B-6 <u>Foundations can accumulate income and income so accumulated not subject to surtax and may be used for internal improvements</u>.

"Another advantage which foundation businesses have over their taxable competitors is their freedom from the demands of shareholders for current distributions of earnings. A remarkable number of foundation-owned enterprises proceed from year to year realizing substantial profits, but making negligible or no distributions to their parent organizations." - Treasury Report, Page 33.

"This common willingness of foundations to defer indefinitely the realization of profits from their commercial operations -- an attitude frequently not shared by the shareholders of other businesses -- makes it possible for the profits to be invested in modernization, expansion, and other programs which improve the competitive posture of the foundation-owned business." -- Treasury Report, Page 33.

Tax on accumulation of profits may not apply to foundation owned businesses. "The restrictions of existing law upon accumulations of income by businesses become operative only where a corporation is "formed or availed of for the purpose of avoiding the income tax with respect to its shareholders"; where the shareholders of the business are themselves tax exempt, the limitations may not apply. Similarly, the statute which prohibits unreasonable accumulations of income by foundations applies only to accumulations within the foundation itself; it does not prevent retention of earnings in a separate, though controlled, entity. As a consequence, many foundations have permitted large amounts of income to accumulate in their business subsidiaries." --Treasury Report, Page 34.

B-7 <u>It is many times the case that a business may be itself operated as an exempt organization</u>.

For example, Educational Testing Service of Princeton sells educational testing materials and enjoys tax exemption, yet the California Testing Bureau of Monterey, California sells the same type of material, yet must pay taxes. Patman Report, Page 9 (1962)

It is well known that the Rand Corporation of Santa Monica performed research work yet because of its relation to its purpose it is tax free. ---Patman Report, P. 13 (1962)

Business Week and Fortune report on American business scene and must pay tax on the operations. Nations Business, a publication of the U.S. Chamber of Commerce performs the same services in competition yet it is tax exempt. A