[COMMITTEE PRINT]

ISSUES RELATING TO EXEMPT ORGANIZATION "LOBBYING"—H.R. 13500

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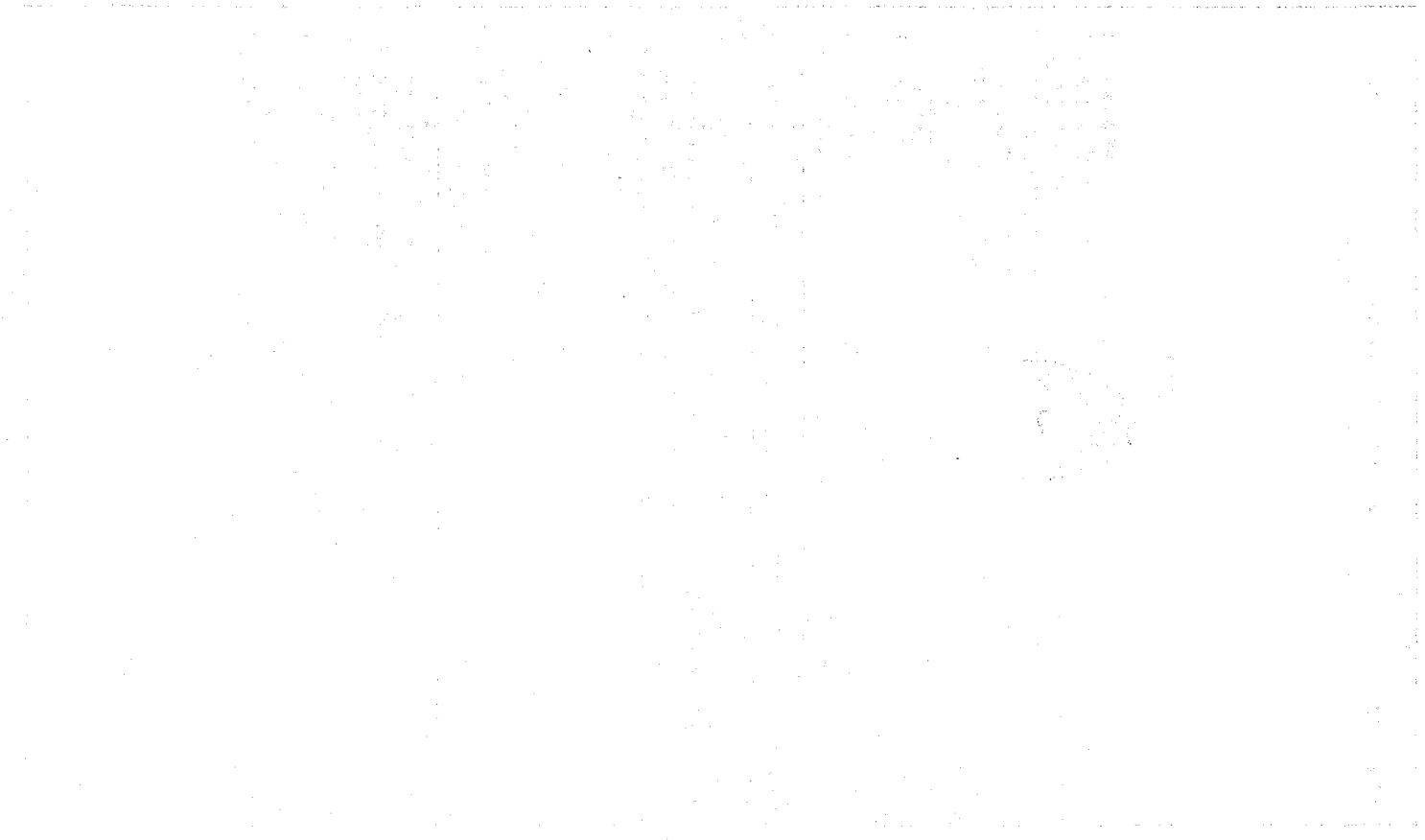

PRESENT LAW AND BACKGROUND

Under present law, one of the requirements for exemption under section 501(c)(3) of the Internal Revenue Code of 1954 and qualification to receive deductible charitable contributions under section 170(c)(2) of the Code is that "no substantial part of the activities of [the organization] is carrying on propaganda, or otherwise attempting, to influence legislation".

H.R. 13500 would permit an electing "public" charitable tax-exempt organization to spend up to a limited amount of its annual charitable disbursements on "influencing legislation" without any Federal tax consequences.

This limited amount of expenditures is 20 percent of the first $500,000 of the organization's annual charitable disbursements, and a decreasing percentage of additional charitable disbursements, with an absolute limitation of $1,000,000. If an electing organization were to exceed this limitation in a taxable year, it would be subject to an excise tax of 25 percent of the excess lobbying expenditures. Furthermore, if an electing organization's lobbying expenditures normally (that is, on the average over a 4-year period) were to exceed 150 percent of the limitations described above, the organization would lose its exemption. Within those limits, a separate limitation would be placed on so-called "grass-roots lobbying"—that is, attempting to influence the general public on legislative matters. This limitation is one-fourth of the overall limitation on lobbying expenses, and the excise tax and loss of exemption sanctions would be applied in essentially the same manner as the sanctions would be with respect to the overall lobbying limitations.

Under the bill, however, expenditures for the following activities would not be subject to the limits: (1) nonpartisan analysis, study, or research; (2) technical advice or assistance provided on request by a governmental body; (3) so-called "self-defense" direct lobbying; (4) communications with bona fide members (other than direct encouragement of the members to lobby); and (5) communications with nonlegislative government officials where the principal purpose of the communications is not the influencing of legislation.

In 1972, the Committee on Ways and Means held public hearings on similar proposals. Testimony on this subject also was received by the committee in the course of its 1973 tax reform hearings. In 1974, the committee tentatively decided to adopt a provision allowing public charitable organizations to elect to have their legislative activities be measured by an expenditures test (but without the intermediate excise tax approach, as described above). However, this provision was subsequently dropped from the tax reform bill at the request of the provision's supporters.

In general, almost all the witnesses who testified at the 1972 hearings appeared to agree that present law is unreasonably vague and many believed that the permitted extent of lobbying should be increased.

Complaints have arisen that present law, both in terms of the statute and in terms of application by the Internal Revenue Service, provides too uncertain a guide for many exempt organizations. The laws lends itself, it is charged, to selective enforcement. Complaints are heard that enforcement of the law becomes too "political" when the Service combines considerations of excess lobbying, arguably noncharitable activities, and charges that the organization supports candidates for public office. Other organizations have charged that many an organization is intimidated by the complaint of a revenue agent which may be based upon a single act of lobbying. Others complain of receiving what appear to be form letters warning that almost any lobbying may be looked upon as evidence of substantial noncharitable activities.

During the 1972 hearings, and in the statements subsequently presented to the committee, additional questions have been raised regarding the constitutionality of the present limits and of any of the proposed changes. It has been suggested that both present law and the proposed changes are unconstitutional in that they penalize the exercise of First Amendment freedoms of speech and press, and of the right to petition the government for a redress of grievances. Religious organizations have suggested that any such limitations violate the First Amendment provisions regarding freedom of religion and no establishment of religion.

Two "substantiality" tests

One substantiality test under present law is the requirement for exemption under section 501(c)(3) and qualification to receive deductible charitable contributions under section 170(c)(2) that "no substantial part of the activities of [the organization] is carrying on propaganda, or otherwise attempting, to influence legislation."

A second substantiality test is hidden in the present law requirement that any such organization be "organized and operated *exclusively* for religious, charitable, scientific, testing for public safety, literary, or educational purposes, or for the prevention of cruelty to

children or animals * * *" (emphasis added). The Supreme Court has defined "exclusively" in this context to mean that there is no nonexempt purpose that is "*substantial* in nature." *Better Business Bureau* v. *U.S.*, 326 U.S. 279, 283 (1945) (emphasis added).

The sparse and relatively vague language of the lobbying provision was first enacted in 1934. Since that time, neither Treasury regulations nor court decisions have given enough detailed meaning to the statutory language to permit most charitable organizations to know approximately where the limits are between what is permitted under the statute and what is forbidden by it. In part this results from the regulations applying the single term—action organizations—to those organizations that conduct more lobbying activities for their exempt purposes than is permitted by the statute, those that conduct activities that do not come within their permitted purposes, and those that support or oppose candidates for public office. In many cases, the courts have compounded this uncertainty by referring to all three of these types of activities as "political" activities.

The proposals before the committee deal with the first of these substantiality tests.

Many take the position that lobbying activities may be in furtherance of an organization's exempt purposes. For example, an educational institution may properly offer testimony on proposals involving Federal aid to education or involving a State's responsibility for educational funding; a hospital may properly offer testimony on proposed legislation regarding hospital construction standards and health insurance programs. In each of these cases, without regard to the wisdom of the particular lobbying activity, it would appear that the lobbying may properly be viewed as a part of the exempt activities of the organization. The statute, however, sets a limit as to how much of this otherwise appropriate lobbying may be conducted by the organization before the organization loses its status under section 501(c)(3) and loses its right to receive deductible contributions. The proposals now before the committee focus upon the circumstances under which it may be said that an organization has conducted too much lobbying even though all or some of the lobbying is related to its exempt purpose.

The Treasury Department has taken the view that lobbying is inherently not exempt and that the present law is a relaxation of the pre-1934 law in this regard.

Apart from this latter view, the proposals before the committee proposals do not deal with the second substantiality test—the extent to which an organization can conduct activities other than the charitable, educational, religious, etc., activities specified in the statute, before it loses its exemption under the "substantial noncharitable purposes" test of *Better Business Bureau* v. *U.S.*, *supra*. Also, the proposals before the committee do not deal directly with (and are not

intended to deal inferentially with) the question of whether an organization may support or oppose candidates for public office. The statutory language provides an absolute bar to such participation and there has been no suggestion as to a "substantiality test" on this point. (It must be noted, however, that there appear to be numerous instances in which an organization—or some of its leaders or its component parts—have supported or opposed candidates without the organization having thereby lost its exempt status.)

In this pamphlet, unless indicated otherwise, the "substantiality test" will refer to the statutory test as to the extent of permitted charitable lobbying.

Present tax treatment of business lobbying expenses and lobbying by noncharitable exempt organizations

In order to properly consider the income tax framework within which the exempt organization lobbying rules are to apply, it may be appropriate to examine briefly the treatment accorded to individuals, other taxpayers, and other exempt organizations.

In general, business expenses for lobbying may be deducted so long as the expenditures are directly related to the activities of the business organization (sec. 162(e)(1)); however, grassroots lobbying expenses may not be deducted as business expenses. An individual may not deduct nonbusiness lobbying expenses except to the extent that they may be regarded as having been made on behalf of a charitable donee organization, in which case many maintain that they are deductible as charitable contributions.

An organization exempt under provisions of the Code other than section 501(c)(3) is not limited by those Code provisions as to the extent of its permissible lobbying activities except insofar as those activities might be relevant in determining whether the organization was operating within the limits of its exempt purposes. Some such organizations are proper charitable contribution deduction donees—in particular, veterans' organizations, fraternal organizations operated under the lodge system (contributions to which are deductible if the amounts are to be used exclusively for charitable, etc., purposes), and certain types of cemetery companies. As to the above organizations, lobbying expenditures are subsidized through the Code either by way of charitable contribution deductions or by way of exemptions from tax on the otherwise taxable income of the organizations. Some other exempt organizations (such as labor unions, chambers of commerce, and trade associations) are subsidized in their lobbying expenditures either because payments to the organizations are deducted as business expenses or because of their exemption from tax of otherwise taxable income. The remaining exempt organizations can receive the same Internal Revenue Code subsidy, but only through the route of exemption from tax on their own income.

TABLE 1.—*Tax benefits to organization and contributors*

Type of organization	Organization exempt from income tax [1]	Contributor's deduction—charitable	Contributor's deduction—business
Charitable, religious, educational, etc.	Yes (sec. 501(c)(3)) [2].	Yes (sec. 170(c)(2)).	Generally, no (sec. 162(b)).
War veterans	Yes (sec. 501(c)(19).	Yes (sec. 170(c)(3)).	Do.
Fraternal societies under lodge system.	Yes (sec. 501(c)(8) or 501(c)(10)).	Yes (sec. 170(c)(4)).	Do.
Cemetery companies	Yes (sec. 501(c)(13)).	Yes (sec. 170(c)(5)).	Do.
Social welfare	Yes (sec. 501(c)(4)).	No	Yes.[3]
Labor unions	Yes (sec. 501(c)(5)).	No	Yes.[3]
Business leagues, chambers of commerce, real estate boards, boards of trade.	Yes (sec. 501(c)(6)).	No	Yes.[3]
Social clubs	Yes (sec. 501(c)(7)) [4].	No	Yes.[3]
Other exempts	Yes (sec. 501(c))	No	Generally, no.
Taxable entities	No	No	Yes.[3 5]

[1] All exempt organizations are subject to the tax on unrelated business taxable income at regular corporate or individual (trust) rates (secs. 511–515). However, even though a "trade or business * * * is not substantially related * * * to the exercise or performance by (one) organization of its charitable, educational, or other purpose or function constituting the basis for its exemption * * *" (and so is taxable), it might be "substantially related" as to another organization (and so be nontaxable). For example, the Internal Revenue Service has ruled that harvesting of crops from orchards and farms and storing, marketing, and processing juices and preserves from those crops, constitutes an unrelated trade or business of a charitable trust (Rev. Rul. 58–482, 1958–2 CB 273). Presumably, those activities would be substantially related to the educational purposes or functions of an exempt agricultural school. Also, although most exempt organizations are not taxable on investment income, such income is taxable to any organization to which it constitutes debt-financed income (sec. 514). See also footnotes 2 and 4.

[2] Private foundations are taxable at the rate of 4 percent on investment income that is not otherwise taxable as unrelated business income (sec. 4940). See footnote 1.

[3] Business expense deductions for lobbying activities are limited by section 162(e). See Regs. § 1. 162–20(c)(3) (relating to labor unions and trade associations) and Rev. Rul. 67–163, 1967–1 CB 43 (relating to social welfare organizations).

[4] Social clubs (sec. 501(c)(7)) and certain types of employees' beneficiary associations (sec. 501(c)(9)) are subject to the tax on unrelated business income at regular corporate or individual (trust) rates in the case of their investment income other than investment income set aside for charitable, etc., purposes (sec. 512(a)(3)). See footnote 1.

[5] Contributions to capital generally are not deductible but they increase basis for gain or loss on later disposition.

If it is appropriate to subsidize lobbying expenditures in order to insure that the Congress and other legislative bodies are properly informed in aid of their legislative activities, then (it has been argued) limitations should not be placed upon the extent to which a charitable organization may conduct legislative lobbying activities. Comparable tax treatment might then be accorded to individuals (according to this line of argument) by permitting them to deduct their direct expenditures for lobbying without regard to whether those expenditures are incurred on behalf of an exempt organization.

PERCENTAGE STANDARD FOR LOBBYING EXPENDITURES

As indicated above, the statute provides that an organization is not exempt under section 501(c)(3) if lobbying constitutes a substantial part of the activities of that organization. The basic questions that have arisen as to application of this rule depend upon the uncertainty of "substantial part" and of "activities". Suggestions have been made that the substantiality test be qualified in some way; implicitly this requires not only greater specificity as to the meaning of "substantial part", but also a determination as to what activities of the organization will be looked to.

Percent of expenditures

The proposals before the committee suggest that the uncertainty be resolved by specifying a percentage of total charitable expenditures. It has been suggested, however, that a flat percentage would result in a large organization being permitted to engage in a large amount of lobbying compared to the lobbying permitted for a small organization.[1] The Treasury Department testified in 1972 that a limit of 20 percent of charitable expenditures might result in the possibility of as much as $6 billion being expended annually by charitable organizations for lobbying purposes.

Among the methods that might be used to reduce both the maximum amounts that might be spent for lobbying by charitable organizations and also reduce the advantage that a large organization would have over a small one, are the following: setting a dollar limit on the amount any one organization could spend for lobbying purposes on an annual basis; setting the permissible limit as a sliding percentage scale, with the permissible percentage being decreased as the size of the organization (or the amounts of its expenditures) increases; or a combination of the above. For example, H.R. 13500 provides that an organization could spend for lobbying purposes no more than 20 percent of its first $500,000 of charitable expenditures, 15 percent of its next $500,000 of charitable expenditures, 10 percent of its next $500,000 of charitable expenditures, no more than 5 percent of its charitable expenditures over this amount, and with an absolute limit on lobbying expenditures of $1,000,000. Any such schedule could, of course, be increased or reduced if the committee wishes to do so.

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[1] In 1969, the Congress concluded that this ability of a large organization to lobby more than a small organization was undesirable, at least as applied to private foundations. See H. Rept. 91–413 (part I), p. 332 August 2, 1969); S. Rept. 91–552, pp. 47 and 48 (November 21, 1969); section 4945(d)(1).

Multiple organizations

If some such approach were adopted, consideration would need to be given to some method of aggregating the activities of related organizations in order to forestall the creation of numerous organizations to avoid the effects of the sliding scale or absolute limit. The problem in such a case would have similarities to those which have already been faced in the case of multiple corporations (to increase the effects of the surtax exemption, etc.)[2] and related private foundations (to avoid the requirements of the charitable expenditure[3] and excess business holding rules[4]). H.R. 13500 provides that two organizations are affiliated if (1) one organization is bound by decisions of the other organization on legislative issues or (2) the governing board of one organization includes enough representatives, etc., of the other organization to cause or prevent action on legislative issues by the first organization.

Out-of-pocket expenditures

As indicated above, the statute now speaks in terms of "activities." The proposals before the committee are phrased in terms of a portion of charitable "expenditures." It has been suggested that an organization can achieve substantial effects through the use of individual volunteers without expending large sums of money in its lobbying activities. In response, it has been noted that no tax benefits generally are derived from such volunteer efforts. There seems little purpose, it is maintained, in causing an organization to lose tax benefits because of an activity if no tax benefits are related to that activity. At the same time, it might be appropriate to take care that any limitations the committee might impose upon an organization's expenditures are not avoided by refraining from running those expenditures through the organization's books. For example, a deduction is available under present law for the out-of-pocket expenditures of a person on behalf of a charitable organization.[5] Those expenditures are not now reflected on the organization's books and, in fact, the organization may not even know that the expenditures have been made on its behalf.

H.R. 13500 provides that a person may not take a deduction for such an expenditure on behalf of a charitable organization. A question has been raised as to whether this should apply in the case of expenditures on behalf of all charitable organizations or only expenditures on behalf of organizations that have elected to come under any new rules provided. If this approach is to apply in the case of expenditures of all charitable organizations, it is argued, then those who do not elect to have the new rules apply will be disadvantaged in that their donors will be limited on account of a reason which does not apply to those organizations. On the other hand, it has been noted that, if the deducti-

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[2] Sections 1561 through 1564.
[3] Section 4942(g)(1)(A)(I).
[4] Section 4946(a)(1)(H).
[5] Regulations § 1.170A–1(h)(6) provide that "no deduction shall be allowed under section 170 for expenditures for lobbying purposes, promotion or defeat of legislation, etc." It is not clear how this provision of the regulations has been applied. As far as the staff can determine, it has not been applied to require proration of contributions in accordance with the proportion of the expenditures of an organization for lobbying purposes.

bility of out-of-pocket lobbying expenses depends upon whether the organization has elected to have the new rules apply, then the donors would have to know whether the organization has effectively elected in order to know how to fill our their own tax returns. In many cases, this coordination of information between donors and organizations might be difficult.

Another possible approach would be to provide that a donor could not take a deduction for out-of-pocket lobbying expenses unless he notified the organization of the expenses. The organization would then be required to keep records of those expenses and they would be charged against the organization's permitted maximum lobbying expenses. This required recordkeeping might facilitate the auditing activities of the Internal Revenue Service.

"GRASS ROOTS" LOBBYING

There has been considerable discussion as to the extent to which, if at all, public charities should be permitted to engage in grass-roots lobbying—that is, attempting to influence legislation through an attempt to affect the opinion of the general public. Additionally, the question is raised whether grass-roots lobbying should be more restricted than other legislative activities, such as testimony before a legislative body, etc. The following arguments are advanced by those who feel that grass-roots lobbying by public charities should either be prohibited or severely restricted:

(1) It has been suggested that true balancing of the competing interests of business and charity can best be achieved by not permitting charities to engage in any grass-roots lobbying, since business interests are not allowed a deduction under section 162 for similar expenditures.

(2) It is argued by some that to allow public charities to spend the amounts permitted under H.R. 13500 on grass-roots lobbying would greatly increase the amount of legislative activity engaged in by public charities.

(3) It is argued that by increasing the amount of money that can be expended for grass-roots lobbying Congress is merely encouraging a tremendous volume of duplicate letters which will result in harassment rather than providing guidance to the legislative body. While informed statements presented to the legislature by responsible public charities are beneficial, mere letters urging adoption or defeat of specific legislation have no real value to the legislative process.

The following arguments are presented by those who are in favor of allowing public charities to engage in grass-roots lobbying:

(1) There is a growing need to keep the public informed on the important issues which this country faces, and to make the public's views known through communication with their representatives. Public charities are probably the only organized and informed groups to speak out on the nonbusiness side of many issues.

(2) Although it is noted that business interests are not allowed deductions under section 162 for grass-roots lobbying, experience shows that when the "chips are down" business interests will spend money necessary to conduct grass-roots lobbying campaigns whether or not they are allowed to deduct such expenditures. Public charities, on the other hand, are handicapped to a greater extent since deductions for

contributions to such an organization will be denied in entirety if the organization engages in too much grass-roots lobbying. Since these organizations are almost entirely supported by deductible contributions from the public, the denial of a deduction for such contributions will threaten the very existence of these organizations.

(3) The denial of a business deduction for grass-roots lobbying is not effective. The regulations under § 1.162–20 provide that expenditures for "institutional" or "goodwill" advertising which keeps the taxpayer's name before the public are generally deductible providing the expenditures are related to patronage the taxpayer might reasonably expect in the future. Thus, as a practical matter, expenditures that closely resemble grass-roots lobbying and affect the general public, at least indirectly, are often deducted as institutional or goodwill advertising expenditures.

(4) Without a *de minimis* rule permitting some percentage of expenditures to be made for grass-roots lobbying, it will be extremely difficult for a public charity to engage in any type of legislative activity since it will always be subject to challenge by the Internal Revenue Service on the ground that a portion of its expenditures is made to affect the opinion of the general public. The potential for harassment and selective enforcement will remain.

(5) Although it is argued that large sums could be spent for grass-roots lobbying, it is extremly doubtful that such an amount will actually be spent. Public operating charities are committed to other charitable activities and simply do not have large amounts of funds available for grass-roots lobbying purposes. Also, the use of the decreasing percentage and a $250,000 annual "cap" for larger organizations should reduce significantly the likelihood of a substantial increase in grass-roots lobbying.

(6) The principal objection to grass-roots lobbying seems to be that lobbying is an apparently evil activity and therefore should be severely restricted. There is a feeling that encouragement of grass-roots lobbying in any form will simply add more heat to legislative discussion without casting any light. It is suggested, however, that our legislative system is based on the assumption that "the widest possible dissemination of information from diverse and antagonistic sources is essential to the welfare of the public." Public charities, it is argued, are the organizations which are best qualified to represent the interests of nonbusiness taxpayers.

TREATMENT OF CHURCHES

At the 1972 hearings, and in statements subsequently submitted to the committee, a number of witnesses testified as to the peculiar problems faced in connection with application to churches of any limits on their legislative activities. It was pointed out that such limitations could be construed as an unconstitutional restriction on the activities of churches and also as a preference of certain kinds of churches above others, i.e., that the more "activist" churches would be subject to substantial practical limitations, while the churches that avoided active involvement in public controversies would be affected slightly, if at all.

Also, the approach of H.R. 13500, as well as substantially all the bills on this subject that have been before the committee in the last 5 years,

contemplates a focusing on expenditures and careful auditing of an organization's books and records in order to determine when expenditures for certain purposes have risen to a particular level. Frequent or far-reaching examination of books and records is one of the matters which have given rise to significant concern for churches. Concern has been expressed that the inevitable result of enactment of such a bill would be that organizations which did not elect to have the provisions of this bill apply would nevertheless find that the Service's view of the meaning of section 501(c)(3) would be significantly affected by this bill.

H.R. 13500 includes special provisions intended to deal with this problem. Firstly, that bill would not permit a church or convention or association of churches (or an "integrated auxiliary" or a member of an affiliated group that includes a church, etc.) to elect to come under these provisions.

Secondly, the bill would provide that the definitions and expenditure limits approach of the bill would have no effect on the way section 501(c)(3) would be applied as to organizations that do not elect to come under the new standards provided by the bill.

Thirdly, the bill responds to a concern that its enactment might be regarded as a congressional ratification (or disapproval) of the decision in *Christian Echoes National Ministry, Inc.* v. *United States*, 470 F.2d 849 (1972), *cert. denied* 414 U.S. 864 (1973), or of the reasoning in any of the opinions leading to that decision. The bill provides that its enactment is not to be construed as such an approval or disapproval.

In dealing with such matters, it is often difficult to entirely avoid constitutional disputes. As the Supreme Court noted in *Wisconsin* v. *Yoder*, 406 U.S. 205, 215 (1972), a "determination of what is a 'religious' belief or practice entitled to constitutional protection may present a most delicate question". Indeed, it may be argued that singling out churches for special treatment, such as making them ineligible to elect, may itself create constitutional problems. There is language in *Walz* v. *Tax Commission*, 397 U.S. 664, 673 (1970), and especially in Mr. Justice Brennan's concurring opinion, 397 U.S. at 687–9 and 692–4, which implies that tax exemption rules must not use religion as a basis for making distinctions among charitable organizations.

TAX ON INTERMEDIATE AMOUNTS OF LOBBYING

Under present law, if an organization exceeds the limits on permitted lobbying, the organization loses its exempt status under section 501(c)(3) and charitable contributions to it are no longer deductible under section 170.

However, as is specifically set forth in the regulations (Regs. § 1.501(c)(3)–1(c)(3)(v)), such an organization normally can become exempt on its own income under section 501(c)(4), as a "social welfare" organization. Also, it is at times possible for an organization that has in this manner shifted from section 501(c)(3) to section 501(c)(4) to create a "sister" organization to carry on its charitable activities, to qualify for exemption under section 501(c)(3), and to qualify to receive deductible charitable contributions. If the original organization (which has by this time become exempt under section 501(c)(4)) has built up a substantial endowment during the years of its section 501

(c) (3) status, it can then carry on its "excessive" lobbying activities financed by the income it receives from its endowment. That income will be exempt from tax under section 501(c) (4). As a result, although there may have been some inconvenience and administrative confusion during the changeover period, it is possible in such a case for the lobbying rules to be violated without any significant tax consequences.[6] Some organizations have followed precisely that route. Among the organizations which have done so are the following:

501(c) (3)	*501(c) (4)*
National Right To Work Legal Defense and Education Foundation, Inc.	National Right to Work Committee, Inc.
League of Women Voters Education Fund	League of Women Voters of the United States.
National Association for the Advancement of Colored People Legal Defense and Education Fund.	National Association for the Advancement of Colored People.
American Civil Liberties Union Foundation	American Civil Liberties Union.
Citizens for a New Prosperity Education Fund	Citizens for a New Prosperity.
Sierra Club Foundation	Sierra Club.

In addition, the Christian Echoes National Ministry, during the period after the Internal Revenue Service sought to revoke its section 510(c) (3) status, organized the Church of the Christian Crusade and the School of the Christian Crusade to carry on many of its charitable functions and receive deductible charitable contributions.

For other organizations, loss of section 501(c) (3) status apparently cannot be so easily compensated for, and would represent a severe blow to the organization.

As a result, the H.R. 13500 adopts an approach which was used in the private foundations provisions of the Tax Reform Act of 1969—providing for a tax if an activity exceeds the permissible level, the amount of tax being related to the amount by which the activity exceeds the permissible level. Revocation of exemption then would be reserved for those cases where the excess is unreasonably great over a period of time.

It has been suggested that such an approach would present substantial practical difficulties in that it woud require too much precision in recordkeeping and place too great a premium on timing. The "normally" concept embodied in the bill, on the other hand, could provide greater flexibility as to exempt status and greatly reduce the effect of timing as to that issue.

Also, it is argued, an approach which imposes taxes on exempt organizations is destructive of the very concept of those organizations being tax exempt. Whatever may be the justification for such an approach in the case of private foundations, it is maintained, "public charities" should not have to pay taxes on nonincome-producing activities. On the other hand, such an approach can facilitate agreements on standards to be used, since violation of the basic standards would result only in a sustainable, one-time tax and not in a loss of exempt status.

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[6] The point was noted, in the case of private foundations, in the Committee Reports on the Tax Reform Act of 1969. H. Rept. 91–413 (part I), p. 32 (August 2, 1969) ; S. Rept. 91–552, p. 47 (November 21, 1969).

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