



U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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For Immediate Release

Monday, May 3, 2004

Grassley Seeks Details of Instrument Donation, Highlights Need for IRS Whistleblower Incentives

WASHINGTON – Sen. Chuck Grassley, chairman of the Committee on Finance, is asking for details of a donation the Smithsonian Institution received of four Stradivari musical instruments – two violins, a viola, and a cello – in 1998. Several observers believe the donor may have significantly inflated the instruments’ value to claim a much bigger tax break than he deserved, and that the Smithsonian may have done little to help prevent that.

“It’s troubling that the Smithsonian may be turning a blind eye to tax mischief,” Grassley said. “Government agencies should be working in concert, not against each other. We’re seeing problems of wildly inflated in-kind donations across-the-board: cars, land, intellectual property and now, possibly, donations of musical instruments. Donors shouldn’t be able to get away with playing the taxpayers like a fiddle.

“Car donations are getting the most headlines as areas of abuse, but donations of land, art and intellectual property are all raising concerns. It appears we’re just scratching the surface. We have to get a good handle on all areas of abuse to allow taxpayers to take the deductions they’ve earned, not what they’ve inflated.”

Grassley and Sen. Max Baucus, ranking member, are working to advance reforms of vehicle and intellectual property donations through their foreign sales corporation/extraterritorial income act bill, which is pending before the full Senate. They plan to develop additional legislative reform proposals on charitable giving and accountability as needed.

Grassley also is asking the Internal Revenue Service for details of an individual who raised the tax fraud question regarding the Stradivari donation with the agency. The individual may deserve whistleblower compensation, and Grassley is working to improve the IRS’ incentive system to encourage whistleblowers to expose tax fraud.

“I was the Senate author of the 1986 whistleblower amendments to the False Claims Act,” Grassley said. “Those amendments have returned more than \$12 billion to the U.S. Treasury. Unfortunately, one of the agencies that could most benefit from strong whistleblower incentives lacks them. The IRS is allowed to pay rewards to whistleblowers, but there’s no guarantee of a

reward and, therefore, less incentive for whistleblowers.

“The Senate is considering an international tax reform bill that I’m responsible for as Finance Committee chairman. I’ve included a provision that would require the IRS to pay rewards to whistleblowers. My legislation would model an IRS rewards program on the False Claims Act. It would empower whistleblowers to help catch tax cheats. This is long overdue. One well-positioned whistleblower could expose millions of dollars of fraud. It might take IRS auditors years to catch that much cheating on their own.”

The text of Grassley’s letters to the Smithsonian and the IRS follows.

April 28, 2004

Mr. Lawrence M. Small
Secretary
Smithsonian Institution
1000 Jefferson Dr. SW
Washington, D.C. 20560

Dear Mr. Small:

The Finance Committee has been conducting an ongoing review of in-kind donations to charities. The findings of this review have been troubling, indicating that too many taxpayers are taking highly inflated values for in-kind donations – be it cars, land, intellectual property or other types of in-kind property.

The Finance Committee has recently been made aware of questions being raised as to the value of a donation the Smithsonian received of four Stradivari musical instruments in 1998. I would appreciate the Smithsonian providing all material in its possession or control regarding this donation and particularly a copy of the IRS Form 8283 (“Noncash Charitable Contributions”) for this donation. In addition, please provide me a copy of all Form 8283’s for all donations over \$10 million dollars received by the Smithsonian since January 1, 2001.

This is not the first time this type of question has been raised regarding the Smithsonian. In 1983 the IRS raised serious concerns about gems donated to the Smithsonian that were being appraised for tax donation purposes at five times purchase price. What steps did the Smithsonian take in response to this matter to prevent a recurrence?

By comparison, following the investigation by the Finance Committee, the Nature Conservancy (TNC) has adopted several reforms regarding acceptance of in-kind donations. This was in response to concerns about the validity of appraisals for tax deductions made by donors of land and easement donations. Please describe what, if any, steps the Smithsonian takes before it signs a Form 8283 to ensure that the taxpayer’s claimed deduction is accurate.

Thank you for your time and assistance. I would ask for a response in 30 days.

Cordially yours,

Charles E. Grassley
Chairman

April 28, 2004

The Honorable Mark Everson
Commissioner
Internal Revenue Service
Washington, D.C.

Dear Mr. Commissioner:

I am writing to you regarding an issue of great concern to me – the Internal Revenue Service (IRS) and individuals who blow the whistle on tax fraud.

I have seen first-hand the enormous benefits that the False Claim Act has provided to the federal government in its fight against fraud by health and defense contractors. The problems in tax fraud are even greater. It is for this reason that I have included legislation in the JOBS bill that expands and improves upon the IRS' current limited program to reward whistleblowers. I am confident that these changes will bring far-ranging benefits to enforcement and compliance with the tax laws.

In that light, I am requesting that the IRS please provide my office all details regarding the Application for Reward for Original Information (Form 211) that was filed by Mr. Neil Fitzgerald regarding claims he has raised regarding certain charitable donations.

Pursuant to IRC section 6103(f)(4), I hereby authorize Dean Zerbe of my staff to review this information. Thank you for your time and assistance. I would ask for this information in thirty days.

Cordially,

Charles E. Grassley
Chairman