



U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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Remarks of Sen. Chuck Grassley, Chairman, Committee on Finance
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Thank you all for welcoming me here today. I have great respect for the Independent Sector. There's no question that the charitable community has benefitted from the leadership of Diana Aviv. I'm pleased and honored to be here with you. When I spoke about charities in July of last year, I highlighted the charitable efforts by my fellow Iowan, President Hoover. History has a tendency to make individuals two-dimensional. But it's a terrible wrong if we forget Herbert Hoover's work to direct relief after World Wars I and II. That work saved millions of families in Europe.

However, I failed to mention the efforts of another Iowan, born in Waterloo – the first lady Lou Henry Hoover. She was a partner in Herbert Hoover's relief efforts in World War I, helping to raise funds and organize shipments of food to Belgium. When the couple came to Washington, Mrs. Hoover became active in the Girl Scouts. She didn't just get a title – she did everything from serving as a troop leader to President of the Girl Scouts. Scouting was only one aspect of Mrs. Hoover's diverse work in charity. She served on the National Amateur Athletic Federation. And she established a school for children in the Blue Ridge Mountains. A recent biography says that at the start of the Depression, Mrs. Hoover received many letters seeking relief. She had a group of trusted advisers research these letters to determine which were legitimate and should receive charitable help or even an anonymous donation from herself.

Lou Henry Hoover's charitable work wasn't known then and is little-known now. She believed that philanthropy shouldn't be exploited for partisan, political gain. Why do I discuss the work of a First Lady who was born in Waterloo, Iowa, well over a hundred years ago? Well, first as an Iowa Senator, I'm always happy to talk about the good things that Iowans do. But second, I want to focus on Mrs. Hoover's point on charities in a political context. Mrs. Hoover's views then are close to the feelings of most Americans now on this subject. She had it right when she made sure that the charitable requests she received were subject to independent and trusted review for legitimacy. She recognized the responsibility of the donor and the charity to make sure that charitable funds went to those truly in need. That view drives my work today -- I see the need for greater responsibility of donors and charities to safeguard the public trust. Why press for greater responsibility? Because of the importance of charitable work.

As some of you may know, I travel to all 99 counties in Iowa every year. As you can imagine, in those counties I see all walks of life. What I've found time and time again is that the helping hand for a neighbor is far more effective and humane when offered through charities and churches than the machinery of government. We're all reminded of that simple truth with Hurricane Katrina. As Finance Committee chairman, I've met with Senators from the affected areas. Time and again they

told me of how the local charities made such a difference for so many families. The recent Katrina relief bill signed into law has language that will greatly encourage charitable giving across the country – not just the area affected by Katrina. This language lifted the limitation on cash charitable deductions to public charities until the end of the year. It will allow, for example, individuals to give an IRA to a university or hospital. I anticipate that this one provision, even though time-limited, will mean well over a billion dollars in new charitable giving this year.

This provision was important because of what we saw after 9/11. There was great outpouring to charities for the victims. Unfortunately that giving often meant that other charities not involved in 9/11 relief -- but providing important services in their community -- saw a significant downturn in support. I hope the provision in the Katrina bill will help prevent that from happening again.

Now I'll turn to charitable reform and politics. It may sound like I'm blowing my own horn about the charitable provisions in the Katrina bill. But these were bipartisan matters that I worked on with Senator Baucus, Chairman Thomas and Congressman Rangel. However, I raise the issue, first, because I'm proud that we got the legislation signed into law. But second, because there are a few who want to portray my work and the committee's work on charities as one-dimensional -- only focused on reform. A fair reading is balanced for both reform and encouraging charitable giving.

And just as my efforts to encourage charitable giving have been bipartisan, so have my efforts to conduct oversight and bring charitable reform. I've worked with Senator Baucus and other Finance Committee members on reforms and oversight. I view oversight as part of my constitutional role as a Senator. I've been conducting oversight on a broad range of issues since I first came to the Senate. I've investigated the Department of Defense, FBI, IRS, you name it. I conduct oversight regardless of who's in the White House. It doesn't make you popular. You tend to be the skunk at the picnic. But it's my responsibility. My oversight continues today with an emphasis on my committee's jurisdiction. On taxes, we're looking at corporate tax shelters, the advanced pricing agreement program, tax-exempt organizations and more. I've given you the reason for oversight -- my constitutional responsibilities. Now let me tell you the purpose of oversight as well as reforms in the charitable area. It's to safeguard the public's trust that charities are being operated in the public interest. I have a responsibility to make sure charitable donations actually help those in need. Part of that is ensuring that charities are managed in a way that's in keeping with the charitable goals of the organization. Unfortunately some people view charities and charitable gifts as a chance to help themselves, not others.

Reform and oversight also safeguard the donors and taxpayers. For the donors -- to safeguard that the money is being used appropriately. For the taxpayers -- to safeguard that the tax benefits that both donors and charities receive are balanced by benefits to the community and especially those in need. In considering reforms, the Finance Committee has conducted an open discussion calling on the Nonprofit Panel to convene and provide a response from the charitable community. I'm pleased with much of the work from the Nonprofit Panel. There's much common ground. There remain areas of disagreement -- and that's to be expected -- but there are more areas of agreement than disagreement. And even in those areas of disagreement, I'm listening closely to the Nonprofit Panel's comments.

While I hoped to have a complete reform package ready this fall, Katrina has affected this and many other plans. I hope to bring forward the first phase of reforms this fall and continue with a second phase of reforms as a priority next year as well. In general, the reforms will focus on better

transparency and improving board governance, particularly on self-dealing and high salaries. In addition, we'll deal with three types of abuses. First will be abuses we've found in certain types of charities -- such as supporting organizations, donor-advised funds and credit counseling. Second will be abuses involving certain noncash donations -- such as facade easements and as many of you know from my friend, the springbok -- taxidermy. And finally will be abusive transactions, such as what we've seen with life insurance and corporate tax shelters.

I hope that we'll couple the reforms with incentives to encourage charitable giving. But let me be clear -- we're seeing serious abuses in parts of the charitable sector. I'll take action when and where I can to deal with those abuses -- just as I did with corporate tax abuse. I anticipate that in the first phase of reforms, there will be particular focus on stopping the most significant tax abuses. In fact, one of my great concerns is the growth of tax abuses that involve both corporations and tax-exempt organizations. The IRS commissioner noted that more than 50 percent of all corporate tax shelters could involve a tax-exempt organization. As a legislator, I've learned to take the long view. It took me years to pass the bankruptcy bill and class action reform. I'm prepared to take the time needed to enact the right reforms for charities to safeguard the public trust.

In enacting reforms, I'm aware of the charities' concerns -- they don't want red tape that will make it tougher to do their good work. As a legislator, I'm not looking to impose feel-good busy work that won't be effective. I'm concerned about not overburdening smaller charities. I believe that working with the nonprofit panel helps us to find the right balance. However, in finding that right balance let me address a comment I know is out there. It's that all the problems in the nonprofit area can be addressed with more money for enforcement. This ignores that we haven't had a serious review of the tax-exempt laws since 1969. The world has changed since then, and so has the charitable community. In looking at the laws we must consider three points: (1) do they deal adequately with the current world?; (2) can the laws be easily enforced?; and (3) will they effectively deter bad actors? We saw a similar situation with corporate tax shelters.

While there were laws to deal with corporate tax shelters, sharp lawyers and accountants worked around the laws. The measures were hard to enforce and didn't deter bad actors. The penalties were so low for accounting firms involved in tax shelters that paying was just a small price of doing business. They made millions from the shelters. That's why we changed the law and still are looking at more changes on corporate tax shelters. The same reality applies to the laws governing the tax-exempt community. Second, just as we saw stepped-up funding for corporate audits, the IRS has similarly increased funds for oversight of exempt organizations. Yes, that's part of the solution -- but just that, a part. In the Senate version of the Katrina bill we added funding for IRS oversight of exempt organizations. We provided that the \$40 million in fees from charitable applications would go to the IRS for exempt organization oversight. I would have expected that all those high-paid lobbyists who say the sole answer is more funding would have beaten a path to the House side to encourage them to accept the Senate provision. Unfortunately, it appears that calling for more funding is nothing more than a good sound bite for lobbyists opposing reforms.

I'm unaware of a single phone call, email or letter sent to the House in support of the Senate provision for more funding for IRS oversight of exempt organizations. I'll continue to press for increased funding for the IRS in this area as a partial answer. It's natural for me to focus on legislation given my position. However, everyone here today should remember that the charities themselves remain in the best position to make many of the reforms. The nonprofit panel gave a host of recommendations for reform that charities should make on their own.

It's important for the charitable sector to look at ways of encouraging charities to implement these reforms and best practices. In particular, funding organizations, such as private foundations and community foundations, have an important role to play in emphasizing the need for these reforms as they make grant-making decisions. On a similar note, the charitable community should stop standing silently on the sidelines when the newspapers are filled with stories of flagrant waste and abuse at a charity. I'm troubled that there was little to no criticism from the charitable community about the serious problems at American University and the Getty Foundation. Charitable leaders must be strong-voiced in condemning inappropriate behavior in their sector.

Briefly, on the Finance Committee's work looking at tax-exempt hospitals -- we've received responses from the hospitals and have completed our first review of the answers. While it's early to make definitive statements, what we've seen so far raises more questions than it answers. I anticipate we will write additional letters to those hospitals to seek clarification on the answers provided. We may also write to other hospitals as well as the Health and Human Services Department. In general, the answers from the hospitals and other material received by the committee show there is little to no common policy among hospitals. We're finding that there aren't even common definitions about such critical areas as charity care and community care. The public must have confidence that the significant tax breaks received by tax-exempt hospitals are balanced by community benefits. I strongly encourage the nonprofit hospital community to take a page from the nonprofit panel. It should come forward with its own substantive proposals for common definitions and reforms in areas such as community benefit, charitable care, charges to the uninsured, debt collection and joint ventures. Let me conclude by thanking you all for your hard work and dedication. You all are here as representatives of our nation's leading charities. The work of your organizations is vital to the well-being of our country. The reforms we're working on together will strengthen America's philanthropic network.

From launching college scholarships to boosting health care research and replenishing local food pantries -- charities pull people together to reach a common goal. It's because your work is so important to the nation that I believe it's equally important for the Finance Committee to perform oversight and seek reforms in this area. I know many of you share my views and support my efforts in this area and I greatly appreciate that and thank you. Our charitable community was built by the hard work of people like Lou Henry Hoover. Her legacy continues. Many of you are her equal in dedication to a strong charitable community. And like Mrs. Hoover, you know that charity works best when you give with both your heart and your head. I'm confident that working together we can safeguard the charitable sector we all cherish and that it will remain our nation's strength. Thank you. Now I'll take your questions.