

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

Department of the Treasury

Number: **201437020**
Release Date: 9/12/2014

Employer Identification Number:

Contact person - ID number:

Contact telephone number:

Date: June 18, 2014

LEGEND:

b = number
c = dollar amount
Y= foundation
Z= corporation

UIL:

4945.04-04

Dear _____ :

You asked for advance approval of your employer-related scholarship grant procedures under Internal Revenue Code (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

You will operate an employer-related scholarship program awarding scholarships to students who are or will be candidates for degrees at educational institutions defined in section 170(b) (1) (A) (ii) of the Code and are selected based on merit and need, as determined by objective criteria. Y will establish and administer your scholarship fund and have sole decision-making authority as to scholarship recipients. You will not direct the use of the scholarship fund for any named individual.

Each year, you plan to fund b scholarships of c dollars each, although the number and amount of scholarships may vary in any given year depending on the size of your scholarship fund and the number of qualified applicants. The number of scholarships

awarded will also be restricted based on the limitations set forth in Revenue Procedure 76-47. Eligible recipients will be high school seniors and graduates; and individuals who have obtained - or will have obtained - their high school equivalency and who will enroll or are enrolled as degree candidates in educational institutions meeting the requirements of section 170(b)(1)(A)(ii) of the Code and located in the United States of America, including its territories. You will make your scholarships available to support studies at the undergraduate level and you will choose the recipients from among the children and grandchildren of active-status employees with at least one year of active employment with Z. Your scholarships are not renewable, but students may reapply for scholarships in subsequent years. Recipients will remain eligible for subsequent scholarships regardless of employment status with Z.

You will not award scholarships to your officers or directors or their families, or to any other "disqualified person" with respect to your officers, directors, staff, or their families, of Y. You will also not award scholarships to any member or family member of a member of the Y scholarship ambassador committee, or for a purpose that is inconsistent with the purposes set forth in section 170(c)(2)(B) of the Code. Children and grandchildren of members of the Z Board of Directors and Z Managing Committee will also be ineligible to receive scholarships.

You will not use the scholarships to recruit employees to work for Z or to induce existing employees to continue their employment. Termination of a parent or grandparent's employment with Z for any reason will not affect disbursement of a scholarship.

Your scholarship fund will support students with academic promise who demonstrate a need for financial assistance in completing their studies. Accordingly, you base your scholarship selection criteria on academic performance, financial need, and a personal essay. A candidate must have a grade point average of at least 2.0 (or its equivalent) to demonstrate the level of academic promise necessary to receive a scholarship. You will evaluate a candidate's financial need on information provided in a completed Free Application for Federal Student Aid (FAFSA). You will evaluate a candidate's personal essay based on the strong desire to attend college and the potential to succeed, compelling personal circumstances, community involvement, and potential to lead.

Scholarship applicants will complete and submit to Y a common online application, requesting personal, academic and financial information and a personal statement, by a predetermined deadline. In completing the application, applicants will upload an electronic copy of supporting documents including their most recent grade transcript or general equivalency degree scores and a current student aid report generated by a processed FAFSA. Completion of additional questions and essays may be necessary to qualify for certain scholarships; including those provided by you. Your online system will match an applicant to all the scholarship funds for which the applicant is eligible, based on the information submitted.

Y will forward the initial pool of applicant names and the parent or grandparent names to the Z Human Resources Division for verification of employment. After verification, Y will

determine whether applicants meet the basic eligibility criteria relating to grade point average and financial need.

Y will send the applications of the pool of eligible applicants to external scholarship ambassador committees for review and selection. Y will select committee members to review applications completely independent of Y and Z, and no member of such committees will be a current or former officer, director, or employee of you or Z. Members of the committees will be volunteers who are members of the community, educators, or former scholarship recipients.

After scholarship committees meet and make decisions on scholarship awards; Y will confirm such decisions online and notify students by email of scholarship awards within 24 hours of selection. Students will then accept or decline the scholarship awards and submit confirmation of the school they will be attending.

Y will prepare and mail scholarship award checks which will be made payable to the scholarship recipient's school for the benefit of the student.

Y and the scholarship ambassador committees will not discriminate on the basis of race, religion, creed, color, sex, age, physical or mental disabilities, sexual orientation, or national origin. Y will award all scholarships on an objective and nondiscriminatory basis.

Y will award scholarships solely in the order recommended by Y scholarship ambassador committees and Y will make any public announcement of the awards on behalf of you. You will make any subsequent award announcements. You may reduce, but may not increase the number of scholarships awarded from the number recommended by Y and its scholarship ambassador committees. Only Y and its scholarship ambassador committees may vary the amounts of scholarships awarded.

In accordance with Revenue Procedure 76-47, Y will ensure that the number of scholarships awarded under the program in any year does not exceed 25 percent of the number of children and grandchildren of Z employees who were eligible for the scholarships, applicants for them, and considered by Y scholarship ambassador committees in awarding the scholarships in that year. Alternatively, Y may, with the assistance of Z Human Resources Division, ensure that the number of scholarships awarded does not exceed 10 percent of children and grandchildren of Z employees who can be shown to be eligible for scholarships (whether or not they submitted an application) in that year. Only children and grandchildren who meet the eligibility standards described in Revenue Procedure 85-51 will be included in applying the 10 percent test. In making calculations under either the 25 percent or 10 percent test, Y will make use of the rounding convention provided in Revenue Procedure 94-78.

Y will remit scholarship funds when all recipients are enrolled, full-time degree candidates at educational institutions meeting the requirements of section 170(b) (1) (A) (ii) of the Code. Accordingly, such institutions must maintain a regular faculty, curriculum and a regularly enrolled body of students in attendance at the facilities where the educational

activities take place. Y will make scholarship payments directly to recipients' educational institutions to cover tuition, fees, books, supplies, room, board, and travel. Educational institutions are required to agree that it will: (1) use scholarship funds to defray the recipient's expenses, or (2) pay the funds (or a portion thereof) to the recipient, only if the recipient is enrolled full time at the educational institution and in good academic and disciplinary standing consistent with the purposes for which Y awarded the scholarship. Scholarship recipients will not be restricted to a course of study that would be of particular benefit to Y or Z.

Y will retain complete records with respect to all scholarships awarded as required by the applicable Treasury regulations. These records shall include all information obtained by Y to evaluate applicants, the identity of recipients with information sufficient to determine that recipients are not disqualified persons of you or Z, the completed application of each applicant, the amount of each scholarship, progress reports from recipients or their teachers, and any additional information that Y has obtained in the course of the scholarship administration process. Y will report annually to you on Y administration of the scholarship fund.

If you learn that all or any part of the contributions to the scholarship fund being diverted from the intended purpose of the fund, you will require Y to take all reasonable and appropriate steps to recover the funds and ensure restoration of the diverted funds to the intended purpose. This would include legal action if deemed appropriate under the circumstances.

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. 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.

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