

U.S. Senate Committee on Finance

For Immediate Release

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Grassley, Baucus Announce Bill Cracking Down on Life Insurance Deals Via Charities

WASHINGTON – Sen. Chuck Grassley, chairman of the Committee on Finance, and Sen. Max Baucus, ranking member, today announced legislation to crack down on abuses in certain life insurance contracts involving tax-exempt organizations. The effective date for the legislation is today, with a reporting requirement to allow the Internal Revenue Service to examine previous deals to determine their compliance with even current law.

The legislation builds on the Bush administration’s proposal in its budget that also sought to deal with life insurance contracts that inappropriately afforded benefits to private investors that would not otherwise be available without the charity’s involvement.

“I’m very concerned about snake oil salesmen taking advantage of tax-exempt organizations to line their own pockets with life insurance schemes,” Grassley said. “Many states are now considering legislation that would allow this kind of exploitation. The bill we’re announcing today will toll the bell on this scam.”

Baucus said, “Charities should be in the business of feeding the hungry, keeping the environment clean, and building opportunities for the disadvantaged – charities should not be in the business of tax shelters. I will work with Senator Grassley to make sure that these insurance scams are shut down quickly.”

Grassley and Baucus said they plan to introduce their legislation early next week when the Senate comes back into session. They continue to work on other legislative reforms to shut down abuses in the non-profit sector while preserving charities’ abilities to perform their good works. The senators have been soliciting input from charities about reforms. They plan to introduce more anti-abuse legislation in the near future.

Grassley and Baucus have convened two hearings on charitable abuses. Most recently, on April 5, IRS Commissioner Mark Everson described the scope of the charitable sector and enforcement challenges for his agency in a letter to Grassley and Baucus. Three relevant excerpts:

“Approximately three million entities make up this sector of the economy. They control approximately \$8 trillion in assets and pay over \$300 billion in employment tax and employee income tax withholding.”

“... We must recognize that we are now at an important juncture. We can see that tax abuse

is increasingly present in the sector, and we intend to address it. We will act vigorously, for to do otherwise is to risk the loss of the faith and support that the public has always given to this sector.”

“Almost half of the 31 transactions we have identified to date as listed transactions under the tax shelter disclosure regulations involve the use of a tax-indifferent party. In one listed transaction, Notice 2003-81, involving tax-avoidance using offsetting foreign currency option contracts, we have found both otherwise-legitimate and suspect charities to have been involved.”