circumstances, and a letter of recommendation. Financial need will also be a determining factor. D will follow documented quality assurance procedures to review the accuracy of all program management processes including application intake, data entry, application evaluation, recipient selection award notification, and check distribution. These measures include a systematic review of manual work, verification of application numbers and review of results by appropriate staff. Eligible applicants must plan to enroll as full-time undergraduate students at an accredited two- or four-year college, university, of vocational-technical school for the entire upcoming academic year.

You will rely upon D for supervising the scholarship. Fund will be paid directly to the applicable educational institution. D will follow documented quality assurance procedures to review the accuracy of all scholarship processes. D will utilize information obtained from the applicant in making award determinations, including grade transcripts provided by the applicant. Post-award, if D has reason to believe that any award terms may have been violated, an investigation will be conducted and award amounts withheld until it is determined that no part of the scholarship has been used for improper purposes, and until any delinquent transcripts have been submitted.

The selected committee will be established and chosen by D. All members of the selection committee complete an extensive management training program with in-depth instructions on decision making and quality assurance procedures. Refresher training is conducted annually. All evaluation specialists used in this process will have experience in education and career backgrounds in education or related business fields. D will require a bachelor's degree or an equivalent length of service and experience in education to be a director, senior manager or program manager in connection with these scholarship programs. In addition to the selection committee, additional fully qualified D staff persons, including the dedicated program manager assigned to the program and their direct supervisor, will review applications and provide advice in the selection process.

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