IRS Expands Bid to Halt Any Tax-Dodging By Foundations, Other Tax-Exempt Groups

WASHINGTON — The Internal Revenue Service said it is launching a "greatly expanded enforcement program" to stop any tax-dodging by tax-exempt organizations, including foundations.

Rep. Patman (D., Texas) has charged that many foundations are abusing their tax-exempt status and gaining control of large segments of U.S. industry through their stockholdings. Several large foundations have disputed Mr. Patman's views. The law exempts from Federal taxation a foundation's income from investment if the organization is set up for charitable, educational or welfare purposes.

IRS officials, in a formal four-page review of enforcement activities in the tax-exempt field, said these new steps are in the works:

A revised tax form is being prepared for use by tax-exempt foundations in reporting financial data to the Service. The form will ask foundations to report their activities in greater detail than currently is required, and tax officials intend to make more of the information available for public scrutiny.

A special team of agents since March has been examining "in depth" the finances of tax-exempt organizations in two of the IRS's 62 districts. "Within the next few months" these agents, plus other IRS experts, will start devising new investigative guidelines for the IRS's nationwide use.

Seeking to Spot Broken Rules
IRS headquarters in trying to spot precise rules that are being broken by tax-exempt organizations, either intentionally or because of misunderstandings. Tax officials have asked foundation representatives to help.

The IRS report dealt with steps tax agents are taking to educate themselves about the activities of tax-exempt organizations, and mentioned no specific abuses of the law that will get special attention. While these organizations long have been required to report financial data to IRS, Rep. Patman has complained tax agents have been lax in enforcing the rules.

The report, in effect, conceded this. "In the past," it said, "these organizations had not received the attention they deserved because of manpower limitations and concentration of the Service's efforts on returns known to be most productive of revenue." But the report stressed this was before Internal Revenue Commissioner Caplin took office with the Kennedy Administration, and it dwelt on the new enforcement steps taken since early 1961.

Mr. Caplin, in fact, praised Rep. Patman's critical studies of foundations, saying "they should do much to assist in our efforts to correct excesses under existing law...."

Study Need for New Laws

President Kennedy said at his Aug. 22 press conference that the Government is trying to decide if the abuses alleged by Rep. Patman can be corrected solely by tighter enforcement of present law, or if new legislation is needed. Treasury officials said yesterday the possibility of new legislation is still being studied, in addition to the new enforcement drive by IRS.

Rep. Patman, who is chairman of the House Small Business Committee, has complained specifically that some tax-exempt foundations are ignoring the rule against "unreasonable" accumulations of income from investments. He also charged some profit-making businesses have used foundations as a way of escaping their own taxes.

The IRS report made it clear the new enforcement effort is directed at all tax-exempt organizations, not just foundations. These might include non-profit educational, charitable and religious organizations which rely on public contributions for most of their income. Tax-exempt foundations may be set up for similar purposes, but their income often comes from investments and funds received from endowments.

"Internal Revenue is moving ahead with a greatly expanded enforcement program for exempt organizations" this year, the report said. "Commissioner Caplin believes that this expanded program will do much to improve compliance on the part of exempt foundations as well as all other types of exempt organizations."