

- (c) investing its income in such a way as to jeopardize its ability to carry out its purposes. (Note: these last three prohibitions apply only to income and not to corpus (c.g. gifts or donations received) and in practice present no particular problem with good counseling.
3. A foundation may not endorse a particular political candidate or advocate passage of a particular piece of legislation. It may, however, advocate a particular point of view. E.G., a conservation group could advocate the desirability of conservation but could not advocate approval of a particular law to achieve conservation.

These are general descriptions of the activities which will imperil a foundation's tax exempt status and are found in section 501 to 504 of the Internal Revenue Code.

Unrelated Business Income

There is a situation in which a foundation may be subject to income tax on certain of its earning without affecting its exempt status. This is called a tax on unrelated business income. Although there are a good many limitations on this tax, the general rule is that an exempt organization is taxable at corporate rates on the income from a trade or business regularly carried on by the organization, the conduct of which is not substantially related to the performance of the organization's exempt purpose.

For example, a tax-exempt clinic would pay no tax on its fees from patients but might be taxable on the income of a restaurant operated by the clinic in its building which served the public. Of course, since income from investments is generally untaxed, the clinic could incorporate the restaurant, own all the stock, and pay no tax on the dividends received from the restaurant corporation.

This tax on unrelated income does not apply to income from interest, dividends, royalties, most rents, and passive investments generally. The only problem with rents may arise under certain types of leases on property which is subject to a debt incurred in purchasing it.

The unrelated business tax is apparently not a major item in the tax treatment of exempt organizations. During the year 1962, for example, only 1,648 report forms (990-T) were filed with the Internal Revenue Service.

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