

How the IRS could do a better job

23 November 2006

Chronicle of Philanthropy

To the Editor:

A recent article in *The Chronicle of Philanthropy* (["IRS Takes a Tougher Stance,"](#) October 12) highlights the important role played by the Internal Revenue Service in ongoing efforts to establish greater accountability and transparency in foundations and nonprofits. The fact that these accomplishments were made without an increase in the budget of the IRS's tax-exempt division makes it more noteworthy.

However, it would be unrealistic to assume that the IRS can continue these efforts without additional funding. The ever-increasing cost of human, material, and technological resources means that money will eventually run out, jeopardizing future plans for much-needed reform as well as any improvement that has already been made.

The progress made in the past five years is an important step toward the right direction. But more needs to be done in the IRS and in Congress.

Beyond improving the 990s and requiring more foundations and charities to file their returns electronically, there should be significant penalties for those that fail to file on a timely basis. Like private foundations, information regarding corporate giving to nonprofits should also be disclosed, as should grant making by public charities and donor-advised funds.

In addition, there should be a requirement to divulge all insider relationships with foundation vendors and stronger definitions of and restrictions against foundation trustee self-dealing. This would entail closing the loophole in existing anti-self-dealing regulations, which has been exploited by foundations in the past.

There is a way to ensure that the IRS has the funds it needs to carry out its mandate without unnecessarily digging into the public's pocket â€" the foundation excise tax, which was enacted in 1969 to cover the costs associated with overseeing tax-exempt groups.

In a statement to the House Ways and Means Committee in April 2005, the National Committee for Responsive Philanthropy outlined a proposal that entails reducing and consolidating the private foundation investment excise tax to 1 percent of investment income. The current rate is between 1 and 2 percent, depending on a private foundation's charitable spending in a particular tax year.

Under the proposal, the bulk of the tax payment should be devoted to IRS and state-government oversight of nonprofits and foundations: 20 percent to the tax-exempt division of the IRS, which will more than double its budget of less than \$60-million to approximately \$130-million and 40 percent to create a \$140-million fund, which can be used by the IRS commissioner to supplement the charity investigative and oversight arms of the state attorneys general.

In addition, 15 percent or approximately \$50-million for the IRS commissioner to support nonprofit research, ratings, and evaluation efforts that complement and augment the IRS's work; another 15 percent for the IRS to generate statistics on the finances of foundations and charities, similar to the numbers it provides on other sectors of the economy; and the remaining 10 percent to support special initiatives such as additional research and data collection and dissemination of the IRS's tax-exempt division.

Foundations should also be required to use the "savings" from the tax reduction in the form of additional grants to nonprofit organizations.

Self-regulation has proved to be inadequate in safeguarding the integrity of the charitable sector. It allowed abuse and mismanagement as well as scandals involving politicians and interest groups, which fueled the public's distrust toward the philanthropic sector.

The IRS is the government's and, ultimately, the people's strongest line of defense against future misuse, negligence, and corruption in foundations and charities.

Mary M. Lassen
Interim Executive Director
National Committee for Responsive Philanthropy
Washington, D.C.

© 2006 Chronicle of Philanthropy. All rights reserved.