

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

Department of the Treasury

Number: **201949020**
Release Date: 12/6/2019

Employer Identification Number:

Contact person - ID number:

Date: September 10, 2019

Contact telephone number:

LEGEND

UIL: 4945.04-04

B= Name
C= Name
E= Name
F= Name

x dollars= Amount
y= Number
z= Number

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.

The purpose of your program is to provide scholarships to children of B employees and its subsidiaries in order to further their postsecondary education at a qualified educational institution. Recipients must use the scholarship at any college or university accredited by

the regional accrediting association for that area or at any junior college, community college, trade school, vocational school or business school. Awards will be for x dollars and not renewable.

To be eligible for a scholarship, the student must:

- Be children of current B employees (and B's domestic subsidiaries);
- Be age y years or under;
- Be high school seniors or graduates, or current post-secondary undergraduate students;
- Plan to enroll in full-time undergraduate study at an accredited two-year or four-year college, university, or vocation-technical school for the ensuing academic year as a full time student.

For the purposes of eligibility, "children," include legally adopted children of employees, stepchildren who reside with an employee, and persons whose legal guardian is an employee. However, children of your directors and children of shareholders of B are not eligible to apply for or receive your scholarship awards.

To publish your program, you will distribute communications directly to B. You will also put detailed information on your website including:

- The conditions for eligibility;
- Responses to frequently asked questions;
- The application process;
- Directions for submitting the application.

To apply for your program, applicants must submit a completed application including attachments such as transcripts, standardized test scores, and letters of recommendation through a portal on your web site.

Only complete application packages will be considered for the program and will be reviewed by a selection committee consisting of persons knowledgeable in the education field with backgrounds that will enable them to properly evaluate the applicants. No current or former employee of you or B will be eligible to serve on the selection committee. Committee members may be drawn from areas including, without limitation, several counties in the states of C, D, and E where B's subsidiaries are located. Furthermore, when a committee member leaves or must be replaced, a new qualified member will be selected.

To select the recipients, the selection committee will consider but not necessarily limit the criteria to the following:

- The applicant's prior academic performance;
- The applicant's college aptitude test scores;
- Letters of recommendation from instructors and persons;

- Attributes such as motivation, character, and potential, based upon demonstrated leadership and involvement in school and extracurricular activities;
- Work experience;
- Statement of career and educational goals and objectives;
- Unusual personal or family circumstances.

Concerning Revenue Procedure 76-47, you will determine the pool of eligible applicants in advance of accepting applications by submitting a query to B in order to request specific information about unmarried dependents between z and y years of age. In the event an award applicant does not appear in the pool of eligible applicants generated by this advance query, a follow-up query is made directly to the B employee to determine and to verify eligibility.

You will also determine the number of scholarships awarded annually through an assessment of both your present and your projected financial circumstances. Furthermore, the number of scholarship awards in any year will not exceed 25% of the number of employees' children who were eligible, were applicants for such grants, and were considered by the selection committee in selecting the recipients of scholarship awards in that year, or 10% of the number of employees' children who can be shown to be eligible for scholarship awards (whether or not they submitted an application) in that year.

If an applicant is properly eligible at the time of completion of the application period during which they submitted their application, the subsequent leaving of employment of the applicant's parent or guardian from B or its domestic subsidiaries will not affect the applicant's consideration or receipt of the award if selected.

Your scholarship awards will be awarded for one year only, but prior recipients and eligible students may re-apply each year from their senior year in high school through the equivalent of their junior year in college, as long as they continue to be enrolled full time at an eligible educational institution. The maximum number of scholarship awards is four annual awards for a recipient. In addition, a prior recipient will not be considered ineligible to re-apply for a scholarship award for a subsequent year simply because his or her parent or guardian ceases to be employed by B or its subsidiaries.

Each scholarship recipient must enter the post-secondary educational institution as a fulltime student no later than the fall semester of the current academic year and must continue as a full-time student without interruption except for normal vacation periods, illnesses, active duty military service, or other causes that the selection committee in its sole discretion is an acceptable reason to delay the award. Any awards postponed due to causes approved by the selection committee will be held in suspense and will be available for the selected recipient when the cause for suspension has been mitigated. In no event will an award amount be held in suspense longer than two years. If still held in suspense at the completion of two years, the award will be forfeited and available for reassignment by the selection committee.

You will pay all scholarships directly to the eligible educational institution of the recipient's choice, with the express stipulation that such educational institution agrees to apply the scholarship funds to defray the recipient's tuition and/or room and board expenses while the recipient is enrolled as a full-time student at such educational institution. Moreover, one half of the scholarship award will be paid for the fall semester and the balance for the spring semester, except for those recipients who will graduate after the fall semester. These recipients may request that the entire award be applied to the fall semester. If there are not sufficient expenses to use up the entire scholarship award by the end of the academic year, then the educational institution will return such funds to you. In addition, if the recipient is not enrolled as a full-time student at the time the award is made to the educational institution, the award will be returned to you.

You represent that you will complete the following: (1) arrange to receive and review grantee reports annually and upon completion of the purpose for which the grant was awarded; (2) investigate diversion of funds from their intended purposes; (3) take appropriate steps to recover diverted funds and ensure other funds held by the grantee are used for their intended purposes; and (4) withhold further payments to grantees until you obtain grantees' assurances that extraordinary precautions will be exercised to prevent future diversions of grant funds.

You represent that you will maintain all records related to the following: individual grants, including information to evaluate grantees; grantees identified as disqualified persons; (3) how the amount and purpose of each grant was established; and (4) how you established supervision and investigation of the grants described above. Further, you represent that applicants identified as disqualified persons with respect to your organization, including your directors, officers, and/or their family members, are not eligible to receive 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 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
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.

The effective date of this ruling is October 18, 2018.

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