



U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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Opening Remarks of Sen. Chuck Grassley of Iowa
Chairman, Senate Committee on Finance
Hearing on Charities and Charitable Giving: Proposals for Reform
Tuesday, April 5, 2005

This is a hearing on two important subjects. The first is strengthening the role of charities in this country. The second is closing the tax gap as it relates to charities and charitable giving.

Last week the Commissioner of the Internal Revenue Service came out with preliminary findings on the tax gap. The news is not good. We continue to have a tax gap of well over \$300 billion a year. That's the difference between the amount of tax voluntarily paid and the amount of tax that should be paid. Like a loaf of bread, the tax gap is made up of many slices. There isn't one specific problem or issue that makes up the whole. If we're going to begin to close the tax gap, we'll do so one slice at a time.

In one particular area, we've become familiar with the problem of individuals taking big tax deductions based on estimates – often pie-in-the-sky estimates – for gifts of closely held stock, in addition to real and tangible property that is given to charity. What we see too often is the charity receiving a very small amount of support, at best, from this kind of gift, at the same time the taxpayer gets a tremendous benefit from the tax deduction.

I have here a Spring Bok from South Africa. Unfortunately, some people think its name is "Free Buck." The Spring Bok is known for its ability to leap when startled. Boy, were we startled when we learned of this new tax scam. The story in this morning's *Washington Post* makes me think that many people think the "tax" in taxidermy is meant to allow them to write off safaris to Africa as tax deductions if they give away a stuffed animal. This type of scam gives new meaning to the term tax "game."

I expect the Internal Revenue Service to be very active in big-game hunting when it comes to this particular tax shelter. Mr. Commissioner, I would suggest the next head that needs to be mounted – figuratively, of course – is the appraisers who've been promoting this scam. This taxidermy problem is just one example of what we're seeing too often when it comes to certain tax deductions for gifts to charity. Similar problems with valuation exist throughout the tax code. Finding solutions is part of slicing away at the tax gap.

The second aspect of today's hearing is strengthening the charitable sector. From the earliest days of European settlement, charity has been central to our national character.

In his sermon to the Puritans sailing to the Massachusetts Bay Colony, John Winthrop said that they would be creating a “city upon a hill” for all to see. The Reverend Winthrop said that to succeed in the new land, the Puritans needed to be a model of Christian charity.

The years between then and now have proven the importance and value of this ethic. Today’s tax code recognizes the importance of charities in helping those in need. It provides tax-exempt status to charitable organizations and tax deductions for charitable giving. Congress, the administration and the charitable sector itself are all obliged to make certain these tax preferences are used as intended. Congress hasn’t taken on a serious review of tax-exempt organizations since 1969.

Today I’m submitting for the committee record a letter from IRS Commissioner Everson. Mr. Everson’s letter to Sen. Baucus and me makes it clear that a lot has changed since 1969. Congress must revisit the laws in this area to make sure that it’s “charity” that benefits from the laws rather than “private interests.”

Last year, the Finance Committee had a hearing and a roundtable discussion on this subject. We considered a staff discussion paper. Since then, we’ve received the Joint Committee on Taxation’s thoughtful proposals in this area and the IRS Commissioner’s detailed observations. We’ve also engaged the charity sector, which is providing recommendations and reactions through the Nonprofit Panel.

It’s my hope that in the near future the Finance Committee can move legislative reforms that will strengthen charitable governance and address this part of the tax gap. Those revenues can offset the costs of the CARE Act, which has an able advocate in Sen. Santorum. I’m confident we can consider a mark that will take meaningful steps to address this part of the tax gap, help see that charities act in the interest of their charitable purpose and, finally, encourage new charitable giving. Today’s hearing gives committee members an opportunity to explore these matters in detail.

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This has been a very useful hearing. The testimony today has made it clear that there is a need for reforms to deal with this part of the tax gap. We have heard good suggestions that will allow us to address many of the problems raised. Balancing these efforts, I want to make certain that the vitality of nonprofits, particularly small charities and churches, is not unduly burdened by governance reforms.

I want to note the work of the Nonprofit Panel, which was well-represented today by Ms. Aviv, Mr. Gallagher and Mr. Panetta. We heard extensive and thoughtful comments about the problems in the nonprofit sector. These comments need to be shared with the charitable sector as you conduct your discussions and meetings. Too often as charities across the country consider proposals for reforms, they do so in an atmosphere that doesn’t reflect the reality we see. I

strongly encourage the Nonprofit Panel that their work must be one not only of dialogue with charities but informed dialogue that starts with serious and significant education of the problems before us. Without education, it is only natural that some charities respond as if the sky is falling.

But the fact is that those who turn a blind eye to the problems in the charitable sector, or seek only a fig leaf of reform, potentially cause real long-term damage to non-profits. Those who are seeking real reforms to address the issues raised by the Commissioner and others today, will help ensure continued public confidence and support for non-profits. By doing so they act in the true best interests of charities.

Given the limited time frame, I encourage the non-profit panel to concentrate its work first on the areas of governance. It is particularly vital that the panel provide us serious proposals that the IRS can efficiently administer in the areas of self-dealing, governance and pay and benefits. The Finance Committee has taken a rare step in reaching out so extensively. My hope is that this experiment will be a success, and that we will see serious reform proposals quickly.