

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

Department of the Treasury

Date: August 31, 2016

Employer Identification Number:

Contact person - ID number:

Number: **201648017**
Release Date: 11/25/2016

Contact telephone number:

LEGEND

UIL: 4945.04-04

X= For-Profit Company
Y= Scholarship Management Company
r = 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 to support the education of children of employees of X.

The purpose of your program is to award recipients with a two-year scholarship to defray a portion of the costs of tuition for community and technical college. Eligible individuals will generally be students who are dependent children up to 26 years of age of employees of X, or are entering their final year of high school, or have completed their high school or high school equivalency program studies, and have demonstrated strong interest in middle-skill STEM (science, technology, engineering and math) careers

including, but not limited to, careers in healthcare, information technology, energy, and advanced manufacturing fields.

The number and the amount of the scholarships are varied depending upon the available funds. However, the number of the grants awarded in any year will not exceed twenty-five percent of the number of X employees' children who were eligible. The scholarships will consist of grants of r dollars per year for two years. The grants will be used to defray the cost of tuition at any qualified educational institution.

The grants awarded will be based on the interest of the students in middle-skill STEM careers, grade point average and academic achievements, financial need, and interest in civic engagement, including volunteer leadership, military service, and other volunteer service opportunities. The grant funds will be distributed directly to each educational institution to defray the cost of tuition on an agreement that it will not consider the grant in its calculation of the student's financial need. Preference will be given to students who would be the first in their families to attend college. The grants will not be used by you or X in recruiting employees or inducing current employees to remain in their employment.

Eligible individuals will be required to submit the applications and supplemental information including the evidence of employment status of parents with X to Y. Y is contracted to administer your scholarship program. Y is an independent scholarship administrator who will review and select the qualified recipients of the scholarship grants.

The recipients may not be relatives of your officers or directors or relatives of your substantial contributors, and may not otherwise be disqualified persons as described in Code Section 4946. The selection of the grant recipients cannot result in any private benefit to X, Y, or any officer, director, or substantial contributor, or otherwise disqualified person to you.

A grant recipient can receive subsequent annual installments of his or her grant if the recipient remains in good standing with his or her educational institution. Failure to meet this requirement will result in termination of the grant. In addition, subsequent annual installments of the grant funds will not be terminated because of termination of employment of the employees with X, regardless of the reason for such termination. In addition, there will not be any requirement, condition or suggestion whether expressed or implied, at the time your grants are initially awarded or when additional installments are paid that the grant recipient or his or her parent is expected to render future employment services to you or X, or be available for such future employment.

Recipients of the scholarship grants will be required to provide a progress report verified by the educational institution at least once annually. The report will include the recipient's courses taken and grades received. You will also require a final report upon the conclusion of the grant. Because the scholarship grants will be paid directly to the recipients' educational institutions, you do not expect a misuse of grant funds.

The scholarship program will be advertised throughout X, including X's intranet, internal social media platforms, posters, "town hall" meetings, and internal press releases.

Information about grants will also be posted on your website, and the grant recipients will be featured on your intranet page, which is also accessible by X employees.

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.

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,

Jeffrey I. Cooper
Director, Exempt Organizations
Rulings and Agreements