



U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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Grassley Works to Protect Charities from Misuse, Exploitation

WASHINGTON – Sen. Chuck Grassley, chairman of the Committee on Finance, today convened a hearing to expose bad actors who exploit charities for personal gain. Grassley is considering a series of legislative reforms that would protect charities from unscrupulous behavior.

“It’s obvious from the abuses we see that there’s been no check on charities,” Grassley said. “Big money, tax-free, and no oversight have created a cesspool in too many cases. It’s alarming to see tax-exempt organizations become willing partners in tax shelters used by corporations and wealthy individuals to avoid or minimize their taxes. We see powerful insiders using the assets of charities to line their own pockets instead of to help the needy. Donations and assets are being used for things like private jets and European vacations. We have to clean this up so charities keep the trust of the American people.”

Grassley’s hearing witnesses included two expert witnesses who testified with their identities concealed and voices scrambled. “Mr. Car” described how car auction middle men disable perfectly good donated vehicles so charities get pennies of the auction proceeds and middle men get the bulk. “Mr. House” explained how two executives of a major non-profit manipulated the group’s funds to enrich themselves personally while a weak board of directors did nothing to stop them.

An Iowa expert testified that reforms of non-profits should improve accountability without imposing more federal regulations that cash-strapped, under-staffed charities can ill-afford. Willard L. Boyd is professor of law and president emeritus of the University of Iowa, director of The Larned A. Waterman Iowa Nonprofit Resource Center, and chair of the Iowa Governor’s Task Force on the Role of Nonprofit Organizations in Iowa.

Grassley said he understood the importance of preventing the manipulation of nonprofits while not overwhelming the ability of charities, especially small charities, to achieve their important missions. “Finding that balance will be the task in the weeks ahead,” Grassley said. “My hope is to work with the non-profit sector to find that balance. Then I hope to introduce legislative reforms this fall, and maybe even earlier for some provisions.”

Staff for Grassley and Sen. Max Baucus, ranking member of the committee, have prepared a discussion draft of comprehensive reforms that would protect charities from bad actors and tighten their accountability to donors. The major reforms under discussion include:

* Requiring board members to be responsible for managing the charity, to do so in a manner they reasonably believe to be in the charities' best interest, and to use any skills or expertise they might have. Failure to do so would risk as yet unspecified federal liability.

* Five-year reviews of an organization's tax-exempt status by the IRS.

* Better and broader financial disclosure forms -- including requiring the charity's chief executive officer to sign the forms -- and better public access to information about the charity.

* To curb tax sheltering, charities found "accommodating" tax shelters listed with the IRS would lose the right to receive deductible donations for a year and would face a 100 percent tax on any fees or benefits they accrued for accommodating the tax shelter.

* Placing restrictions on "donor advised funds." These are funds, in many cases run by big mutual fund companies, that allow donors to contribute and take an immediate deduction but then direct the distribution of the donation to charities over time. These funds are not defined in current law and are not subject to any special rules. Reforms under discussion include requiring donated assets other than cash and publicly traded securities to be sold promptly, and requiring minimum annual distribution amounts.

"Making reforms to the way charities do business is good for everybody," Grassley said. "Donors should have confidence that their money is handled responsibly, and the needy should receive the helping hand intended by the charity in the first place. We need reforms to shut down the hucksters who twist the good will and generosity of others for their own personal benefit. By targeting the misdeeds that have infiltrated some charities, we can help cultivate the important work carried out by philanthropies every day, thanks to the generosity of Americans."