

fers to the foundation qualified for charitable deductions only slightly smaller in amount than the book value of the transferred stock.

Example 5.—Members of the A family claimed deductions of almost \$2 million for their contributions of A corporation stock to the A foundation, referred to in example 1. The stock of this corporation paid no dividends from 1948 through 1957, and none for 1962 or 1963.²⁶ While small dividends were declared in the years 1958 through 1961, they appear to have produced less than \$5,000 a year for the foundation.

Example 6.—Beyond the immediate members of the B family, no market exists for the stock owned by the B foundation (referred to in example 2) in two family corporations, and the foundation has never received any dividend on either holding.

Example 7.—In only 1 of the last 6 years have the C and D foundations, referred to in example 3, received dividends on their large holdings of nonvoting stock in a corporation controlled by their principal donor.

Extreme delay or entire absence of benefit to charity, then, is common in family corporation cases.

Also present in these cases—often with unusual severity and complexity—are the conflicts of interest characteristic of the self-dealing problems discussed in part IIA of the Report. Where the donor exercises decisive influence over both the foundation and the corporation, he faces difficult divisions of responsibility. When the corporation encounters financial difficulties, for example, his duty to the foundation may dictate efforts to dispose of its shares without delay; but liquidation of the foundation's interest may occasion adverse market consequences and thereby run counter to his obligation to other shareholders or his own self-interest.

Example 8.—The E foundation suffered heavily from the divided loyalties of its creators and managers. In 1953 substantially all of its assets were invested in the preferred stock of a corporation 50 percent of whose common stock was owned by these persons. The corporation's prospects appear even then to have been far from bright. As matters grew worse, the foundation maintained its holdings. In 1962, at the time of the last available information, the preferred stock had never paid any dividends, the corporation was on the verge of bankruptcy, and the assets of the foundation had become virtually worthless.

The donor's retention of a personal interest in the corporation may place him at odds with the welfare of the foundation in other ways. If he is in a high personal tax bracket, he may wish to have the corporation accumulate its earnings so that he can realize his gains by future sale of his stock and confine his tax to the rate prescribed for capital gains; but the foundation may require present funds for its charitable program. He may wish the corporation to employ his relatives; it may be best for the foundation that they not be employed. The donor will generally find it in his interest to have the corporate salary levels of family members fixed as high as is consistent with the requirement of the tax law that deductible compensation be "reasonable," for it makes little difference to them whether they receive the earnings of the corporation as dividends or salary, and the corpora-

²⁶ The foundation received its stock in the latter 1950's, 1960, and 1961.