

Example 1.—The A foundation holds approximately 21 percent of the common stock of the A corporation, possessing a book value of more than \$2 million. Substantial contributors to the A foundation and related parties own approximately 60 percent of the corporation's common stock.

Example 2.—By both inter vivos and testamentary transfers, the B foundation has received substantial holdings of the nonvoting common stock of two corporations which continue to be controlled by the B family.

Example 3.—The C and D foundations' principal donor owns all of the voting stock of the C corporation. Members of his family and he have given 106,000 shares of that corporation's class B nonvoting stock to the C foundation; they have given 80,000 shares of this stock to the D foundation.

(2) *Evaluation*

The use of private foundations to perpetuate family dominion over business creates situations which frequently contain, in their most aggravated form, problems of the sort which have been discussed in the preceding sections of this part. Plainly enough, the dangers of foundation involvement in business are at least potentially present in all of these situations. Moreover, because of the donor's retention of control over the dividend distribution policy of the corporation, the benefits which charity ought to receive from the contribution of stock to the foundation are frequently deferred indefinitely or absent altogether. Since the stock is closely held and ordinarily unmarketable, the foundation—even if it is not subject to the donor's influence—has little choice but to hold the shares and hope for dividends; and the donor often proves unwilling—or the corporation unable—to pay them. Yet, by arranging redemption of token amounts of the stock or by causing an atypical, but strategically timed dividend distribution, the donor may very well be able to sustain his claim that the stock has substantial value and entitles him to a large deduction on its contribution to the foundation.

Example 4.—The recent Tax Court case of *Pullman v. Commissioner*, T.C. Memo. Dec. 1964-218, affords an excellent illustration of these problems. The taxpayers there, in control of a clothing corporation, arranged the recapitalization of the corporation with 8 percent preferred stock, nonvoting common stock, and voting common stock. They then made gifts of the preferred stock to various relatives and donated large portions of the nonvoting common stock to a family foundation. They also donated small blocks of the nonvoting common stock to two independent charities, and had the corporation redeem these blocks shortly after the contributions at approximately book value. In its 19-year history the corporation had paid dividends of more than 8 percent only once: in 1959—which was one of the years in which a major contribution of stock was made to the foundation—8 percent was paid on the preferred stock and an additional 3 percent was paid on the nonvoting common stock. Nonetheless, despite the existence of the preferred stock, with its large prior claim upon the profits of the corporation and the consequent unlikelihood that the common stock would ever receive significant dividends, the Tax Court held that the trans-