

FOUNDATION TAX ISSUES

Report of Action by House Ways and Means Committee
as of Wednesday, August 6, 1969

The House Ways and Means tax reform bill, which will be debated on the House floor this week, contains several important provisions relating to foundations and their grantees. At its last meeting, the Action Council went on record in opposition to many of the Committee's earlier proposals.

This is a report on the final action of the Ways and Means Committee

1. Definition of Private Foundations. Private foundations have been newly defined to include groups such as the Urban Coalition and the Brookings Institution, in addition to groups such as the Ford and Carnegie foundations. As such they are now subject to an income tax and new limitations on their activities.

2. An annual tax of 7 1/2 per cent was imposed on net investment income.

Explanation: The original tentative proposals had recommended a tax of 5 per cent. It is estimated that revenue increases at 7 1/2 per cent will produce \$65 million in the first year.

This is, in fact, a tax on beneficiaries of foundations rather than on foundations. The Coalition may now have to pay a tax on its next investment income.

3. Restrictions on Activities. The newly defined foundations (including the Coalition) would be prohibited from:

- a) Carrying on propaganda or otherwise attempting to influence legislation.
- b) Attempting to influence legislation through attempting to affect public opinion, and through private communication with a member or employee of a legislative body, or with any other person who may participate in the formulation of legislation (Except through making available the results of nonpartisan analysis or research).

Explanation: This is a modification of the original tentative proposals which prohibited foundations from engaging in any activities intended to influence the decision of any governmental body. It is intended to tighten up the rules against lobbying.

Under present law, a foundation may influence legislation if this is not a substantial part of its activity. The new legislation would remove this test and allow no influencing of legislation.

The Committee Report explains that these provisions are designed to prohibit grassroots campaigns for the purpose of influencing legislation. Further, foundations may discuss broad policy

questions with congressmen and government agencies; they are precluded from "direct attempts to persuade congressmen and government officials to take positions on specific legislative issues."

4. Voter Registration. Foundations would be prohibited from engaging in voter registration drives unless grants are made to a 501(c)(3) group that:

a) operates in five or more states

b) receives support from five or more organizations, none of which provides more than 25 per cent of its support.

Explanation: The tentative proposals would have prohibited foundations from engaging in any voter registration activity or paying for any such activity. The bill moves away from that strict view. The League of Women Voters Education Fund and the Southern Regional Council are specifically mentioned in the Committee Report as examples of organizations which would be permitted to engage in voter registration.

But other registration and education programs--now conducted by numerous smaller groups in less than five states--will be prohibited from receiving foundation support.

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The House bill will, in all probability, be passed by the full House this week under a "closed" rule. Floor amendments to tax

bills generally are not permitted, and passage of the tax reform bill seems assured.

The Action Council and many of its cooperating groups have worked to modify the tentative proposals of the Ways and Means Committee so that the vital activity of foundations and foundation-related organizations can go forward.

Our attention now turns to the Senate and the Finance Committee in particular which will begin considering tax reform proposals after the August Congressional Recess.