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

Department of the Treasury

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Employer Identification Number:

Contact person - ID number:

Contact telephone number:

LEGEND

UIL: 4945.04-04

B = Company
C = Organization
D = Scholarship
x dollars = Amount

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 D. You sponsor D for children of employees of B. D is a four-year college scholarship for up to two eligible students, x dollars per year, for up to four years of undergraduate study.

To be eligible for D, the individual must be a child of an employee of B and must also meet the requirements for participation in the C's scholarship program. C is an independent, not-for-profit organization. The annual competition, criteria, selection of winners, and the administration of their awards are handled by C. C will inform you annually about the progress of the recipients.

Students enter C's nationwide scholarship competition by taking a test. The purpose of the program is to identify and recognize high-performing students and encourage them to pursue rigorous college studies. students from high schools around the country participate in the competition annually. Those students scoring within the top one-half of one percent on a state-by-state basis (approximately) are designated as Semifinalists. The Semifinalists may advance to the Finalist level by confirming their scores on a second test, and by submitting an application that includes a high school record (provided by their high school officials) showing strong academic performance, a personal essay, extra-curricular accomplishments and the recommendation of their high school principal or school official designated by the principal. There will be about students that advance to the Finalist status.

Finalists and eligible to receive the awards. Accordingly, the chance that any student entering the competition will become a Finalist is less than %. Each of these facts shows that your scholarships comply with the facts and circumstances test under Section 4 of Revenue Procedure 76-47, because the probability of attaining Finalist level is extremely low.

The formal offer of your scholarship that C sends to each winner specifies the terms for acceptance of the award. The winners must enter college in the fall term following selection and must enroll as a full-time undergraduate in a college or university in the United States that holds accredited status with a regional accrediting commission on higher education. Scholarship stipends are not payable for attendance at service academies, virtual universities, and certain institutions that are limited in their purposes or training.

The scholarships are paid directly to the college or university final aid office. C obtains information from the college or university regarding the recipients' status as a student in good standing. If there is evidence of misuse of the scholarship funds, C will follow up with the college or university and the recipients to investigate.

Neither you nor B will use the scholarships as a means of inducement to recruit employees. The selection committee is comprised of the staff of C, who are experienced in the selection of scholarship recipients. The individuals on the selection committee are experienced in the education and scholarship fields and are totally independent and separate from you, B, and C.

The courses of student for which grants are available are not limited so long as the recipient is in any course of study leading to one of the traditional baccalaureate degrees. The only continued obligation on the part of the recipients is to remain enrolled during the day in a course of study leading to one of the traditional baccalaureate degrees, and remain in good academic and disciplinary standing.

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, ensure other grant funds held by a grantee are used 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 represent that you will maintain all records related to the following: (1) individual grants including information to evaluate grantees, (2) grantees which are identified as a disqualified person, (3) how the amount and purpose of each grant was established, and (4) how you established supervision and investigation of the grants.

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 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 either the applicable percentage tests described in section 4.08 of Revenue Procedure 76-47 or relevant facts and circumstances, we will assume the grants are subject to the provisions of Code Section 117(a).

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 relevant facts and circumstances to ensure the primary purpose of

the program is not to provide extra compensation or other employment incentive and the primary purpose is to educate recipients in their individual capacities.

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 make prior recipients automatically eligible without regard to any employment status.
- Your selection criteria are based upon objective standards that are completely unrelated to employment with B.
- 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 either the applicable percentage tests described in section 4.08 of Revenue Procedure 76-47 or relevant facts and circumstances. If you establish another program covering the same individuals, that program must also meet the percentage test or relevant facts and circumstances.

- 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've 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,

Stephen A. Martin
Director, Exempt Organizations
Rulings and Agreements