

2 TREASURY DEPARTMENT REPORT ON PRIVATE FOUNDATIONS

operated for religious, charitable, scientific, literary, or educational purposes, or for testing for public safety or the prevention of cruelty to children or animals), with the exception of—

(a) Organizations which normally receive a substantial part of their support from the general public or governmental bodies;²

(b) Churches or conventions or associations of churches;

(c) Educational organizations with regular faculties, curriculums, and student bodies;³ and

(d) Organizations whose purpose is testing for public safety;⁴ and

(2) Nonexempt trusts empowered by their governing instruments to pay or permanently to set aside amounts for certain charitable purposes.

In carrying forward its study, the Treasury Department has conducted an extensive examination of the characteristics and activities of private foundations. It has investigated and evaluated the experience of the Internal Revenue Service and the Department of Justice in the administration of the laws governing the taxation of foundations, their contributors, and related parties. Its study has drawn upon pertinent information assembled in investigations conducted by other groups.⁵ It has conducted a special canvass of approximately 1,300 selected foundations. From these and other sources, it has compiled and tabulated a variety of classes of relevant statistical data. It has discussed the area with an Informal Advisory Committee on Foundations appointed by Secretary Dillon.⁶ It has, further, considered a broad range of proposals for reform, extending from remedies narrowly tailored to end specific abuses to sweeping recommendations for the elimination or restriction of tax exemptions and deductions for certain classes of foundations.

The Department's investigation has revealed that the preponderant number of private foundations perform their functions without tax abuse. However, its study has also produced evidence of serious faults among a minority of such organizations. Six major classes of problems exist; other problems are also present. While the Internal Revenue Service has taken vigorous action in recent years to improve its administration of the existing laws which govern foundations and their contributors,⁷ additional legislative measures appear necessary to resolve these problems.

This Report seeks first to place private foundations in general perspective, by considering the values associated with philanthropy and the part played by private foundations in realizing those values. Against this background, it explores the major problems in detail and

² Described in sec. 503(b)(3).

³ Described in sec. 503(b)(2).

⁴ While organizations within this minor category are exempt from tax, contributions to them are not deductible; and they would therefore appear to be more closely analogous to business leagues, social welfare organizations, and similar exempt groups than to foundations.

⁵ E.g., Subcommittee No. 1, Select Committee on Small Business of the House of Representatives, whose chairman is Representative Wright Patman. The reports of the investigations of this subcommittee, entitled "Tax-Exempt Foundations and Charitable Trusts: Their Impact on Our Economy," have been published in three installments (dated, respectively, Dec. 31, 1962, Oct. 16, 1963, and Mar. 20, 1964) and are hereinafter referred to as the "Patman Reports." A transcript of hearings held by the group in 1964 has been published recently. See "Tax-Exempt Foundations: Their Impact on Small Business," hearings before subcommittee No. 1 on Foundations, 88th Cong., 2d sess., 1964.

⁶ This Committee met with Treasury officials on several occasions, and was a valuable source of informed opinion; but the conclusions and recommendations of this Report are those of the Treasury Department, and are, of course, based on facts and views drawn from many additional sources.

⁷ Appendix B summarizes the administrative improvements which have been effected by the Internal Revenue Service.