



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

Release Number: **200649029**

Release Date: 12/08/2006

Date: September 14, 2006

Contact Person:

Identification Number:

Telephone Number:

UIL: 501.05-00

Employer Identification Number:

Legend:

A =

B =

Dear _____ :

We have considered your request, dated December 5, 2005, for a ruling on the effect on A's tax-exempt status under section 501(c)(5) of the Internal Revenue Code of implementing its proposed scholarship plan. You have requested a ruling that the proposed scholarship plan contained in A's plan of benefits will not affect A's tax-exempt status under section 501(c)(5) of the Internal Revenue Code.

A is a trust that is an employee welfare benefit plan. It was established under the terms of a collective bargaining agreement between B, the employer, and the local union. The collective bargaining agreement requires contributions from the employer to be used for training. B contributes to A to provide training for its employees who are union members to improve their job skills. At present, A pays for the employees' tuition, travel and meals. Participation in the program is voluntary.

A wants to expand the program, so A has adopted a "Plan of Benefits" that will implement a scholarship plan that would pay the training costs and reimburse the employees for lost wages when they take time off for training. Employees that wish to participate will submit a request in writing to the manager. Upon approval, the employee will submit a second request to the trust coordinator for approval and payment of expenses. After review, the trust coordinator will submit the request to the trustees for approval or rejection. The trust coordinator will notify the employee of the final decision.

The plan provides additional benefits for the employees who earn lower wages. Employees with a journeyman classification will receive 75 percent of their wages and, for the second course, 50 percent of their wages. Employees without a journeyman classification will receive 100 percent of their wages and, for the second course, 75 percent of their wages.

Section 501(c)(5) of the Code provides exemption from Federal income tax for labor organizations.

Section 1.501(c)(5)-1 of the Income Tax Regulations provides that the organizations contemplated by section 501(c)(5) of the Code are those which have as their object, the betterment of the conditions of those engaged in such pursuits, the improvement of the grade of their products, and the development of a higher degree of efficiency in their respective occupations.

Rev. Rul. 78-42, 1978-1 C.B. 158 holds that a nonprofit apprenticeship and training committee formed by a union and an employer's association in connection with a collective bargaining agreement to conduct educational courses and programs for members, employees, and associates of the industry for the betterment of the industry is exempt under section 501(c)(5) of the Code.

A's proposed scholarship plan will pay employees' training costs and provide reimbursement for wages lost during training. The plan was established under a collective bargaining agreement and operates primarily to provide training benefits to employees who voluntarily choose to participate. The plan does not discriminate in favor of higher-paid employees. The plan will further A's exempt purpose by improving employees' job skills and conditions, improving the grade of the employer's products and developing a higher degree of efficiency in the industry.

Accordingly, based on the foregoing, we rule as follows:

A's proposed scholarship plan will not affect A's tax-exempt status under section 501(c)(5) of the Code.

This ruling is based on the understanding there will be no material changes in the facts upon which it is based. This ruling does not address the applicability of any section of the Code or regulations to the facts submitted other than with respect to the sections described. This ruling is directed only to the organization that requested it.

Section 6110(k)(3) of the Code provides it may not be used or cited by others as precedent. This ruling will be made available for public inspection under section 6110 of the Code after certain deletions of identifying information are made. For details, see enclosed Notice 437, *Notice of Intention to Disclose*. A copy of this ruling with deletions that we intend to make available for public inspection is attached to Notice 437. If you disagree with our proposed deletions, you should follow the instructions in Notice 437.

As provided by Section 8.02 of Rev. Proc. 2006-4, 2006-1 I.R.B. 132, 143 comfort letter rulings will not be issued when a transaction is addressed by established precedent.

If you have any questions about this ruling, please contact the person whose name and telephone number are shown in the heading of this letter. In accordance with the Power of Attorney currently on file with the Internal Revenue Service, we are sending a copy of this letter to your authorized representative.

Sincerely,

Debra J. Kawecki
Manager, Exempt Organizations
Technical Group 2

Enclosure
Notice 437