

‘Abolish VAT on Giving’ campaign launched *Charities demand VAT refund from Government*

September 26th, 2006

A group representing 140 Irish charities today (Tuesday, September 26th) launched a campaign to demand a refund from the government on VAT. Unlike the business sector charities cannot reclaim VAT on essential expenditure.

The campaign, ‘**Abolish VAT on Giving**,’ was launched by the Irish Charities Tax Reform Group (ICTRG). Its Chairperson, **Mr Richard Dixon**, said that the VAT bill for many charities equals the spend on some of their major activities.

“Most people will not be aware that a portion of their ‘euro’ given to charities at different fundraising events is returned to the Government by way of VAT payments by the charities involved.

“This severely limits the work of charities, with the aged, the sick and people with disabilities, as well as those most in need both at home and abroad. It has a very human cost,” he said.

A 2001 study by Ernst and Young found that charities’ were then paying at least €18m in VAT annually, on capital expenditure, fundraising, promotion, essential equipment, professional fees and overheads. Today’s figures are likely to be significantly higher, the ICTRG says.

Under EU law member states may not make direct refunds of VAT to charities because they carry out some non-business activity. The Minister for Finance can, however, compensate charities without contravening EU regulations, the ICTRG says.

“There is no obstacle at EU level to the Government of the day responding positively to this campaign. We will of course be seeking the views of all political parties on this initiative and hopefully get positive commitments as we head into an election year,” Richard Dixon said.

EU Commissioner, Mr Laszlo Kovacs, has stated clearly that the VAT burden on charities can be relieved by way of a government grant scheme. The actual cost to the Exchequer of introducing such a grant scheme is projected at approximately 52% of the total Charities VAT bill, since the remainder is paid for from public funding.

“The EU accepts that VAT paid by charities is unfair. The Minister for Finance, in Section 20 of the VAT Act, 1972, has the power to make available to charities reliefs such as compensation equivalent to the amount of VAT they pay.

“The Danish government recently confirmed that charities there are entitled to VAT compensation and its implementation is now being finalised. We need similar commitment and action from our Minister for Finance.

“Between now and the general election the ICTRG will press the relevant Government and Opposition spokespersons on this issue,” Richard Dixon says.

Emphasising the human cost of VAT on charities, **Mr John McCormack**, Chief Executive of **the Irish Cancer Society**, said that the €300,000 VAT bill paid by his organisation annually “would run our entire Cancer Information Service for a year. It could alternatively provide eight additional Oncology Liaison Nurses who offer emotional and informational support for cancer patients and their families within the hospital setting. Or it could support a full year's expenditure on immediate cash assistance grants to assist hundreds of people who experience financial stress due to cancer diagnosis,” he said.

Mr Liam Walsh, Development Director with **Respect/Sisters of Charity** said that their VAT bill “could pay for one, if not two extra bungalows – ensuring that 12 people with intellectual disability were properly and adequately housed.”

Mr Paddy McGuinness, Deputy CEO, **Concern**, said that the organisation's VAT bill last year was “almost as high as our entire Budget for Rwanda. In Rwanda we provide essential services such as child survival programmes including a home based malaria scheme, community based health care for 12,000 children, care for pregnant women and supports for 12 schools.”

ENDS

(see also Note to Editors, below)

For further information contact:

Wally Young
Young Communications
Tel 01. 6680530; 087.2471520

John Gallagher
John Gallagher Consulting
Tel. 087.9369888

NOTE to Editors:

The EU Commission and VAT Compensation !

In 2005, EU Commissioner for Taxation and Customs, Mr Laszlo Kovacs stated:

“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.”

Following a meeting between the Irish Charities Tax Reform Group and the previous EU Commissioner, Frits Bolkestein, in Feb. 2003, the Commissioner wrote to ICTRG stating:

“During that meeting, the question of the Commission's attitude to a possible scheme whereby the Irish Government would give a subsidy to Irish charities of an amount equivalent to the non-deductible VAT that they had incurred was raised. In particular, the delegation was concerned to know whether any such scheme would be at odds with the provisions of Community VAT law as contained in the 6th VAT Directive.

“I wish to confirm to you that in the Commission's view, the granting of government subsidies - irrespective of the beneficiaries - is in itself not contrary to European Union VAT law. In this regard, it has also to be noted that, provided that the State Aid rules are observed. Community law in general does not prescribe how Member States should spend their revenue.”

ENDS