

EXHIBIT 12

UNREASONABLE ACCUMULATION OF INCOME

Section 504(a) of the Internal Revenue Code states that a section 501(c)(3) organization shall be denied exemption if the amounts accumulated out of income during the taxable year or any prior taxable year and not actually paid out by the end of the taxable year are unreasonable in amount or duration in order to carry out the charitable, educational or other purpose or function constituting the basis for exemption under section 501 of the Internal Revenue Code.

This language seems to indicate that unless you spend, use or give away all your money during any particular year, you will lose your tax exemption. This is not so. We will analyze in the following paragraphs each of the elements of this rule to explain in detail what the rule says, what must be done under the rule; and what might be done to avoid the rule.

(a) Income - The Internal Revenue Code has several definitions of income. Each of these definitions apply in different situations. The definition of income to a tax-exempt organization organized under section 501(c)(3) of the Internal Revenue Code is as follows:

Income shall include all unrelated business income, rents, royalties, dividends, interest and fees received related to the purpose of your organization.

Income does not include contributions or capital gains. The term "income" then does not include all the sources of funds or earnings that your foundation might enjoy. Only those monies or properties that could be classified as income under the above definition are subject to the distribution requirements of the rule against unreasonable accumulation of income.

(b) Unreasonable Amount - The amount of income accumulated in any year must be unreasonable. The term unreasonable is viewed in two lights. First, unreasonable in relation to the size of the foundation. Five thousand dollars is certainly a great deal of money. To many foundations, \$5,000 would be an unreasonable amount if accumulated in a one-year period. However, \$5,000 would be a drop in the bucket to the Ford or Rockefeller Foundations. The amount must then be measured against the size and scope of the foundation in question. Second, an unreasonable amount must be unreasonable by other standards. The court standards used to date have indicated that \$500,000 might not be an unreasonable amount. The Treasury has claimed that amounts as low as \$330,000 have been unreasonable accumulations of income. The courts have disagreed and have usually defined unreasonable accumulation violations only in terms of amounts exceeding \$1,000,000.