

Longworth

Scholarship Program through a Private Foundation



Jim Worth, President and CEO of LongWorth Inc. (LongWorth), is troubled by recent studies that conclude high school seniors in his small town are unable to afford a college education. Furthermore, those who are attending college are often saddled with large college loans. These facts, coupled with a steady decline in the labor pool of eligible candidates, are undermining LongWorth's own need for educated employees. The future isn't bright.

Determined to apply his own proven resourcefulness to the problem, Jim consults with a variety of colleagues, advisors, and friends. Jim's financial advisor proposes the formation of a company scholarship program (CSP) at the LongWorth Company Foundation (Foundation) to enhance the educational opportunities available to the community. The advisor points out that LongWorth has played an invaluable leadership role in past community development projects resulting in significant goodwill in the local community. Launching this new initiative will continue LongWorth's leadership role.

In order to qualify for favorable tax treatment, Jim's financial advisor informs him that, among other limitations and requirements, the CSP must be careful to comply with the following rules:

- The objective of the CSP must be to enable scholarship award recipients to obtain an education in their individual capacity and solely for their personal benefit.
- The CSP may not be used as an inducement to recruit or retain employees.
- While employment at LongWorth may be used as an initial qualifier, only objective criteria may subsequently be used to determine successful scholarship recipients.
- A selection committee of individuals who are totally independent of LongWorth and the Foundation must be appointed. Local educators, public officials, and civic leaders will be invited to sit on this committee.
- The selection committee will have sole discretion to select award recipients, determine award amounts, and publicly announce the scholarship awards.
- Although the foundation may specify a range of permissible courses of study, scholarship award recipients must be free to choose the specific course of study they will pursue.
- To prevent the treatment of the scholarship awards as compensation, the number of awards granted to LongWorth employees and their families must be limited.

Jim instructs LongWorth's general counsel to draw up documents creating the CSP. Prior to the issuance of the first scholarship awards, the CSP's governing documents are submitted to the IRS for approval. The response to the introduction of the new CSP among LongWorth's employees is enthusiastic and boosts employee morale. The publication of the first year's scholarship awards in the local newspaper increases LongWorth's standing in the community.

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