



FUR COMMISSION USA

826 ORANGE AVENUE, #506 CORONADO, CALIFORNIA 92118-2698
TEL 619.575.0139 FAX 619.575.5578 EMAIL FURFARMERS@AOL.COM
WWW.FURCOMMISSION.COM

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Mr. Douglas H. Shulman
Office of the Commissioner
Internal Revenue Service
1111 Constitution Avenue NW
Washington, DC 20224

Dear Mr. Shulman:

We applaud your efforts to restore credibility in the non-profit industry by reforming the actions, activities and reporting of the organizations. In that light, we submit to you the following recommendations that we believe would help attain your goal.

Ties to, and interaction with foreign entities and organizations

As we move ever closer towards a global economy, charities are becoming more and more international. Additionally, charities believed to have compromised our national security, have had substantial international ties. Also, moving funds offshore is a simple way to hide what could be taxable income. We make the following recommendations:

1. Along with reported affiliated and related organizations, each 501(c)(3) and 501(c)(4) organization should be required to report any substantial ties and/or affiliations it has with foreign (i.e. non-U.S.) entities or organizations.
2. All 501(c)(3) and 501(c)(4) organizations with annual revenue of \$100,000 or greater which has substantial ties to and/or affiliations with foreign entities or organizations should be required to file a consolidated financial statement incorporating the financial information and data from all those organizations.
3. Each 501(c)(3) and 501(c)(4) organization should be required to attach a separate schedule detailing any contributions, gifts, grants or similar amounts received from foreign entities or organizations. This schedule should list the donor, donor's address, purpose of the grant and amount of the grant received. This schedule of foreign contributions should be open to public inspection.
4. Income (contributions, gifts, grants, program service revenue, or other revenue) from foreign sources should be taxable income.
5. Grants to foreign organizations should be taxed.

6. Each 501(c)(3) and 501(c)(4) organization should be required to disclose any contractual arrangements or financial transactions it has with foreign entities or organizations. This could be done in a manner similar to Form 990, Part II of Schedule A.
7. Each 501(c)(3) and 501(c)(4) organization should be required to disclose the country of citizenship of any foreign members of its board of directors.

Transparency of Income

Current IRS requirements attempt to balance the privacy of an organization and its' donors with the public's right to know. Unfortunately, the scales are now tipped decidedly toward an organization's privacy and against public transparency. In order to return balance to the equation, we make the following recommendations:

8. Government grants to organizations should be thoroughly reported on the recipient's Form 990 and/or attachments. Government funding is inherently public money, and 501 organizations – particularly tax-exempt organizations – have an obligation of transparency to the public. Therefore, organizations receiving government grants should attach a schedule to the Form 990 describing the amount, source (government subdivision and agency), and purpose of the grant, as well as contact information regarding the respective government agency's grants administrator.
9. Each 501(c)(3) and 501(c)(4) organization involved in third-party certification for products or practices (i.e. certified seafood products, certified timber practices) should be required to report income related to that certification on Form 990, under Part VII, Line 93 (and therefore the total on line 2) regardless of whether such income is disbursed to another entity controlled by board members of the 501(c)(3) and/or 501(c)(4), even if such an entity is a for-profit entity. Each reporting organization should also be required to attach a schedule detailing that income, including a schedule of payments listing each of the entities obtaining certification and/or making payments.
10. As we understand it, regarding Form 990, Schedule A, Part IV-A, lines 26b, 27a, and 28, organizations are required to prepare a written schedule of contributions relevant to these lines in the event the schedule is requested by the IRS, but are no longer required to attach it to the Form 990. We believe the IRS should reverse this decision. Organizations should indeed be required to attach these documents to the Form 990 that is submitted to the IRS. Moreover, organizations should also be required to attach those schedules – with contributor names and addresses removed, of course – to their publicly available Form 990. In the early 2000s many organizations' public inspection copies contained such a "scrubbed" Schedule of Contributors, divulging the amounts of large contributions but not the contributors' identities. We believe that practice should be reinstated as mandatory.
11. The intent of not having to divulge the identity of Contributors and Excess Contributors is to retain confidentiality, i.e. a donor's ability to make a contribution of choice without the public being able to learn the donor's identity simply by looking at the recipient's

Form 990. However, the public should be able to discern from a Form 990 whether the organization receives its funding from a small pool of large donations, or from a large pool of small donations, or a combination. The public should also be able to discern whether an organization repeatedly receives large donations from one or a handful of sources. No one's confidentiality is breached by having the Schedule A attached to the Form 990, with the names of contributors removed, and at the same time the public is afforded relevant information.

12. All 501(c)(3) and 501(c)(4) organizations should be required to report "Anonymous" contributions of \$5,000 or greater. Obviously the intent would not be to disclose the identity of the contributor, but rather to inform the Service and the public when an organization is receiving substantial amounts of money from contributors not known to the recipient organization.
13. Organizations that are overly dependent on one or two donors should be required to divulge those donors. For example, if an organization exceeds the 33.33 public support test threshold it should have to divulge its largest source or sources of funding, i.e. those sources that cause it to exceed that support test threshold.
14. All 501(c)(3) and 501(c)(4) organizations should be required to report on its Form 990 the total amount of revenue it receives from bequests.
15. All 501(c)(3) and 501(c)(4) organizations (not just private foundations) should be required to include with their Form 990 a detailed schedule of their investments, and investment transactions, be they stock or other holdings. So as not to unduly burden small organizations, a reasonable threshold could be incorporated so that, for example, organizations with investments valued at less than \$10,000 or with total revenues of less than \$100,000 would be exempt from this requirement
16. Regarding fundraising, we believe that:
 - a. Organizations should report both the gross amount raised and the net amount raised.
 - b. Organizations should report the name and location of any professional fundraisers used, along with the gross and net amount brought in by each professional fundraiser.
 - c. Organizations should NOT report fundraising expenses as program expenses.
17. Regarding foreign grants, we believe that:
 - a. Each organization's Form 990 should require a schedule detailing any grants it receives from non-United States entities, directly or indirectly.
 - b. This schedule – unlike the general Schedule of Contributors - should be available for public inspection, including the names of the foreign donors.
 - c. Each organization's non-grant financial transactions with foreign entities should also be reported in detail.

Expenses and Outgoing Grants

18. While the IRS does requires all 501(c)(3) and 501(c)(4) to detail salaries and benefits paid to the five highest paid officers and contractors, there appears to be no requirement that the organizations detail pension plan commitments. Such commitments, including the balance, funds to the pension plan, should be available to the public.
19. All 501(c)(3) and 501(c)(4) organizations should be required to divulge the names and purposes of “projects” for which they serve as the fiscal agent/fiscal sponsor, as well as the revenue and expenditures regarding that “project.” Over the past decade there has been a proliferation of organizations lending their IRS-approved non-profit status to outside, short-term projects, for which there has been limited disclosure. The public is left with little or no ability to locate information about the project or its fiscal agent.
20. All 501(c)(3) and 501(c)(4) organizations that serve as fiscal agents for “projects” or other semi-entities should be required to briefly describe how the programs of the project or semi-entity using its IRS status is consistent with the exempt purpose of the fiscal agent.
21. All 501(c)(3) and 501(c)(4) organizations should be required to include a schedule of grants it makes to other organizations, individuals, etc. That schedule should include the recipient, recipient address, amount and purpose of each and every grant. While current IRS requirements seem to compel organizations to include such information, many do not.
22. Organizations should not be allowed to avoid attaching a schedule of its outgoing grants simply by making statements such as “Due to the large volume of grants it is impractical to enclose all details of each grant.” Organizations should not be allowed to avoid attaching a schedule of its outgoing grants by making statements such as “Further details will be provided upon request,” and then insisting that only the IRS – not the public – has the right to make such a request. (Actual example can be provided by FCUSA upon request).
23. Organizations should not be allowed to effectively “hide” outgoing grants, and thereby avoid attaching a schedule detailing those outgoing grants by:
 - a. Reporting “grants” or “contributions” to others or similar costs as part of their Line 43, “Other expenses” item.
 - b. Reporting grants or contributions as “mini-grants,” “sub-grants” or “pass-through” grants that do not require a schedule detailing the recipient, amount and purpose.
 - c. Reporting grants or contributions to others as “contract payments to other organizations” when they are effectively grants.
 - d. Reporting several of the outgoing grants, but then having a vague entry of “Other” or “Miscellaneous” grants.

- e. Lumping grants into categories rather than listing the individual recipients.
24. All 501(c)(3) and 501(c)(4) organizations should not be allowed to effectively “hide” administrative costs by making grants to other organizations that then effectively shoulder the administrative burden of grantor.

For example, Tax-Exempt Corporation #1 makes substantial grants to Tax-Exempt Corporation #2, which account for nearly all of Corporation 2’s income. Corporation 2’s primary function is providing administrative services for Corporation 1. (Actual example can be provided by FCUSA upon request).

Look to the States

Several states require organizations to file the IRS Form 990 with the state, often with the Secretary of State, Attorney General or other department that handles charitable activities. We recommend the IRS incorporate the following requirements currently in practice at the state level:

25. California requires an annual Registration/Renewal Fee Report. That report asks eight specific questions. Of those, we recommend the IRS incorporate these:
- a. During this reporting period, did the organization receive any governmental funding? If so, provide an attachment listing the name of the agency, mailing address, contact person and phone number.
 - b. During this reporting period, were there any contracts, loans, leases or other financial transactions between the organization and any officer, director, or trustee thereof either directly or with an entity in which any such officer, director or trustee had any financial interest?
 - c. During this reporting period, were any organization funds used to pay any penalty, fine or judgment?

Similar to the latter two, organizations should also be required to disclose if any board members, employees or contractors were arrested or convicted in connection with activities regarding the organization.

26. Oregon similarly asks a series of questions. We recommend the IRS incorporate these items from the Oregon Form CT-12:
- a. Did a certified public accountant audit your financial records? – If yes, attach a copy of the auditor’s report, financial statements, accompanying notes and any schedules presented as supplementary information to the basic financial statements.
 - b. Has the organization or any officer, director or executive personnel of the organization ever been involved in a voluntary agreement with any district attorney or attorney general or a legal action in any court regarding the

organization's solicitation, administration or management practices? If yes, attach copies of the agreement and a written explanation.

Regarding the latter, we also recommend that the IRS expand this slightly to include any such agreements with any district attorney or attorney general regarding any activities of the organization, not only solicitation, administration or management.

27. Wisconsin requires all charitable organizations with contributions of \$100,000 or greater for a given year to attach an audited financial statement. (While Oregon simply asks that if such a statement was completed for it to be attached, Wisconsin requires an audited financial statement for groups over the threshold.) The IRS should have a similar requirement.

Noncompliance in answering the questions outlined above, and not answering them truthfully, should be punishable with substantial fines.

Other Recommendations

Other recommendations include:

28. In its list of board members, all 501(c)(3) and 501(c)(4) organizations should include for each member the names of any other 501(c)(3) and 501(c)(4) organizations of which they are on the board of directors.
29. All 501(c)(4) organizations should fill out and include Schedule A of the Form 990, just as 501(c)(3) organizations currently do (notwithstanding those filling out the Short Form).
30. All 501(c)(3) and 501(c)(4) organizations should file detailed financial statements regarding any of their for-profit subsidiaries.
31. 501(c)(3) and 501(c)(4) organizations should not be allowed to, as some private foundations currently do, simply say that schedules are available at the organization's office; the documents should be attached to the Form 990.
32. 501(c)(3) and 501(c)(4) organizations should not be allowed to use their own tardiness in filing to avoid disclosure. For example, one organization failed to include a schedule of its outgoing grants for tax year 1996. If that organization later filed an amended document containing that schedule, that document should be open to public inspection for three years from the date it was filed; however, as we understand the current situation, the organization is able to keep it from public disclosure because the original (and flawed) Form 990 was filed more than three years ago. All documents should be available for public inspection for 10 years the time they are filed.

33. The IRS should do what it can to swiftly move toward electronic filing for all organizations. All organizations' filings (typically IRS Form 990) should be available online, either through Guidestar or an IRS website.
34. The IRS should similarly move toward reasonable fees for distributing electronic information. Currently the Service seemingly charges the same fee for electronic documents (such as publication 78) as it does for paper documents.
35. Donor-advised or donor-directed funds should meet the same requirements for disclosure and accountability as other 501(c)(3) organizations
36. All 501(c)(3) and 501(c)(4) organizations should be required to disclose whether they have adopted conflict of interest policies and anti-trust policies and have independent audit committees.
37. All 501(c)(3) and 501(c)(4) organizations should be required to disclose information about transactions with substantial contributors, officers, directors, trustees and key employees.
38. Church associations should be closely scrutinized as to their legitimacy as churches with regards to their ability to withhold from disclosure such documents as Form 990 and attachments. Various church associations serve as advocacy organizations, advocating on issues that have little or nothing to do with religion, yet at the same time claim the church exemption to filing or disclosing their Form 990.
39. 501(c)(3) organizations should not be allowed to lobby, or at the very least their lobbying expenditures should not be tax-exempt. For example, a private citizen's, a company's or a trade association's lobbying expenditures are not tax-exempt, and neither should those of 501(c)(3) organizations.

The IRS should restructure its "Whistle-blower" and public complaint system by making it more productive for the public to present information to the service and file formal complaints regarding charities that are not abiding by laws, rules or regulations. This should include a substantial increase in the financial rewards awarded to complainants.

Thank you for your consideration of these recommendations. If you have any questions or would like specific examples or additional information, please don't hesitate to contact me.

Sincerely,

Teresa Platt
Executive Director
Fur Commission USA