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## **Congress Probes Tax-Exempt Group Actions Monday, June 21, 2004**

WASHINGTON — Lawmakers are taking a close look at charities and tax-exempt organizations such as universities and hospitals to assess claims that nonprofit groups are using their legal status as a cover for criminal behavior.

Millions of groups that claim nonprofit motives use the tax-exempt status. It can apply to charities, foundations, credit unions, civic leagues, political associations, farmers' cooperatives, mutual insurance associations and religious orders.

In the House, the pricing practices of tax-exempt and other hospitals are the subject of a Ways and Means subcommittee hearing Tuesday.

Witnesses set to appear Tuesday before the Senate Finance Committee intend to say that state and federal agencies have done little to ensure compliance by the fast-expanding tax-exempt sector.

"I think that the sector is growing enormously," said H. Art Taylor, president and chief executive of the BBB Wise Giving Alliance. "Clearly, there are people who have decided to get into this business for the purpose of enriching themselves."

Stories of personal enrichment caught the attention of the committee leaders.

"I am very troubled that the fraudulent practices of a few have begun to overshadow the efforts of those who work to do good in the charitable world," said the committee's top Democrat, Sen. Max Baucus of Montana. "Using charities as a smoke screen to hide unethical and criminal behavior is inexcusable."

Last week, class-action lawyer Richard Scruggs filed federal lawsuits in Jackson, Miss., against 13 not-for-profit hospitals in eight states that alleged they inflated the amount of charity care they provide and of used strong-arm tactics to collect money from the uninsured. The suits seek unspecified damages from hospitals in Alabama, Florida, Georgia, Illinois, Minnesota, Ohio, Tennessee and Texas.

The Internal Revenue Service has a large portion of the tax-exempt debt counseling industry under audit. This year, the agency also issued its first ruling against a tax shelter involving charities.

In testimony prepared for the Senate hearing, an insurance analyst describes schemes she sees marketed to and used by charities for the profits of corporations.

"These are not small investments. These are billion dollar pools each," insurance analyst J.J. MacNab of Insurance Barometer LLC said.

"There's a lot of games being played," she said. "The charities are hungry right now. They had a bad couple of years."

The problems have congressional tax writers contemplating many changes.

Some ideas would establish an IRS review every five years to make sure groups continue to meet their obligations, revoke the tax-exempt status of charities that use tax shelters, put in place corporate governance rules on boards of directors and require groups to disclose more information to the public.

"We need reforms to shut down the hucksters who twist the good will and generosity of others for their own personal benefit," said Senate Finance Committee Chairman Charles Grassley, R-Iowa. "I intend to propose legislation on various charitable abuses as the problems emerge and my colleagues and I develop clear solutions."

Some charities welcome the review.

"They are not being held to a higher standard. They are being held to a charitable standard," said Rick Cohen, executive director of the National Committee for Responsive Philanthropy. "Donors are going to lose faith in where they're putting their money."

Recognizing the lack of government oversight, the leaders of the House Ways and Means Committee want to make sure that nonprofit groups still fulfill the missions worthy of tax-free status.

"The assumption is that you are doing certain things in society to be able to continue to receive the tax-preferred status. So what is it? Let's have that discussion," said the chairman, Rep. Bill Thomas, R-Calif.

Thomas said he wants to examine the areas where nonprofits bump up against their taxable cousins. Those places include credit unions and banks, as well as nonprofit and taxable hospitals.

Other areas under scrutiny are places where organizations may seem to act in multiple roles.

Thomas gives these examples: A museum's cultural mission deserves tax-free status, but what about its gift shop? Land grant universities get understandable advantages for building classrooms and labs, but what about the bowling alley, gym, travel agency and bookstores?

"When you see the amount of money involved in the (tax-exempt) area, ... you will be amazed with the amount of money taken off the table by virtue of that category," Thomas said.

Committee aides estimate that entities organized as tax-exempt institutions avoid paying \$200 billion in taxes in a five-year period.