

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

Department of the Treasury

Number: **201438031**
Release Date: 9/19/2014

Date: June 27, 2014

Employer Identification Number:

Contact person - ID number:

Contact telephone number:

LEGEND

UIL: 4945.04-04

B= Name
C= Name
D= Name
X=Number
y dollars = Amount
Z= Name

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 will not 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

Your letter indicates you will operate an employer-related scholarship program called Z. Z's purpose is to provide scholarships to deserving children of the employees of B as well as employees and independent contractors of C collectively called D. The deserving children must be interested in or intend to pursue a post-high school course of study at either a college/university or other post-secondary educational institution in the United States Z is publicized through the C quarterly newsletter which is also sent to all of the independent contracted distributors and you will also post the program information in a conspicuous place. The amount of each scholarship is y dollars per academic year renewable for up to four years.

Your specific criteria used to determine eligibility is as follows:

- The applicant must be a child of a current employee of B or C, who has worked for the company for at least one year prior to the date of submission of the application; or the child of a current independent contracted distributor who has been an independent contracted distributor with C for a least one year prior to the date of submission of the application;
- The applicant must have completed his/her high school junior year with a cumulative grade point average (GPA) of at least 3.0 or;
- If the applicant has graduated from high school or attended college prior to submission of the application, he/she must have maintained a GPA of 3.0 for all academic work completed and be under the age of 26 on the date of submission of the application;
- The applicant must have documented positive-impact involvement consistent with capacity and circumstances and/or significant improvement/success in scholarship and community involvement, determined through letters of recommendation.

Each applicant is required to provide the following:

- A completed application;
- Two letters of recommendation from the choice of high school teachers, administrators, counselors, employers or individuals with significant knowledge of the applicant's experience and education;
- Proof of college acceptance or current student enrollment. (A letter of college acceptance is required for the receipt of funds);
- The most recent official transcript demonstrating a 3.0 GPA and;
- A personal essay not exceeding X words on why the scholarship should be awarded to the applicant.

A selection committee consisting of at least two and not more than three professionals selected by you and suitable to evaluate applicants for a scholarship subject to the guidance set forth in Revenue Procedure 76-47 and 80-39 will have the sole discretion of determining scholarship recipients. The committee will select scholarship recipients and

award scholarship funds upon evidence of registration at an accredited post-secondary institution. Members of the selection committee will serve three-year terms. If a vacancy occurs on your selection committee, the remaining members may nominate an individual for membership on the committee but final authority to appoint members to the committee remains with you.

The selection committee will conduct an initial review of the applications to determine that each applicant is a child of a current employee of B or C or child of a current independent contracted distributor of C who has worked for one-year prior to the submission of the application.

After the initial review, your committee reviews each applicant's GPA for all academic work completed, which is the primary criterion for eligibility and ranking of applications. However, since an applicant can apply in the senior year of high school, the selection committee weighs the cumulative GPA for the last two years of high school as the significant cumulative GPA for eligibility consideration. In special cases, the committee may take into primary consideration the last year of high school if the applicant can demonstrate a clear pattern of grade improvement leading to a 3.0 GPA in the senior year. For college applicants, the 3.0 GPA for all college work and less than 26 years of age remains the primary criterion and those applicants will be ranked by cumulative GPA. The cumulative GPA accounts for an initial 50% of an applicant's ranking for an award with the highest average(s) receiving 50 points and all other applicants ranked by GPA with a one point subtraction for each applicant ranked lower on the list.

Once the initial grade point ranking is complete as outlined above, then your committee will review the ACT or SAT scores of each applicant for an additional 25% of each applicant's ranking. The applicant(s) with the highest score is awarded 25 points and all other applicants ranked by score with a one-point subtraction for each applicant ranked lower on the list.

The final 25% of the ranking process involves consideration of the letters of recommendation and the personal essay. Your committee will take into consideration the lucidity of the essay and make a determination after reviewing the letters of recommendation on the level of preparation the applicant has for college-level work along with the ability to maintain a 3.0 cumulative GPA. This component is subject to your selection committee's discretion and the selection committee will award up to 25 points accordingly pursuant to the ranking process outlined above. Thereafter, your committee will determine the applicants eligible for an award based on the applicant's cumulative score and will award the scholarships pursuant to the number of awards provided for each award year.

In extraordinary circumstances, the selection committee may deviate from the points awarded for each category in determining that an applicant is eligible for an award for no more than one applicant for each award period. In such a case, your selection committee will provide its rationale for the departure in written form and will maintain the document as part of the records of awards.

You will determine the number of scholarships awarded annually by reference to children of employees of B and C, and C's independent contracted distributors. The number of scholarships awarded annually will not exceed 25% of the number of employees' and independent contractor's children in that year who were eligible applicants considered by your selection committee or alternately if the number of grants does not exceed 10% of the number of children of employees who were eligible for a grant regardless of whether or not they submitted an application, whichever is greater. The number of scholarship may be limited further by your funding limitations.

Scholarship recipients will be notified by electronic mail; the award will be sent directly to the financial aid office of the recipient's educational institution. You will rely on the financial aid office procedures to ensure compliance that award use is for educational purposes only or, in the alternative, request receipts from recipient.

Once you award a scholarship, your scholarship may be renewed for each year for a total of 4 years or the awarding of a baccalaureate degree, whichever period is shorter, subject to the following rules and procedures:

- The recipient shall be required for each year of the scholarship award to adhere to the requirements set forth above in the initial grant section;
- The recipient shall be and remain an enrolled student in good standing at the educational institution;
- Your selection committee shall review the units completed and the GPA of the recipient on the transcripts received from the educational institution determining compliance with the standards set forth in the initial grant. You will renew the scholarship for each additional academic year once Y determines the recipient's adherence to the rules and procedures set forth herein;
- In the event that the recipient has not completed sufficient coursework qualifying as a full-time student for the preceding academic year; or has not maintained a cumulative GPA of at least 3.0 for all academic courses completed, Y shall notify the recipient by mail that the scholarship will not be renewed for the next academic year;
- The recipient may transfer from an educational institution to another approved educational institution upon notice to approval of your scholarship committee prior to the transfer;
- The employment of the recipient's parent or guardian shall not be a factor in determining whether a scholarship should be renewed.

You represent that you will (1) arrange to receive and review grantee reports annually

and upon completion of the purpose for which the grant was awarded, (2) investigate diversions of funds from their intended purposes, and (3) take all reasonable and appropriate steps to recover diverted funds, ensuring other grant funds are used by your grantee 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 diversions from occurring.

You also represent that you will maintain all records relating to individual grants, including information obtained to evaluate grantees, identify whether 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 explained above.

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 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 will not exceed 10 percent of the number of employees who were eligible for grants, were applicants for grants, and 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 do not 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. You may cite this determination 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 are for 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.

We have 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, please contact the person listed at the top of this letter.

Sincerely,

Director, Exempt Organizations