

**A REPORT TO IRISH
CHARITIES TAX RESEARCH
LIMITED ON THE VAT
BURDEN IMPOSED ON
CHARITIES**

**ERNST & YOUNG, DUBLIN
AUGUST 2003**

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1. SCOPE

This report has been commissioned by Irish Charities Tax Research Limited. It reviews the impact of VAT on certain charitable organisations, identifies areas where further relief from VAT could possibly be given and makes recommendations on the power of the Minister to grant such relief and how that relief might be administered.

It does not comment upon the impact or otherwise on charities of any other tax.

This report does not specify the charity sectors to which reliefs should apply.

The report has been compiled by Ernst & Young, Dublin.

Reference has been made to EU VAT legislation and Irish VAT legislation.

2. EXECUTIVE SUMMARY

The VAT incurred by the charities sampled in this survey was €18,045,217.

The sample period was 1 January 2001 to 31 December 2001 (although charities with a different financial year end provided information regarding the financial year closest to this sample period).

The total number of charities surveyed was 191 (93 members charities of the Irish Charities Tax Reform Group and 98 randomly selected charities).

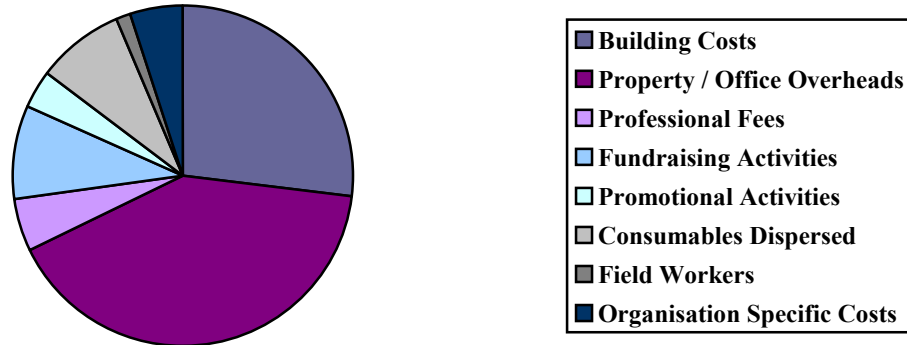
| | € |
|---|--------------|
| Total Expenditure | €500,145,513 |
| Total VAT incurred | €18,045,217 |
| Total (known) VAT refunded | €284,214 |
| VAT incurred on: | |
| ▪ Purchase / Acquisition / Renovation of Property | €4,850,303 |
| ▪ Property / Office Overheads | €7,347,129 |
| ▪ Professional Fees | €941,016 |
| ▪ Fundraising costs | €1,592,755 |
| ▪ Promotional Costs | €621,558 |

The breakdown of the VAT incurred is as follows:

| | ICTRG members | Random Sample | Total |
|-----------------------------|--------------------------|------------------|--------------------------|
| | € | € | € |
| Building Costs | €4,151,014 | €699,289 | €4,850,303 |
| Property / Office Overheads | €5,268,674 | €2,078,455 | €7,347,129 |
| Professional Fees | €841,278 | €99,738 | €941,016 |
| Fundraising Activities | €1,575,134 | €17,621 | €1,592,755 |
| Promotional Activities | €433,321 | €188,237 | €621,558 |
| Consumables Dispersed | €914,468 | €586,079 | €1,500,547 |
| Field Workers | €244,711 | €27,078 | €271,789 |
| Organisation Specific Costs | €305,199 | €598,268 | €903,467 |
| | | | |
| Total | €13,750,452 ¹ | €4,294,765 | €18,045,217 ¹ |

¹ The difference between the total of VAT incurred in all categories and the total VAT stated (being €16,653) arises because one ICTRG member could only provide a total VAT figure.

The following chart indicates the breakdown of the total VAT incurred in each expenditure category.



€8,455,825 of the total VAT incurred (which equates to approximately 46.86%) was funded by the Government either directly or indirectly via other public bodies, such as FÁS and local County Councils. Approximately 51.92% of the VAT incurred (€9,369,927) was funded by other means, e.g. fundraising, donations, sponsorship, commercial activities etc.

83.53% of the total expenditure and 76.20% of the total VAT was incurred by members of the Irish Charities Tax Reform Group which supports the claims of the Irish Charities Tax Reform Group that the expenditure of its members represents the major proportion of the total spend of the charities sector.

Ernst & Young believes that once the Minister for Finance collects VAT charged to charities he has the power, under EU and Irish legislation, to make refunds of the VAT collected as he deems appropriate. To this end recommendations have been made that relief should be granted by way of Ministerial Orders.

Some of the items of expenditure which merit the most focus for alleviation of VAT have been identified in this report.

3. METHODOLOGY

3.1 THE QUESTIONNAIRE

In February 2002 Ernst & Young prepared a draft questionnaire (see appendix 1) which was designed to extract, in so far as possible, the VAT burden which is placed on charities during 2001.

The questionnaire was designed to establish the source of funding and, primarily, to quantify the VAT burden, in a number of specific areas, which is imposed on charities thereby enabling the identification of the areas where the VAT burden is the greatest.

The final section of the questionnaire was designed to quantify the amount of VAT which has been refunded by the Revenue Commissioners.

Figures were requested for the period 1 January 2001 to 31 December 2001. However in cases where the financial year of a charity was not the calendar year information was obtained for the financial year closest to this sample period.

Later that month members of the Irish Charities Tax Reform Group were invited to attend a breakfast meeting where the basic principles of the questionnaire (and the Irish VAT system in general) were explained by a VAT partner of Ernst & Young.

3.2 THE SAMPLE

On the basis that the expenditure of the members of Irish Charities Tax Reform Group represents the major proportion of the total spend of the charities sector these charities were the first to be surveyed

In March 2002 a copy of the questionnaire was distributed to all the members of the Irish Charities Tax Reform Group. The Irish Charities Tax Reform Group advised, at that time, that the expenditure of its members represented circa 80% of the total spend of the charities sector.

The questionnaire was deemed not appropriate to 10 member charities. Information was received from 93 member charities (see appendix 2) as follows:

- 14 member charities provided full sets of accounts from which the questionnaire was completed,
- 2 member charities provided detailed information of all expenditure,
- 1 member charity provided total VAT and expenditure figures and was unable to provide a breakdown
- 76 member charities provided completed questionnaires.

3.3 THE RANDOM SAMPLE

Since it was not possible to randomly target the entire charity sector it was decided that the most efficient way to proceed would be to sample a database of organisations which meet the requirements for charitable tax exemption, as compiled by the Revenue Commissioners. Revenue categorised each charitable organisation into one of four categories, in line with charitable purposes, (community, education, poverty and religion) depending on its activities. This database is comprised of 5,394 charities, categorised as follows:

| | |
|-----------|--------|
| Community | 41.92% |
| Education | 25.23% |
| Poverty | 12.72% |
| Religion | 20.13% |

Since it was likely that only those charities with the most money at stake would be likely to reply to the questionnaire, thereby resulting in a biased sample, it was decided not to request randomly selected charities to reply to the questionnaire but rather to search the database for all those charities who were limited companies and complete the questionnaire based on figures obtained from accounts purchased from the Companies Registration Office. Of the 5,394 charities contained in the database 1,549 were limited companies. Each 10th limited company was then selected and these charities made up the random sample.

The random sample selected from the Revenue's database comprised 153 charities, categorised as follows:

| | |
|-----------|--------|
| Community | 52.90% |
| Education | 20.65% |
| Poverty | 12.90% |
| Religion | 13.55% |

It was determined that these percentages sufficiently reflected those of the Revenue database.

Of the 153 selected charities the Companies Registration Office had no record of 12 and could not provide a CRO number for two charities.

Thus, copies of accounts of 139 charities were requested. Of these 139 charities 41 were excluded from the survey since insufficient information was received to complete the questionnaire. The remaining 98 accounts were analysed and form part of this survey. Although publicly available information regarding each of the randomly selected charities was used in this survey it has been decided to grant the charities anonymity, since it was not possible to contact each individual charity to obtain permission to print their names in this report.

3.4 COMPLETION OF THE QUESTIONNAIRE

It was assumed that all figures as provided on questionnaires completed by members of the Irish Charities Tax Reform Group were correct unless an obvious error had been made, i.e. VAT at the standard rate had been incurred on light and heat. In such cases the figures were amended to reflect the appropriate VAT rate.

When completing the questionnaires based on sets of accounts (received from members of the Irish Charities Tax Reform Group and the Companies Registration Office) the nature of each charity was taken into account when considering whether VAT would have been incurred on certain expenditure figures and categories. Furthermore, some (conservative) assumptions were made, e.g.:

- no VAT was incurred on periodical rental charges.
- no VAT had been incurred on the purchase of food.
- where a breakdown of the costs incurred in purchasing fixtures and fittings was not available and there had been a considerable outlay on property during the period it was assumed that half the costs related to (standard rated) fittings and the other half to fixtures (taxable at the reduced rate). Where there had not been considerable outlay on property during the period it was assumed that the costs related to fittings (taxable at the standard rate).
- where no specific information regarding motor and travel costs was available an assumption that 50% of the expenses were subject to VAT at the standard rate was made.
- where a figure was provided for office expenses and salaries were not itemised separately in the accounts it was assumed that the bulk

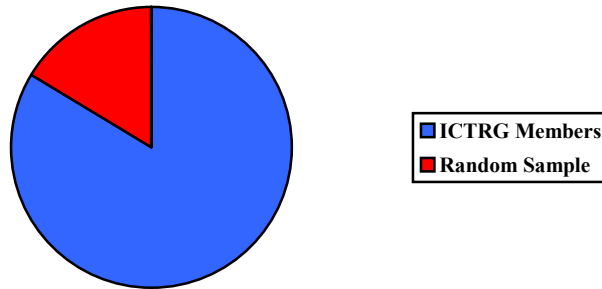
of the expenses would have related to salaries and VAT was therefore not applicable. Where salaries had been itemised separately in the accounts it was assumed that all of the office expenses were taxed at the standard rate.

- where a breakdown of postage and stationery costs was not available (i.e. only one figure was provided in the accounts) it was assumed that 25% of the expenses related to exempt EU postage and the remainder to stationery taxable at the standard rate.
- it was assumed that all training costs were exempt from VAT, i.e. the supplier had not treated the supply as a consultancy service and charged VAT.
- where the accounting year coincided with two standard VAT rates (i.e. 20% and 21%) it was assumed that standard rated expenditure was incurred evenly throughout the year and was apportioned accordingly.

4. RESULTS OF SURVEY

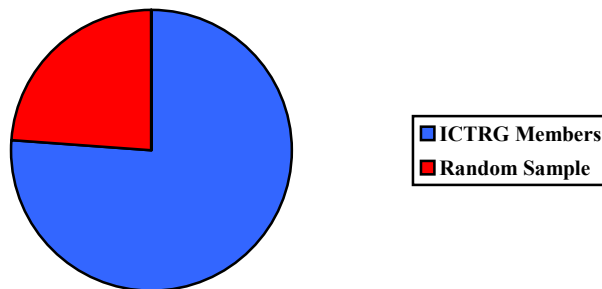
4.1 EXPENDITURE

The total expenditure of the charities involved was €500,145,513. Of this amount €417,787,251 was spent by members of the Irish Charities Tax Reform Group (being 83.53% of the total spend which supports the opinion of the Irish Charities Tax Reform Group that the expenditure of its members represents the major proportion of the total spend of the charities sector). The total spend of the randomly selected charities amounted to €82,358,262.



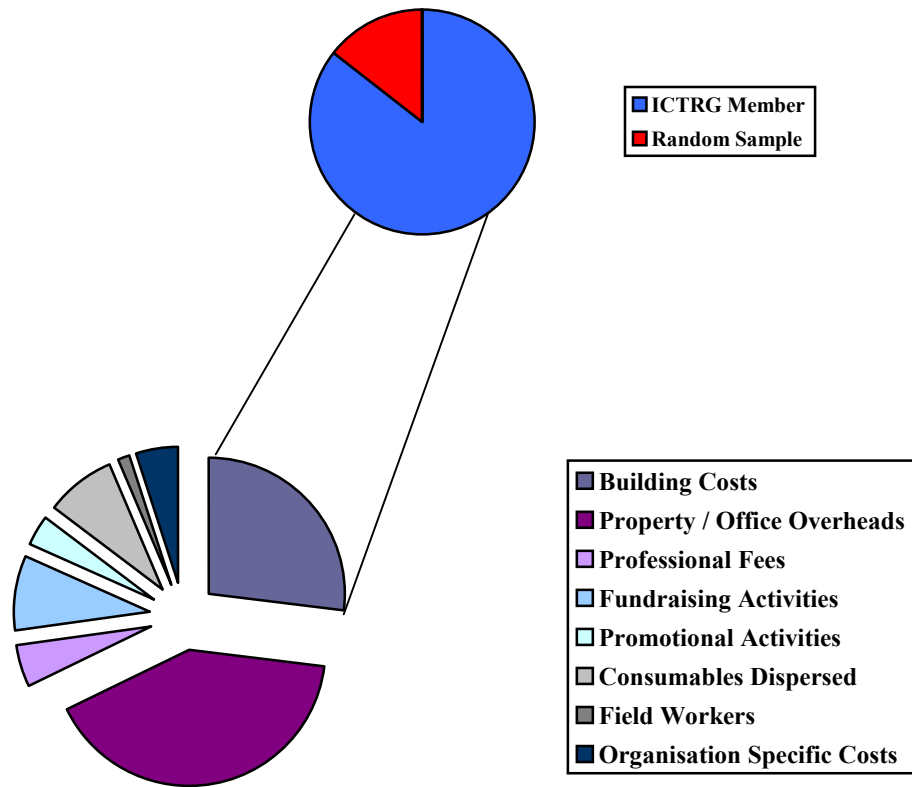
4.2 VAT BURDEN

The total VAT incurred by the charities involved in this survey was €18,045,217 (€13,750,452 having been incurred by members of the Irish Charities Tax Reform Group and the remaining €4,294,765 by the randomly selected charities).



4.2.1 BUILDING COSTS

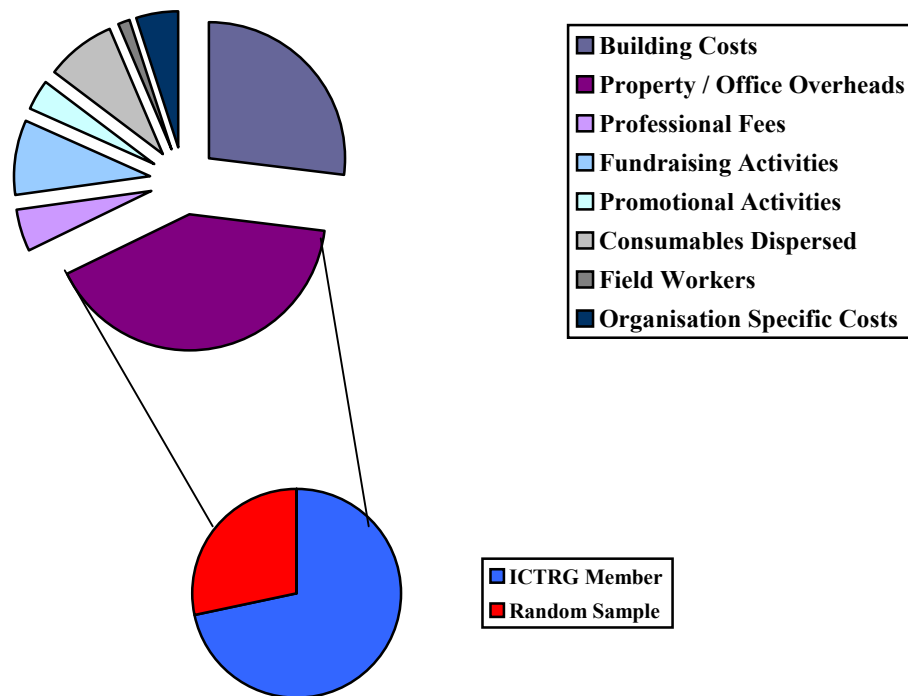
The amount of VAT incurred on the acquisition and development of property and rental charges by those charities involved in this survey amounted to €4,850,303. 85.58% of which (€4,151,014) was incurred by members of the Irish Charities Tax Reform Group, the remaining €699,289 having been incurred by the randomly selected charities.



4.2.2 PROPERTY / OFFICE OVERHEADS

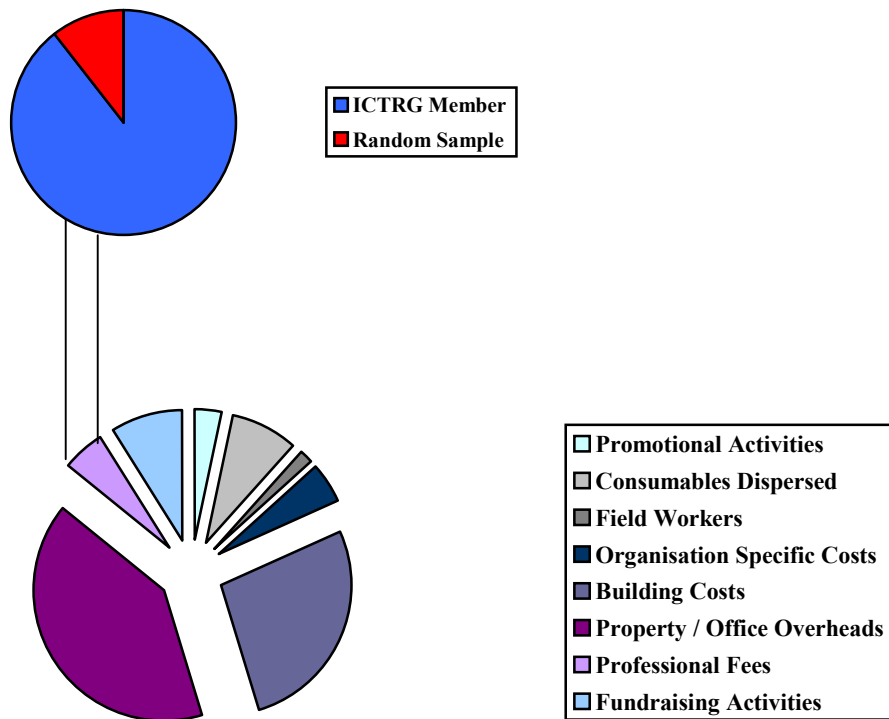
This category comprises all office running costs such as light and heat, telephone costs, stationary, repairs, renewals and the purchase of capital equipment such as fixtures, fittings, computer equipment, motor vehicles etc.

The total amount of VAT incurred on these costs was €7,347,129. Of this amount €5,268,674 was incurred by members of the Irish Charities Tax Reform Group (representing 71.71% of the VAT incurred on these overheads) with the remaining €2,078,455 having been incurred by the randomly selected sample.



4.2.3 PROFESSIONAL FEES

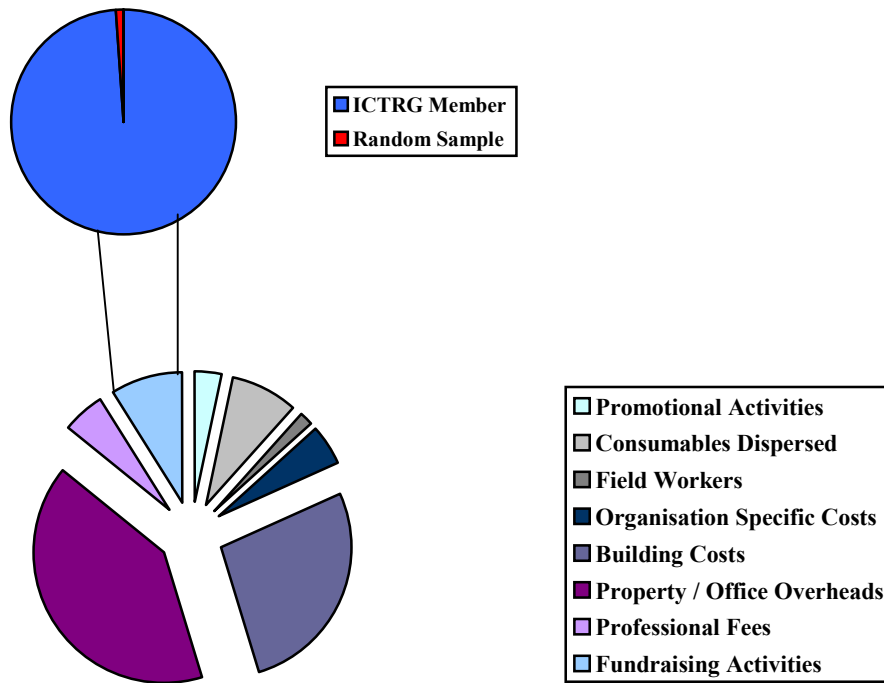
VAT in the amount of €941,016 was incurred on professional fees such as legal, accountancy, consultancy and recruitment fees. 89.40% of this VAT was incurred by members of the Irish Charities Tax Reform Group, amounting to €841,278 with the remaining €99,738 having been incurred by the randomly selected sample.



4.2.4 FUNDRAISING ACTIVITIES

€1,592,755 VAT was incurred on the organisation and advertising of fund raising events.

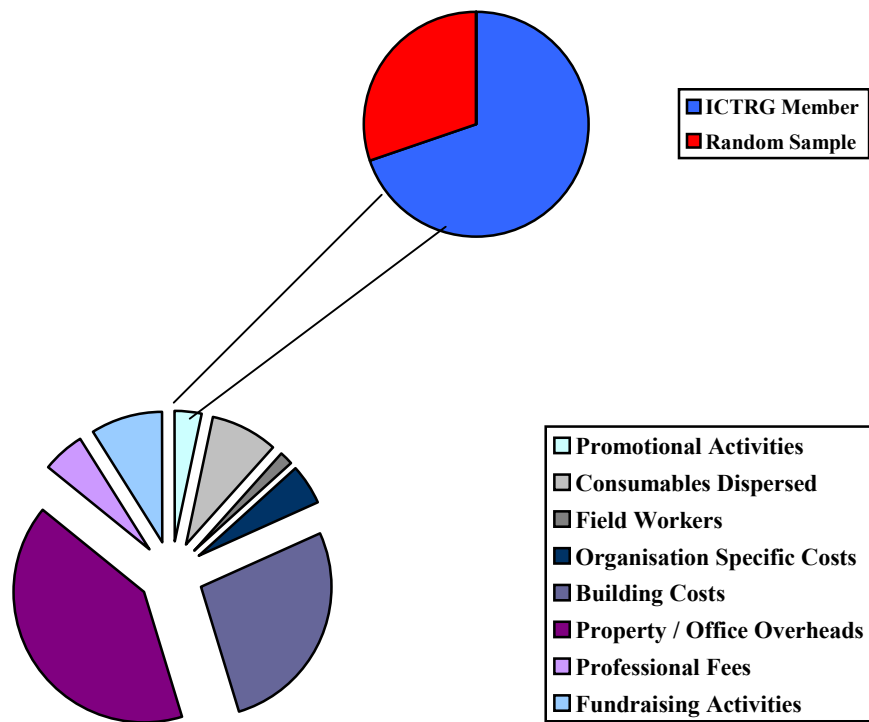
Members of the Irish Charities Tax Reform Group incurred VAT in the amount of €1,575,134 on such costs (representing 98.89% of the total VAT incurred) with the remaining €17,621 having been incurred by the randomly selected charities.



4.2.5 PROMOTIONAL ACTIVITIES

€621,558 VAT was incurred by the charities whilst promoting their organisations and the charitable work in which they are engaged.

Members of the Irish Charities Tax Reform Group incurred 69.72% of this VAT (€433,321) whilst the randomly selected charities incurred €188,237 VAT on these costs.

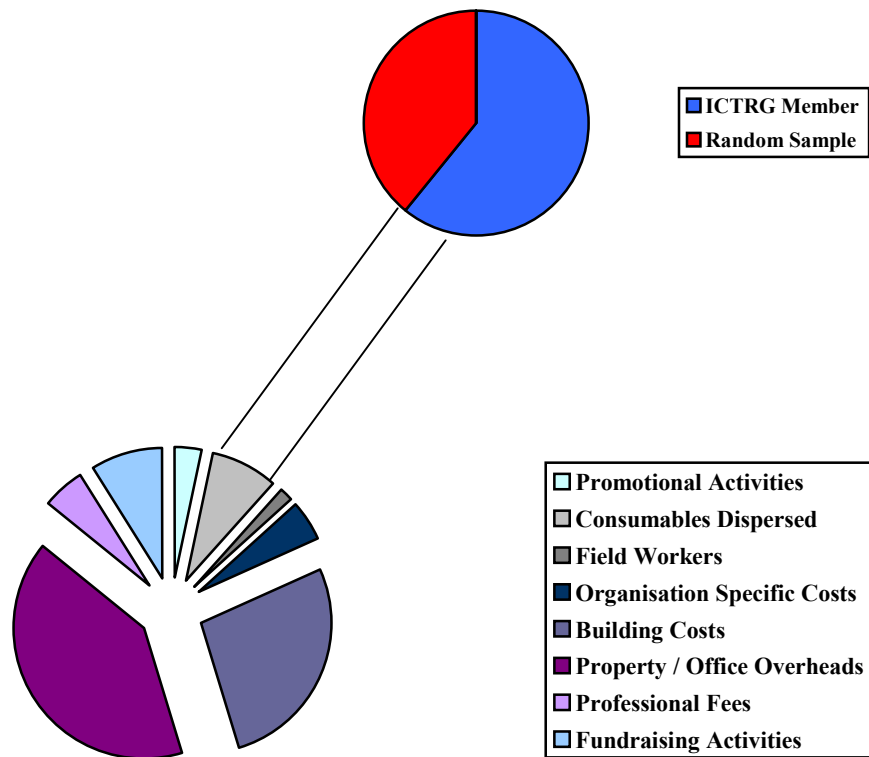


4.2.6 CONSUMABLES DISPERSED

This category comprises costs incurred on clothing, food, equipment and services which the charities consumed or used on an agency basis in providing their charitable activities.

The VAT incurred on such costs amounted to €1,500,547.

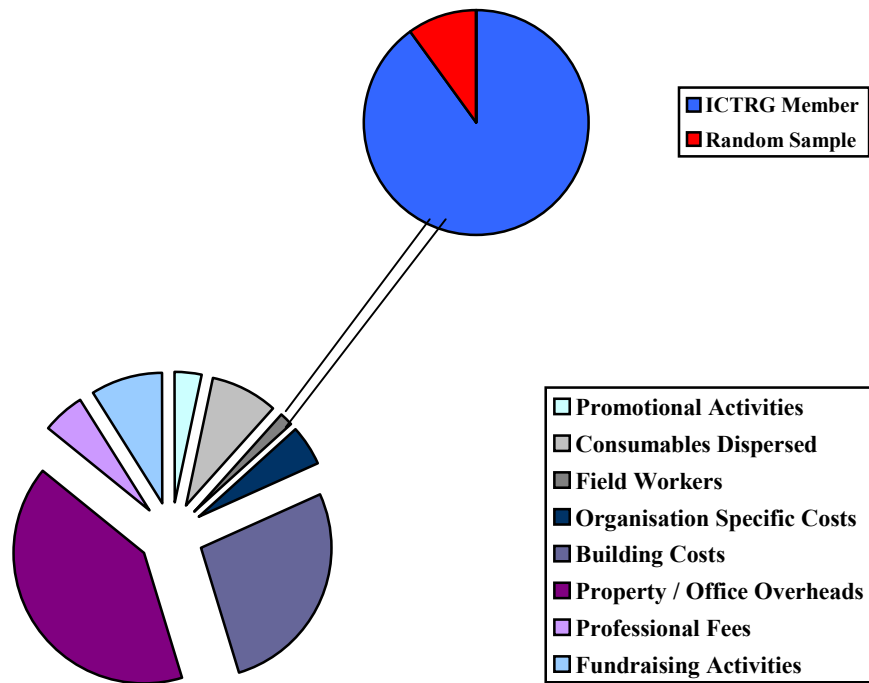
Of this amount €914,468 was incurred by members of the Irish Charities Tax Reform Group (representing 60.94% of the VAT incurred on these costs) with the remaining €586,079 having been incurred by the randomly selected sample.



4.2.7 FIELD WORKERS

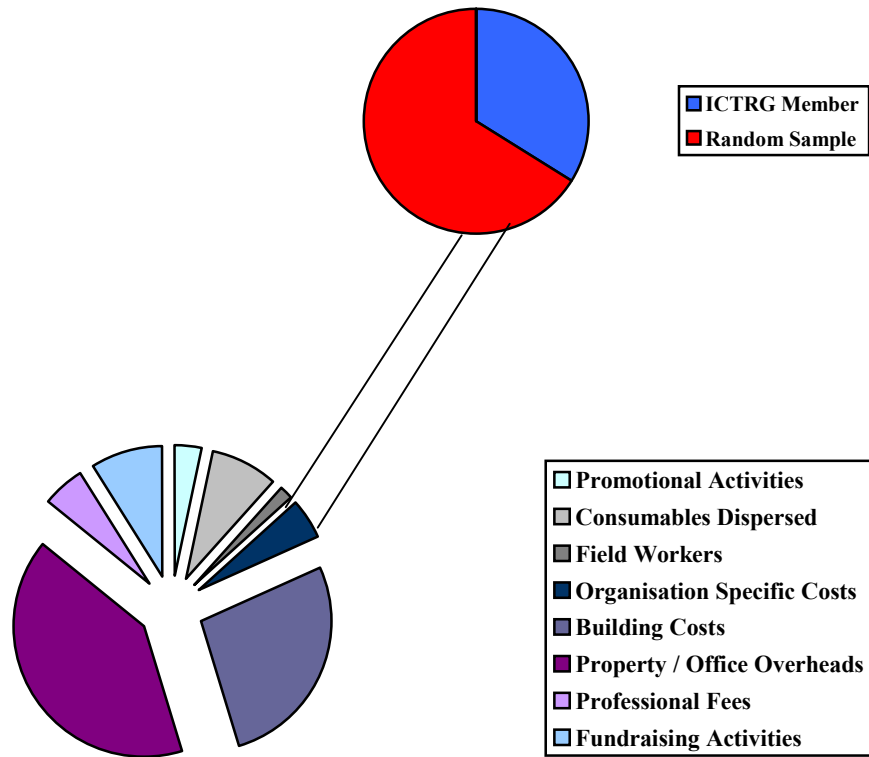
VAT in the amount of €271,789 was incurred on travel costs, subsistence and other similar costs incurred by employees whilst away from the office on business.

90.04% of this amount was incurred by members of the Irish Charities Tax Reform Group (i.e. €244,711) with the remaining €27,078 having been incurred by the randomly selected charities.



4.2.8 ORGANISATION SPECIFIC COSTS

The VAT incurred on costs which were specific to each charity amounted to €903,467 - €305,199 VAT having been incurred by members of the Irish Charities Tax Reform Group (representing 33.78% of the total VAT incurred) with the remaining €598,268 having been incurred by the randomly selected sample.



4.3 VAT RECOVERY

Due to insufficient information it was not possible to ascertain if the randomly selected charities received a refund of any VAT incurred.

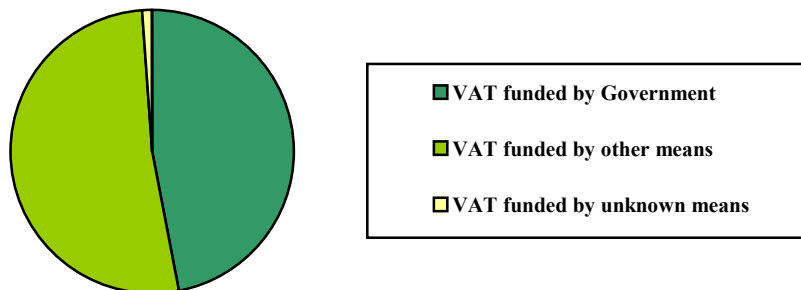
Of the 93 replies received from members of the Irish Charities Tax Reform Group only 6 indicated that a refund of VAT had been received, as follows:

- 3 charities received a refund via filing of periodic VAT returns (amounting to €194,776),
- 1 charity received a refund in accordance with Value-Added Tax (Refund of Tax) (No 15) Order, 1981 to the amount of €88,182,
- 1 charity received a VAT refund of €1,256 by unidentified means
- 1 charity indicated that a refund had been received but did not disclose information as to the amount and mechanism.

4.4 FUNDING

As stated above, the total VAT incurred by the charities surveyed was €18,045,217.

€8,455,825 of the total VAT incurred (which equates to approximately 46.86%) was funded by the Government either directly or indirectly via other public bodies. Approximately 51.92% of the VAT incurred (€9,369,927) was funded by other means. Since information regarding the funding of 10 charities (4 member charities and 6 randomly selected charities) was not available it is not known how the remaining 1.22% of the VAT incurred was funded.



4.4.1 FUNDING BY DIRECT GOVERNMENT GRANTS

Approximately 10.19% of the total VAT incurred (equating to €1,839,278) was funded by direct Government grants awarded for capital expenditure.

The funding by Government grants for current / revenue expenditure is higher. €3,527,252 of the total VAT incurred (which equates to approximately 19.55%) was funded by direct Government grants. The breakdown between the funding of the VAT incurred by members of the Irish Charities Tax Reform Group and the funding of the VAT incurred by the random sample is as follows:

| | ICTRG members | Random Sample | Total |
|---------------------------|------------------------|------------------------|------------------------|
| Capital funding | 11.33% (€1,558,584) | 6.54% (€280,694) | 10.19% (€1,839,278) |
| Current / revenue funding | 15.01% (€2,063,420) | 34.08% (€1,463,832) | 19.55% (€3,527,252) |
| Total | 26.34% (€3,622,004) | 40.62% (€1,744,526) | 29.74% (€5,366,530) |

4.4.2 FUNDING BY OTHER PUBLIC BODY GRANTS

Approximately 3.08% of the total VAT incurred (equating to € 555,239) was funded by public body grants awarded for capital projects. 14.04% of the total VAT incurred (€2,534,056) was funded by public body grants awarded to charities to fund current / revenue expenditure. The breakdown between the funding of the VAT incurred by members of the Irish Charities Tax Reform Group and the funding of the VAT incurred by the random sample is as follows:

| | ICTRG members | Random Sample | Total |
|---------------------------|------------------------|---------------------|------------------------|
| Capital funding | 3.90% (€536,199) | 0.44% (€19,040) | 3.08% (€555,239) |
| Current / revenue funding | 15.87% (€2,182,588) | 8.18% (€351,468) | 14.04% (€2,534,056) |
| Total | 19.77% (€2,718,787) | 8.62% (€370,508) | 17.12% (€3,089,295) |

4.4.3 FUNDING BY OTHER MEANS

Approximately 51.92% the VAT incurred by the charities involved in the survey (€9,369,927) was funded by sponsorship, fundraising, commercial activities, donations, bequests, membership fees, service charges and other means. The breakdown between the funding of the VAT incurred by members of the Irish Charities Tax Reform Group and the funding of the VAT incurred by the random sample is as follows:

| | ICTRG members | Random Sample | Total |
|-----------------------------------|------------------------|------------------------|------------------------|
| Sponsorship | 0.71% (€97,082) | 0.39% (€16,601) | 0.63% (€113,683) |
| Fundraising | 14.24% (€1,958,650) | 0.64% (€27,603) | 11.01% (€1,986,570) |
| Commercial Activities | 9.49% (€1,304,849) | 42.35% (€1,818,658) | 17.31% (€3,124,287) |
| Donations / Bequests | 16.31% (€2,243,385) | 2.92% (€125,347) | 13.13% (€2,369,049) |
| Membership fees / service charges | 6.75% (€928,729) | 0.95% (€40,768) | 5.37% (€969,497) |
| Other | 4.81% (€661,869) | 3.41% (€146,386) | 4.48% (€808,844) |
| | | | |
| Total | 52.31% (€7,194,564) | 50.66% (€2,175,363) | 51.92% (€9,369,927) |

5. INPUT VAT

Legislation which affects charitable organisations and certain categories of persons is covered by the VAT Act, VAT Regulations and VAT Orders.

Alleviation of VAT can be granted by either Ministerial Orders or Ministerial Regulations. Ministerial Orders deal with organisations and beneficiaries whilst Ministerial Regulations deal with broad issues.

Section 20(3) VAT Act 1972 authorises the Minister (of Finance) to make an order for the refund of any tax referred to in the order which does not qualify for deduction under Section 12 of the VAT Act. As in most cases charities will not be carrying on taxable activities they may not avail of an input credit under Section 12 VAT Act 1972.

To date the preferred method employed to provide relief from VAT for a charitable organisation and to certain categories of people is by way of Ministerial Order.

By granting the relief by way of refund, control rests with the Revenue Commissioners thereby preventing abuse. Furthermore, relief by way of a refund allows the Revenue Commissioners to quantify the value of VAT refunds made.

An examination of the various orders suggests the development of VAT reliefs is piecemeal and to a large extent determined by the effectiveness of the case made by the lobby group concerned.

An interesting aspect is that some of the Orders grant full relief (i.e. a full refund of the VAT suffered) while others grant partial relief (i.e. a refund of the difference between the standard (21%) and the reduced rates (13.5%)).

5.1 RELIEF AVAILABLE BY WAY OF MINISTERIAL ORDER

Outlined below are the various Ministerial Orders and a brief description of their benefits.

Value Added Tax (Refund of Tax) (No 12) Order 1980

A person or local authority purchasing and using a mobile home/caravan for residential purposes is entitled to a refund of the difference between the standard and reduced rate (i.e. 21% - 13.5% = 7.5%). It is a condition that the goods must be rated by the local authority (i.e. fixed). This order would appear to be in need of amendment as it refers to deleted sections of the Act. The VAT Refund Section in Ennis requested that a submission be made to VAT Policy and administration on the matter.

Value Added Tax (Refund of Tax) (No 15) Order 1981

A disabled person may reclaim VAT incurred on “goods..... which are aids or appliances” and parts for same which have been specially constructed or adapted, or which may reasonably be so treated, for use by a disabled person. This is broader than the zero rate of VAT provided for in terms of the range of goods covered, but is more restrictive in so far as only disabled persons may avail of the relief.

Value Added Tax (Refund of Tax) (No 18) Order 1985

This enables a refund of VAT to be made on the purchase of certain small boats (less than 15 tons) and equipment used by sea rescue groups.

Value Added Tax (Refund of Tax) (No21) Order 1987

A refund of VAT may be made in respect of any goods which have been exported from the State within four months of their acquisition by qualifying persons, i.e. a non-profit making organisation involved in humanitarian, charitable or teaching activities abroad.

Value Added Tax (Refund of Tax) (No23) Order 1992

Any VAT paid on goods (excluding means of transport) used by the operators of a hospital where the VAT exclusive amount exceeds €25,395 (IR£20,000), and the goods are used solely in medical research, diagnosis, or the prevention or treatment of illness may be refunded to the purchaser.

Value Added Tax (Refund of Tax) (No27) Order 1995

This extends the provisions of the previous order to include research institutes and universities and colleges.

5.2 RELIEF AVAILABLE BY WAY OF VAT REGULATION

Currently the only Regulation which provides relief to charitable organisations and certain categories of individuals is the Disabled Drivers and Disabled Passengers (Tax Concessions) Regulation, 1994.

Broadly speaking, an individual or philanthropic organisation may be refunded the VAT incurred on the acquisition (excluding leasing) of a motor vehicle subject to certain criteria being satisfied. The engine must not exceed 2000cc where the driver is a disabled person and 4000cc where the vehicle is for the transportation of disabled persons. In all cases the vehicle must be specifically constructed or adapted.

A relief on excise duty on petrol/diesel used in such vehicles is also available subject to the following maximums:

- 600 gallons in the case of a refund in respect of a disabled driver/passenger.
- 900 gallons in the case of a refund in respect of a qualifying organisation.

Remission of Road Tax duty is given in respect of these vehicles.

6. THE ROLE AND POWER OF THE MINISTER

Under the terms of the VAT Act 1972 power is conferred on the Minister by several sections. The Minister's powers are attached below on a section by section basis.

Section 6

Section 6(2)(a) states: *“The Minister may by order declare the supply of goods or services of any kind to be an exempt activity.”*

Section 11

This section deals with the rates of tax. Section 11(8)(a) states: *“The Minister may by order vary the Second, Third, or Sixth Schedule by adding or deleting therefrom descriptions of goods or services of any kind or by varying any description of goods or services for the time being specified therein, but no order shall be made under this section for the purpose of increasing any of the rates of tax or extending the classes of activities or goods in respect of which tax is for the time being chargeable”.*

Section 14

This section authorises the Minister to raise the threshold for payment based on the cash receipts basis and is not of relevance to charities.

Section 20

Section 20(3)(a) states: *“The Minister may by order provide that a person who fulfils to the satisfaction of the Revenue Commissioners such conditions as may be specified in the order shall be entitled to be repaid so much, as is specified in the order, of any tax borne or paid by him as does not qualify for deduction under Section 12”.*

Under the provisions of Irish VAT legislation the Minister has a significant degree of discretion in determining who may receive a refund of tax. However, the power of the Minister to reduce the rate of VAT on goods and services is curtailed by EU legislation.

For example it would not be possible for the Minister to reduce the rate of VAT to zero in respect of goods or services supplied to a specific class of person or group, e.g. charities.

There is, therefore, scope for the Minister to provide relief from VAT by way of refund (Section 20 VAT Act 1972) as there is not a restriction on the right of a Minister to make a refund order.

7. RECOMMENDATIONS

An argument may be made for the application of a reduced VAT rate to purchases of goods and services by qualifying charities. Such a devolution of control to traders would be administratively more efficient and less expensive for the Revenue Commissioners. However, the introduction of such a rate requires agreement of the Ministers of Finance of all 15 Member States (unanimity is required at the Council of Ministers in all tax matters) and is therefore not within the powers of the Minister to introduce. As a result the Minister would be unlikely to adopt such a strategy.

Although the Minister is obliged to collect VAT (since it forms part of our resources which fund the budget of the European Union) once collected the VAT can be disbursed as the Minister deems appropriate, without EU clearance. This has been confirmed by Commissioner Frits Bolkestein (Directorate-General for Taxation and the Customs Union).

It is therefore recommended that VAT continues to be charged to charities with a relief from VAT effected by way of Ministerial Order.

The Minister has, by way of section 20 VAT Act 1972, the necessary power to make available to charities, the various reliefs which are outlined in this report. In the past, Ministerial Orders issued under Section 20 have been made to relieve the burden of VAT from certain categories of people and organisations. Only six such orders have been made by Ministers over the past twenty years which have relieved the burden of VAT on certain disadvantaged groups and charitable organisations.

The granting of relief via a Ministerial Order ensures that the benefit of the relief goes, in its entirety, to a specific charity or individual. None of the relief is dissipated by way of the retailer increasing his price which might be the case if relief was granted by another method. Furthermore, by using a Ministerial Order control remains with the Revenue Commissioners.

This report has identified the following areas as those where most of the VAT has been incurred:

7.1 PROPERTY

The initial outlay by a charity on property can be very high and place a burden on the organisation. VAT at the rate of 13.5% applies to the construction, purchase or long lease of a property. Many short leases are subject to VAT at the 21% rate.

7.2 EQUIPMENT COSTS

Charities spend considerable funds on equipment used on a day-to-day basis. This equipment can be used by the charity indirectly in the performance of its duties, e.g. the purchase of necessary office equipment. Alternatively it can be used directly by the organisation, e.g. the purchase of beds for use in a hospital for the homeless or the purchase of plates for use in the operation of a food kitchen. Most equipment used is liable to VAT at the 21% rate.

The current limit of €25,395 (IR£20,000) is the minimum cost of equipment which is used to determine a refund of VAT in respect of medical equipment to certain institutions.

7.3 PROFESSIONAL FEES

Many charities are obliged to seek professional advice on a wide range of issues. Often they are obliged to commission studies before committing resources to a project. In almost all cases the rate of VAT applicable to these fees is 21%. Professional fees incurred by charities are increasing (as is the VAT incurred on these fees) due to the ever-increasing volume of financial regulatory requirements imposed on all sectors.

7.4 FUND RAISING COSTS

Fund raising is a necessary activity of every charity. Donations represent a significant source of income. These donations must be solicited and fund raising events organised to effect collection and increase public awareness. VAT is incurred in organising these fund raising events. Advertising services utilised and the purchase of collection boxes, tokens and emblems are all liable to VAT at the 21% rate. Clearly this VAT cost significantly reduces the amount of resources available to charities to raise further funds and / or disburse to its beneficiaries.

7.5 PROMOTIONAL COSTS

Often, charities have to promote their organisation or some or all of the charitable work they are engaged in. To carry out such promotion the charity has to spend on a range of goods and/or services. Again most of these services/goods are subject to VAT at the 21% rate.

APPENDIX 1 - QUESTIONNAIRE

Name of Organisation:

Contact: CHY No:

Tel. No:

E-mail:

SECTION 1

The purpose of this section is to establish the nature of the charitable activities performed and the source of funding used.

| ACTIVITY: | | Insert a v beside <u>one</u> of the following which best describes your charitable activities |
|---|--|---|
| <input type="checkbox"/> Care of Children ¹ | | |
| <input type="checkbox"/> Social Welfare/Poverty Relief ² | | |
| <input type="checkbox"/> Disability, Health/Medical Research ³ | | |
| <input type="checkbox"/> International Development ⁴ | | |
| <input type="checkbox"/> Arts/Culture/Heritage ⁵ | | |
| <input type="checkbox"/> Trusts and Foundations ⁶ | | |
| <input type="checkbox"/> Education ⁷ | | |
| <input type="checkbox"/> Other (please specify) | | |

| SOURCE OF FUNDING: | | Indicate below the % of your funding which is derived from each source listed |
|--|--|---|
| <input type="checkbox"/> Direct Government Grants - capital | | % |
| <input type="checkbox"/> Direct Government Grants – current/revenue | | % |
| <input type="checkbox"/> Other Public Body Grants - capital | | % |
| <input type="checkbox"/> Other Public Body Grants – current/revenue | | % |
| <input type="checkbox"/> Fundraising | | % |
| <input type="checkbox"/> Sponsorship | | % |
| <input type="checkbox"/> Commercial Activities (e.g. shops, restaurants) | | % |
| <input type="checkbox"/> Donations/Bequests | | % |
| <input type="checkbox"/> Membership fees/ service charges | | % |
| <input type="checkbox"/> Other (please specify) | | % |

| ARE YOUR BENEFICIARIES: | | Place a v in the appropriate box below |
|---|--|--|
| <input type="checkbox"/> individuals? | | |
| <input type="checkbox"/> groups of individuals? | | |
| <input type="checkbox"/> institutions? | | |

SECTION 2

The section is designed to capture basic accounting practices.

ACCOUNTING PERIOD ⁸

| | y/e 31/12/01 | Other please specify |
|---|--------------|----------------------|
| What accounting period has been used in the calculations below? | | |

ACCOUNTING CURRENCY ⁹

Please place a v in the applicable box

| | € | IR£ |
|--|---|-----|
| Which currency has been used to complete this questionnaire? | | |

TOTAL ANNUAL EXPENDITURE ¹⁰

If possible please estimate the total (VAT inclusive) cost incurred in the appropriate boxes below

| | | |
|---|--|--|
| Property expenditure/Building costs (see Section 3A for examples) | | |
| Other (non-property) capital expenditure (e.g. motor vehicles, furniture and fittings etc.) | | |
| Non-capital expenditure ¹¹ | | |

SECTION 3.A.

This section relates to the VAT burden created by property acquisition, construction, development, lease etc. It was decided that due to the large amounts of money involved in property transactions, this category of costs warranted a section of its own (so as not to distort the final figures).

BUILDING COSTS ¹²

If possible please estimate the total (i.e. VAT inclusive) cost incurred in the appropriate boxes below

If possible please estimate the amount of VAT incurred in the appropriate boxes below

| | | | |
|------------------------------------|--|--|--|
| Purchase | | | |
| Construction | | | |
| Lease | | | |
| Renovation / Extension | | | |
| Total (if breakdown not available) | | | |

Please place a v in the appropriate box below

| | | |
|------------------------------------|--|--|
| Are these costs incurred annually? | | |
| Are these costs once-off? | | |

SECTION 3.B.

This section is subdivided into two sub-sections. It broadly covers the VAT burden created by general office and property running costs and overheads. We have also included professional services received in this category.

PROPERTY/OFFICE OVERHEADS ¹³

If possible please estimate the total (i.e. VAT inclusive) cost incurred in the appropriate boxes below

If possible please estimate the amount of VAT incurred in the appropriate boxes below

| | | | |
|---|--|--|--|
| Capital (non-property) overheads, e.g. motor vehicles | | | |
| Fixtures & Fittings | | | |
| Computer equipment | | | |
| Light & heat | | | |
| Telephone | | | |
| Repairs / Renewals | | | |
| Stationery | | | |
| Other overheads from Income & Expenditure (e.g. wages, insurance) | | | |
| Total (if breakdown not available) | | | |

PROFESSIONAL FEES ¹³

If possible please estimate the total (i.e. VAT inclusive) cost incurred in the appropriate boxes below

If possible please estimate the amount of VAT incurred in the appropriate boxes below

| | | | |
|------------------------------------|--|--|--|
| Legal Fees | | | |
| Accountancy fees | | | |
| Consultancy fees | | | |
| Other fees | | | |
| Total (if breakdown not available) | | | |

SECTION 3.C.

This section is subdivided into two sub-sections, promotional activities and fund raising activities. While there may be some cross-over we would ask that you try to be as accurate as possible in allocating the VAT burden to the most appropriate subheading.

FUNDRAISING ACTIVITIES ¹³

If possible please estimate the total (i.e. VAT inclusive) cost incurred in the appropriate boxes below

If possible please estimate the amount of VAT incurred in the appropriate boxes below

| | | | |
|---|--|--|--|
| Advertising Costs | | | |
| Goods Costs | | | |
| Function Costs (eg dinners, dances) | | | |
| Event Costs (eg costs associated with sponsored walks, jumps etc) | | | |
| Printing/printed matter (0%) | | | |
| Printing/printed matter (12.5%) | | | |
| Printing/printed matter (20%) | | | |
| Other costs (please specify) | | | |
| Total (if breakdown not available) | | | |

PROMOTIONAL ACTIVITIES ¹³

If possible please estimate the total (i.e. VAT inclusive) cost incurred in the appropriate boxes below

If possible please estimate the amount of VAT incurred in the appropriate boxes below

| | | | |
|-------------------------------------|--|--|--|
| Advertising Costs | | | |
| Goods Costs | | | |
| Function Costs (eg dinners, dances) | | | |
| Printing/printed matter (0%) | | | |
| Printing/printed matter (12.5%) | | | |
| Printing/printed matter (20%) | | | |
| Other costs (please specify) | | | |
| Total (if breakdown not available) | | | |

SECTION 3.D.

This section relates to goods and services consumed in providing the charitable activity. The VAT burden incurred on any goods and services acquired by the charity and either consumed or used on an agency basis should be included in this section.

CONSUMABLES DISPERSED ¹³

If possible please estimate the total (i.e. VAT inclusive) cost incurred in the appropriate boxes below

If possible please estimate the amount of VAT incurred in the appropriate boxes below

| | | | |
|------------------------------------|--|--|--|
| Clothing | | | |
| Food | | | |
| Services (please specify): | | | |
| | | | |
| | | | |
| Specialised equipment | | | |
| Other equipment | | | |
| Total (if breakdown not available) | | | |

FIELD WORKERS ¹³

If possible please estimate the total (i.e. VAT inclusive) cost incurred in the appropriate boxes below

If possible please estimate the amount of VAT incurred in the appropriate boxes below

| | | | |
|------------------------------------|--|--|--|
| Travel costs | | | |
| Subsistence | | | |
| Other costs (please specify) | | | |
| Total (if breakdown not available) | | | |

ORGANISATION SPECIFIC COSTS

Please indicate the type of costs below

If possible please estimate the total (i.e. VAT inclusive) cost incurred in the appropriate boxes below

If possible please estimate the amount of VAT incurred in the appropriate boxes below

| | | | |
|--|--|--|--|
| | | | |
| | | | |
| | | | |
| | | | |

SECTION 4

To date the most preferred method employed to provide relief from VAT for a charitable organisation is by way of Ministerial Order. Some Ministerial Orders grant full relief (i.e. a full refund of the VAT suffered) while others grant partial relief (i.e. a refund of the difference between the standard and the reduced rates).

This section seeks to quantify any VAT which has been refunded to the charity by the Revenue Commissioners. Needless to say any VAT amount indicated in this section will also have been indicated in Section 3 as a VAT burden.

VAT RECOVERY

| Please refer to the endnotes for details of the various Ministerial Orders | Please place a v in the appropriate box below | If possible please estimate the amount of VAT recovered in accordance with each refund scheme |
|--|---|---|
| Mobile homes – Standard Rate Excess ¹⁴ | <input type="checkbox"/> | <input type="text"/> |
| Medical Appliances – Standard Rate Excess ¹⁵ | <input type="checkbox"/> | <input type="text"/> |
| Goods for disabled persons ¹⁶ | <input type="checkbox"/> | <input type="text"/> |
| Sea Rescue and Assistance ¹⁷ | <input type="checkbox"/> | <input type="text"/> |
| Exports by charities ¹⁸ | <input type="checkbox"/> | <input type="text"/> |
| Medical Research – Hospitals ¹⁹ | <input type="checkbox"/> | <input type="text"/> |
| Medical Research – Institutions ²⁰ | <input type="checkbox"/> | <input type="text"/> |
| Periodic VAT returns ²¹ | <input type="checkbox"/> | <input type="text"/> |
| Other (please specify) | <input type="checkbox"/> | <input type="text"/> |

NOTES FOR GUIDANCE

- ¹ Criteria: Organisations with the care of children as their primary focus and includes youth organizations and support groups, all children and youth specific organisations including those dealing with health issues.
- ² Criteria: Organisations involved in care of the community including care of the elderly, organization tackling poverty and disadvantage, homelessness, social housing etc. This includes religious orders/organizations with this focus.
- ³ Criteria: Organisations with a specific focus on a particular illness or disability and support groups for specific conditions, medical research foundations, hospitals, umbrella groups.
- ⁴ Criteria: Organisation with a focus on or working in the developing world.
- ⁵ Criteria: Organisation which promote arts, culture or heritage including museums, theatres, orchestras etc.
- ⁶ Criteria: Trusts and foundations with a general remit, e.g. investing in communities but not medical research foundations or trusts with a very specific focus or for a very specific cause.
- ⁷ Criteria: Organisation involved in formal/informal education including organisation with a religious education focus. Includes organisations which promote cross community understanding.
- ⁸ Please note that figures for a full year are required. If you have amended your accounting period last year in line with the tax year your last set of accounts may not necessarily cover a 12-month period. You may, therefore, also need to include figures from a previous accounting period.
- ⁹ Please ensure that only one currency is used throughout the questionnaire. If you need to convert from Euro to Punt you must multiply the Euro amount by 0.787564. If you need to convert from Punt to Euro you must divide the Punt amount by this figure.
- ¹⁰ The total expenditure figures are required by Ernst & Young to estimate the VAT incurred as a percentage of total expenditure.

The figures provided in this section should be gross, i.e. VAT inclusive amounts.
- ¹¹ This is the total expenditure from the Income and Expenditure and includes any non-VATable expenditure such as wages, insurance, rates etc.
- ¹² The initial outlay by a charity on property can be very high and place a burden on the organisation. Since VAT on property transactions is probably the most complex area of VAT it is impossible to provide a list of costs and the corresponding VAT rates. You will, therefore, need to refer to invoices received to confirm the VAT rate charged by your supplier. As a general indication, VAT at the rate of 12.5% applies to the construction, purchase or long lease of a property. Some short leases are subject to VAT at the 20% rate (21% if invoiced prior to 1/1/01).

The gross amount paid will include the VAT cost so you must not multiply the gross amount by the applicable VAT rate. The methods for calculating the VAT amount are described at point 13 below.
- ¹³ Please refer to invoices received during the year to calculate the VAT charged by your suppliers. However, if you prefer calculating the VAT figures from the figures reported in your financial

accounts, or if invoices are not available, one of the following formulae should be used to calculate the VAT charge (since the gross figures will include the VAT cost):

LONGHAND FORMULA:

$$\frac{\text{Gross amount} \times \text{applicable VAT rate}}{100 + \text{applicable VAT rate}}$$

EXAMPLE:

An amount of € 4,320 was paid to Ernst & Young but the invoice is not available.

The VAT element of the invoice is:

$$\frac{€ 4,320 \times 20}{120} = € 720$$

SHORTHAND FORMULA:

The gross amount should be divided by

- 6 if 20% VAT was charged
- 9 if 12.5% VAT was charged
- 5.76 if 21% VAT was charged (i.e. if invoiced prior to 1 January 2001)

EXAMPLE:

An amount of € 4,320 was paid to Ernst & Young but the invoice is not available.

Since such services are subject to the standard VAT rate (20%) the VAT element of the invoice is:

$$\frac{€ 4,320}{6} = € 720$$

The following tables indicate the VAT rates applicable to the most common expenses incurred.

PROPERTY / OFFICE OVERHEADS

| | | | |
|--------------------|-------|------------|--------|
| Light & Heat | 12.5% | Insurance | exempt |
| Telephone/Fax | 20% * | Rates | exempt |
| Computer equipment | 20% * | Stationery | 20% * |
| Repairs | 12.5% | Wages | Exempt |
| Professional fees | 20% * | | |

FUND RAISING /PROMOTIONAL ACTIVITIES

| | | | |
|----------------------------|-------|-------------------------------|-------|
| Advertising material | 20% * | Stickers/badges | 20% * |
| Function/Reception costs | 12.5% | Collection buckets | 20% * |
| Posters | 20% * | Leaflets/flyers (advertising) | 20% * |
| Printed books and booklets | 0% | Leaflets/flyers (other) | 12.5% |
| Annual Reports | 0% | Calendars | 20% * |
| Printing: | | Magazines/periodicals | 12.5% |
| - of 0% publications | 0% | Other stationery | 20% * |

| | | | |
|-------------------------|-------|-------------------|-------|
| - of 12.5% publications | 12.5% | Hymn/prayer books | 0% |
| - of 20% publications | 20% * | Photocopying | 20% * |

CONSUMABLES DISPERSED

| | | | |
|---------------------|-------|-----------------------------|--------|
| Food | 0% | Medical equipment | 0% |
| Children's clothing | 0% | Medical/dental/optical care | Exempt |
| Other clothing | 20% * | Passenger transport | Exempt |

FIELD WORKERS

| | | | |
|------------------|--------|----------------------------------|-------|
| Public transport | Exempt | Parking (private operators only) | 20% * |
| Taxi | Exempt | Accommodation | 12.5% |
| Car rental/lease | 12.5% | Restaurant costs | 12.5% |
| Petrol/Diesel | 20% * | Alcohol | 20% * |

* The 21% rate must be used if the expense was invoiced prior to 1/1/01.

- ¹⁴ This Order (Value-Added Tax (Refund of Tax) (No 12) Order, 1980) enables repayment to be made, subject to certain conditions, of portion of the VAT paid in relation to a caravan, a mobile home or similar structure, which has been purchased by, *inter alia*, a local authority, provided for letting as a residence.
- ¹⁵ This Order (Value-Added Tax (Refund of Tax) (No 14) Order, 1980) enables repayment to be made, subject to certain conditions, of VAT chargeable in excess of the reduced rate to hospitals and universities, colleges and research institutions operating laboratories for medical, dental, surgical and veterinary research on medical and laboratory appliances and instruments, even where they are not of a kind used solely in professional practice but are commonly used by them.
- ¹⁶ This Order (Value-Added Tax (Refund of Tax) (No 15) Order, 1981) enables VAT paid on qualifying goods to be refunded where the goods are purchased for the exclusive use of disabled persons suffering a specified degree of disablement.
- ¹⁷ This Order (Value-Added Tax (Refund of Tax) (No 18) Order, 1985) enables VAT to be repaid, subject to certain conditions, in respect of small rescue craft, ancillary equipment and special boat buildings, to qualifying groups who provide a sufficient standard of sea rescue and assistance services. The Order also applies to similar equipment used by the Irish Water Safety Association.
- ¹⁸ This Order (Value-Added Tax (Refund of Tax) (No 21) Order, 1987) provides relief from VAT, subject to conditions for goods purchased for export by philanthropic organisations for use in their activities abroad.
- ¹⁹ The effect of this Order (Value-Added Tax (Refund of Tax) (No 23) Order, 1992) is to allow a full refund of the value-added tax paid on qualifying medical equipment purchased through voluntary donations with effect from 29 January, 1992.
- ²⁰ The effect of this Order (Value-Added Tax (Refund of Tax) (No 27) Order, 1995) is to allow a full refund of the value-added tax paid on qualifying equipment for medical research purchased through voluntary donations with effect from 27th January, 1994.

²¹ Charities making taxable supplies are required to register for VAT and file bi-monthly /annual VAT returns. Please insert the amount of VAT refunded by the Revenue Commissioners via these periodic VAT returns in this box.

APPENDIX 2 – IRISH CHARITIES TAX REFORM GROUP MEMBERS WHO PARTICIPATED IN THE SURVEY

- ActionAid Ireland
- Adelaide Hospital Society, The
- Age Action Ireland Ltd
- AIDS Fund, The
- Aiseiri Treatment Centre
- Aislinn Adolescent Treatment Centre
- Alzheimer Society of Ireland
- Amnesty International Irish Section
- Arthritis Foundation of Ireland
- Asthma Society of Ireland
- Aware
- Barnardos Republic of Ireland Ltd
- Beaumont Foundation
- Bone Marrow for Leukaemia Trust
- Boys Hope Girls Hope Ireland
- Barretstown Gang Camp Fund Ltd, The
- Brainwave (The Irish Epilepsy Association)
- Carers Association Ltd, The
- Carmichael Centre for Voluntary Groups
- Castleblaney Arts & Community Development Ltd comprising
 - Blayney Blades Ltd
 - Castleblaney Trust
- Central Remedial Clinic
- Cheshire Foundation of Ireland
- Childrens Fund for Health, Temple St. Hospital
- Concern Worldwide
- Co-Operation Ireland
- Cope (Crisis Housing, Caring Support) Ltd
- Cottage Home for Little Children, The
- Debra Ireland
- Disability Federation of Ireland
- Draiocht
- Dunamais Arts Centre (Laois Arts Theatre Co. Ltd.)
- Focus Ireland
- Foundation for Investing in Communities
- Galway Hospice Foundation
- Glencree Centre for Reconciliation
- Gorta
- Hope House
- Housing Association for Integrated Living
- Irish Brain Research Foundation

- Irish Cancer Society
- Irish Heart Foundation
- Irish Hospice Foundation, The
- Irish Kidney Association
- Irish Motor Neurone Disease Association
- Irish Museum of Modern Art
- Jack & Jill Foundation
- Junior Achievement
- Kare
- Kerry Parents & Friends of the Mentally Handicapped
- Leukaemia Trust Ltd
- Lismullen Educational Foundation
- Little Brothers (Friends of the Elderly) Ltd.
- Mater Foundation, The
- Mayo Roscommon Hospice Foundation
- Mercy International Centre
- Mount Sackville Secondary School
- Multiple Sclerosis
- Muscular Dystrophy Ireland
- National Association for Deaf
- National Bible Society of Ireland
- National Council for the Blind of Ireland
- National Youth Council of Ireland
- National Youth Federation
- Oxfam Republic of Ireland
- Pontifical Mission Societies
- Presentation Order - South West Province
- Protestant Aid
- Rehab Foundation comprising:
 - Gandon Enterprises Ltd
 - Harmony Publications Ltd.
 - Independent Living Community Services
 - Newgrove Housing Ltd.
 - Polio Fellowship of Ireland
 - Rehab Group
 - Rehab Foundation
 - Rehab Lotteries
- Royal College of Physicians of Ireland
- RUHAMA
- Salvation Army, The
- Scripture Union
- Self Help Development International
- SICCDA
- Simon Community (Dublin)
- Society of St Vincent de Paul
- St Patrick's Hospital

- St. Michaels House
- Trocaire
- Unicef
- Victim Support
- Walkinstown Association
- Well Woman Centres (Dublin)
- West of Ireland Alzheimer Foundation
- World Vision Ireland