

**Tax Relief on Donations to Eligible Charities and Approved
Bodies – the cost of reducing the qualifying threshold from
€250 to €100**

1st December 2005

Report prepared by

Irish Charities Tax Research Ltd & John Dempsey (Chartered Accountant)
Independent Validation - Ernst & Young

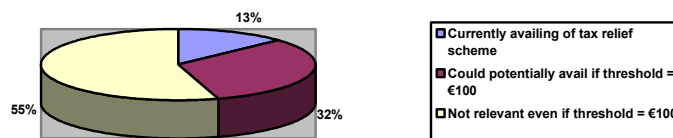
<i>Acknowledgements</i>	3
<i>Executive Summary</i>	4
1. Methodology	6
2. Response Rates.....	7
3. Categorisation of Returns.....	8
4. Research Findings	10
5. The Effect of reducing the threshold to €100	16
6. Cost of Reducing the threshold to €100.....	17
7. Effect on administration of the Scheme of reducing the threshold to €100....	20
<i>Appendix One</i>	22

Acknowledgements

The authors relied heavily on the IT skills of Simeon Owens (Central Remedial Clinic) in designing the database and for support in running the data analysis. Thanks to Pauline Cully, Angie Healy and Sylvia Hannon for taking care of the mailing of the questionnaires. Geraldine Prizeman (Centre for Nonprofit Management TCD) provided advice and guidance on developing the questionnaire and together with her colleague Freda Donoghue gave very useful feedback on both the data analysis and draft report. Sinead Munnelly of Ernst & Young was responsible for independent validation of the research design, methodology, data integrity, data analysis and final report. Thanks are also due to the staff in the Charities Section of the Revenue Commissioners in Nenagh, Brian Boland, Tom Fitzpatrick, Kathleen Scanlon and Eamon Tuohy who gave generously of their time and experience in relation to administration of the tax relief scheme. Finally and most importantly we would like to thank the trustees and staff of all those charities who took the time to complete and return the questionnaire to us, without their effort this report would not have been possible.

Executive Summary

- The purpose of the research is to provide a reliable estimate of the additional cost to the Irish Exchequer of reducing the donation threshold on the S848 tax relief scheme on donations to eligible charities and approved bodies from €250 to €100¹
- The research was carried out by Irish Charities Tax Research Ltd and John Dempsey (Chartered Accountant) with independent validation of the research methodology, process, data analysis and results provided by Ernst & Young
- The questionnaire was sent to a randomly chosen sample of 2014 organisations from the full Revenue Commissioner's list of 6414 tax exempt bodies². A total of 599 replies were received out of which 391 responses were considered valid giving a response rate of over 19%.
- When compared to the total Revenue list it was found that the valid sample can be said to be representative of the total population of tax exempt charities as measured by the only two available categories, charitable purpose and geographical location
- The sample period was 1st January 2003 to 31st December 2003 (or the financial year end closest to December 2003)
- Only 13% of charities sampled currently benefit from the tax relief scheme on donations of €250 or more from PAYE only donors. These charities tend to be longer established (>10 years old) and larger as measured by annual income and number of employees than those charities not in a position to benefit.
- If the threshold was reduced to €100 then a further 32% of charities could potentially benefit

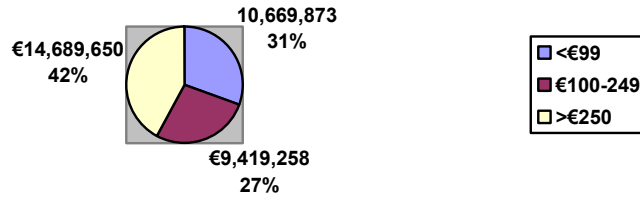


- The sampled charities received a total of €34m in donations from individuals in 2003 of which 42% was accounted for by donations of €250 or more, 27% by donations between €100-€249 and the remaining 31% less than €100 (Only donations of €250 or more from PAYE only taxpayers qualify for a tax refund directly to the charity)

¹ In the Finance Act 2001 a new scheme of tax relief on donations to eligible charities and approved bodies was introduced. Under the scheme donations by taxpayers of €250 or more to eligible charities/approved bodies in any tax year qualify for tax relief. The status of the taxpayer determines who gets the benefit of the tax relief. In the case of PAYE donors the benefit goes directly to the charity whereas in the case of both self-assessed taxpayers and corporate taxpayers the benefit goes to the taxpayer. Donations at or above the €250 threshold attract tax relief at the donor's marginal rate of tax i.e. the higher rate of tax paid.

² In Ireland tax exemption status is granted to organisations which meet the Revenue Commissioners criteria for "charitable purposes". There are four main charitable purposes as follows: relief of poverty, advancement of religion, advancement of education and other public benefit activities. All of an organisation's income and resources must be applied solely for charitable purposes in order to qualify.

Tax Relief on Donations – the costs of reducing the qualifying threshold from €250 to €100



- The estimated total annual cost to the Exchequer of extending the benefit of the tax relief scheme to 45% of charities by reducing the threshold from €250 to €100 is €47m taking into account the potential stimulus to fundraising effort that could be expected to result. This compares to circa €22m currently given in refunds.

1. Methodology

In order to estimate the additional cost to the Exchequer of reducing the threshold on the S.848A(1997 Taxes Consolidation Act) tax relief scheme on donations to eligible charities and approved bodies a postal survey was carried out on a random sample of organisations currently on the Revenue list of charitable tax exempt bodies.

- A questionnaire was developed and approved by Ernst & Young and piloted with 30 charities. Following minor amendments the questionnaire was posted out to all organisations in the random sample (See Appendix 1 for copy of Questionnaire)
- Information sought related to the year ended 31st December 2003 or the nearest year end for which figures were available
- The sampled charities totalled 2014 representing approx. 30% of the total Revenue listing of 6414
- The questionnaire was sent out towards the end of February 2005 and generated a response of 358
- A second mailing was conducted in early June 2005 and generated an additional 241 responses
- Responses were recorded on a specially designed Access database and where necessary telephone contact was made to clarify any queries and/or anomalies noted in the recorded responses.
- Participating organisations were guaranteed that all information was confidential and that only aggregate results would be used in the final report.

The findings from the survey questionnaire are detailed in the following section.

2. Response Rates

A total of 599 questionnaires or 30% were returned out of the sample of 2014, however included in this amount were 179 questionnaires that were returned to sender, 28 that indicated that the survey was not applicable to them or in a very small number of cases that they were unwilling to participate and one statutory body that is fully publicly funded the figures from which would have skewed the research findings. Thus the total valid responses received numbered 391 giving a valid response rate of over 19%.

Overall Response:

Total Sample	2014
Total Responses received	599
Response Rate	30%

Valid Response:

Total Responses received		599
Less:		
Questionnaires received but not completed: because:		
a. Charity no longer in operation OR		
b. Not applicable or not willing to complete	28	
c. Statutory Body – fully funded by government – inclusion would skew income figures	1	
Questionnaires returned to Sender	179	
Sub – total	208	208
Valid Responses		391
Valid Response Rate		19%

3. Categorisation of Returns

In order to establish the degree to which the range of charities which submitted completed questionnaires were representative of the random sample of 2014 and the total population of charities a comparison was made with the full Revenue listing of tax exempt bodies along two available categorisations:

1. with regard to sector based on the Revenue allocation of charities to one of the four accepted headings of charitable purpose i.e. the relief of poverty; advancement of education; advancement of religion and other public benefit activities:

AND

2. with regard to geographical location based on the address as in the Revenue listing.

As can be seen from chart a) the valid sample largely follows the pattern of both the random sample of charities and the total population of revenue recognised tax exempt charities (excluding unknowns). There is a slight over representation (3%) of charities from the “Relief of poverty” sector and an equally slight under representation (3%) of charities from the “advancement of Religion” sector. However, overall it is apparent that the sample is not skewed to any significant degree compared to the random sample and the total Revenue list in terms of charitable purpose.

a) Sectoral spread of charities by charitable purpose

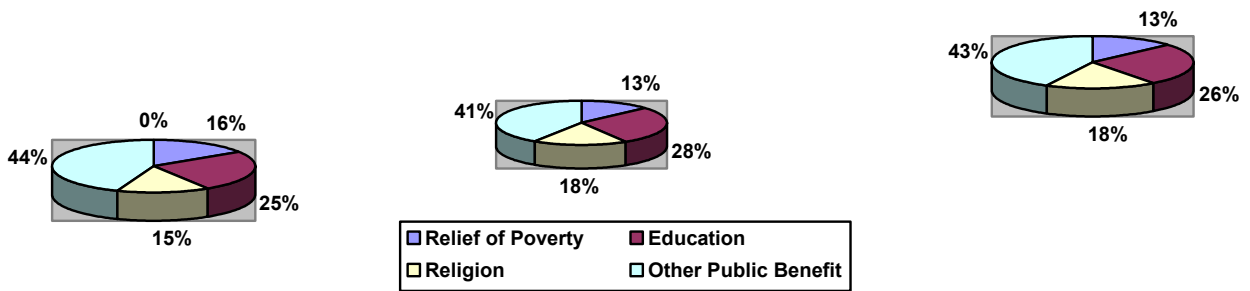


Figure 1 - Valid Sample = 391

Figure 2 - Random Sample = 2014

Figure 3 -Revenue Database = 6414

b) Geographical Spread of charities

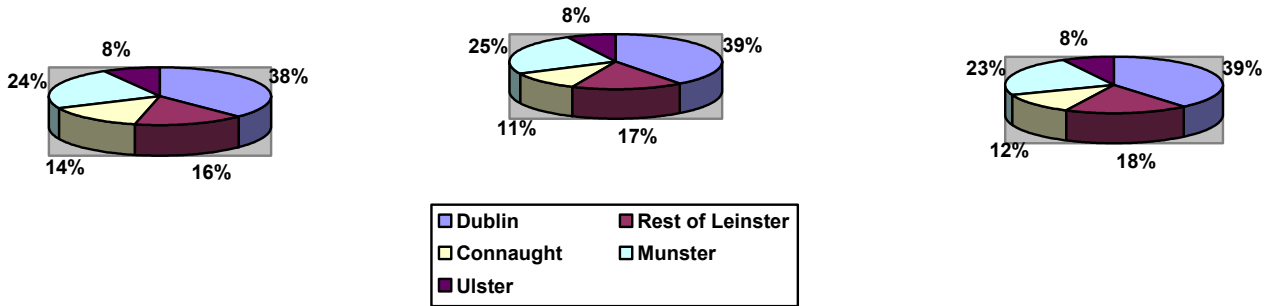


Figure 4 - Valid Sample = 391

Figure 5 - Random Sample = 2014

Figure 6 -Revenue Database = 6414

The same situation holds when the valid sample is compared to both the random sample and the total Revenue list of tax exempt charities (excluding unknowns) analysed by geographical spread (Chart b). Munster and Connaught are slightly over represented at the expense of Dublin and Ulster, however as with the charitable purposes analysis, there is no significant skewing of the valid sample when compared to the total Revenue list. It seems therefore that we can say that the valid sample is representative of the total population of tax exempt charities as measured by the only two available categories, charitable purpose and geographical location.

4. Research Findings

Take-up of tax relief scheme – the current position

Of the 391 organisations that responded to the survey only 51 or 13% indicated that they currently avail of the tax relief scheme on donations to charities i.e. are in receipt of donations of €250 or more each tax year from individual PAYE only donors and have applied for refunds under the scheme. The remaining 340 or 87% have never availed of the scheme i.e. do not receive qualifying donations of €250 or more from PAYE only donors – the most commonly cited reason - or in one or two cases have not been in existence long enough (2 years) to qualify as eligible for the scheme.



Figure 7 – Take-up of tax relief scheme - Valid sample

The two groups, those currently availing and those not availing of the tax relief scheme were profiled based on information provided in their responses to the questionnaire as follows:

1. Geographical location
2. Charitable Purpose
3. Size as measured by number of full-time employees
4. Length of time in existence or age profile
5. Annual Income
6. Individual Donations received

Tax Relief on Donations – the costs of reducing the qualifying threshold from €250 to €100



Figure 8- Geographical profile of Valid Sample

As can be seen in Figure 8 charities from both the availing and non-availing groups are located in each of the four regions identified. Not surprisingly there are a larger number of charities from both groups located in the Dublin region with a slightly higher proportion, 16% of Dublin charities, availing of the tax relief scheme as compared to an average of 11% in each of the other four regions.

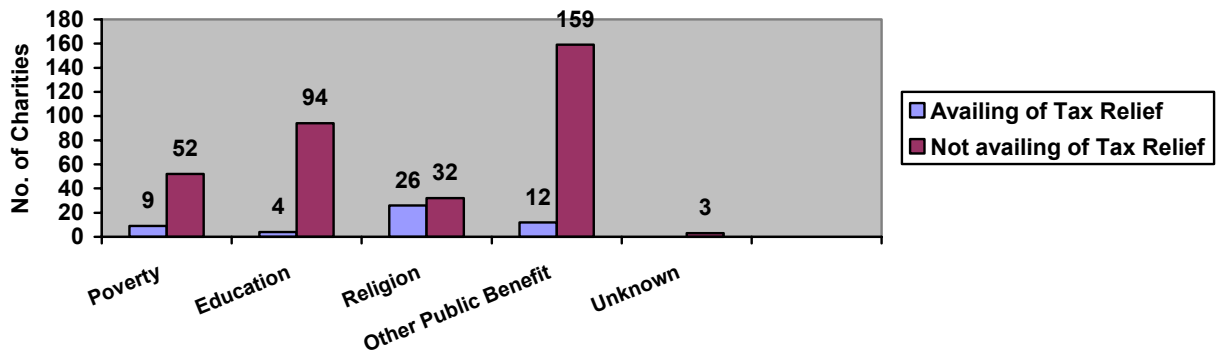


Figure 9 - Charitable Purpose of Valid Sample

When analysed by charitable purpose Figure 9 indicates that charities from each of the four main sectors are represented in both the availing and non-availing groups with religious organisations being more evenly spread between the availing and non-availing groups than other categories.

Tax Relief on Donations – the costs of reducing the qualifying threshold from €250 to €100

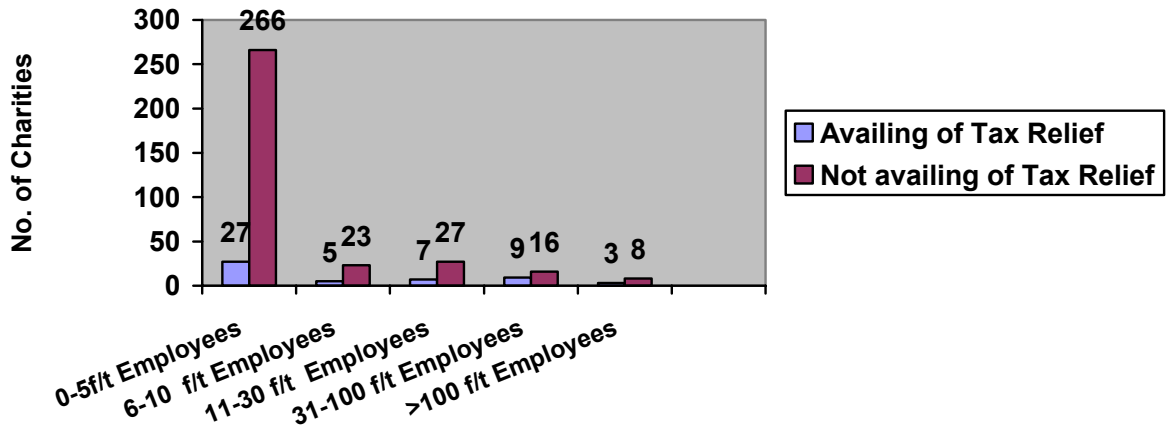


Figure 10 - Size by no. of full time employees - Valid Sample

Figure 10 profiles the availing/non-availing groups of charities by size as measured by the number of full time employees engaged. The analysis reveals that whilst the majority of charities are small with less than five full time employees, the larger charities are proportionally more likely to be availing of the scheme. Only 9% of small charities are currently availing of the scheme compared to 36% of those with between 31 - 100 full time employees and 27% of those with more than 100 employees

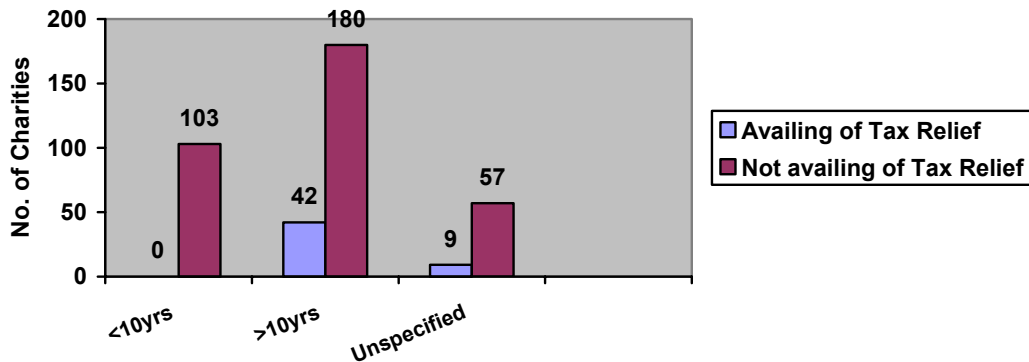


Figure 11 - Age Profile of Valid Sample – based on information from valid sample

Figure 11 shows the age profile of the charities based on information that they provided in response to the questionnaire, however, sixty-six charities did not indicate in which year they were established. Since the charities section in the Revenue Commissioners issue charitable tax exemption numbers or CHY numbers (as they are known) in sequence it is possible to determine the ten-year cut off point by reference to the CHY No. of individual charities. Any charity with a CHY number greater than 11,000 has been established within the past ten years. Figure 11a shows the age profile of the sample based on the CHY number.

Tax Relief on Donations – the costs of reducing the qualifying threshold from €250 to €100

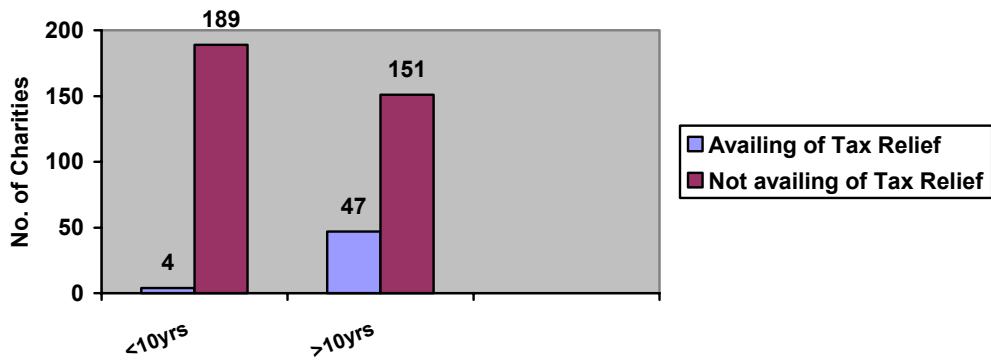


Figure 11a - Age Profile of Valid Sample – based on CHY Number³

There seems to be a strong correlation between the age or length of time that a charity has been in existence and the likelihood of their availing of the scheme. The sample reveals that 92% of those charities availing of the relief have been operating for more than ten years. This is hardly surprising given the fact that charities have to build credibility and public confidence over time before achieving the levels of individual donations necessary to qualify for the tax relief scheme.

Annual Income

Out of a total of 391 organisations who responded to the survey 375 indicated their total annual income with 16 either reporting no annual income or failing to specify same. The aggregate total of the annual income for these 375 organisations is €407,627,276 with 61% being accounted for by those not currently availing of the tax relief scheme and 39% by those who are availing (see Figure 12 below).

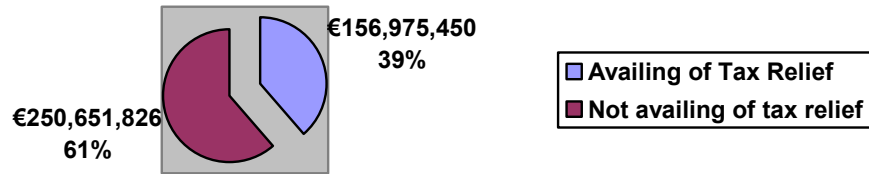


Figure 12 Annual Income for 375 charities (16 income was nil or unspecified)

Figure 13 analyses the sample by annual income bracket revealing that more than half (54%) of the charities currently availing of the tax relief scheme have annual income in excess of €500,000 per annum compared to only 8% with annual income less than €50,000. This finding further supports the contention that the longer established and larger charities (as seen in Figures 10 & 11 above) are more likely to benefit from the tax

³ CHY Numbers are issued in sequential order by the Charities Section of the Revenue Commissioners. Based on information from the Charities Section charities with a CHY No. greater than 11,000 are less than 10 years old.

Tax Relief on Donations – the costs of reducing the qualifying threshold from €250 to €100

relief scheme as currently operated than the smaller to medium sized and/or less well established charities.

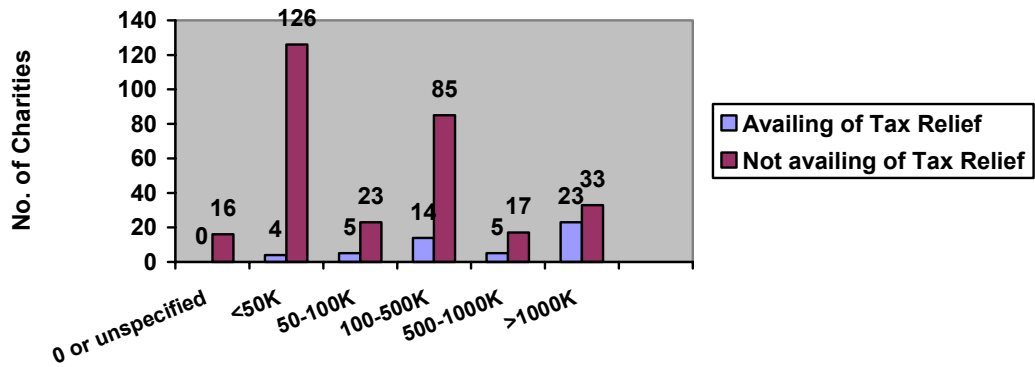


Figure 13-Annual Income bracket in €000

In looking at the source of income of the two groups (Figure 14) it is clear that those charities who depend solely on private sources of income (private meaning from individuals, corporations, foundations etc. but excluding any government/public funding) are marginally more likely to be availing of the tax relief scheme i.e. 20% than charities which depend on a combination of private and public financing at 12%.

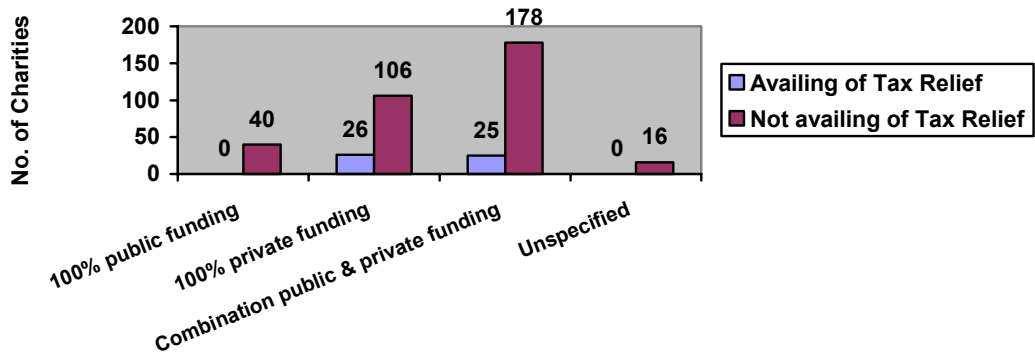


Figure 14- Main source of income – all charities

Donations Received

The sampled charities received a total of €34.7m in individual donations (as opposed to corporate donations, foundation grants, investment income or income from other types of event based fundraising such as flag-days, coffee mornings, golf classics etc.). Of this total over €14m or 42% was accounted for by donations of €250 or more, over €9m or 27% by donations of between €100 and €249 and the remaining €10m or 31% by donations of less than €100. Figure 16 provides a breakdown of donations by the number of charities currently availing/not availing of the tax relief scheme.

Total Donations received = €34,778,781

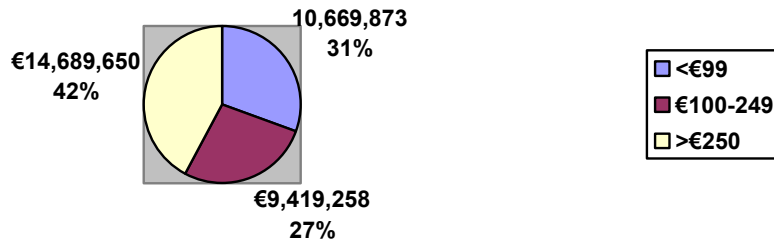


Figure 15 – Total Donations received by sample in 2003

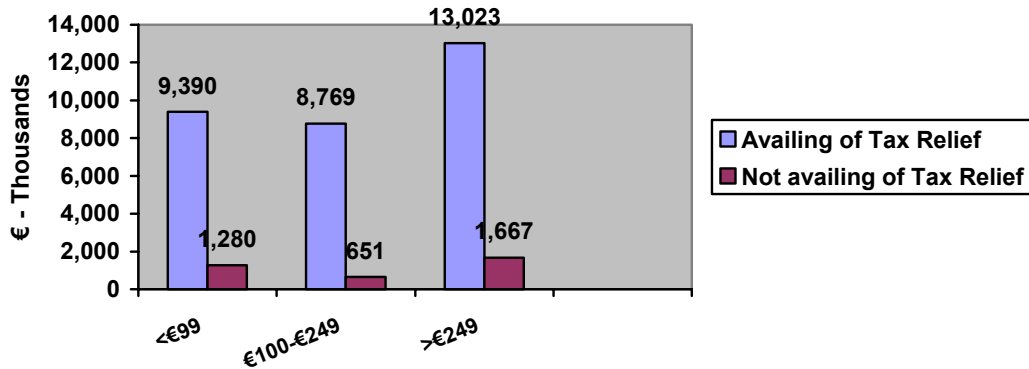


Figure 16 - Size and totals of donations received in 2003

5. The Effect of reducing the threshold to €100

As previously indicated only 13% of charities that responded to the survey currently benefit from the tax relief scheme as presently operated with the threshold for qualifying donations at €250. The information also suggests that the charities currently availing of the scheme are generally both longer established and larger as measured by number of full time employees and levels of annual income than those not availing. They are also proportionately more likely to be fully funded from private sources of income though not exclusively so. In contrast the majority of the non-availing group tend to be small to medium sized charities which depend largely on a combination of public and private income sources.

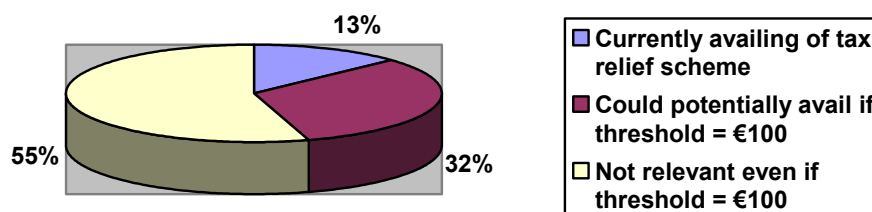


Figure 17 - Potential take-up of Tax Relief Scheme if threshold reduced to €100

If the donation threshold was reduced to €100 then an additional 32% of the sampled charities could benefit from the scheme bringing the total of those benefiting up from the current position of 13% of charities to a potential 45% of charities. Of the remaining 55% of charities a small proportion are totally publicly funded with the remainder either relying exclusively on event-based fundraising or a combination of mainly event raised income, with possibly some corporate donations, public funding or foundation grants and where applicable low levels of individual donations i.e. generally well below €100 per donor per annum.

The data would suggest that reducing the threshold for the tax relief scheme from €250 to €100 would spread the benefit to a much greater number of medium to small charities located around the country. Based on the experience of those charities currently availing of the scheme it could be expected that lowering the threshold would act as a significant stimulus to the fundraising efforts of those charities amongst individual donors. It is also clear from the data that not all charities would benefit from this change. There are a significant number of charities for whom the donation scheme is irrelevant in that they are totally publicly funded, rely solely on event based fundraising or a combination of events and other sources of funding which in some cases includes individual donations none of which exceed the €100 threshold.

6. Cost of Reducing the threshold to €100

Estimated exchequer exposure in reducing the threshold amount to €100 (from €250) for eligible individual donations to charities - the figures listed below are referenced to the table of calculations which follow.

Detail	Table Reference	Estimated Exchequer Cost € Million
Current Cost (2003)		22
Less cap on donations from those associated with charities going forward ⁴		(7)
With stimulus, cost of reducing the threshold for all charities currently availing of scheme.	c (vii)	27
With stimulus, cost of reducing the threshold for all charities not currently availing of scheme.	d (v)	<u>5</u>
Total		47⁵

Notes:

1. In calculating the refund it is assumed that 50% of donations are from marginal rate (42%) taxpayers and 50% standard rate (20%) tax payers. Box (e) below examines the effect of varying the splits 75:25 each way and no appreciable difference emerges in the costs.
2. It is assumed that reducing the threshold to €100 would stimulate 50% of donors in the <€100 category to increase their donation to the threshold. Based on the information provided this would be optimistic given that the average donation in this category is €37 and most charities indicated that they would never get individual donations of €100.

⁴ The Finance Bill in 2003 introduced a new condition limiting the tax relief on donations from persons associated with the benefiting charity (e.g. member, employee, board member etc.). A maximum donation of 10% of their annual income will now qualify for a refund. The 2003 refund amount of €21.6m. does not reflect the change which based on Revenue figures for 2004 is estimated to save approx. 31% per annum from 2004 onwards.

⁵ All figures have been rounded up to the nearest million.

Basis of Calculation:

Research Pool of Charities	(a)	(i)	€34.6 m received by charities from individual donors in 2003
		(ii)	€13 m received were 'eligible' donations > €250
		(iii)	Using figure at (i) & (ii) above, 38% of all donations received are eligible for refund scheme.
		(iv)	27% of all individual donations received by charities fall within range €100 - €249.
Revenue Detail	(b)	(i)	€22m given in refunds by Revenue in 2003. Assuming an equal 50:50 split in refunds given at the 20% (standard), and 42% (marginal) tax rate this would imply that €81m in eligible individual donations were received by charities in 2003. At box (e) following, varying 75:25 splits in the standard and marginal rates are examined.

Costing of Reducing Eligible Threshold to €100 for all charities currently availing of scheme	(c)	(i)	€81 m received through eligible individual donations by all charities in 2003.(using b (i) above).
		(ii)	This €81 m = 38% of all individual donations received (using a (iii) above.)
		(iii)	27% of all individual donations received fall within range of €100 - €249 giving an amount of €57 m (81 / 38 x 27, c (ii) above).
		(iv)	Using c (iii) above and assuming a 50: 50 split in refunds between standard and marginal rates. This gives an amount of €17.67 m that would accrue to charities through reducing threshold to €100.
		(v)	Allowing for possible stimulation from 0 - 99 category to €100 - €249, assume that 50% of 0 - 99 category increase to €100. Using figures from sample, €9.3 m (27%) = amount received by charities availing of scheme in range of 0-99; and using this 27% to wider charity field; this would bring an additional €28.7 m in donations into the refund scheme - (allowing for 50% 'migration' from 0-99 to €100). ⁶ (81/38 c (i) & (ii) above x 27% (c (v)) x 50% (stimulus).
		(vi)	Using c (iv) (standard & marginal split) above, a further €8.8 m in refunds would arise from stimulus.
		(vii)	C (iv) & c (vi) give a total cost to exchequer of €26.47 m of reducing the threshold for charities currently availing of the scheme.

⁶ Charities in the research sample indicated that lowering the threshold to €100 might incentivise a small proportion of donors to increase their donations to €100 but the majority of donors would never come near this amount. The average donation in the <€100 category based on the research was €37. It is therefore assumed that the stimulus would bring donations up to €100 and not more than that.

Tax Relief on Donations – the costs of reducing the qualifying threshold from €250 to €100

<p>Costing of Reducing Eligible Threshold to €100 for all charities currently not availing of scheme.</p>	(d)	(i)	€2.3 m (6.5%) of all donations received by the sample pool of charities are currently not availing of the scheme (i.e. where they receive donations over €100).
		(ii)	Using percentage at a (iii) above and the amount at b (i), this implies that a further €13.8 m in individual donations need to be costed to assess exchequer impact ($81/38 \times 6.5\%$).
		(iii)	Assuming a 50:50 split between standard and marginal rate (20% and 42%, respectively), the €13.8 m in donations at d (ii) above would give rise to €4.2 m in possible refunds – allowing for eligibility under the scheme.
		(iv)	Allowing for a possible stimulus from 0-99 category which at the moment amounts to 3.5% of all individual donations received by charities (stimulus = 50%, migrating from 0-99 to €100), a further €1.1 m in possible refunds could ensue. ⁷ i.e. $[81/38 \text{ (c (i) \& (ii) above)} \times 3.5\% = €7.4 \text{ m in donations to all charities within range 0-99; split equally between standard and marginal rate} = €2.2 \text{ m in refunds} \times 50\% \text{ stimulus}]$.
		(v)	Adding calculations at c (iii), with c (iv) above, this gives a further possible exposure of €5.3 m of exchequer exposure; from an uptake of the scheme by charities currently not availing of the scheme.

	(e)	With 75% of refunds granted at marginal rate of personal tax (42%).		With 75% of refunds granted at standard rate of personal tax (20%).		
			€m		€m	
<p>Calculating cost of varying the refund split between tax rate bands.</p>		Availing	25.9		25.7	
		Not Availing	5.3		5.3	
		Total Cost	31.2		31.0	
		<p>Key calculation changes to boxes b, c, d from initial calculation on pages 12-14.</p>	b (i)	66.7		95.6
			c (iii)	47.4		67.9
			c (iv)	17.3		17.2
			c (vi)	8.6		8.5
			c (vii)	25.9		25.7
			d (ii)	11.4		16.4
			d (iii)	4.2		4.2
d (iv)	1.1		1.1			

⁷ Ibid.

7. Effect on administration of the Scheme of reducing the threshold to €100

In order to establish the effect on administration of the tax relief scheme of reducing the threshold to €100 the researchers met with the Charities Section of the Revenue Commissioners in Nenagh, Co. Tipperary. Revenue officials expressed concern about the fiscal cost to the Exchequer of reducing the donation threshold to €100. In discussions about the operational aspects of the scheme two key administrative issues emerged.

1. As the scheme currently operates charities can claim tax refunds in respect of donations from **PAYE only** taxpayers. Despite the best efforts of the Charities Section of Revenue and charities themselves, through highlighting this on the relevant forms and information leaflets, a significant number of non-PAYE only donors complete the “appropriate certificate”⁸ and are therefore included in the tax refund claims made by charities every year. This means that the Claims section in Revenue must check each charity claim form in detail to ensure that there are no self-assessed donors included in the claim which is time-consuming for them and causes delays for charities in receiving their refund. It was pointed out that if lowering the threshold to €100 led to a significant increase in the number of new donors this would impact on administration of the scheme. Equally if the change led to an increase in the number of charities claiming the relief this would also impact on administration.

In discussions two possible solutions were identified. The first would be to treat all donations to charities in the same way regardless of the tax status of the individual donor i.e. that the tax benefit would go to charities in all cases. Under current rules the charity claims the tax refund in the case of PAYE only donors whereas self-assessed donors write off the donation against their taxable earnings for the year. It was acknowledged that whilst providing a solution this approach could act as a disincentive to individuals who make major gifts to charities. The second approach discussed was to investigate to what extent there could be an electronic solution to checking the claims. It was agreed that this is something that could be looked at.

2. Revenue also raised the issue of Supplementary Claims which they receive on an on-going basis. Charities have up to four years to claim a refund on qualifying donations in any year once they have received the appropriate certificate. Since charities often receive the documentation late i.e. after they have completed the claim for the year there is a necessity for supplementary claims. The receipt of such claims in dribs and drabs adds to the administrative workload of the Claims Section.

In order to alleviate the problem the researchers suggested that charities could be encouraged to make one or at most two supplementary returns at an agreed time each year to coincide with the least busy periods within the section. This approach could be explored through dialogue with the sector.

Revenue also confirmed that the total refunds made under the scheme in 2003 amounted to €21.6m. 2004 was the first year that a cap on tax relief applied to donations from donors associated with charities with the result that the total refund

⁸ The “Appropriate Certificate” is the Revenue form that PAYE Only donors are required to complete, sign and return to the charity as proof that they have made a qualifying donation to the charity and have paid sufficient tax during the year to cover the tax refund associated with the donation.

Tax Relief on Donations – the costs of reducing the qualifying threshold from €250 to €100

amounted to €14.8m and the total out-turn for 2005 is expected to be approximately €16m.

Appendix One

Questionnaire