

United States Senate Committee on Finance

MEMORANDUM

To: Reporters and Editors
Re: Charitable sector tax abuse
Da: Monday, July 23, 2007

Sen. Max Baucus, chairman of the Committee on Finance, and Sen. Chuck Grassley, ranking member, have a long history of promoting the integrity of the charitable sector with careful oversight of tax laws favoring charities. The senators continue to look for ways to increase transparency in the charitable sector, promote fairness in grant-making, and to protect organizations that do so much good from unscrupulous behavior and exploitation. Toward that end, on March 2, 2007, they asked the Internal Revenue Service (IRS) to describe the latest, worst compliance problems and abuses in the non-profit sector. Previous IRS guidance was helpful in the senators' successful legislative reform efforts. Baucus and Grassley made the following comments on the IRS' latest analysis.

Baucus said, "America's charities do a great deal of good in communities across our land, and it's important to maintain the public trust in this vital sector. The tax-exempt status afforded to charitable organizations requires transparency and fairness from those charities in return as they do their work. Awareness of the biggest potential pitfalls and problems in compliance with our tax laws will help the Finance Committee to exercise proper oversight in this area."

Grassley said, "This is sober reading for everyone who supports a strong charitable sector. Big problems remain across the board. Just like the seminal letter that Commissioner Everson sent to the Congress two years ago, this letter also provides us a blueprint of the problems and questions that face us.

"I'm glad the IRS recognizes that the charitable reforms that were championed by the Finance Committee and signed into law by President Bush were much-needed and long overdue. Unfortunately, it's clear we need to do more work, especially to protect charities and charitable giving. It's important that Congress, the administration and charitable sector leaders recognize that a key way to help to our nation's charities is to clean up the problems and stop those who want to make a quick buck off the backs of the many good tax-exempt organizations. This includes transparent reporting of high salaries, generous allowances, and loans paid to executives of exempt organizations. We have to maintain public support for the charitable sector.

"I'm especially worried that some old problems remain top problems. The IRS is still concerned about donor-advised funds and supporting organizations. I look forward to the IRS' issuing substantive guidance addressing issues related to supporting organizations in the near future and the report on both donor-advised funds and supporting organizations later this year.

"The IRS continues to make the case for Congress to take a hard look at what public benefit is being provided by tax-exempt hospitals, with the IRS repeating its statement from two years ago

that ‘many tax-exempt hospitals are difficult to distinguish meaningfully from for-profit hospitals.’ I look forward to the public’s response to the recent staff discussion draft of suggestions that responds to the IRS’ call for standards for charity care by nonprofit hospitals.”