Rev. Rul. 74-315, 1974-2 C.B. 387

Private foundation; undistributed income; short taxable year. A private foundation that made a valid election to change its accounting period, which resulted in a short taxable year, and that had undistributed income at the end of its prior taxable year must distribute the income before the close of the short taxable year to avoid the taxes imposed by section 4942 of the Code.

A private foundation made a valid election to change its accounting period from a calendar year to a fiscal year ending March 31. This change resulted in a short taxable year for which a return was required.

Section 4942 of the Internal Revenue Code of 1954 imposes a tax on the income of a private foundation which has not been distributed before the first day of the second (or any succeeding) taxable year following the year such income was earned, if the first day falls within the taxable period.

Section 7701(a)(23) provides, in part, 'taxable year' means, in the case of a return made for a fractional part of a year under the provisions of subtitle A or under regulations prescribed by the Secretary or his delegate, the period for which such return is made.

Held, the undistributed income of the foundation on hand at the end of its prior taxable year must be distributed before the close of its short taxable year in order for the foundation to avoid the taxes imposed by section 4942 of the Code.