

38 TREASURY DEPARTMENT REPORT ON PRIVATE FOUNDATIONS

the family by subsequently shifting control of the foundation to them. Other taxpayers have caused family corporations to be capitalized or recapitalized with substantial blocks of nonvoting stock. By contributing that stock to a foundation, the older generation secures the current income and gift tax advantages of the contribution and then transmits the voting stock—now representing a diminished proportion of the value of the equity of the corporation and, therefore, largely or entirely sheltered from gift or estate taxes—to the younger generation.

The availability of these devices has received widespread attention in tax and business publications. An excerpt from the May 7, 1960, issue of *Business Week* magazine (p. 153) is illustrative:

Have you ever thought about setting up a "family foundation"?

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However, before you get serious, there are two prime questions: First, are there certain philanthropies (religious, educational, medical, etc.) that you'd willingly devote considerable time and money to in later years? And second, *do you have a sizable family business that you want to pass control of to your heirs, despite crippling Federal estate taxes?* If your answers are "yes," then a private foundation could be a way to give your "estate plan" an entirely new outlook.

What is a foundation? It's a nonprofit organization with its own capital fund, that uses its resources solely for public welfare. It can be a State-chartered corporation, or a trust, or an unincorporated association. *If properly set up (with special Treasury-approved tax status) it pays no Federal taxes at all; yet it can be kept entirely under the control of its founder and his family.*

The real motive behind most private foundations is keeping control of wealth (even while the wealth itself is given away).

Take the typical case: Say the bulk of your property is in a family business. When you die, if you have a high-bracket estate, the estate tax could cause a forced sale of part or even all of the business—your children might lose control of the company, as well as have to sell their shares at a poor price.

A foundation can prevent this. You set it up, dedicated to charity. *Year by year, you make gifts of company stock to it, until the value of your remaining holdings is down to the point where eventual estate taxes could be paid without undue strain, or until the foundation's holdings constitute firm control of the company.* You maintain control of the foundation while you live; you direct its charitable activities—and so, indirectly, you control the shares in your company that have been donated. When you die, control of the foundation passes from you to your family or other persons you trust and thus they, in turn, keep reins on the business.

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[The italics are those of the original.]

Recurrent advice of this kind appears to have led many taxpayers to establish and utilize private foundations for the purposes suggested. The recent Treasury Department survey described in Appendix A disclosed a large number of foundations whose principal asset consists of stock in a corporation in which the foundation's donors, officers, or related parties retain substantial interests. Of the approximately 180 surveyed foundations²⁴ which hold 10 percent or more of at least 1 class of stock of a corporation, 121 reported ownership of family corporation stock.²⁵ Such ownership appears to be particularly concentrated among foundations of medium size—those whose total asset value is between \$100,000 and \$1 million. Of the 39 such foundations canvassed which have stock holdings of the noted magnitude, 32 own family corporation stock.

²⁴ A total of approximately 1,300 foundations were covered by the survey.

²⁵ The term "family corporation stock" is used here in a sense consistent with the recommendation outlined later in this section. The situations to which the text refers, hence, are those in which both the foundation and a donor (and/or related parties) own stock in a given corporation and, together or separately, they hold at least 20 percent of the corporation's voting power.