associated personal property) which are of a clearly passive nature and rent arising from such leases should not be deemed to derive from the conduct of a business.[23]

Rules similar to those of section 513 of the present Internal Revenue Code should be used to distinguish businesses which are substantially related to the foundation's exempt operations from those which are not. The three specific exceptions of section 513 should be continued a business should not be considered unrelated if (1) substantially all of the work in carrying it on is performed without compensation (2) it is carried on primarily for the convenience of the members officers, or employees of the foundation; or (3) it consists of selling merchandise substantially all of which has been received as gifts or contributions to the foundation. Under the section 513 rules, a number of activities would fall beyond the ambit of the recommended prohibition. A foundation which solicits and receives as contributions old clothes, books, or furniture, for example, could conduct a business of selling those articles to the general public. A foundation engaged in the rehabilitation of handicapped persons could maintain a store to sell items made in the course of the rehabilitation training. Foundations would be permitted to operate cafeterias or restaurants primarily for the convenience of their employees.

Foundations should be afforded a specified reasonable period of time in which to reduce their unrelated business interests below the prescribed maximum limit. To provide flexibility to deal with situations in which the specified disposition period might work hardship the Secretary of the Treasury should be given power to extend the period for a limited additional time in appropriate cases. Similar periods for disposition, similarly subject to extension, should apply in the future when a foundation receives a gift, devise, or bequest which involves business ownership beyond the permissible level. An exception to the general disposition requirement would seem advisable for existing foundations whose governing instruments, as presently drawn, compel them to hold specified business interests, if relevant local law prevents suitable revision of the controlling document Foundations created in the future should, to qualify for tax exemption be required to include appropriate prohibitions against business ownership in the documents under which they are organized.

D. FAMILY USE OF FOUNDATIONS TO CONTROL CORPORATE AND OTHER PROPERTY

(1) *Two widely practiced tax devices*

Foundations have commonly been established as convenient vehicle for maintaining control of a private corporation within a family whil substantially diminishing the burden of income, gift, and estate taxe for the family. Two somewhat different techniques have been used to accomplish this result. Some taxpayers have contributed voting stock in a corporation which their family controls to a foundation which the family also controls. In this way, they obtain income- and gift-tax deductions for the donations, eliminate the impact of th estate tax upon the value of the contributed stock, and achieve tax-fre transfer of dominion over the corporation to the younger members o

[23] A specific exception would also seem advisable for the incidental rental of assets (real or personal) use primarily in a foundation's charitable operations.