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Strengthening the nonprofit sector

By Sen. Chuck Grassley (R-Iowa)

Warren Buffett secured an even loftier position in the eyes of Americans when he recently announced his plans to give away the lion's share of his \$44 billion fortune to charity. The "Oracle from Omaha" boldly represents the noble generosity of the American spirit.

Charitable good works and philanthropic pursuits have strengthened the United States of America for the past 230 years. The philanthropic network is a cornerstone of American society, serving a pivotal role in communities across the country and wielding considerable cultural, economic, political and social influence around the globe.

According to the Foundation Center, a New York organization that keeps tabs on nonprofit entities, roughly 68,000 U.S. foundations distributed more than \$33 billion in 2005. That's more than double from a decade earlier.

Thanks to volunteers and donors in our hometown communities, charitable organizations help to feed the hungry, provide healthcare to the medically underserved, clothe the poor, shelter the homeless and rescue neighbors in need when disaster strikes.

The federal government has long supported public policies that encourage charitable giving, including tax-advantaged benefits for organizations whose mission serves the public good. The nonprofit sector — including private foundations, public charities and corporate philanthropies, as well as pensions — controls \$11 trillion in assets. Special tax breaks for tax-exempt organizations translate into \$200 billion each year that otherwise would flow into the federal treasury.

The federal tax laws governing nonprofit organizations have been mostly untouched since America sent a man to the moon. And while the nonprofit sector has blazed a trail of good deeds and good works for mankind since 1969, the temptation to exploit charities for personal gain has attracted more than a few bad actors to take a bite at the tax-exempt apple.

As chairman of the tax-writing Senate Finance Committee, I take seriously my constitutional responsibilities to protect the public purse. From simplifying the tax code to strengthening entitlements for future generations, securing tax relief for hardworking Americans and enhancing private pensions and personal savings opportunities, I advance public policies that treat taxpayers fair and square.

That to-do list includes my efforts to ensure the nation's tax laws strengthen Americans' long-standing tradition of charitable giving and protect taxpayers from subsidizing wrongdoers who misuse nonprofits for their own good.

Just as Congress has acted in the public interest to protect shareholders and workers from corporate mismanagement, so too must Congress demand transparency, accountability and good governance from the nonprofit sector. Nonprofit organizations must earn the privilege to keep

their tax-exempt status. Tightening the rules and regulations governing the nonprofit sector will help repair the breach of trust that threatens to tarnish even the most reputable charities in America.

Working with more than 100 charitable groups, I have developed a legislative package of reforms to strengthen America's deeply rooted tradition of charitable giving and to renew the federal government's covenant with philanthropic good works for the 21st century. Based on my congressional investigation to track the abuse and misuse of tax-exempt organizations, I have identified key areas of concern, including:

- Excessive compensation perks, pay and sweetheart deals involving officers and directors.
- Nonprofit groups that act more like for-profit businesses than charities.
- Inappropriate political activity.
- Lack of financial transparency and accountability to donors.
- Nonprofit hospitals that do not provide adequate charity care and community benefits.
- Tax-exempt organizations fronting as tax-shelters.
- Donor-advised funds and supporting organizations being used by the wealthy to protect business assets and take big charitable tax deductions with little or no money actually going to public charities.
- Charitable boards that are not engaged in their fiduciary responsibilities to ensure that the charity is operated appropriately and responsibly.

I'm not so naive as to believe that enacting a new law will fix these problems overnight, but it's also clear that merely enforcing current laws won't get the job done. That's why I'm working in cooperation with the nonprofit sector and the Internal Revenue Service to build a consensus for balanced, comprehensive reforms that will help weed out bad actors and bad practices that give the nonprofit sector a black eye.

Enhancing charitable-giving tax incentives, raising standards for stronger internal financial controls, enacting new laws that reflect today's environment, and overseeing agile enforcement by the IRS would go a long way to strengthen the public's faith and trust in charitable organizations.

Tightening the reins on the nonprofit sector today will make it better prepared to do even greater good for the public good tomorrow. And if more and more entrepreneurs follow in the footsteps of Warren Buffett and give away their fortunes to help the less fortunate, the nonprofit sector will be ready and able to serve better the unmet needs of society.

Grassley is chairman of the Finance Committee and vice chairman of the Joint Taxation Committee.