National Heritage Foundation: Pushing Tax Laws to the Limit

By Jeff Krehely

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A careful study of the National Heritage Foundation's Web site at www.nhf.org should be required of members of Congress and leaders of the nonprofit and philanthropic sectors who question the need for additional and tougher government oversight of nonprofit organizations and foundations. After just a few clicks through the site, it becomes clear how easy it is to use the nonprofit sector for personal enrichment and benefit under current laws and regulations.

Established in 1968 by John T. Houk, National Heritage Foundation (NHF) currently collects, invests, and manages millions of dollars for nearly 9,000 individuals, ostensibly for charitable purposes. Claiming that private foundations are too expensive and onerous to establish and operate, Houk and his staff persuade people to make charitable donations to NHF that are then invested for present-day or future "grantmaking" to a wide range of organizations and activities. The Web site points out that because NHF is technically a public charity and not a private foundation, it does not have to obey foundation self-dealing laws, allowing donors to, among other things, "Volunteer at local nonprofit organizations and be paid a taxable income from the funds in your foundation."

Similarly, in the testimonial section of the NHF Web site, a financial planner states that "one plan I use is to set up a foundation for my clients' children. The client makes deductible contributions. Other relatives and friends may make contributions also. The child may then, with the approval and supervision of the NHF, do charitable work in the college community. They will be paid taxable income for approved work, with which they can pay their own college expenses." In other words, citizens of this country are losing out on tax revenue so the child of someone who has retained investment services can be paid to do volunteer work while in college. Sign me up!

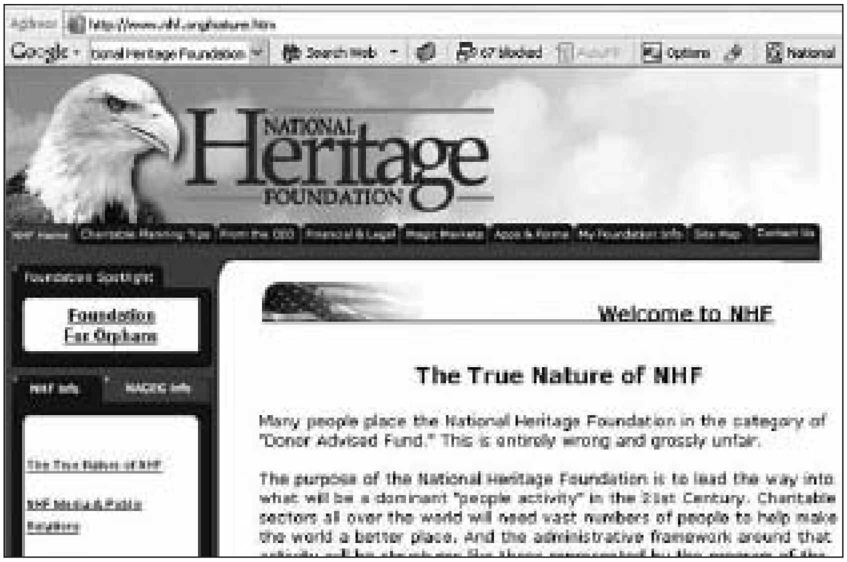
NHF's corporate model also allows its investors to avoid many government reporting requirements that foundations face (the theory behind such disclosure requirements is that if individuals take a huge tax break by setting up a foundation, they are obligated to let the public know what, exactly, is being done with the tax-exempt dollars). NHF is proud that it helps people shirk these responsibilities, stating that "individuals and corporations that set up foundations at NHF are provided with a specific means to impact areas of charitable interest, without the hassles of bookkeeping, federal and state reporting, and other time consuming and expensive aspects of administration."

The 1968 Tax Act—which created new rules and regulations for private foundations—served as the impetus for Houk to establish NHF. Despite statistics that demonstrate the explosive growth of private foundations from the 1970s through today, Houk claims that government oversight of private foundations "killed their growth" and has "shrunk" their economic impact. In 1975, there were 22,000 foundations with assets of $30 billion; in 2002, there were 65,000 with assets of $435 billion. In 2004 alone, the average foundation portfolio increased in value by 11.4 percent, nearly four times larger than that year's inflation rate of about 3 percent. Perhaps Houk was taught foundation history by the same person who taught him geography, considering his claim that "our Foundations currently have projects in many countries including Peru, India, Africa [sic] and Tibet."

Equally amusing is Houk's breathtakingly sophisticated analysis that "we cannot solve the serious problems of society by depending on the government." In fact, one of the goals of NHF is "replacing tax dollars with charitable dollars, thus *lessening the burdens of government*" (emphasis NHF's). Never mind that federal discretionary spending was about $420 billion in 2003 and that foundations made just over $30 billion in grants that year. Houk doesn't seem to have time or energy to deal with such minor, pesky, and inconvenient details.

The financial planners that bring in the organization's "charitable" investors presumably take a big cut of the investment returns, considering that investors are charged only a $285 application fee when they establish a foundation at NHF, and that in 2003 NHF reported nearly $55 million in total revenue and $157 million in assets. Grants and donations that year totaled about $15 million.

According to the testimonials section of NHF's



Despite the folksy, casual language that dominates NHF's Web site, it's a slick organization that knows how to push nonprofit tax law to the limit, while generating hundreds of thousands of dollars in profits for the Houk family and the cadre of "investors" involved with the organization.

Web site, financial planners are thrilled with the organization's services and the connections it helps them make and profit from. One person states that by referring people to NHF, "I gave them the structure to bring their dreams and passions to life in their community and allowed them to soar as heroes in their community. NOW I HAVE A CAPTIVE AUDIENCE TO TALK WITH THEM ABOUT THEIR PERSONAL FINANCIAL AND ESTATE PLANNING" (enthusiastic emphasis is NHF's). Another financial planner states that "recently on a business trip I met a man who mentioned a $5.5 million dollar Federal Tax he and his wife would be facing soon. Because of the ideas I have been exposed to with NHF over the last few years, I now have a new $11 Million dollar client [sic]."

The Houks also market their services to a ripe, growing, vulnerable market of new multimillionaire athletes. A section of NHF's Web site is entitled "An Athlete Needs a Foundation at the National Heritage Foundation [referred to as FANHFs]! Desperately!" and explains that athletes could benefit from NHF's services in a variety of ways. For example, the Web site mentions an athlete's "image," stating, "… doesn't today's athlete need to pay attention to 'image'. [sic] Too often these days the good things done in the community go unnoticed, while 'wife beating', 'drinking', 'extra marital activity', and the like make the headlines. A foundation at the National Heritage Foundation can make certain that the right things hit the headlines."

Even after an athlete retires from the field, court, or diamond, NHF can still help: "The professional life of an athlete may be meteoric. But it is also woefully short. What will the athlete do in retirement—in the off season—why he or she would work for the FANHF [sic]. He or she can then really be the role model that Charles Barkley eschews, speaking at Churches, Schools and Community and National Organizations, taking his fee from his FANHF according to the hourly compensation ok'd by NHF."

But it's not only professional athletes and financial planners who benefit from NHF. The Houk Family itself also does rather well. Houk family members in 2003 earned nearly $300,000 in salary and other benefits from NHF. Marian M. Houk also owns office space that NHF rents from her for $1,000 per month. Another employee—who doesn't seem to be related to the Houks—owns an accounting company that provides services to NHF for nearly $140,000 per year.

The 2003 grants list that NHF provided to the Internal Revenue Service (IRS) did not note a purpose for any of the grants, and many of the entries are fascinating. In addition to thousands of dollars given to individuals, the following donations were made:

- T. Bergeron Construction in Minnesota received a $500 grant.
- Maryland Settlement Services received two grants, one for $3,060 and another for $4,797.
- A payment of $956 was made to "Maryland Child Support Account."
- GMAC Mortgage in North Carolina received a $1,297.18 grant.
- Cosmopolitan Real Estate Settlements (no address given) received a $6,500 grant.
- University Test Preparation Services, which is on the University of Pennsylvania's campus, received four grants of $45 each.
- Pitt County Memorial Hospital in North Carolina received a grant for $1,475.01 (the list contains many "grants" to hospitals and doctors' offices for similar strange amounts).
- Washington Gas in Washington, D.C., received a $695.38 grant.
- Sprint phone company in Florida received a $120 grant, while Sprint in California received $106.96.
- Nationwide Mutual Insurance in Pennsylvania received three grants of $718.01, $720.58, and $715.43 (similar to "grants" to hospitals and doctors' offices, insurance companies received many donations from NHF).
- PECO Energy in Pennsylvania was given a $923.35 grant.
- Comfort Suites, a hotel chain, received a $276 grant (no address was disclosed).
- The Car Store in Minnesota received two grants of $139.75 and $349.98.
- Bruns Motors in Maryland received a $1,375 grant.

- The Van Man in Maryland received an $808 grant.
- BB&T Bankcard Corp. in North Carolina received a $1,260 grant, sent to the same address (a P.O. box) listed on BB&T's Web site to which credit card holders are to send payments.
- County Propane, LLC in Pennsylvania received a $499.89 grant.

NHF is no stranger to criticism or scrutiny. Several of its investment schemes were mentioned in J.J. McNabb's testimony in 2004 before the Senate Finance Committee on nonprofit and foundation accountability. In 2000, columnist Molly Ivins and the *Wall Street Journal* both wrote about one of NHF's most duplicitous come-ons to potential donors: getting a tax break for donating to NHF and setting up a "foundation," then using the donation to pay yourself to run the "foundation." The Internal Revenue Service investigated Houk in the past for a similar endeavor, which he was running while working at Jerry Falwell's Liberty University (Falwell himself is another of the charitable sector's best and brightest). Houk and the organization were charged with two counts of mismanagement by the IRS , resulting in Houk's termination. In 1987, however, a judge in the case ruled in Houk's favor, and the charges were dropped. NHF was "reborn" (in his words) shortly after the ruling.

Despite the folksy, casual language that dominates NHF's Web site, it's a slick organization that knows how to push nonprofit tax law to the limit, while generating hundreds of thousands of dollars in profits for the Houk family and the cadre of "investors" involved with the organization. Because the organization is offering substantial tax breaks to its donors and investors for its "charitable" work, all of society is footing the bill for this barefaced profiteering. What's worse, NHF is thriving right under the nose of the IRS and state regulatory agencies, trumpeting its ability to take advantage of loopholes in the tax code—all in the name of charity and doing good. If this organization's activities are still legal or being ignored by government agencies at the end of the Senate Finance Committee's current efforts to reform nonprofit and philanthropic accountability, then the entire process will all be for naught.

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