



FOR IMMEDIATE RELEASE  
May 21, 2013

Contact: Sean Neary/Meaghan Smith  
(202) 224-4515

**Hearing Statement of Senator Max Baucus (D-Mont.)**  
**Regarding the IRS Scrutinizing Tax Exemption Applications**  
*As prepared for delivery*

The statesman Adlai Stevenson said, "Government by consent of the governed is the most difficult of all because it depends, for its success and viability, on the good judgments of so many of us."

These words are etched in granite at the IRS headquarters just outside Washington, DC. They speak to the need for government — at all levels — to exercise sound judgment in order to earn and keep the confidence of the American people.

That confidence was broken recently by news that the IRS targeted conservative groups seeking tax-exempt status. In doing so, the IRS abandoned good judgment and lost the public's trust. The American people have every right to be outraged. Targeting groups based on their political views is not only inappropriate, it is intolerable.

We need to understand how and why this targeting occurred. We need to know who was involved and who was responsible, and we need to install new safeguards to ensure this targeting never happens again.

The IRS has one of the most direct relationships with Americans of any agency in our government. IRS employees know where we live, where we work, how many children we have and what investments we make.

Because of this, IRS employees are placed in a position of great trust. And they must exercise this trust in a fair and evenhanded manner.

Employees in the tax exempt unit of the IRS office in Cincinnati abused this trust. The Treasury Inspector General's report found that employees in this unit targeted groups with names containing "tea party," "patriot" and other terms associated with conservatives.

The Inspector General's report also found that the tax exempt unit was a bureaucratic mess. Employees were ignorant about tax laws, defiant of their supervisors and blind to the appearance of impropriety. This is unacceptable. But the Inspector General's report also raises many unanswered questions.

For example, the report examined 298 applications, and the Cincinnati IRS office reportedly identified 96 of those 298 applications using "political" screening terms. But what was the nature of the other 202

applications? Were they filed by liberal groups, moderate groups or groups that had no political affiliation? We can't measure the full impact of this case without knowing the nature of these additional applications.

And who is responsible? We know that IRS officials in Washington tried to stop this behavior. But who in Cincinnati perpetuated the behavior – one person, two people, the whole office? Who? I intend to get to the bottom of what happened here. As part of our oversight of the IRS, this committee has launched a formal, bipartisan investigation. We have requested additional documents from the IRS as part of our independent inquiry. We will follow the facts and see where they take us.

The Inspector General's report also demonstrates the need for Congress — and this committee — to review and reform the nation's tax laws when it comes to 501(c)(4) organizations.

We have come a long way from the Tariff Act of 1894, when Congress first created exemptions for charitable, religious and educational organizations.

Today, there are countless political organizations at both ends of the spectrum masquerading as "social welfare" groups in order to skirt the tax code. These groups seek 501(c)(4) tax-exempt status. Why? Because it allows them to engage in political activity while keeping the identities of their donors secret.

According to data collected by the web site OpenSecrets.org, 501(c)(4)s spent \$254 million in the 2012 election. That's about equal to the combined spending of the 2012 Democratic and Republican political parties. None of the donors behind these multi-million dollar campaigns were disclosed – this was all secret money.

In 2010, I wrote a letter to the IRS asking them to look at all major tax-exempt organizations – 501(c)(4)s, (c)(5)s and (c)(6)s. I asked this question: "Is the tax code being used to eliminate transparency in the funding of our elections – elections that are the constitutional bedrock of our democracy?"

This letter was part of a long line of investigations that the Senate Finance Committee has conducted into nonprofit tax-exempt organizations. In 2006, we investigated the efforts of Jack Abramoff to use nonprofits to lobby Congress. And in 2005, when Senator Grassley was chairman, we investigated religious organizations, nonprofit hospitals and the Nature Conservancy.

Once the smoke of the current controversy clears, we need to examine the root of this issue and reform the nation's vague 501(c)(4) tax laws. Neither the tax code nor the complex regulations that govern nonprofits provide clear standards for how much political activity a 501(c)(4) group can undertake. The code does not even provide a clear definition of what qualifies as political activity.

And the statute provides one definition of a 501(c)(4), while IRS regulations say something different. The statute says its contributions – or earnings - must be "devoted exclusively to charitable, educational or recreational purposes," the key word being exclusively.

IRS regulations, on the other hand, define 501(c)(4)s as organizations "primarily engaged in promoting in some way the common good and general welfare of the people of the community." How does the IRS justify regulations that weaken the standard from "exclusively" to "primarily"?

These ambiguities may have contributed to the IRS taking the unacceptable steps we are examining here today.

Americans expect the IRS to do its job without passion or prejudice. The IRS can't pick one group for closer examination and give others a free pass, but that is apparently what they did. As Adlai Stevenson said, the success of our government depends on the good judgments of so many. It is clear that many at the IRS exercised poor judgment in this case. Today they'll have to answer for it.

###