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Allen-Scott Report

Tax Exempt Foundations Studied As Offset to Proposed Tax Cuts

By ROBERT S. ALLEN and PAUL SCOTT

Those multi-billion dollar tax-exempt foundations that Rep. Wright Patman, D-Tex., has long been investigating are under a new critical scrutiny.

This latest probe is by an unannounced presidential panel with the mission of finding new sources of revenue to offset the contemplated big tax cut next year.

Mr. Allen

Heading this panel is Myer Feldman, deputy special counsel to the President, and other members are officials of the President's Council of Economic Advisers, the Budget Bureau, and the Treasury and Justice Departments.

First target of this revenue-seeking panel is the tax-exempt foundations, which have soared from 12,295 in 1952 to more than 46,000 in 1962.

Patman, veteran anti-trust crusader who is slated to become the chairman of the powerful House Banking Committee, has told the presidential panel that in his opinion "upwards of several billion dollars in additional revenue can be legitimately obtained by taxing these foundations."

IN SUBSTANTIATION of this contention, Patman has submitted a number of detailed examples of foundations he holds warrant being taxed.

Foremost among them are the Howard Hughes Medical Institute, Miami Beach, Fla., of which Hughes is the sole trustee with life tenure and power to name his successor; the Gulf Oil Company Foundation, Houston, Tex., with assets of more than $32 million, and the Institute for Defense Analyses, Cambridge, Mass., one of whose top officials is Richard Bissell, former Central Intelligence Agency authority.

[illegible] a comprehensive memorandum to the presidential panel, analyzing the income, expenditures and operations of these foundations, Patman emphatically argues that Congress never intended such organizations to be created for tax-exempt purposes.

The militant Texan also charges that foundations are spending large amounts for "expense accounts," particularly for costly foreign junkets. Patman wants the Internal Revenue Service to thoroughly investigate this practice.

THE THIRD VOLUMINOUS report of Patman's probe of 500 major foundations is to be published in a month. It will reveal that these tax-exempt organizations dispersed less than 50 per cent of more than $7 billion they received in the past ten yeas.

The study also will assail the Internal Revenue Service for "laxness and irresponsibility" in checking the operations of foundations.

In Patman's memorandum to the presidential revenue-seeking panel, he contends many foundations are properly subject to taxation because "foundation-controlled enterprises possess the money and tax-free competitive advantages to eliminate small businessmen."

PATMAN'S FIRST TWO massive reports on the tax-exempt foundations dealt with their immense holdings, and huge profits made by many of them in last spring's stock market gyrations. This study disclosed that nine of 22 foundations probed by his staff made profits ranging from $1 million to $47 million during the market's downward slide.

The $47 million bonanza was chalked up by the Rockefeller Foundation, New York, in selling $52.25 million in stock, including a million shares of Standard Oil of New Jersey. This stock had been held by the foundation since 1919.

Patman also charged that many foundations have not filed reports with the Internal Revenue Service as required by law. He is highly critical of the Revenue Service's handling of foundation tax matters.

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