

Internal Revenue Service
P.O. Box 2508
Cincinnati, OH 45201

Department of the Treasury

Number: **201446027**
Release Date: 11/14/2014

Employer Identification Number:

Contact person - ID number:

Contact telephone number:

Date: August 19, 2014

LEGEND

X= program name
Y= company 1
Z= company 2
m= dollar amount
n= dollar amount

UIL

4945.04-04

Dear :

You asked for advance approval of your employer-related scholarship grant procedures under Internal Revenue Code section 4945(g). This approval is required because you are a private foundation that is exempt from federal income tax. You requested approval of your scholarship program to fund the education of certain qualifying students.

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 Code section 4945(g)(1). As a result, expenditures you make under these procedures won't be taxable.

Also, 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 Code section 117(b)).

Description of your request

The purpose of X is to recognize and encourage academic achievement for worthy students seeking post-secondary education at an accredited four-year, two-year, vocational or technical school.

Scholarships distributed under X will be made on a charitable basis and further your purposes. All awards will be in accordance with and subject to the provisions of Section 117 of the Internal Revenue Code.

The course of study is not limited. The recipient will be free to choose the course of study, change their course of study and otherwise have a free choice as to which classes and courses they will take.

For purposes of publicizing the scholarship program to employees of subsidiaries of Y, you intend to utilize the company's internal communications vehicles, including:

- Y will send e-mails to employees who have an email address on file, informing them of the application period and providing them with information about accessing the application.
- Y managers and HR personnel at depots and manufacturing facilities will be asked to post flyers at their locations mid-December through the application period. These flyers will facilitate communication to employees who do not have work e-mail addresses.
- You will mail a postcard to employees using addresses provided by employees letting them know about the scholarship opportunity.
- Y's intranet site will be used to share articles about the scholarship opportunities.

Y human resource managers and generalists at various locations will use additional means of sharing, such as community bulletin boards, closed-circuit television, etc. to share information about your scholarship program.

In creating any announcements or solicitation materials, you will rely, in part, on the support and services of Z. Z specializes in the administration of scholarship programs and selection of recipients. You are contracting with Z for the administration of your scholarship program.

You and Z will work together to develop the scholarship application to be used for your program.

The procedures under which Z will be administered will include receipt of the appropriate information and documentation to ensure appropriate records are maintained in compliance with the Internal Revenue Code. You will maintain all records relating to individual grants including (i) names, addresses, and amounts awarded to recipients; (ii) information obtained to evaluate grantees; (iii) the amount and purpose of each grant; and (iv) information related to the supervision and investigation of grants to ensure compliance with the Internal Revenue Code. In addition, Z will gather and track the necessary information and submit annual reports to you to include:

- a. Updates on the number of applications received during the application period;
- b. Verification reports to ensure recipients used the awards for educational purposes;
- c. Renewal reports;

- d. Applicant/recipient location summary;
- e. Applicant/recipient statistical summary;
- f. Program history;
- g. Program summary; and
- h. Credit reports of awards not used.

You will provide Z with eligibility guidelines. To be eligible for a scholarship, applicants must be the son or daughter of a current full-time employee of a subsidiary of Y. "Son" and "daughter" will be defined to include natural children, adopted children, and stepchildren who are legal dependents of an employee. A child for whom an employee of a subsidiary of Y is a legal guardian will also be considered a "son" or "daughter." The following categories of employee family members will not be eligible for scholarships:

- a. The children of officers of Y and its subsidiaries;
- b. The children of officers and directors of your organization;
- c. The children of subsidiary employees who hold the title of "Vice President" and above;
- d. Employees of subsidiaries of Y;
- e. Spouses of employees of subsidiaries of Y; and
- f. Employees or children/spouses of employees of your organization.

In addition, the applicant's parent or legal guardian must have been an employee for at least six months at the end of the application deadline. Eligibility will not be related to any other employment-related factor such as the employee's position, services, or duties.

Relatives of members of the selection committee, or of your officers, directors, or substantial contributors are not eligible for awards made under your program.

You will utilize the standard selection procedures set by Z and will be based on uniform, objective, and nondiscriminatory standards. Such criteria will include consideration of:

- a. Past academic performance;
- b. Participation in school and community activities;
- c. Work experience;
- d. Career and educational aspirations and goals;
- e. Unusual or family circumstances;
- f. An outside appraisal from a teacher, counselor, work supervisor or other professional familiar with the applicant; and
- g. Financial need.

In no case will more than twenty-five percent of eligible applicants receive scholarship awards. You will not use the ten percent test noted in IRS Rev. Proc. 76-47. Notwithstanding the percentage test, no more than 100 new scholarships will be awarded in any year. The number of eligible applicants will be determined by reviewing the number of children of employees who:

- a. Were eligible;
- b. Were applicants for the grant; and
- c. Were considered by the selection committee at Scholarship Management Services.

Applicants, who meet all eligibility requirements and selection criteria will be eligible for a m dollars scholarship. Assuming students satisfy renewal criteria, scholarships in the amount of m dollars will be renewable for up to three additional years or the completion of an undergraduate degree, whichever comes first. In no case will scholarships be available for post-graduate education. Applicants who meet all the eligibility and selection criteria - except financial need - will be eligible for a one-time honorarium of n dollars. This award is not renewable.

The renewal of the grant will be based solely on academic criteria defined by Z including full-time status and GPA at an accredited school.

You will do the following to ensure the proper use of grants awarded:

- a. Receive and review grantee reports annually;
- b. Investigate diversion of funds from their intended purpose when notified by Z that such a diversion may have occurred;
- c. Take all reasonable and appropriate steps to recover the diverted funds and ensure other grant funds held by a grantee are used for the intended purpose;
- d. Withhold further payments to grantees until the you obtain the grantee's assurance that future diversions will not occur and that grantee will take extraordinary precautions to prevent future diversion from occurring.

You are contracting with Z to administer the program, including the selection of recipients of the awards. Other than the contract, you have no connection to this administrator. Z will be solely responsible for the selection of recipients of the awards.

The selection committee will be separate from you, Y, and subsidiaries of Y. Likewise, no member of the selection committee will be a shareholder, officer, employee, or employee dependent of you, Y, or its subsidiaries. Beyond verifying eligibility of applicants, no one associated with or employed by you, Y, or its subsidiaries will have any role in selecting grant recipients.

Basis for our determination

The law imposes certain excise taxes on the taxable expenditures of private foundations (Code section 4945). 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 of the following requirements of Code 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 Code section 117(a).

- The grant is to be used for study at an educational organization described in Code section 170(b)(1)(A)(ii).

Revenue Procedure 76-47, 1976-2 C.B. 670, 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 Code section 117(a). If the program satisfies the seven conditions in sections 4.01 through 4.07 of Revenue Procedure 76-47 and meets the applicable percentage tests described in section 4.08 of Revenue Procedure 76-47, we will assume the grants are subject to the provisions of Code section 117(a).

You represented that your grant program will meet the requirements of either the 25 percent or 10 percent percentage test in Revenue Procedure 76-47. These tests require that:

- The number of grants awarded to employees' children in any year won't exceed 25 percent 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 percent 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 percent 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 Revenue Procedure 85-51, 1985-2 C.B. 717, when applying the 10 percent test applicable to employees' children.

In determining how many employee children are eligible for a scholarship under the 10 percent 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 Revenue Procedure 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 as long as your procedures comply with sections 4.01 through 4.07 of Revenue Procedure 76-47 and with 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 Cincinnati Office of Exempt Organizations at:

Internal Revenue Service
Exempt Organizations Determinations
P.O. Box 2508
Cincinnati, OH 45201

- You cannot 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 Code 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.

Please keep a copy of this letter in your records.

If you have questions, please contact the person listed at the top of this letter.

Sincerely,

Director, Exempt Organizations