ions and charitable expenditures made in 1963 as distributions made n respect of 1962, as would be permitted under the recommendation liscussed above. Of those who would not have met the requirement, nany would have had to increase their charitable expenditures only y relatively small amounts. While this recommendation, therefore, vould not affect the vast majority of foundations, its adoption would revent extreme accumulation situations (unless they involved the xceptions noted above) such as those described earlier in this section.

(b) *Income equivalent.*—The ability of foundation directors to withıold current charitable benefits from the public merely to build a arger fund of capital—even though the purpose of the accumulation s to increase the amount of income which the foundation will receive and distribute to charity) at some date in the future—constitutes an buse. The recommendation described above is designed to eliminate his abuse when it takes the form of a direct accumulation—the uilding up of corpus out of retained interest, rents, dividends, and o forth. However, that recommendation in itself will not prevent oundation officials from engaging in indirect accumulations—the uilding up of a foundation's capital by investing in or retaining assets uch as unimproved real estate, growth stocks and other assets which nay not generate substantial amounts of current income but which ften compensate for the forbearance of current income in the form f future capital appreciation.[8] The ability to increase the size of a ıonoperating foundation's corpus by withholding a current benefit rom the public is as much an abuse when it takes the form of an ndirect accumulation as when it takes the form of a direct accumulaion. In order to eliminate the problems in this area, therefore, it is lso necessary to prevent indirect accumulations.

To insure that all private nonoperating foundations provide at least minimum current benefit to charity it is recommended that there be stablished a "floor" below which the current benefits provided by he foundation to the public would not be permitted to drop. Such an pproach could provide that if a private nonoperating foundation's ncome, and therefore its required payment to charity under the directccumulation proposal, falls below a specified percentage of the value f its holdings, the foundation would have to pay to charity, from its orpus, an amount which would approximate the income which it vould have received had it invested its funds in the type of assets ıeld by comparable organizations. If the foundation's current inome (and therefore the amount required to be distributed to charity) xceeded this income equivalent, no distributions out of corpus would e required. Thus, the combination of the direct accumulation and he indirect-accumulation proposals would generally require a private ıonoperating foundation to currently distribute its actual ordinary ncome or the foundation's "income equivalent," whichever is higher.

The minimum level of charitable expenditures—i.e., the income quivalent—should be comparable to the yield on investment funds ıeld by comparable organizations—such as universities. To provide

[8] It has been suggested that assets such as growth stocks increase in value faster than income securities and ıerefore will, in the long run, produce more income for charity than income securities. Recent stock market istory, however, has indicated that all growth stocks do not necessarily increase in value faster than blueıip income securities. Moreover, even if growth stocks do increase in value faster than income securities, ıe proceeds which the foundation would receive upon the disposition of growth stocks would usually present long-term capital gains which could be retained by the foundation under the direct-accumulation roposal. Finally, even if growth stocks do increase in value faster than income securities and the trustees f the foundation distribute the proceeds from the sale of the growth stocks to charity, the benefit to charity ould be delayed until some indefinite date in the future when the trustees decided to sell the appreciated owth stock. This indefinite postponement of benefit to charity is inconsistent with the principle that ıarity should receive some current benefit from gifts made to private nonoperating foundations.