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LEGEND:

Taxpayer =
LLC A =
EO =
LLC B =

Dear :

This letter responds to a request from Taxpayer's authorized representative dated March 22, 2024, requesting a ruling on whether certain activities of disregarded entities of the Taxpayer are charitable and educational. Taxpayer represents the facts as follows.

FACTS

Taxpayer is a nonprofit corporation recognized by the Internal Revenue Service (IRS) as being described under section 501(c)(3) and is classified as a public charity under sections 509(a)(1) and 170(b)(1)(A)(vi). Taxpayer's purpose is to develop and support programs, policies, and organizations that strengthen connections between postsecondary education and opportunity in the United States. Furthermore, Taxpayer advances its mission through research, grantmaking, social impact investment, public policy solutions, and affiliate organizations.

Taxpayer is the sole member of two limited liability companies (LLC A and LLC B), neither of which have elected to be treated as an association taxable as a corporation, and Taxpayer represents that both are disregarded entities for federal tax purposes. LLC A was formed to facilitate the merger of EO into it, with LLC A the surviving state-law entity. EO was an educational organization that was determined to be described under section 501(c)(3) and was a public charity under sections 509(a)(1) and 170(b)(1)(A)(vi) prior to the merger. As a result of the reorganization, Taxpayer through LLC A acquired EO's assets and activities. EO has, since its inception, engaged in four

projects, which were disclosed to the IRS in its application for exemption as an organization described under section 501(c)(3). These projects include:

1. Running a membership organization that is made up of post-secondary institutions, employers, workforce and economic development organizations, and mission-aligned entities. This program's focus is on guiding education to career pathway strategies to foster success among nontraditional adult learners and workers. This program helps adult learners by implementing credits for prior learning acquired outside of the traditional classroom and aligning educational and credential completion goals with the labor market.
2. Creating documentaries for K-12 schools, work force organizations, economic development organizations, and post-secondary institutions to allow students and others to explore various career pathways and connect individuals to educational experiences and skill building activities using an interactive interface. The content is created by LLC A with the students as its intended audience. The content is available to the public free of charge through online publications or public television broadcasts of its programming.
3. Assisting institutions of higher education and various organizations in providing career experiences to student-employees with valued businesses, providing educational support for students to develop soft skills, and providing tuition assistance to student-employees enabling these students to manage debt and stay enrolled.
4. Facilitating a coaching program pairing post-secondary students with workforce boards, employers, and other non-profit organizations so that the students can build a plan for attaining post-secondary credentials and how to use those credentials after graduation. LLC A facilitates the coaching through student journey mapping, capability assessments, benchmarking, and training and consulting for the coaches.

Taxpayer plans to continue operating these activities in the same manner as they were conducted prior to the acquisition through LLC A.

Taxpayer created LLC B from its own assets. LLC B plans to conduct several activities including:

1. Advancing education through the establishment of a new national database that will capture data and provide verified outcomes for a critical mass of non-degree credentials ("NDCs") issued in the United States;
2. Providing insight on NDCs to issuers, policymakers, employers, learners, and the general public to make sense of the education and workforce system;
3. Establishing a program of research resulting in publicly disseminating reports on NDCs and their value;
4. Providing services directly to nonprofits, educational institutions, and employers that enable them to better deliver education and providing workforce training services;

5. Identifying and testing solutions for federal and state policies relating to NDCs, such as public funding and accountability systems; and
6. Serving as a trusted organization for convening stakeholders and technical experts to define data solutions for improving education and workforce systems.

While LLC B plans to conduct the listed activities, its initial activities will focus on providing data services to charitable, government, and public education entities (collectively “Exempt Entities”) all of which will be described in either section 501(c)(3) or section 170(c)(1). These data services will involve the collection, analysis, interpretation, and sharing of data on NDCs so that the exempt entities can improve their educational and workforce programming. An Exempt Entity using LLC B’s services, generally, will not have the in-house technical or subject-matter expertise to run this type of analysis itself.

LLC B intends to offer differentiated levels of services to the Exempt Entities. The primary service offered, which will be provided free of charge, will provide institution-focused outcomes based upon matched data analysis. For example, this analysis will provide insights regarding the wage potential of students enrolled in an organization's NDC programming as well as the outcome disparities between various demographics enrolled in the same credential. Additionally, LLC B will also offer deeper, more extensive data analysis to Exempt Entities for a fee, but this fee will be less than 20 percent of the cost of providing those additional services. This fee will also be waived or reduced depending on the financial resources of the Exempt Entity seeking the deeper analysis. Taxpayer’s history and annual returns have demonstrated an ability to fund these services at this level of subsidy.

These data services will also provide LLC B with access to data not typically publicly available. Unlike bachelor’s degrees, there is currently no infrastructure tracking the outcomes of individuals that obtain NDCs. In the future, LLC B will use its data from providing institution-specific analysis to develop insights on the economic mobility, educational, and career outcomes of those seeking NDCs more globally. LLC B will create a critical mass of that data to develop aggregated research results that will be made available to the public free of charge. This same data will also be used to inform LLC B’s own research and provide evidence-based solutions that are designed to further the educational landscape with respect to NDC programs and institutions.

RULING REQUESTED

1. LLC A's activities constitute charitable and educational activities as these terms are defined under section 501(c)(3).
2. LLC B's activities constitute charitable and educational activities as these terms are defined under section 501(c)(3).

LAW AND ANALYSIS

Section 501(c)(3) describes organizations that are organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes and "no part of the net earnings of which inures to the benefit of any private shareholder or individual."

Treas. Reg. section 1.501(c)(3)-1(d)(2) states that the term *charitable* is used in its generally accepted legal sense and is, therefore, not to be construed as limited by the separate enumeration in section 501(c)(3) of other tax-exempt purposes which may fall within the broad outlines of *charity* as developed by judicial decisions. Such term includes, among other things, the advancement of education or science.

Treas. Reg. section 1.501(c)(3)-1(d)(3) defines the term "educational" as the instruction or training of an individual to improve his or her capabilities, or the instruction of the public on subjects that are useful to the individual and that benefit the community. An organization does not have to be a school with a regularly scheduled curriculum to meet the definition of "education" under section 501(c)(3). Example 2 of section 1.501(c)(3)-1(d)(3)(ii) explains that an organization whose activities consist of presenting public discussion groups, forums, panels, lectures, or other similar programs is considered educational.

Revenue Ruling 68-71, 1968-1 C.B. 249, determined that a "nonprofit organization that helps people in planning their careers and achieving occupational adjustment by distributing educational publications at a nominal charge and providing free vocational counseling services" was educational. The organization achieved its educational purpose by conducting occupational research and publishing the results.

Revenue Ruling 68-307, 1968-1 C.B. 258, held that educational activities include the publishing and distributing of educational materials that further the educational program of another exempt entity, the National Park Service, because the organization was instructing the public on a subject useful to individuals and beneficial to the community.

Revenue Ruling 70-584, 1970-2 C.B. 114, determined that an organization was educational when it provided students majoring in such areas as sociology and political science opportunities for summer positions with local and municipal government agencies concerned with the improvement of urban life. Through an arrangement made with the agencies, the students' salaries were paid by the organization rather than by

the agencies for which they worked. The organization's activity was part of an officially sponsored government program. The ruling provides that the operation of an internship program advances education since it trains the individual for the purpose of improving or developing his capabilities in his chosen field of study.

Revenue Ruling 71-529, 1971-2 C.B. 234, provides that by performing an essential function for exempt organizations for a charge that is substantially below cost, the organization was performing a charitable activity within the meaning of section 501(c)(3). In this ruling, the organization was charging a fee that represented less than fifteen percent of the total costs of its operation.

Revenue Ruling 75-284, 1975-2 C.B. 202, determined that providing training on a one-to-one basis so that students learn the basic skills or requirements of a trade or profession under the direction of an expert and are given firsthand knowledge of various occupations prior to their making a career choice is an educational activity. The students of this organization paid tuition covering the cost of room and board, weekly seminars, individual counseling, and the on-the-job training. The ruling provides that the program advanced education by familiarizing students firsthand with various career fields and by training individuals for the purpose of developing their capabilities.

Revenue Ruling 76-455, 1976-2 C.B. 150, determined that an organization was engaged in educational activities under section 501(c)(3) when the entity was created to conduct studies and propose improvements regarding quality, utilization, and effectiveness of health care and health care agencies, and to educate those involved in furnishing, administering, and financing health care. In making this ruling, the Service determined that "[b]y improving and enlarging the body of knowledge concerning current usage of health facilities and methods of treatment, the organization seeks to create a more efficient use of the nation's health facilities, and to aid in the planning of better care for future health needs."

Nonprofits Ins. Alliance of Cal. v. United States, 32 Fed. Cl. 277, 291 (1994) analyzes the "substantially below cost" standard in the context of section 501(m), reasoning that the standards are the same. The court quotes GCM 38877 stating that "provision of goods and services to other organizations described in section 501(c)(3) may be considered an activity similar to those carried on *by a grant-making charity*.... [Such] activity will be considered to be conducted in a charitable manner only if the price charged is *substantially below cost*." The court goes on to indicate that something is substantially below cost if it clearly manifests donative intent.

LLC A's activities further education in several recognized ways. LLC A offers programs like those found in Rev. Rul. 70-584 when it assists institutions in providing career experiences to student-employees with valued businesses and providing educational support for students to develop soft skills. LLC A also has activities like those found in Rev. Rul. 75-284 when it facilitates a coaching program pairing post-secondary students with workforce boards, employers, and other non-profit organizations so that the students can build a plan for attaining post-secondary credentials and for how to use

those credentials after graduation. LLC A's assistance to institutions in providing career experience, its educational support for soft skills training, and its coaching activities are offered without charge. Further, LLC A also offers tuition assistance to attend higher education. Offering services that further a charitable organization's exempt activity free of charge and providing tuition assistance to low-income students are recognized charitable activities. Creating documentaries to allow students and others to explore various career pathways and connect individuals to educational experiences and skill building activities is like the activities of the organization in Rev. Rul. 68-71. Finally, LLC A fosters programs that present public discussion groups, forums, panels, and lectures as described in Example (2) of Treas. Reg. 1.501(c)(3)-1(d)(3). As such, the activities of LLC A are charitable and educational as described in section 501(c)(3).

LLC B's primary activity consists of compiling and analyzing educational and outcome data on NDC programs offered by educational institutions that are either described in section 501(c)(3) or section 170(c)(1). This analysis of data is provided to these institutions to aid in the development and improvement of their NDC programs, therefore it furthers the essential functions of these institutions. This primary service is offered to these institutions, the Exempt Entities, without charge, and therefore it is offered at substantially below LLC's operational costs like the organization in Rev. Rul. 71-529.

LLC B also anticipates offering deeper, more extensive data analysis to the Exempt Entities for a nominal fee. Taxpayer anticipates that these fees will be less than 20 percent of LLC B's operational costs. Additionally, LLC B will waive the fee for additional data analysis for Exempt Entities that are unable to afford the fee. Nonprofits Ins. Alliance notes that providing services to an organization described in section 501(c)(3) may be considered similar to grant making if the service is provided with a clear donative intent. Additionally, the organization in Rev. Rul. 71-529 was considered to offer services substantially below cost when its fees were fifteen percent of its costs of operation. LLC B's more extensive data analysis services are offered for a fee bearing a similar discount to that found in Rev. Rul. 71-529, and that fee is waived for organizations that cannot pay. The low rate of the fee, the waiver of the fee, and the fact that these services are paired with free data analysis for these organizations indicate the donative intent of LLC B's additional services.

LLC B also intends to use the data collected from the services provided to various Exempt Entities to create infrastructure to track the outcomes of individuals who obtain NDCs. LLC B will create a critical mass of that data to develop aggregated research results that will be made available to the public free of charge. This same data will also be used to inform LLC B's own research and provide evidence-based solutions that are designed to further the educational landscape with respect to NDC programs and institutions. The Service has previously determined that helping people in planning their careers and achieving occupational adjustment by distributing educational publications and that publishing and distributing educational materials that further the educational program of another exempt entity constitute educational activities. Rev. Rul. 68-71 and Rev. Rul. 68-301, respectively. LLC B's aggregated research results that are made

available to the public are similar to the activities described in these rulings and are therefore educational. Additionally, the creation of infrastructure to track the outcomes of individuals in NDC programs is similar to the studies and proposed improvements for the healthcare industry found in Rev. Rul. 76-455. As such, LLC B's future use of the aggregated data constitutes educational activity as it is described in section 501(c)(3).

Based solely on the facts and representations, we conclude that LLC A's and LLC B's activities are both charitable and educational within the meaning of section 501(c)(3).

The ruling contained in this letter is based on information and representations submitted on behalf of Taxpayer and accompanied by penalty of perjury statements executed by an individual with authority to bind Taxpayer and on the understanding that there will be no material changes in the facts. While this office has not verified the material submitted in support of the request for this ruling, it is subject to verification on examination. The Associate Chief Counsel (Employee Benefits, Exempt Organizations, and Employment Taxes) will revoke or modify a letter ruling and apply the revocation retroactively if there has been a misstatement or omission of controlling facts; the facts at the time of the transaction are materially different from the controlling facts on which the ruling was based; or, in the case of a transaction involving a continuing action or series of actions, the controlling facts change during the course of the transaction. See Rev. Proc. 2024-1, 2023-1 I.R.B. 1, section 11.05.

This letter does not address the applicability of any section of the Internal Revenue Code or Treasury Regulations to the facts submitted, other than the sections specifically described. Except as expressly provided herein, no opinion is expressed or implied concerning the tax consequences of any aspect of any transaction or item discussed or referenced in this letter.

The ruling in this letter is directed only to Taxpayer. Section 6110(k)(3) provides that it may not be used or cited as precedent.

In accordance with the Power of Attorney on file with this office, a copy of this letter is being sent to your authorized representative.

A copy of this letter must be attached to any income tax return to which it is relevant. If Taxpayer files its returns electronically, you can satisfy this requirement by attaching a statement to its return providing the date and control number of this letter.

If you have any questions about this letter ruling, please contact the person whose name and telephone number are shown in the heading of this letter.

Sincerely,

Theodore R. Lieber
Senior Technician Reviewer
Exempt Organizations Branch 1
(Employee Benefits, Exempt Organizations, and
Employment Taxes)

CC: