

A-11 Properly done you may even arrange for an annuity to a family member of foundation.

"Apparently, private individuals may even receive annuities from a foundation's income. The position of the Internal Revenue Service is that private individuals may not receive annuities from a foundation's income, but there are, however, court decisions which hold under the "pre-dominant purpose" doctrine that the payment of annuities from a foundation's income does not preclude exemption (Francis Edward McGillick Foundation v. Commissioner, 278F (2d) 643 affirming 30 T.C. 1130; Commissioner of Internal Revenue v. Orton, 173F. (2d) 483, affirming 9 T.C. 533)."--Patman Report, Page 16. 1962.

In a 1960 case, a Federal Circuit Court held that an exemption was not affected even though the trust was charged with paying gifts, annuities, administration expenses, taxes, debts and salaries to or for the benefit of the donor's estate or family. 278 F. 2d-643.

Lewis v. U.S. 189 F. Supp. 950 (1961) Trust held exempt despite provision to pay monthly annuity to decedent's grandniece. Generally, Lederer v. Stockton - 1922 Supreme Court.

A-12 Use it to take advantage of high appreciation of assets

For a long time the Manufacturer's Hanover bank held property with a basis of \$2 1/2 million. Suddenly it donated to a Foundation it controlled - gaining a \$ 5 1/2 million tax deduction. Immediately the Foundation sold it for \$ 5 1/2 million. Result: Bank received a \$5 1/2 million tax deduction; Foundation paid no tax on a \$3 million (short term) capital gain; and the \$5 1/2 million remained in the Bank's control through the Foundation which, since it was capital gains, need never be distributed. Patman Report p. 6 (1966).

"At present, when a contribution to a foundation is made in property as distinguished from cash, the donor's deduction is figured at value of the property on the date of the donation instead of at donor's cost."-- Patman Report, Page 83 (1963).

A-13 Use Foundation funds for investment to increase wealth under your control

Let us take an example of a person with annual income from salary, dividends and investments of \$80,000 per year. Suppose you create a foundation and give it \$12,000