

money from 17 different institutions and a variety of individuals to acquire investment assets. On December 31, 1956, the total outstanding indebtedness which the foundations had incurred for this purpose appears to have been approximately \$14,200,000. A recent report indicates that, during the 12-year period covered, the foundations entered into 130 separate investment borrowing transactions. Many of the transactions involved amounts of more than \$100,000; several involved more than \$1 million.²⁸

Example 2.—The D foundation has also engaged in extensive borrowing. On March 29, 1957, the foundation borrowed \$550,000 from a trust company at 4½ percent interest and used the proceeds to make a loan of the same amount to a corporation at an interest rate of 10 percent. On November 18, 1957, the foundation borrowed \$450,000 from a trust company at 4½ percent interest to make a \$500,000 loan to two corporations at 10 percent interest. A three-page schedule in a recent report on foundations lists the other borrowing transactions into which this foundation entered from 1951 to 1962 to obtain funds for investment.²⁹

Example 3.—In one jurisdiction a number of foundations, organized with little or no capital funds of their own, have carried on extensive practices of purchasing oil payments with funds borrowed from banks. Liens on the oil payments secure the loans. The foundations retain, as their fee for acting as intermediary, the excess of the gross proceeds of the production payments over the principal and interest required to be paid to the banks. The E foundation is typical of this group. Organized in 1954 with no funds of its own, E had by 1961 incurred indebtedness of more than \$14 million in connection with its oil payment transactions. Its net income from these ventures was \$58,352 in 1959 and \$68,510 in 1960.

Example 4.—A foundation involved in recent Tax Court litigation was established in 1948 with a \$1,000 contribution. Its net worth remained at approximately that figure until 1951. In the latter year the foundation contracted to purchase a 34-acre tract of industrial real property for \$1,150,000, and borrowed virtually all of the purchase price. Leasing the property back to the former owners and 11 other tenants under an arrangement carefully fashioned to protect all of its rental proceeds from tax, the foundation was able to discharge its purchase obligation in 5 years. In that span, therefore, the foundation had expanded the value of its holdings from a thousand dollars to more than a million dollars—without the necessity of seeking or receiving contributions. *Shiffman v. Commissioner*, 32 T.C. 1073.³⁰

Example 5.—The F foundation typifies the private foundations which have acquired productive properties by means of so-called bootstrap transactions. In their usual form, F's bootstrap acquisitions have consisted of an agreement by the owners of productive property to transfer the property to the foundation for a price payable entirely, or almost entirely, from a specified share of the

²⁸ Patman Report, second installment, *supra*, pp. 46-47, 54, 59.

²⁹ Patman Report, second installment, *supra*, pp. 61, 63-65.

³⁰ In the cited litigation the Tax Court upheld the foundation's claim to exemption against the Government's contention that, in applying approximately 80 percent of the rental proceeds from the property to the satisfaction of its loan obligation, the foundation had accumulated its income improperly.