

# **Bond Case Briefs**

*Municipal Finance Law Since 1971*

---

## **LTR: Scholarship Awards Won't Be Taxable Expenditures.**

Citations: LTR 201321029

The IRS ruled that awards made through a private foundation's employer-related scholarship program will not constitute taxable expenditures and will be excludable from the gross income of the recipients if the funds are used for qualified tuition and related expenses.

Contact person - ID number: \* \* \*

Contact telephone number: \* \* \*

UIL: 4945.04-04

Release Date: 5/24/2013

Date: February 27, 2013

Employer Identification Number: \* \* \*

LEGEND:

B = Name

C = Company

D = Location

E = Location

F = Location

p = grade level

v = Number

w = Number range

x = Number

\$y = Dollar 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 B. The purpose of B is to provide scholarships for post-secondary education of undergraduate studies to students who are interested in obtaining an education focused on health and wellness related fields. Approximately v children will be eligible to apply and roughly w actual applications are to be received. You will award x non-renewable scholarships annually for \$y each to children of C employees and their subsidiaries. Scholarships will be offered for full-time study at an accredited college or vocational institution of the student's choice.

You will advertise your program by posting application information on your intranet and make annual announcements via company newsletters, e-mail, postings in employee cafeterias or on other bulletin boards to inform employees of the program and timing for the annual application process.

To be eligible, applicants must be graduating high school students or existing college students with a minimum GPA of 3.0 on a 4.0 scale, aged 25 and under and a dependent child of eligible full time employees with one year of employment who intends to attend a qualified post-secondary school. Students outside the United States must be in their final year of upper or higher secondary school or be current technical or university level students.

You define dependent children as biological, step, or legally adopted children living in the employee's household or primarily supported by the employee. Children of a) employees at or above a vice president or p level and above of C or subsidiaries, b) Directors of C, or c) Trustees of your foundation are not eligible to apply.

Interested students must complete the application in English, Spanish or French and mail it along with a copy of current and complete transcripts of grades and any other required documents to the qualified independent third party hired to manage your program. Online transcripts must display the student's name, school name, grade and credit hours earned for each course, and term in which each course was taken. Applicants will receive acknowledgement of receipt of their application. If an acknowledgement is not received within four weeks, applicants may contact the independent third party to verify that the application has been received.

Non-U.S. applicants currently or previously enrolled in an institute of higher education (university) must include their academic record (transcripts of grades) for all higher education course work completed and secondary school credential/diploma/certificate. Current secondary school students and students who have completed less than one year of higher education (university) must include their academic record (transcript of grades) for all secondary education course work completed during the past three years, and results of college entrance academic examinations.

All applicants are responsible for gathering and submitting all necessary information. Applications will be evaluated on the information supplied; therefore, answer all questions as completely as possible. Incomplete applications will not be evaluated. All information received will be considered confidential and is reviewed only by the independent third party management service hired.

Scholarship recipients are selected on the following basis: academic performance, demonstrated leadership and participation in school and community activities, work experience, a statement of career and educational goals and objectives, unusual school and community activities, work experience, unusual personal and family circumstances that have affected school or work achievements, and the applicant appraisal found on page two of the application. Academic evaluation of global applicants will include review of the grade/mark average based on the grading system used in the applicant's country and a review of the results of academic examinations.

Financial need is not considered. However, because sources of funding for higher education vary across the globe, you request applicants from countries outside the United States submit school cost and government subsidy information.

Provided there are qualified applicants, recipients will be selected in proportion to the number of employees in three primary C regions — D, E, and F. The goal is to grant at least one award per region.

The selection committee will be chosen from a qualified independent third party. No relatives of the independent selection committee, or children of C employees that are at a senior level position (Vice President, or equivalent, or above) are eligible to participate in the program. No children of C's board members or your foundation's trustees or disqualified persons will be eligible to participate. In no instance does any officer or employee of C or your foundation play a part in the selection. All applicants agree to accept the selection decisions as final. Applicants will be notified of selection decisions. Not all applicants to the program will be selected as recipients.

The independent third party will process scholarship payments on your behalf. Checks will be mailed to each recipient's home address and will be made payable to the student's school. The award checks will be issued in U.S. currency. If requested, award payments for recipients outside the United States and Canada may be made via wire transfer.

Recipients will have no obligation to you. They are, however, required to notify the independent third party of any changes in address, school enrollment, or other relevant information and to send complete official transcripts when requested. You reserve the right to review the conditions and procedures of this scholarship program and to make a change at any time including termination of the program.

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 diversion of funds from their intended purposes, and (3) take all reasonable and appropriate steps to recover the 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 diversion from occurring.

You will maintain all records relating to individual grants including information obtained to evaluate grantees, identify a grantee as a disqualified person, establish the amount and purpose of each grant, and establish that you undertook the supervision and investigation of grants described above.

#### **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.

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,

Holly O. Paz

Director, Exempt Organizations

Rulings and Agreements