The actual limits of what "unreasonable" might be can only be determined on a case-by-case situation-by-situation basis. There are no arbitrary or clear standards in the law.

(c) Unreasonable Time - If your foundation should earn a large amount of income within a single year it is given a reasonable time in which to do something with it. What is a reasonable time? Courts have construed this to be as much as ten years. We recommend, however, that consideration of the proper use of the funds, particularly in terms of dedication to a long-range purpose which will be discussed later, be accomplished within two to three years after the funds have been earned.

(d) Use, Disbursement, and Dedication of Income - If a large amount of income is earned in any year, it is not subject to the rule against unreasonable accumulation of income unless it is actually accumulated. To avoid accumulation, a foundation must either use the funds or distribute the funds to other 501(c)(3) organizations or dedicate the funds to a proper long-range purpose.

Most people understand what present use of income means and this will not be discussed in detail in this section. There should also be no problem with understanding the concept of distribution to other charitable organizations. In other words, your foundation would simply give the money away.

The dedication of large amounts of income, however, is a technical procedure and should be discussed in some detail. A foundation may actually dedicate large amounts of income to a long-range purpose and accumulate the funds until it has enough to accomplish that purpose. A famous example occurred when the Hulman Foundation dedicated funds amounting to over $3,000,000 over a period of several years toward building a racing museum at the Indianapolis "500" Race Track. The Treasury Department didn't think this was a proper purpose but the courts did. The Hulman Foundation won its case for accumulation of income.

One principal guideline should be mentioned in dedicating funds. The dedication must be for a purpose that is realistically long-range, feasible, and practical. The Treasury has strenuously objected to ethereal dedications or long-range dedications for short-term projects. Secondary guidelines to be considered for dedicating funds for future purposes are:

(a) The funds should be kept in a separate account. (This will enable the funds to be used for investment purposes apart from the other investment programs or savings programs of the foundation.)

(b) The dedication should be stated clearly in a minute of the board of directors of the foundation and may even be communicated to the bank or securities dealer where the foundation account is kept. This is not required, however.

