

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

**Department of the Treasury**

Number: **201528040**  
Release Date: 7/10/2015

**Employer Identification Number:**

**Contact person - ID number:**

**Date: April 16, 2015**

**Contact telephone number:**

UIL: 4945.04-04

**LEGEND**

Y = Name of Scholarship  
Z = Name of Employer  
b = Dollar Amount  
c = Percentage  
d = Age

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**

Your letter indicates you will operate an employer-related scholarship program called Y.

Your purpose is to provide post-secondary educational scholarships to children of full-time employees.

The scholarship will be for b dollars. You will award only one-year scholarships. The applicant may reapply thereafter for each year he or she qualifies.

Each year a maximum of c percent of eligible student applicants, but no more than a predetermined number of applicants, will be awarded scholarships.

Scholarship amounts may be used only for tuition, college fees, and books, if supplied by the college. Room and board is not eligible.

The scholarship program is publicized by e-mail, which is sent to all employees, and by internal website announcements.

To be eligible, an applicant must meet the following criteria:

- a. Must be a son, daughter, adopted child, or step-child of a full-time employee of Z, with "full-time" defined by company policy. Foster children, grandchildren, and children of temporary or part-time employees are not eligible. Parental employment status at the time of the award is controlling. A change in employment status thereafter does not affect the scholarship.
- b. Must be a high school senior or graduate, and age d years or younger.
- c. Must have a cumulative grade point average (GPA) of at least 2.5 on a 4.0 scale. GPA shall be supported by a certified high school or college transcript.
- d. Must be enrolled in any full-time course of study leading to a degree at an accredited two- or four-year college, university, or technical college, as described in section 170(b)(1)(A)(ii) of the Internal Revenue Code. Class attendance, predominantly on campus, is required.
- e. Interrupted attendance will only be permitted in exceptional circumstances and on an individual basis (e.g. severe illness or family emergency). In case of interruption, the Scholarship Selection Committee will decide whether the circumstances are permissible.

The Scholarship Selection Committee consists of individuals unrelated to Z or its officers or directors. You require Selection Committee members to document they are not related to any of the scholarship applicants and they have reviewed all of the applications. Members of the Selection Committee are appointed by your President.

Children of officers of Z are not eligible for scholarships. Family members of the Board of Z or the Scholarship Selection Committee are not eligible for scholarships.

The Selection Committee verifies transcript information and that applicants are otherwise eligible.

After transcript information has been verified, names of all qualifying applicants are placed in a pool for a random drawing.

You have established procedures to remit scholarship funds directly to qualified educational institutions for qualified tuition and college fees. Scholarship amounts will be paid upon proof of full-time enrollment.

Any misuse of funds will result in forfeiture of all future grant payments and your right to recover misused funds.

The investigation of jeopardized grants is deemed satisfied by applying the procedures stated in section 53.4945-4(c)(5) of the Regulations.

#### **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  
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- 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