The promoters of the plan usually represent that a taxpayer can operate his business under cover of the foundation as an "educational" or "research" activity exempt from Federal income tax. IRS said, however, the mere coloration of an otherwise profit-making business with ostensibly exempt purposes does not make it exempt under the law. One of several things may happen as a result of a tax examination, IRS said. All of the income may be taxed to the founder as being income earned by him, or the foundation's alleged exempt status may not be recognized and the business income may be taxed in the usual way.

Moreover, even if the foundation is recognized as exempt, its business income might nevertheless be subject to tax as unrelated business income. Also, benefits that the founder or his family receive from the foundation, whether in cash, property, or services, might be treated as taxable income to the founder.

That is the end of the IRS release. I know that Commissioner Cohen, who is much more familiar than I would be, for reasons that I have just previously stated, is fully familiar with the operations of the IRS in this area, and in his statement tomorrow before the committee, I believe he will deal with the so-called ABC or mass foundation matter.

Mr. PATMAN. Mr. Secretary, I have some policy questions only you, I believe, would be competent to answer, and I would like to ask them first and, then, of course, I would yield to the committee members to ask such questions as they may desire next.

Mr. Secretary, during our hearings in 1964, we asked Secretary Dillon how many private, tax-exempt foundations there were in the country. The Secretary finally admitted that the Treasury did not know how many foundations there were in existence. He said, however, that such information would be available in "about a year" when the Treasury will have installed all of its electronic data equipment.

Mr. Secretary, this is 3 years later. How many private tax-exempt foundations do we have in this country?

Secretary FOWLER. Our best estimate would be around 25,000.

Mr. PATMAN. 25,000. You mean, that is all the foundations?

Secretary FOWLER. That is right; private, tax-exempt foundations.

Mr. PATMAN. Mr. Secretary, as we all know, we have had a persistent balance-of-payments deficit for some years, and the Government has had to take a number of steps to try to improve that situation. All Americans were asked to help out because our payments deficit has been one of the most serious problems facing our Nation; isn't that correct, Mr. Secretary?

For example, the limit on the amount which American tourists can bring into this country duty free was lowered from $500 to $100 per person, effective September 9, 1961, and this lower limit was made permanent by legislation approved June 30, 1965.

In addition, the Government has asked industry to curtail spending and investments overseas. As I recall it, the Commerce Department and the Federal Reserve have furnished businessmen, banks, and other financial institutions with guidelines to reduce the flow of capital abroad.

The spending of dollars by an American overseas hurts our balance of payments no matter who the spendthrift may be.

I believe that you agree to that, Mr. Secretary?

Secretary FOWLER. I have some comments when you have finished your statement.

Mr. PATMAN. Yes, sir.