

# Philanthropic

# NEWS

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Senator Charles E. Grassley of Iowa

## SENATE FINANCE COMMITTEE WEIGHS REFORMS IN CHARITABLE SECTOR

The United States Senate Finance Committee, chaired by Senator Charles E. Grassley of Iowa, held public hearings on June 22, 2004 on the practices and abuses of non-profit organizations and on ways to improve governmental oversight. The committee staff has published a list of potential legislative reforms designed to address certain of the abusive practices in the charitable sector which have become matters of increasing concern to regulators and the public. A charitable governance roundtable was subsequently held by the Committee on July 22, 2004, including brief presentations by professors, representatives of associations, representatives of nonprofit watchdog groups, attorneys, accountants, and regulatory officials. The roundtable invitees were largely in consensus that increased funding for enforcement would resolve most of the major problems sought to be addressed, thereby obviating the need for many of the proposed modifications.

As noted by many roundtable presenters, a few of the proposals could significantly improve regulatory enforcement capabilities – including increased information-sharing between federal and state

regulators, increased penalties for failure to file a complete and accurate Form 990, and requiring electronic filing – and thereby curb certain abusive practices. However, presenters also pointed out that many of the proposed reforms could impose potentially significant burdens on relatively small non-profit organizations, and may not be the best way to achieve better governance.

Proposed changes that could be costly and administratively onerous, especially for small organizations, include: (1) a review by the IRS every five years of the tax-exempt status of each charitable organization to determine whether it continues to be organized and operated for an exempt purpose; (2) an increase in federal excise taxes for self-dealing, jeopardizing investments, and taxable expenditures; (3) additional filings to supplement IRS Form 990; (3) certification by the CEO of the IRS Form 990; and (4) penalties for failing to file a complete and accurate 990. These changes do not account for the fact that many organizations' failure to appropriately or completely prepare their 990s is due to lack of funds to pay for professional assistance, rather than intentional omissions. Disproportionate harm to smaller organizations is likely to occur even applying the proposed sliding scale for penalties.

*(continued on page 2, column 1)*

## FEDERAL ELECTION COMMISSION ISSUES FINAL RULES ON POLITICAL COMMITTEES

The Federal Election Commission (FEC) has adopted final rules on political committees which do not impose the sorts of limitations on charitable advocacy groups that had been feared. Previously proposed rules of the FEC could have, if adopted,