

U.S. TREASURY DEPARTMENT REPORT ON PRIVATE FOUNDATIONS

INTRODUCTION

Because of the importance which this Nation attaches to private philanthropy, the Federal Government has long made generous provision for tax exemptions of charitable¹ organizations and tax deductions for the contributors to such organizations. Since the Federal tax laws in this way encourage and, in substantial measure, finance private charity, it is altogether proper—indeed, it is imperative—for Congress and the Treasury Department periodically to reexamine the character of these laws and their impact upon the persons to which they apply to insure that they do, in fact, promote the values associated with philanthropy and that they do not afford scope for abuse or unwarranted private advantage.

This Report responds to requests by the Committee on Finance of the U.S. Senate and the Committee on Ways and Means of the House of Representatives that the Treasury Department examine the activities of private foundations for tax abuses and report its conclusions and recommendations. Both the Congress and the Treasury Department have investigated these problem areas in the past. A major study resulted in important legislation in 1950, when opportunities for self-dealing and the accumulation of income were restricted and, in addition, the income of feeder organizations and the unrelated business income of certain classes of organizations were subjected to tax. The Revenue Act of 1964 imposed further restrictions on foundations seeking to qualify as recipients of unlimited charitable contributions. However, the major revisions of 1950 have not been comprehensively reviewed since their enactment. In its present study, the Treasury Department has sought to determine whether existing legislation has eliminated the abuses with which it was designed to cope, and whether additional abuses have developed which require correction by legislative action.

In keeping with the congressional requests which prompted it, the scope of this Report is limited to private foundations. The discussion of problems and proposed solutions, thus, is confined to that context. The restriction of the Report to private foundations does not indicate any judgment upon whether or not similar or other types of problems may exist among other classes of exempt organizations. For purposes of this Report, the term "private foundation" designates:

- (1) Organizations of the type granted tax exemption by section 501(c)(3) (that is, generally, corporations or trusts formed and

¹ The terms "charity" and "charitable" are used in their generic sense in this Report, including all philanthropic activities upon which the relevant portion of the Internal Revenue Code of 1954 (sec. 501(c)(3)) confers exemption. Unless otherwise indicated, all statutory references are to the Internal Revenue Code of 1954, as amended.