

organizations. The remainder of the contributions were used to construct buildings which were leased to the donors' retail grocery.

Example 9.—In 1950 the corporate donor to the I foundation purchased land adjacent to its property for future plant expansion. In 1951 the company donated to the foundation the portion of this land which it did not need in the near future. This gave the company a deduction of approximately \$10,000. Some 11 years later, consistent with the company's expansion plans, the property was sold back to the company for an amount equal to approximately \$900 more than the amount claimed as a contribution.

Example 10.—The J foundation purchased 20,000 shares of common stock in a publicly held corporation from its donor at \$20 per share. On the date of the sale, the stock traded on the New York Stock Exchange at \$18 per share. However, because of the number of shares involved and the fact that four brokerage houses stated that \$20 per share was not more than adequate consideration, a violation of the arm's-length standard could not be proved.

Example 11.—The K foundation received gifts of "blue chip" stocks valued at \$1.2 million from its principal donor. Immediately after receipt the securities were sold by the foundation and all but approximately \$50,000 of the proceeds were used to purchase stock in a closely held corporation from members of the donor's family.

Example 12.—The L foundation received stock in a family corporation which was subject to a 10-year option exercisable by the donor's children to repurchase the stock. At the time of the gift the stock was worth approximately \$500,000 and the option price was approximately \$700,000. Six years later the value of stock had risen to approximately \$5,500,000 and the donor's children exercised their right to purchase the stock for \$700,000. The use of a repurchase option permitted the donor to divert any substantial appreciation in the value of the donated asset to private parties. Since the foundation could not have received more than \$700,000 for the stock, the retention of the stock—in order to accommodate the donor's children—tied up its funds and prevented it from investing in assets which might provide more income for charity. The foundation, at the same time, bore the risk of loss on the stock.

Under existing law, some of these transactions may jeopardize the deductibility of the donor's contribution or the foundation's exemption. Others have received the approval of the courts. However even with respect to those which are not permitted under existing law, the problems of obtaining all of the facts surrounding these transactions often make it extremely difficult, if not impossible, for the Internal Revenue Service to administer the existing law in a manner which prevents foundations from engaging in self-dealing transactions providing a special benefit to the donor at the expense of charity.

Presumably the only justification for continuing to pay the high cost of a rigorous enforcement program which the existing self-dealing rules require would be that charity benefits from allowing a donor to deal with "his" foundation and that this benefit is so substantial and