



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

Date:  
12/19/2022  
Taxpayer ID number:

Person to contact:

Release Number: 202311008  
Release Date: 3/17/2023

LEGEND

UIL: 4945.04-04

T = Scholarship  
U = Corporation  
V = Scholarship Program  
W = Non Profit Organization  
X = Test  
Y = number  
Z = number  
b dollars = amount  
c percent = 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 called T. The purpose of T is to sponsor college undergraduate scholarships for children and/or relatives of employees of U. This is done through the V annual

scholarship competition conducted by W, an independent, not-for-profit organization. W's purposes are to (1) identify and honor exceptionally able high school students and (2) provide a system of services for corporations, foundations, and other organizations that wish to sponsor college undergraduate scholarships for outstanding students. You have entered into a formal agreement with W so you can sponsor merit scholarships for children and/or relatives of employees of U as part of the V annual scholarship competition. All aspects of the selection of the winners, payment of scholarship stipends, and the administration of the awards is handled by W.

Only U.S. high school students who are children of employees of U or its subsidiaries can compete for T. Such students also must meet all requirements for participation in the V scholarship competition which includes taking the X test in the specified year of their high school program. Participation requirements are published annually and distributed to students through their high schools. Each T is a one-time award of b dollars to be sent to the winner's college as a single payment in the fall. Other scholarship aid or an approved change in college will not affect the amount of the award.

Scores attained on the X test will be used by W to identify more than Y U.S. high school students as V scholarship competition semifinalists. W will then provide the semifinalists with application materials to compete for finalist status via their high school (children of U employees will note parental employment on this application). Those who apply for finalist status must meet high academic standards and all other requirements provided and explained by W. W will review these applications and choose finalists based on review and evaluation of student abilities, academic records, the school's recommendation, student essay, extracurricular activities, accomplishments both in and out of school and scores on the X test. W will then select students from among those children of employees of U who attained finalist level. Final selections for T will be those judged to have the most distinguished credentials and potential for academic success in rigorous college studies, based on their abilities and accomplishments without regard to gender, race, ethnic origin, religious preference, or family financial circumstances. Selections will be made by an independent selection committee (selected by W).

W will mail scholarship offers to winners at their home addresses, with confidential notification to their high school principals. Winners of T must be the children of employees of U or its U.S. subsidiaries. The offer will specify terms of the scholarship. A winner must be granted and accept admission to college no later than the fall following the offer of the scholarship. W will confirm recipient's enrollment at a college or university in the United States that holds accredited status with a regional accrediting commission on higher education. Scholarship stipends are not payable for attendance at service academies or certain institutions that are limited in purpose or training. Also, the winner must enroll as a full-time undergraduate student in good academic and disciplinary standing and pursue a course of study leading to a traditional baccalaureate degree. W will pay awards directly to the financial aid office of the institution and will supervise and investigate use of scholarships for intended purposes. A student who is awarded T will not be eligible for any other monetary scholarship awarded by W.

The probability of attaining finalist status in the annual V scholarship competition is extremely low. W would select students from among those children of U who attained finalist status, however, U has agreed to sponsor the T for all children of employees of U (if any) who attain finalist status. The annual V scholarship competition is one that has been offered annually for more than Z years. The competition identifies and recognizes high performing students and encourages rigorous college studies. Millions of students apply annually from all over the country, with less than c percent becoming finalists.

The T program is not used as a means of inducement to recruit employees of U. A student's eligibility is determined at the time the scholarship award is offered and a scholarship will not be terminated if the student's parent or relative subsequently terminates employment. The student's eligibility may not be conditioned on any other employment-related factors, such as the parent's position, service, or duties. Field of study is not limited.

The prior employment period for establishing eligibility may not exceed three years. Students must use their scholarships only to pay educational costs at an institution that meets the requirements of IRC section 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.

- 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