Rev. Rul. 75-392, 1975-2 C.B. 447

Private foundation minimum investment return; reasonable cash balances. In determining its minimum investment return, a private foundation whose average cash balances during the taxable year represented one percent of the fair market value of its assets may exclude an amount equal to one and one-half percent of its assets' fair market value as reasonable cash balances used or held for use directly in carrying out its exempt purpose.

Advice has been requested, in the circumstances described below, as to the computation of the amount that may be excluded as 'reasonable cash balances used (or held for use) directly in carrying out the foundation's exempt purpose' in determining a private foundation's minimum investment return.

During the taxable year in question the fair market value of all assets of the foundation that were subject to the minimum investment return (without excluding any cash balances used or held for use directly in carrying out the foundation's exempt purpose) amounted to 10,000x dollars. Of this amount, 100x dollars represented the average of the foundation's cash balances during the taxable year. No acquisition indebtedness existed with respect to any of the foundation's assets that were subject to the minimum investment return.

Section 53.4942(a)-2(c)(2)(v) of the Foundation Excise Tax Regulations provides that the assets taken into account in determining minimum investment return shall not include any assets used (or held for use) directly in carrying out the foundation's exempt purpose.

Section 53.4942(a)-2(c)(3)(ii)(e) of the regulations provides that reasonable cash balances necessary to cover current administrative expenses and other normal and current disbursements directly connected with the foundation's charitable, educational, or other similar exempt activities are among the assets described in section 53.4942(a)-2(c)(2)(v).

Section 53.4942(a)-2(c)(3)(iv) of the regulations provides that the reasonable cash balances a foundation needs to have on hand to cover expenses and disbursements directly connected with its exempt activities are generally deemed to be an amount, computed on an annual basis, equal to 1 1/2 percent of the fair market value of the assets used in computing minimum investment return (without regard to the exclusion for reasonable cash balances).

Therefore, to compute its excludable cash balances, the foundation must multiply the fair market value of its assets subject to the minimum investment return (without excluding any cash balances used or held for use directly in carrying out the foundations's exempt purpose) by 1 1/2 percent. The resulting amount is deemed to satisfy the requirements set forth in the regulations as to 'reasonable cash balances.' This amount is excludable from the minimum investment return base even though it may exceed the average of the foundation's cash balances.

Accordingly, under the circumstances presented, the private foundation may exclude an amount equal to 150x dollars, as 'reasonable cash balances used (or held for use) directly in carrying out the foundation's exempt purpose.'