

**Irish Charities Tax Reform Group**  
**Pre-Budget Submission November 2009**

**Incentivise Charities !**  
**Assist those in Need !**

**Promote Giving through the Tax System**

## **Background**

The Irish Charities Tax Reform Group (ICTRG) is a membership organisation of 156 charities.

It seeks to enhance the conditions for an independent charity sector in Ireland through:

- promoting the development and acceptance of a range of policy instruments that incentivise and facilitate philanthropic giving in Ireland
- building capacity in the charity sector in Ireland particularly in relation to the introduction of regulation and the adoption of best practice
- enhancing public confidence in the work of charities.

ICTRG was founded in 1991 and is governed by an elected voluntary management committee comprised of members from member organisations.

## **A stark new reality!**

The Irish Charities Tax Reform group recognises that very significant changes in taxation and spending policy will be implemented by the government in the forthcoming Budgets in its response to the current recession in the economy.

Charities are acutely aware from their day to day work that many individuals, families and communities are already experiencing dramatic reductions in living standards as a result of the current recession. There is a greatly increased demand on all charities for their services and supports for those in need.

Many charities are struggling to keep pace with this increase in demand. In some cases those people who generously supported their charity of choice in the past now find themselves in need of support and services.

The impact of the recession on society is very significant. All indicators suggest that the serious economic situation is likely to continue into the immediate future.

The Charity sector plays an indispensable role in tackling the very human costs associated with the current recession. Charities provide assistance and support to children, the aged, the sick, people with disabilities, and those most in need, both at home and abroad.

The sector's structure and method of work provides it with the ability to provide an immediate, on-the-ground response in an economic and social environment that is experiencing very rapid, unanticipated and devastating changes in funding, structural provision and capability.

The years ahead will see a significantly reduced level of economic well-being for the majority of people. For those in need there will be a corresponding increase in the demand for the services and supports that the charity sector provides so effectively.

Now, more than ever, the sector must be assisted and enabled by government to undertake, continue and expand its work to meet the demands of communities and individuals.

Taxation policy during the current downturn should be pro-active in promoting socially beneficial activity and in encouraging a spirit of giving. But the generosity of the public must be matched by a similar commitment by government.

Tax initiatives should promote Giving by large and small-scale donors alike. This will ensure the charity sector can maintain its level of service potential, respond to greatly increased demand and, consequentially, reduce the level of dependency, cost and administrative burden on state-provided services.

Tax reform that incentivises independent fundraising by the charity sector and promotes Charitable and Philanthropic Giving is now urgently required. From a purely fiscal perspective, such measures can help to reduce the pressure on state agencies and bodies for provision of essential, targeted services at a time when these services and bodies are coming under increased and severe strain.

## **The Commission on Taxation Report – a major step forward in recognition of charities' role**

The recent Report of the Commission on Taxation stated in Section 11.7 of the Report: *“We consider that there is a general benefit to society from donations to charities and other approved bodies and that the state should continue to support this activity.”*

The Commission made a number of detailed recommendations in relation to changes in taxation affecting charities.

The proposal by the Commission to reduce the tax relief threshold for charitable donations to €100 from the current figure of €250 recognises the importance and value of smaller scale contributions from a much wider range of donors who can afford to donate in the region of €3.50 a month.

By reducing the threshold to €100 a significantly greater number of charities will benefit from the donations scheme. Members of the public who may be unable to afford the higher payments required under the €250 threshold, particularly in the context of the current recession, will be encouraged to donate - on the basis that their charity of choice will receive an additional benefit.

The Commission's proposed simplification of the donations scheme tax relief by treating donations from PAYE and self-assessed donors in exactly the same manner will reduce administration costs for both charities and Revenue. It would result in an increased potential benefit to charities.

The Commission proposal to standardise the reliefs for charitable donations will, however, impact very negatively on charities and limit the ability of the sector to assist those in need.

Under the commission on taxation's proposals there would be no benefit whatever to PAYE or self-assessed donors from their contribution to the charity of their choice. The benefit would go entirely and directly to the charity.

The standardising of tax relief on charitable donations must not be viewed in the same light as other tax reliefs because, in this case, the relief would go directly to the charity and not to the taxpayer.

It would merely result in a cut in benefits to charities and would negate very significantly any improvements accruing from, for instance, reducing the minimum donations threshold.

Tax relief on donations should be maintained under the existing structure or linked to a new higher-than-standard rate, as may be implemented for pensions.

## **Philanthropy – promoting greater giving**

The Commission on Taxation proposes to replace the current complicated upper limit on donations (imposed on donations to charities under the Finance Act 2006, Ch.2A, Section 485C) with a straight-forward ceiling of €500,000.

The ICTRG fully support the proposal to decouple the tax relief scheme on donations from the complicated limits imposed by section 485C. It recognises the essential difference between private philanthropy which promotes public good - and private investment which is mainly concerned with private gain.

Current taxation policy relating to Philanthropic donations risks producing 'philanthropic flight' - where the investment of funds by those with medium and high levels of wealth is transferred to other jurisdictions.

The possibility that those with medium and high levels of wealth may choose to invest philanthropically or support Foundations in foreign jurisdictions is of major concern. Taxation policy should seek to mitigate this possibility and actively promote philanthropic investment in Irish-based projects.

Donations to Eligible Charities and Approved Bodies under S848A of the tax code are limited under the Finance Act 2006, Ch.2A, Section 485C, which restricts individuals with income in excess of €250,000 in the amount of tax relief they can claim to 50% of their gross income in any one tax year.

The original tax relief scheme on donations placed no upper limit on the amount that a donor could give to charity tax effectively in any year, to actively promote the development of philanthropy in Ireland. The 2006 provision effectively introduced a cap on the scheme.

The government should implement the recommendation of the Commission on Taxation to decouple the tax relief scheme on donations from the complicated limits imposed by Section 485C.

## Charities pay VAT like a business – but cannot reclaim it

The Commission on Taxation dealt to a lesser extent with the issues of VAT and made no reference to the current regime of VAT affecting the charity sector.

Charities have for many years paid a ‘levy’ of unreclaimable VAT on their activities, including capital expenditure, fundraising, promotion, essential equipment, professional fees and overheads.

This significantly limits the work of charities with those most in need, both at home and abroad. It impacts negatively on independent fundraising and promotes a culture of dependency on state grants. St Vincent de Paul’s VAT Bill on independently fundraised income – approximately 80% of its total income - is in excess of €3 million annually.

The Irish Charities Tax Reform Group (ICTRG) is seeking the introduction of a VAT Compensation scheme for Irish charities, based on measures allowable in EU law and applicable to the **voluntary fundraised income** of charities.

The need for VAT Compensation arises because of an anomaly in the 6th EU VAT Directive. Charities pay VAT but cannot recover the VAT they pay on goods and services. On Dec. 5<sup>th</sup>, 2006, however, in reply to Dail Question no. 225, the Minister for Finance stated: *“while charities cannot be refunded through the VAT system, there is nothing to prevent national Governments paying charities a subsidy to compensate them for the irrecoverable VAT which they have incurred, provided that State Aid rules are observed”*.

The European Commission has announced a review of VAT in the context of taxation of public bodies and the future of social exemptions at European level.

The Danish government implemented a VAT Compensation scheme since 2007, which limits exposure of the state’s finances. It was introduced following discussions between the Danish Departments of Finance and Taxation and ISOBRO - the Danish equivalent of the ICTRG.

The ICTRG proposes that the Minister for Finance initiate a process for formal discussion between the Department of Finance and ICTRG regarding introduction of a VAT Compensation scheme for charities in Ireland.

## **Regulatory controls now enshrined in law:**

The Charities Act 2009, which the ICTRG actively supported and helped to frame with government, has now passed into law.

The passing of the Charities Act has removed one of the often quoted obstacles to movement on charity taxation. The Act provides comprehensive guarantees on the legitimate operation of charitable organisations, in particular through requirements regarding '*public benefit*' and '*charitable purposes*' activity.

ICTRG will continue to work closely with government to ensure the smooth implementation and roll-out of the new regulatory regime.

## Summary of Recommendations:

- Tax policy relating to charities in the current recessionary climate should promote Giving by large and small-scale donors alike.
- The recommendations and proposals of the Commission on Taxation recognise the special role and function of charities in Irish society.
- The Commission's recommendation to reduce the minimum donations threshold from €250 to €100 should be implemented to promote giving by a greater number of people to benefit a greater number of charities.
- The Commission's proposed simplification of the administrative process associated with the scheme should be implemented.
- On philanthropy the government should implement the recommendation of the Commission on Taxation to decouple the tax relief scheme on donations from the complicated limits imposed by Section 485C.
- The Commission proposal to standardise reliefs for charitable donations will, however, impact very negatively on charities and limit the ability of the sector to assist those in need. It fails to recognise that tax reliefs on donations provides no benefit to the donor. Tax relief on donations should be maintained under the existing structure or linked to a new higher-than-standard rate, as may be implemented for pensions.
- The Minister for Finance should enter a process for formal discussion between the Department of Finance and ICTRG regarding introduction of a VAT Compensation scheme for charities in Ireland.