

PART I. APPRAISAL OF PRIVATE FOUNDATIONS

The Internal Revenue Code provides very significant preferential treatment for philanthropic organizations. Not only does it exempt such organizations from income tax (a status they share with many other nonprofit organizations), but it grants income, gift, and estate tax deductions to persons contributing funds to them. The allowance of these deductions results in a very sizable reduction in tax revenues. In 1963, for example, the charitable deductions claimed by individuals, corporations, and estates diminished Federal revenues by a total of approximately \$2,800 million.¹

While private foundations have, in general, received the same favorable treatment accorded all philanthropic organizations, several noteworthy qualifications have been made for them. In 1950 rules concerning prohibited transactions (now secs. 503 and 681(b)) and unreasonable accumulation of income (now secs. 504 and 681(c)) were applied to foundations. In 1964, when Congress increased the general limitation upon the amount of deductible charitable contributions which individuals can make each year from 20 percent of adjusted gross income to 30 percent, it excluded donations to private foundations from the increase (continuing the 20 percent ceiling on them). At the same time, Congress placed special limitations upon the kinds of foundations which can qualify to receive the unlimited charitable contributions permitted to individuals in certain instances. The limitations were designed, generally, to confine this privilege to foundations which do not engage in financial transactions with their donors or related parties, and which actively engage in charitable operations or which pass funds on to active charities without undue delay. A third differentiation between private foundations and other classes of philanthropic organizations occurred in 1964 legislation: in initiating a provision allowing individuals a 5-year carryover of charitable contributions which, in a particular year, exceed deductible limits, Congress did not extend this benefit to contributions made to foundations.

The 1964 decisions by Congress restricting the favorable tax treatment accorded private foundations represent a carefully considered balancing of the relative needs and values of foundations against those of other kinds of charitable organizations. The Treasury Department concurs in the judgment of Congress on these matters; it should be allowed to stand. The vital present question is whether or not additional restrictions are necessary.

To provide an informed response to this question, one must inquire into several fundamental problems. What are the values of private philanthropy? Do private foundations contribute to them? If so, what is the character of that contribution? Is it likely to be attended by undesirable consequences? Are specific measures available to

¹ This total does not, of course, represent a net loss to the Government. As is pointed out in greater detail below, private charitable expenditures reduce the need for Government spending.