

Submission to the Commission on Taxation

Irish Charities Tax Reform Group

May 2008

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Contextual Framework

This document has been prepared in the context of commitments on economic competitiveness and on taxation contained in the Programme for Government, in relation to:

Points C, to keep the overall tax burden low and implement further changes to enhance the rewards of work while increasing the fairness of the tax system

Point D, to ensure that our regulatory framework remains flexible, proportionate and up to date.

It does not refer to Point E.

It does not refer to Point F, other than to argue indirectly on the merits of tax reform that involves reductions or amelioration in the tax burden and tax rates.

Background to ICTRG

Irish Charities Tax Reform Group is a membership organisation of 155 charities (see Appendix 3) seeking 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 as follows:

Richard Dixon (Chairman)	Concern
Liam Walsh (Vice-Chairman)	Respect
Catriona Fottrell	The Ireland Funds
Jonathan Irwin	Jack and Jill Foundation
Niamh Ní Chonghaile	Irish Cancer Society
Paul O'Sullivan	Clann Credo
Grace Redmond	The Presentation Sisters
Austin O'Sullivan	The Walkinstown Association
Caroline Casey	The Aisling Foundation
Kieran Farrell	Society of St. Vincent De Paul

Executive Summary:

- Tax changes outlined in this document are designed to incentivise independent fundraising by the charity sector.
- Three specific tax reforms are proposed:
 - Removal of S848A from Schedule 25B, S485C of the 2006 Finance Act to promote Philanthropy, on the basis that by law there can be no other benefit to the donor in charitable donations other than the tax relief;
 - A VAT Compensation Scheme for charities based on VAT expenditure from their independently raised income."
 - A progressive reduction in the Threshold for tax relief on charitable donations from the current €250 to zero.
- Facilitation and promotion of Independent Fundraising and Giving would produce two positive and significant taxation developments
 - (i): to stabilise the current level of charity dependency on state funding at around 60%;
 - (ii): to encourage the development of philanthropic donations linked to the Irish taxation system.
- It would bring policy on taxation into line with the commitment to encouraging philanthropic giving in the Partnership document 'Towards 2016', with recognition at EU level that VAT Compensation is the most appropriate method to correct anomalies in VAT on charities specifically and on encouraging the growth of small charitable donations of below €250 through tax incentivisation.
- The pending passing into law of the Charity Bill 2007 will provide an additional framework and regulatory guarantees regarding the operation of charities in Ireland.
- A VAT Compensation scheme based on charities' independently fundraised income would correct an anomaly recognised to exist by the EU Commission. A VAT Compensation scheme has been operating on an administratively simple basis - for both the state and individual charities - in Denmark since 2007.
- The ICTRG estimates, based on independent research, that the cost will be approximately €13m. - small in overall VAT /Revenue terms, but currently constituting a significant 'levy' on charities that fundraise independently.
- The scheme should be implemented following consultation and agreement between the charity sector and relevant government Departments.
- The Minimum Donation Threshold for tax relief purposes should be reduced progressively from the current €250 cut-off limit to Zero, to bring it into line with the situation in other countries, including the UK.

- Research carried out in 2005 reveals that 13% of charities currently avail of the scheme at the €250 Threshold. Reducing the threshold, for instance, to €100 would spread the benefit to 45% of charities.
- The maximum cost to the Exchequer is estimated at €31m.
- Tax relief on charitable donations (S848A) should not be included in Schedule 25B of the 2006 Finance Act subject to the new Section 485C limiting the use of tax relief schemes by high earners, as a means to facilitate and promote development of Philanthropy, a stated aim of the 'Towards 2016' Partnership agreement.
- S848A regarding tax relief on charitable donations should be removed from Schedule 25B of the 2006 Finance Act, on the basis that there is by law no benefit for the donor in charitable donations other than the tax relief. S848A specifically states that there can be no additional benefit to the donor.
- The cost will depend on the development of Philanthropic Giving, but will arise only where the donor pays taxation in this jurisdiction and will in any case be revenue neutral to the donor.

Introduction: Why Tax Reform?

Charities play an indispensable role in the work of society. They work with those most in need, at home and abroad. They encourage and promote a spirit of giving and volunteering.

For the past decade Ireland has benefited from the activities of the charity sector during a period of sustained economic growth. The decade ahead is likely to see a reduced level of economic well-being and consequently an increased demand for the type of services and supports that the charity sector provides.

In this regard, taxation policy should seek to be pro-active in encouraging development of relevant and socially beneficial activity. This should be done through the introduction of tax efficient measures and initiatives.

Tax 'efficiency' can mean, when relevant, tax reduction and /or tax concessions. There is sufficient evidence from previous experience of the benefits to the economy and society from the introduction of varying forms of tax concessions. These incorporate areas as diverse as Corporation tax, capital gains tax and betting tax. Furthermore the reduction in the higher upper level of PAYE helped to promote compliance and an undermining of the black economy.

The ICTRG believes that tax reform proposed in this submission will benefit not just the charity sector but society and the economy as well. It will promote tax-effective giving and encourage those, whether small or major donors, to look more favourably at contributing to Irish society within the parameters of the Irish tax system.

In his address to the Dail on May 7th, 2008, the day he became Taoiseach, Brian Cowen, TD stated that the responsibility of government is *“to fuel the engine of community and to lead the charge away from the promotion of exclusive self-interest towards a superior value of a wider community interest. The pre-eminence of community and participation over self promotes social harmony and a better quality of life for all.”*

Tax reform that incentivises the fundraising initiatives of charities and promotes charitable and philanthropic giving is a prime means by which the tax and revenue services in this country can support implementation of the Taoiseach's vision and aims in this regard.

Tax Reform: A means of incentivising the charity sector.

Research indicates that charities are gradually becoming more dependent on state funding for their overall work and activity.

According to *A Report on the Practice and Scale of Charitable Fundraising from the Public in Ireland*, by The Centre for Non-Profit Management, School of Business, Trinity College, Dublin (2007), (Table 3.11 page 12)¹, Irish charities received 59.4% of their income from the state in that year.

Research carried out six years earlier by Ernst and Young in 2001 suggested that 52% of charities' activities were paid for out of publicly raised income. (page 4)²

These figures suggest an increase in charities' dependency on state funding of approximately 1% per annum.

This development has occurred during a time of significant prosperity in the economy. In a tighter fiscal environment, it is likely that reliance on state funding as an income source will continue to increase and the rate of increase may escalate.

The Irish Charities Tax Reform Group believes that maintaining a significant level of independent charitable income is desirable within the sector for three reasons:

- encouraging the donor public's financial commitment to charities' activities,
- maintaining the focus of the sector on achieving value for money,
- maintaining the level of public funding of the sector at a level acceptable to both charities and the government.

From a taxation perspective, three factors militate against achieving the above goals.

- Charities cannot reclaim VAT on expenditure related to independently fundraised income,
- Recent tax regulations militate against the development of philanthropy
- An arbitrary minimum donation threshold of €250 for tax relief purposes continues to be applied.

¹ Available at <http://www.ictr.ie/220408/Exploring-Irish-Fundraising-Landscape.pdf>

² Available at http://www.charitytaxreform.com/docs/ernst_young_vat_report.pdf

1/. Promotion of Philanthropy:

The ICTRG believes that promotion of Philanthropy through relevant tax reform offers a major potential source of income to the sector.

ICTRG is currently awaiting the result of an independent study of the current level of major donor giving and the potential for such major donation that exists in Ireland. The Report will be forwarded for the information of the Commission when it is completed, during the middle part of this year.

The government, through the current Partnership agreement in the document 'Towards 2016', is committed to the development of Philanthropy, referring to Philanthropy specifically as follows:

“ The Government recognises the valuable work being carried out by organisations which promote philanthropy in Ireland and will continue to explore ways to facilitate philanthropic work, strengthen and deepen a culture of philanthropy in Ireland, and maximise the contribution of philanthropy to the common good. ”

- page. 72, 'Towards 2016'

An essential ingredient in promotion of philanthropy is an incentivising tax regime.

This does not, however, currently exist in Ireland. The Finance Act 2006, Ch.2A, Section 485C, placed a restriction on the use of certain tax reliefs by high-income taxpayers, affecting individuals with income in excess of €250,000 who are restricted in the amount of tax relief they can claim to 50% of their gross income in any one tax year.

Donations to Eligible Charities and Approved Bodies under S848A of the tax code are included in the reliefs to which the new section applies.

The tax relief scheme on donations as originally conceived places no upper limit on the amount that a donor can give to charity tax effectively in any year. The reason was to use taxation policy to actively promote the development of philanthropy in Ireland. This 2006 provision effectively introduces a cap on the scheme for high income individuals, potentially undermining the philanthropic incentive.

This provision in relation to tax relief schemes is understandable where there is a direct benefit to the investor in addition to the tax relief i.e. they have the benefit of the investment in an asset that will generate a financial return as well as the tax relief. This is not the case with charitable/philanthropic donations.

Tax reliefs for charity / philanthropy will not result unless a charitable /philanthropic donation has been made. There is no circumstance, therefore, where a financial gain may accrue as a result of the donation.

It is also necessary to assess the extent to which taxation policy affecting philanthropy may result in 'philanthropic flight' - i.e. the investment of funds by those with medium and high levels of wealth in other jurisdictions. Recent data from the Revenue Commissioners confirms that 916 additional Irish people became 'tax exiles' in 2006, bringing the official total of those claiming non-residency for tax purposes to 3,996 in that year.

The cause of this trend in overall tax terms is not a matter of ICTRG concern, however, the possibility that those with medium and high levels of wealth may also choose to invest philanthropically or support Foundations in foreign jurisdictions is of concern. It is the ICTRG view that taxation policy should seek to mitigate this possibility and actively promote investment in Irish based projects, as part of a progressive and incentivising taxation policy.

Issues relating to the scope and range of qualification for tax relief are addressed in the sections on the Charities Bill 2007 and Ringfencing.

Cost:

The cost to the state of lifting the cap on tax relief for philanthropic donations will be dependent on the extent to which Philanthropy develops in Ireland. It will require investment for philanthropic purposes by the donor before it can be availed of and the parameters under which it might operate, both initially and in future are matters to be decided by government.

Summary of Position:

Tax relief on philanthropic donations is fundamentally different to other tax relief schemes specified in the schedule - there can be no benefit to the donor other than the tax relief and the donation must be given at arms length with no strings attached.

The S848A tax relief scheme should be removed from the "List of specified reliefs and method of determining amount of specified relief used in a tax year" as laid out in Schedule 25B, S485C of the 2006 Act.

2/. VAT Compensation:

At present charities pay an effective ‘levy’ of unreclaimable VAT on a wide range of activities, such as capital expenditure, fundraising, promotion, essential equipment, professional fees and overheads.

This situation is anomalous. It exists because, under EU law, charities are treated as exempt from VAT under the 6th EU VAT Directive. As a consequence, while charities pay VAT they cannot recover the VAT they pay on inputs.

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.

This has a very human cost. For instance, St Vincent de Paul’s VAT Bill on independently fundraised income for 2006 was in the region of €2.6 million. Approximately 80% of the Society’s income is obtained by independent fundraising.

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.

One possible model is the scheme implemented by the Danish government for charities there in 2007, keeping in mind the spirit of incentivising independent fundraising and philanthropy and in line with government policy as stated in the ‘Towards 2016’ Partnership Agreement.

The VAT compensation would apply only to the **voluntary fundraised income** of charities.

In 2005, EU Commissioner for Taxation and Customs, Mr Laszlo Kovacs clarified the Commission’s position on the issue as follows:

“The Commission has always considered that any scheme designed to relieve the VAT burden for charitable activities can be regarded as compatible with EU legislation if it is clearly separated from the VAT system (since under this system VAT can only be refunded if it is connected with taxable supplies) and does not affect the own resources of the Community. The essential difference is that, under such a scheme the tax is collected in the first place and then the Government chooses to allocate it back to the bodies from which it has been collected. This is a subtle but important distinction.

“I have to underline that the decision to set up such a refund mechanism is strictly a national budgetary issue over which the Commission has no say or influence.”

A VAT Compensation scheme that complies with the spirit and letter of the above position was introduced by the Danish government in June 2007, following discussions there between their Departments of Finance and Taxation with ISOBRO, the Danish equivalent of the ICTRG.

Under the Danish scheme, the level of the compensation is limited initially, but will increase in relative value on a pre-determined basis annually. It confirms the operable and practical nature of similar proposals by the ICTRG.

The matter has not, however, been addressed as yet by the Irish government. On Dec. 5th, 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*”.

Cost:

Independent research carried out by Ernst and Young in 2001³ for the ICTRG calculated the annual overall VAT bill of Irish charities at approximately €18million. This study provides an independent and objective indicator of the likely exposure of the Exchequer to a full VAT compensation scheme, related to charities voluntary fundraised activity.

Approximately half of this €18m (52%) was paid for out of publicly fundraised income, the category on which VAT Compensation would apply. The cost of VAT Compensation to the Exchequer, therefore, would be in the order of €9.4 million annually, according to these 2001 figures.

Factors such as inflation and increased activity and fundraising by charities will have increased the level somewhat in the meantime.

According to *A Report on the Practice and Scale of Charitable Fundraising from the Public in Ireland*, by The Centre for Non-Profit Management, School of Business, Trinity College, Dublin (2007), (Table 3.11 page 12)⁴, Irish charities received 59.4% of their income from the state in that year, indicating a significant decrease in the level of independently fundraised income compared to 2001.

Combing the impact of increased charities’ spending and inflation with the decrease in independently fundraised income, the ICTRG estimates that current state exposure for VAT Compensation will have increased to approximately €13m annually.

Summary of Position:

The Department of Finance should agree in principle the introduction of a VAT Compensation scheme for charities, based on their independently fundraised income and, following the process successfully followed in Denmark, reach agreement with the sector on its practical implementation.

³ See footnote 2 for web link

⁴ See footnote 1 for web link

3/. Minimum Donation Threshold:

The ICTRG proposes that government brings the current €250 Threshold for tax relief purposes into line with other similar jurisdictions with similar tax regimes to our own. The Threshold should, therefore, be removed completely on a phased basis.

A 'Zero' Threshold already operates in many countries including the USA, United Kingdom and Canada. Very low Thresholds operate elsewhere, as indicated in the chart below:

Country	Lower Limit
United Kingdom	£0
United States	\$0
Australia	AUS\$2
Canada	\$0
New Zealand	NZ\$5

We recognise, however, that there is an administrative issue around the immediate removal of the threshold. This could be overcome by a phased introduction.

On an initial basis the minimum should be reduced from €250 to €100 in year 1 of implementation. This should be revised downwards in subsequent years to zero to achieve international norms.

Research carried out by ICTR Ltd / Dempsey 2005 validated by Ernst and Young⁵ reveals that:

13% of charities benefit from the tax relief scheme based on the €250 threshold. These charities tend to be longer established (over 10 years old) and larger as measured by annual income and number of employees, than those charities not in a position to benefit.

A €100 Threshold would potentially benefit a further 32% of charities (total 45%). This would spread the benefit to smaller and less established charities.

Cost:

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 €44.8m, taking into account the potential stimulus to fundraising effort that could be expected as a result. This compares to approximately €22m currently given in refunds. This is a maximum figure and would not take effect immediately.

⁵ Copy attached separately to cover email

Summary of Position:

The minimum Threshold should be reduced from €250 to €100 in Year 1 of implementation of reform. The Threshold should be revised downwards in subsequent years to zero to achieve international norms.

Issues surrounding Charity sector Tax Reform:

1/. The Administrative ‘Burden’:

The impact of administrative issues has been cited as a difficulty in implementing tax reforms to benefit charities.

In reply to a Dail Question, 20th March, 2007. (Ref No: 10194/07), the Minister for Finance expressed concern on the potential scope of and administrative work associated with VAT Compensation, stating that “*over 1,900 organisations have to date been approved under the Irish donations relief scheme.*”

While this number of organisations have indeed been approved for the donations relief scheme, the number actively availing of it is significantly less.

A significant percentage of charities do not rely on voluntary fundraising or indeed financial turnover, to sustain their activities. Many charities receive the bulk of funding from government sources (**not** covered by the Section 848A refunds for major donor purposes and which would **not** come under a VAT Compensation scheme). Many other charities operate either on a small scale financially or mainly on volunteer activity to sustain their programmes.

In its “*Budget 2006: Review of Tax Schemes, Volume III: Internal Review of Certain Tax Schemes,*” (Feb. 2006), page B15, the Department of Finance confirms this fact, when it states that just 587 charities actually benefited under the heading ‘PAYE refunds under Section 848A made by Revenue in 2004 in respect of donations received in 2003’.

This latter figure (587) represents a more realistic assessment of percentage uptake on VAT compensation also. To confirm this further, the Dept of Finance Report also states that the ICTRG which represents approximately 150 charities, “*it is understood, represents 80% of the activity in the charity sector,*” - ‘Budget 2006: Review of Tax Schemes, Volume III: Internal Review of Certain Tax Schemes,’ (Feb. 2006), page B16.

Furthermore the system of application and verification introduced for VAT Compensation in Denmark is administratively simple – for government departments and charities alike. (See Appendix 1)

In relation to the reduction of the €250 Threshold, the ICTRG proposes that it be done on a gradual and phased basis, bearing in mind the administrative burden on charitable bodies processing tax relief applications relating to very small donations.

Given that both the United States of America and the United Kingdom operate a ‘zero threshold, it would seem that a phased reduction of the limit in Ireland would also be practicable.

2/. The ‘Adequate State Funding Already’ view

The Department of Finance has argued that there are already sufficient supports for charities operating with the tax code. This view, no doubt, sustains the refusal to consider reform in relation to Philanthropic giving, VAT Compensation or reduction on the €250 Donations threshold.

Specifically the Department of Finance has argued (Reply to a Dail Question on 20th March, 2007. Ref No: 10194/07) that *“the tax code currently provides exemption for charities from Income Tax, Corporation Tax, Capital Gains Tax, Deposit Interest Retention Tax, Capital Acquisitions Tax, Stamp Duty, Probate Tax and Dividend Withholding Tax.”*

This ignores the fact that the business sector receives similar and indeed a greater range of incentives than charities.

3/. Regulatory Control:

The Charities Regulation Bill 2007, which the ICTRG has actively supported and on which it has worked with the government department responsible to assist in its delivery, is due to pass into law in 2008.

It will provide comprehensive guarantees on the legitimate operation of charitable organisations.

4/. Ringfencing:

Concerns have been expressed in some quarters that VAT Compensation for charities would later have to be applied to other bodies and organisations. This is a concern shared by government.

In reply to a Dail Question on 20th March, 2007. (Ref No: 10194/07) the Minister for Finance expressed a concern that *“the introduction of any grant system in lieu of VAT paid by registered charities in Ireland would undoubtedly lead to other exempt bodies, such as schools, hospitals and sporting organisations, many of which are already registered as charities, seeking to benefit from such a system of refunds.”*

Under the scheme proposed by the ICTRG only independently fundraised monies will qualify for compensation. The state already invests hugely in areas such as education and health. The proportion of money independently raised by schools, hospitals, etc is, therefore, very small.

The Charities Bill 2007 provides further ringfencing by definition, in particular in its requirements for ‘public benefit’ and ‘charitable purposes’ activity.

In addition there are existing precedents where ring-fencing applies in regard to specific legislation, for example, tax relief on donations. Any decision on qualification for refund will be a matter to be determined by the Department of Finance / Revenue Commissioners.

Regarding VAT specifically, some equipment used by people with disability can be purchased on a VAT refund basis. It is only necessary to *expand* on this benefit to ease the VAT burden that exists on charities.

The government has, in fact, accepted the principle of ‘ringfenced’ VAT Compensation in one specific instance. On November 10th, 2004, Mr Conor Lenihan, TD, then Minister of State for Development Cooperation and Human Rights, announced that “ *the Government will be able to provide a grant to the Band Aid Trust, equivalent to the amount collected in VAT on the sales of the Live Aid DVD released earlier this week.* ”

Conclusion and Proposals:

- Taxation policy should seek to incentivise charitable Giving and Independent Fundraising by charities and reduce dependency on state funding.
- Tax relief on philanthropic donations is fundamentally different to other tax relief schemes specified in S485C Schedule 25B - there can be no benefit to the donor other than the tax relief and the donation must be given at arms length with no strings attached.
- The S848A tax relief scheme should be removed from the “List of specified reliefs and method of determining amount of specified relief used in a tax year” as laid out in Schedule 25B of the 2006 Act.
- The minimum Threshold should be reduced from €250 to €100 in Year 1 of implementation of reform. The Threshold should be revised downwards in subsequent years to zero to achieve international norms.
- The Department of Finance should agree in principle the introduction of a VAT Compensation scheme for charities, based on their independently fundraised income and, following the process successfully followed in Denmark, reach agreement with the sector on its practical implementation.
- The actual cost to the Exchequer of introducing the above schemes is not significant in overall budgetary terms but would make a very significant and positive impact on the work of individual charities.
- In all cases control of the operation and scope of the above incentives will remain with the Revenue Commissioners and will be linked to the Charities Bill 2007.

Appendix 1 A

VAT Compensation: Suggested Application Process

(Based on the Application Form for Part Compensation of VAT for foundations and organisations as approved in 2007 for Danish charities).

Applicant Name and address of the organisation

Charity Registration No. _____

E-mail address

Name and address of accountant

E-mail address

Telephone

We apply for compensation for the following calculated VAT amount
(Amount is calculated on the basis of the following information: $(B - A) \times C$)

A Paid input VAT for the base year 2004 (calendar year)	Euro	_____
B Paid input VAT for the calendar year _____	Euro	_____
C Self-financing ratio for the year stated under B	%	_____

The above information must be confirmed by a state-authorised or registered public accountant.

Date and signature

Date and signature

For the foundation/organisation State-authorised or registered public accountant.

Appendix 1 B

Ministerial Order in Denmark on compensation for VAT to charitable organisations etc.

(NOTE: This is an Unofficial Translation)

Pursuant to s. 9 of the Financial Act [state budget] for the fiscal year 2007, note no. 107 re 09.21.10: Part refund of input tax to not-for-profit organisations, see Document no. 88 of 22 March 2007 on compensation for the expenses incurred by not-for-profit organisations towards an obligatory reporting scheme, the following is provided:

Part 1

Part refund of VAT

1. Not-for-profit and charitable organisations etc. approved in accordance with s. 8A and s. 12(3) of the Tax Assessment Act can apply for part compensation for VAT paid on purchases (input VAT) related to their VAT-exempt not-for-profit activities. Compensation will be granted for the increase in input VAT in a specific calendar year over the base year 2004 by a ratio corresponding to the organisation's self-financing ratio, but see (3). The organisation's self-financing ratio is the share of the organisation's own income out of its total income, see (2). No compensation will be granted for input VAT that has already been refunded, see s. 45 of the VAT Act.

(2) Own income includes e.g. income from collections and appeals as well as from sales of various items, provided the transaction is not registered as a VAT taxable activity, income from donations, bequests, members' fees, subscriptions and other privately raised funds. Any contributions, grants or similar donated by other private organisations are deducted from the statement of the donor organisation and included in the statement of the receiving organisation. The value of payment in kind and labour is not included in the statement. Own income does not include funds received from central or regional government administrations, public institutions, public foundations, or from the EU or other international organisations. Profit shares from lotteries etc. on Danish television stations (Denmark's Radio, TV2 etc.) cannot be included, either.

(3) The compensation granted in 2007 for VAT paid on expenses incurred in 2006 will, however, not quite match the self-financing ratio, as an amount of DKK 10 million out of the total grant allocated in the Financial Act 2007, plus an additional supplementary grant, if relevant, towards VAT compensation, will be allocated in advance to organisations as compensation for their initial expenses related to setting up the obligatory reporting scheme provided in s. 8Æ of the Tax Control Act, see (2). When the total amount of compensation applied for has been added up, the Customs and Tax Administration will set up a fraction to calculate a proportional allocation of the VAT compensation funds to the applicants. The fraction will consist of the total amount applied for in the denominator and the allocated funds plus any supplementary grant, less DKK 10 million, in the numerator.

(4) In the case of organisations that are not able to prepare a statement of their input VAT expenses in the base year 2004, either because they had not been established in 2004, were established in the course of the year, or had not been approved in accordance with s. 8A or s. 12(3) of the Tax Assessment Act, the Customs and Tax Administration will determine a basis of comparison as the average of the percentage of increase in VAT input amounts of all the applicant organisations from the base year 2004 to the relevant calendar year.

Part 2

Part compensation for expenses incurred towards an obligatory reporting scheme

2. Not-for-profit and charitable organisations etc. approved in accordance with s. 8A and s. 12(3) of the Tax Assessment Act can, for the fiscal year 2007, apply for part compensation for expenses incurred towards preparations for the obligatory reporting scheme, see s. 8Æ of the Tax Control Act and Document no. 88 of 22 March 2007.

(2) The amount of compensation awarded to each organisation is composed of a fixed amount of DKK 1,500 and a proportional amount determined on the basis of the sum of the organisation's total donations according to s. 8A and s. 12(3) of the Tax Assessment Act received in 2006, compared to the size of the total donations according to the above provisions in the Tax Assessment Act of all applicant organisations. In total, the applicant organisations cannot demand any compensation exceeding the allocated DKK 10 million, see 1(3).

Part 3

Application deadline etc.

3. Compensation can be applied for once a year, no later than 1 July of the year following the calendar year for which compensation is applied for. Applications may be submitted for the first time no later than 1 July 2007 for VAT paid on purchases in 2006.

(2) Applications for compensation for expenses incurred towards the obligatory reporting scheme must be submitted no later than 1 July 2007.

(3) Applications, see (1), must include the following information:

- 1) the amount for which compensation is applied for;
- 2) the organisation's expenses towards input VAT, excluding any input VAT already refunded in accordance with s. 45 of the VAT Act; for the base year 2004 see, however, 1(4);
- 3) the organisation's expenses towards input VAT, excluding any input VAT already refunded in accordance with s. 45 of the VAT Act, for the calendar year for which compensation is applied for; and
- 4) the organisation's self-financing ratio for the calendar year for which compensation is applied for.

(4) The information listed in (3), items 2-4, must be provided on the basis of an auditor's statement made by a registered or state-authorized public accountant.

(5) In the event of any changes occurring after the submission of the application in the expenses towards input VAT that have been applied for, the organisation must inform the Customs and Tax Administration accordingly without delay to allow the amount of compensation to be adjusted in accordance with the new information, and any already paid compensation to be repaid.

(6) Application for compensation of expenses incurred towards the obligatory reporting scheme, see (2), must include information about the total amount of donations for the year 2006 made to the organisation under s. 8A and s. 12(3) of the Tax Assessment Act, see forms 03.012 and 03.013. The information must be provided on the basis of an auditor's statement made by a registered or state-authorized public accountant. It is, however, also possible for the organisation to make a solemn declaration.

4. Applications for compensation under the provisions of the present order should be addressed to Skattecenter [Tax Centre] Bornholm, Munch Petersens Vej 8, 3700 Rønne, which will also decide whether compensation will be granted. Applications according to s. 3(1) may be submitted electronically via the tax authorities' website to the extent this is possible.

(2) It is a prerequisite for the payment of compensation that the organisation has a VAT registration number and a corresponding bank account into which the compensation amount can be paid.

(3) The decision of Skattecenter Bornholm can be appealed to the National Tax Tribunal, see s. 11 of the Tax Administration Act.

5. The Customs and Tax Administration is entitled to examine the material that serves as the basis for compensation grants. The organisation must upon request submit or forward the relevant material to the Customs and Tax Administration. The general control provisions laid down in ss. 74-76 and s. 6 of the Tax Control Act apply to this type of control.

6. The present Order will enter into force on 1 June 2007.

The Ministry of Taxation, 2 May 2007

Kristian Jensen

/Lene Skov Henningsen

Appendix 2:

Positions of political parties at time of 2007 General Election indicating support for positively addressing the issue of VAT Compensation for charities

In response to contacts from the ICTRG **Fianna Fail** stated:

“If re-elected Fianna Fáil in government will consider VAT paid by charities in the context of a budgetary framework.”

In response to contacts from ICTRG **Fine Gael** stated it:

“supports in principle a VAT compensation scheme for charities. If elected to Government, we will work with stakeholders to implement such a scheme in the context of putting the charity sector on a proper regulatory footing.”

In its election documentation the **Green Party** stated it:

“will give charities a refund on VAT paid on donations in order to support their positive contribution to Irish society.”

In response to contacts from the ICTRG the **Labour Party** stated:

“In our manifesto “The Fair Society” we are committed to introducing a comprehensive regulation of charities as a priority. We hope to engage in Government with the various Groups to see how we can then address the broader issue.”

The **Progressive Democrats**, in their General Election Manifesto, pledged to:

“legislate to regulate the charity sector and examine how VAT is levied on charitable organisations.”

Appendix 3

22.05.2008

ICTRG Members List

Ability West
Accord Marriage Care
ACTIONAID Ireland
Adelaide Hospital Society
Aidlink
Aids Fund, The
Aiseiri Treatment Centre
Aisling Foundation, The
Aislinn Adolescent Addiction Treatment Centre
Alzheimer Society of Ireland
Amnesty International Irish Section
ARC Cancer Support Centre
Arthritis Foundation
Aware
Bank of Ireland Group Employees Fund
Barnardos
Barretstown Gang Camp, The
Beaumont Foundation
Birdwatch Ireland
Bone Marrow for Leukaemia Trust
Bothar
Boys Hope Girls Hope (Ireland)
Brain Research (formerly Irish Brain Research Foundation)
Brainwave (The Irish Epilepsy Association)
Brothers of Charity, Renmore, Galway
Business 2 Arts
Cancer Care West (Leukaemia Trust)
Cappagh Hospital Trust
Care Trust Ltd, The
Carer's Association, The
Carmichael Centre for Voluntary Groups
Cashel & Emly Diocese
Castleblayney Arts & Community Development Ltd.
CEIST
Central Remedial Clinic
Charleville Community Childcare Ltd
Charleville Sheltered Housing Services
Chartered Accountants Benevolent Association (Irl)
Cheshire Ireland
ChildFund Ireland
Childrens Medical Research Foundation
Clann Credo Ltd
Clarecare
Company
Concern Worldwide
Conference of Religious of Ireland
Construction Workers Benevolent Fund
Construction Workers Health Trust

Co-operation Ireland
Cope Ltd
Cottage Home for Little Children, The
Cowper Care Centre
Croi - West of Ireland Cardiology Foundation
Crosscare
Daughters of Charity of St. Vincent de Paul
Debra Ireland plc
Disability Federation of Ireland
Drogheda Community Services Trust
Dublin Cemeteries Committee
Dublin Well Woman Centres
Edmund Rice Schools Trust (ERST)
Enable Ireland
Exploration Station
Fighting Blindness
Focus Ireland
Foundation for Investing in Communities
Franciscan Missionaries of the Divine Motherhood
Galway Hospice Foundation
Galway University Foundation
GOAL
GORTA
Hope Foundation, The
Hope House
Housing Association for Integrated Living Ltd.
Inclusion Ireland (formerly NAMHI)
Ireland Funds, The
Irish Cancer Society
Irish Heart Foundation
Irish Hospice Foundation
Irish Kidney Association
Irish Missionary Resource Service (IMRS)
Irish Motor Neurone Disease Association
Irish Museum of Modern Art
Irish National Committee for Unicef
Irish Red Cross Society
Irish Wheelchair Association
ISPC
Jack & Jill Foundation
Junior Achievement Ireland
KARE
Kerry Diocesan Youth Service
Kerry Parents & Friends Association
Lismullin Educational Foundation
Little Brothers Friends of the Elderly
Marie Keating Foundation
Mater Foundation
Mayo/Roscommon Hospice Foundation
Medical Missionaries of Mary
Mental Health Ireland
Mercy International
Migraine Association of Ireland
Missionaries of the Sacred Heart
Mount Melleray Abbey
Mount Sackville Secondary School

MS Ireland
Muscular Dystrophy Ireland
National Bible Society of Ireland
National Council for the Blind
National Womens' Council of Ireland
National Youth Council of Ireland
National Youth Federation
NCI
Oireachtas na Gaeilge
Oxfam Ireland
Philanthropy Ireland
Plan Ireland
Pobal
Pontifical Mission Societies
Post Polio Support Group
Presentation Sisters
Protestant Aid
Rehab Care
Rehab Foundation
Representative Body of the Church of Ireland, The
Respect
Royal College of Physicians of Ireland
Royal National Lifeboat Institution
Ruhama
Salvation Army, The
Scripture Union Ireland
SelfHelp Development International
Sightsavers Ireland
Simon Communities of Ireland
Simon Community
Sisters of Charity of Jesus & Mary Services
Sisters of Mercy Southern Province
Society of St. Vincent de Paul
SOS Kilkenny
South Inner City Community Development Association
St. Michael's House
St. Patrick's Cathedral
St. Patrick's Hospital
St. Patrick's Hospital
Temple Street Children's Hospital
Threshold
Trinity Foundation
Trocaire
Walkinstown Association
West Cork Music
West of Ireland Alzheimer Foundation
Wexford Festival Opera
Wheel, The
Word of Victory
World Vision Ireland