

10 TREASURY DEPARTMENT REPORT ON PRIVATE FOUNDATIONS

expiration of the prescribed period of time. Foundations which have now been in existence for 25 years would be permitted to continue subject to substantial donor influence for a period of from 5 to 10 years from the present time.

III. ADDITIONAL PROBLEMS

Review of the practices of private foundations and their contributors discloses the existence of several problems which have less general significance than those discussed in Part II of the report. Part III of the report draws the following conclusions about these problems:

A. Gifts to private foundations of certain classes of unproductive property should not be deductible until the foundation sells the property, makes it productive, applies it to a charitable activity, or transmits it to a charitable organization other than a private foundation.

B. Charitable deductions for the contribution to private foundations of section 306 stock (generally, preferred stock of a corporation whose common stock is owned by the donor) and other assets should be reduced by the amount of the ordinary income which the donor would have realized if he had sold them.

C. Reforms of a technical nature should be made in certain estate tax provisions which govern tax incidents of contributions to private foundations.

D. A sanction less severe than the criminal penalty of existing law should apply for the failure to file a return required of a private foundation.

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These Treasury Department proposals are based upon a recognition that private foundations can and do make a major contribution to our society. The proposals have been carefully devised to eliminate subordination of charitable interests to personal interests, to stimulate the flow of foundation funds to active, useful programs, and to focus the energies of foundation fiduciaries upon their philanthropic functions. The recommendations seek not only to end diversions, distractions, and abuses, but to stimulate and foster the active pursuit of charitable ends which the tax laws seek to encourage. Any restraints which the proposals may impose on the flow of funds to private foundations will be far outweighed by the benefits which will accrue to charity from the removal of abuses and from the elimination of the shadow which the existence of abuse now casts upon the private foundation area.