

Charity Leaders Urge Government to Make Changes in Laws on Trustee Compensation, Charitable Solicitations

By [Ian Wilhelm](#)

04/26/2006

A group of key nonprofit leaders has released recommendations on how to curb excessive trustee compensation, stop fraudulent charitable solicitations, and prevent other abuses in the nonprofit world.

The report was put together by the Panel on the Nonprofit Sector, which was organized by Independent Sector, a Washington coalition of about 600 foundations and charities, to help the Senate Finance Committee draft a proposal to improve governance and accountability among tax-exempt organizations.

The U.S. Senate has approved legislation that includes many provisions aimed at cutting down on abuses of charity tax laws and encouraging charitable giving. But the U.S. House of Representatives has not voted on such provisions.

The 40-page report is a supplement to two lengthier publications the group released last year. The new report focuses on nine areas, including the controversial topic of trustee compensation at charitable trusts.

The report suggests the U.S. Treasury Department clarify so-called self-dealing rules for private foundations so that a trustee's compensation can still be considered excessive regardless if state and local authorities have approved it or if the original deed that established the trust stipulated it.

In addition, the panel would like the Internal Revenue Service to revise federal tax forms filed by nonprofit groups to distinguish between fees paid to individual trustees and payments to banks or other financial institutions that manage a trust.

Jeff Krehely, deputy director of the National Committee for Responsive Philanthropy, an advocacy group in Washington, applauded the panel's suggestion to the revenue service, saying that breaking out such data would help researchers better examine foundation compensation. But he said he would like the panel to take a closer look at "what, exactly, foundations are getting in exchange for trustee fees, and whether most individual trustees are people who are in desperate need of financial compensation."

The report proposes changes in several other key areas:

Charitable solicitations. To crack down on fraudulent solicitors and for-profit fund raisers that pass a small percentage of their revenue to charities, an electronic system to register fund raisers should be established, the report says. States should remain the primary regulator of such activities, but if they cannot develop a uniform system within a certain time frame (the report does not suggest one), Congress should require the Federal Trade Commission to set up the system.

Credit-counseling charities. The report says Congress should strengthen consumer-protection laws to prevent abuses by nonprofit credit-counseling groups, such as failing to provide adequate financial education to their clients and funneling too much money to their chief executives. In addition, the Internal Revenue Service should continue its "aggressive enforcement action" against credit groups; the IRS has already revoked the tax-exempt status of dozens of such organizations.

Business connections. The federal revenue service should change the nonprofit tax form to ask charities for more information about business activities they may operate that are unrelated to their charitable purposes, the report says. In addition, it should require charities to report when an officer, director, or board member owns 10 percent or more of a commercial entity that the charity also has 10 percent or more ownership stake in.

The report also makes recommendations on rules that regulate investment strategies by foundations, sales of donated property, international grant making, the conversion of nonprofit hospitals to for-profit entities, and whether the role of the U.S. Tax Court should be expanded to allow trustees to sue nonprofit groups if they feel their organizations are not following the law. On the latter issue, the panel rejected any changes in the Tax Court.

The report is available free from the Panel on the Nonprofit Sector's Web site at <http://www.nonprofitpanel.org/supplement>

[Copyright](#) © 2006 [The Chronicle of Philanthropy](#)