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

Release Number: **201649019**
Release Date: 12/2/2016
Date: September 7, 2016

Department of the Treasury

Employer Identification Number:

Contact person - ID number:

Contact telephone number:

LEGEND

UIL: 4945.04-04

B = Scholarship Program
C = Employer Name
D = Related Entity Names
E = Entity Name
F = Individual

v dollars= Amount
w dollars= Amount
x dollars= Amount

Dear :

You asked for advance approval of your employer-related scholarship 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 B.

The purpose of B is to provide scholarships to current, retired and former associates of C and its numerous affiliated entities consisting of D, and the spouses, children or grandchildren of such individuals, who are attending, or have been accepted and will be attending within the next calendar year, a college, university, graduate school or professional school that is qualified under Section 170(b)(1)(A)(ii). Recipients will be awarded a scholarship of up to x dollars per academic semester for the payment of tuition, fees required for enrollment or attendance, books, supplies, and equipment required for courses of instruction at the educational institution described in the scholarship application.

F, the founder of C will make an initial contribution of v dollars. You anticipate an annual budget in the range of w dollars for B. You formed E, a limited liability company in which you are the sole member, to administer B.

You will advertise B in the associate handbook which will be updated to provide information about B as well as by including advertisements in internal publications and emails circulated among the current and retired associates of C and D approximately six months prior to the start of the next succeeding fall or spring academic semester, and each fall and spring semester thereafter. These advertisements will contain a description of B, a summary of the eligibility criteria and the application-filing deadline, as well as the name and contact information of the person from whom additional information can be obtained.

Individuals will have until the application filing deadline to submit an application. Each application will include:

a) The applicant's name and contact information;
b) The name and contact information of the college, university, graduate school or professional school that is qualified under IRC section 170(b)(1)(A)(ii) to be attended by the applicant;
c) A written description of the applicant's proposed or current course of study;
d) A personal statement;
e) A grade transcript from the applicant's high school and all other institutions of higher learning previously attended by the applicant;
f) One or more letters of recommendation in support of the applicant's application; and
g) A completed financial disclosure form.

After each filing deadline, the members of the E Selection Committee, will review all the applications. The E Selection Committee will be comprised of two to five individuals and will be appointed by a majority of your Board of Directors for the sole purpose of reviewing applications. In addition, the E Selection Committee will be required to include at least one individual with significant experience in the field of education and training. The following classes of individuals and the family members of such individuals will not be allowed to serve on the Selection Committee:

1. Current associates of C and D, and their spouses, children or grandchildren;
2. Current shareholders, partners, members, officers, and directors of C and D;
3. Current members and managers of E;
4. Your current officers, directors, and members; and
5. Any individual who has made an annual contribution to during the current tax year in excess of $5,000, if such amount exceeds 2% of the total contributions received by you in such year.

After reviewing the applications, the Selection Committee will award scholarships based on each applicant's:

1. Prior academic performance;
2. Motivation, character, ability, and potential;
3. Ability to complete the contemplated course of study;
4. Financial need; and
5. Ability to finance the balance of the cost of the education.

The recipients and amount of each scholarship will be determined in the sole and absolute discretion of the Selection Committee. Scholarships will be awarded solely based on the foregoing objectives and non-discriminatory criteria and not on the basis of race, color, creed, gender, religion, marital status, age, sex, national origin or ancestry.

The following classes of individual and the family members of such individual are not eligible and may not be awarded scholarships, regardless of whether they otherwise meet the qualification criteria:

a) Current shareholders, partners, members, officers, and directors of C and D;
b) Current members and managers of E;
c) Your current officers, directors, and members;
d) Current members of E Selection Committee and their spouses, children or grandchildren; and
e) Any individual who has made an annual contribution to you during the current tax year in excess of $5,000, if such amount exceeds 2% of the total contributions received by you in such year.

The recipients will be required to provide you with account information for their educational institutions and the scholarship will be paid directly to such institutions. Each recipient will be required to agree to deliver an official academic transcript from the educational institution to you immediately following completion of the academic semester for which the scholarship is made. Following completion of the academic semester, academic transcripts will be reviewed to ensure that scholarships have been used for the educational purposes described in each recipient's scholarship application. Where a recipient fails to submit an academic transcript, or where a recipient submits an academic transcript that suggests that such recipient's scholarship is not being used in the manner described in the recipient's scholarship application, you will investigate the manner in which the scholarship was utilized. During the course of any such investigation, no further scholarships or payments of any kind will be made to or for the benefit of such recipient. If the results of your investigation indicate that a scholarship was not used in furtherance of the education and training described in the recipient's scholarship application, you will take all reasonable and appropriate steps to recover the scholarship. This will include recovery of any unused portion of the scholarship directly from the educational institution to which such scholarship was paid, and recovery of any portion of improperly diverted grant funds from the recipient directly, including legal action if necessary and likely to result in the satisfaction of execution on a judgment.

Regardless of whether funds are ultimately recovered by you, any recipient who is found to have used all or a portion of a scholarship in a manner inconsistent with that described in the recipient's scholarship application will be disqualified from applying for future scholarships under the scholarship program.

When a recipient submits an academic transcript that indicates that the scholarship has been properly used in the manner described in the scholarship application, such recipient will be eligible to apply for a renewal of his or her scholarship in a subsequent academic semester. Any such recipient will be required to submit a renewal scholarship application in the same form and manner as an initial scholarship application, and a recipient may receive a scholarship for no more than eight (8) academic semesters.

Your program will be conducted in accordance with all of the guidelines of sections 4.01 through 4.07 of Revenue Procedure 76-47. You have agreed that your program will generally meet the requirements of either the 25 percent or 10 percent percentage test of Section 4.08 Revenue Procedure 76-47.

Based on the wide availability of the scholarship program you have demonstrated that the recipients will not be drawn from a specific group of employees. In particular, the selection of individual grant recipients will be made by E. The grants will not be used as a means of inducement to recruit employees nor will the recipient be restricted in a course of study that would be of particular benefit to C, D or to you.

You agree to maintain certain information about your program in accordance with Code Section 4945(d)(3), including the following:

- The information used to evaluate the qualifications of potential grantees;
- Identification of the grantees (including any relationship of any grantee to you), the amount and purpose of each grant;
- All reports and other follow-up data obtained in administering your scholarship program.

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 will not 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 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.

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,

Jeffrey I. Cooper
Director, Exempt Organizations
Rulings and Agreements