U.S. SENATE COMMITTEE ON

# Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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## Grassley Praises Committee Passage of Charitable Incentives, Tax Shelters Enforcement

WASHINGTON -- Sen. Chuck Grassley, chairman of the Committee on Finance, today praised the committee's approval of legislation establishing a series of tax breaks to encourage Americans to donate to charities; "sunshine" provisions to promote greater accountability from charities to their donors; and disclosure requirements to rein in abusive tax shelters.

"Charities have a lot of needs, and many Americans have a lot to give," Grassley said. "It makes perfect sense to make sure the tax code eases the flow of generosity from taxpayers to worthy causes. Those causes are infinite. Tax policy should reflect that.

"I'm also glad the committee advanced legislation to flush out tax shelters through mandatory disclosure regimes so the IRS can identify them and shut down illegal operations. Disclosure is the best disinfectant."

Today, the committee approved the tax section of the *Charity Aid, Recovery, and Empowerment (CARE) Act* -- the broad bill that helps the President establish his faith-based initiative. Last week, Grassley introduced the tax section as an independent bill, with co-sponsors Sen. Max Baucus, ranking member of the Finance Committee, and Sens. Rick Santorum and Joe Lieberman, the sponsors of the CARE Act.

Last year, the Finance Committee approved legislation establishing tax incentives for charitable giving, but the Senate's Democratic leadership at the time didn't schedule full Senate consideration of the bill, which died when Congress adjourned.

Today's committee-passed bill is very similar to last year's version, Grassley said. It includes broad charitable giving incentives and Grassley's "sunshine provisions" stemming from his investigation of various charities' accountability to their donors. The charitable giving incentives are:

- a deduction for a portion of charitable contributions to be allowed to individuals who do not itemize deductions;
- tax-free distributions from individual retirement accounts for charitable purposes (this was of particular interest to Dr. Mary Sue Coleman, who as president of the University of Iowa testified before the committee about this in 2001);
- a charitable deduction for contributions of food inventories;
- a charitable deduction for contributions of book inventories;
- an expansion of a charitable contribution allowed for scientific property used for research and for computer technology and equipment used for educational purposes;

- modifications to encourage contributions of capital gain real property made for conservation purposes;
- an exclusion of 25 percent of the gain on sales or exchanges of land or water interests to eligible entities for conservation purposes;
- a tax exclusion for cost-sharing payments under the Partners for Fish and Wildlife Program;
- an adjustment to the basis of S corporation stock for certain charitable contributions;
- an enhanced deduction for charitable contribution of literary, musical, artistic and scholarly compositions;
- and mileage reimbursements to charitable volunteers excluded from gross income.

The "sunshine" provisions are:

- disclosure of IRS determinations regarding charities;
- disclosure of the Internet Web site and name under which the organization does business;
- the simplification of private foundations' reporting of capital transactions to the IRS;
- the disclosure that the IRS Form 990, which charities file each year to describe their financial activities, is publicly available;
- disclosure to state officials -- who usually are the ones to prosecute fraudulent charities -- of proposed IRS actions related to charities to aid state prosecution;
- an expansion of penalties to preparers of Form 990;
- a notification requirement for entities not currently required to file;
- and a suspension of tax-exempt status of terrorist organizations.

The bill also increases funding for the Social Services Block Grant (SSBG) program, which gives states resources to support a variety of social services. Congress reduced funding for this program over the last several years. This bill increases program funding to $1.975 billion for fiscal year 2003 and $2.8 billion for fiscal year 2004. In addition, the bill increases the proportion of Temporary Assistance to Needy Families welfare funds that states can transfer to the Social Services Block Grant program.

In Iowa, more than 110,000 children and adults in Fiscal Year 2000 benefitted from SSBG-funded services. Since SSBG supports needed services for children and families in crisis, these individuals would benefit from the support services that the CARE Act promotes.

Grassley said the tax shelters legislation approved today is nearly identical to the *Tax Shelter Transparency Act* that the Finance Committee approved last June, with one very significant addition. The legislation includes an additional provision clarifying the economic substance doctrine, which is used by courts to combat tax shelters.

Grassley said there were several court rulings last year that he and others believe misapplied this doctrine. These rulings now stand as legal precedent that can be used to justify abusive schemes in the future. If a court finds that a shelter violates our clarification, the shelter participant would be subject to a strict 40 percent penalty on any tax due. This is a very tough anti-shelter provision, but Grassley said he remains concerned that the definition may be too vague for taxpayers to know whether this doctrine applies to a planned transaction.

"If we're going to impose a strict 40 percent penalty, taxpayers need to know with certainty whether they could run afoul of it," Grassley said. "We may need to revisit this provision based depending on comments we receive."

Grassley said the committee may make further revisions to the tax shelter legislation after the Joint Committee on Taxation releases its report next week on Enron's tax practices, done at the Finance Committee's request. The report is expected to be released at a Finance Committee hearing, tentatively scheduled for Thursday, Feb. 13, 2003.

Grassley said he still plans to pursue his legislation reining in corporate expatriation -- the nominal relocation overseas to avoid U.S. taxes. He said companies that are planning to expatriate "proceed at their own peril."

He said he hopes for full Senate consideration of the charities bill and the tax shelters proposal as soon as possible.

"It makes sense to start the year with legislation that our society needs, and that has strong bipartisan support," Grassley said. "In a lot of areas, charities offer services a lot more effectively and efficiently than the federal government ever could. We need charities in place for hard times, like responding to floods, national tragedies and weak economies. And it's important to fix abusive tax practices for corporations and individuals alike. That's a matter of fairness, and it's also a matter of helping to rejuvenate our economy by restoring trust in corporate America."

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