

Presentation by  
**The Irish Charities Tax Reform Group**  
to the  
**Joint Committee on Finance and the Public Service**  
Wednesday, November 8<sup>th</sup>, 2006

Firstly the Irish Charities Tax Reform Group (ICTRG) wishes to extend its appreciation to the Joint Committee on Finance and the Public Service, to the Chairperson, Mr Sean Fleming, TD and Clerk of the Committee, Mr Patrick Timmins, for facilitating our attendance and Presentation today.

The members of our delegation are as follows:

**Niamh Ni Chonghaile**, Financial Controller, Irish Cancer Society and former Chairperson, ICTRG

**Sr Martha Hegarty**, Director, RESPECT / Daughters of Charity

**Matt Moran**, Promotions Manager, Sacred Heart Missions, Cork

**Sheila Nordon**, from our sister organisation, Irish Charities Tax Research Ltd, in an expert capacity, and

**Richard Dixon**, Chairperson, ICTRG and Senior Fundraising Manager with Concern.

It is our intention to explain our work for tax reform on behalf of Irish charities, in particular our proposal to government for compensation to charities for VAT which they pay, and to respond as fully and comprehensively as possible to any questions which members of the Committee may wish to raise.

By way of background, the ICTRG is a membership based organisation of over 140 Irish Charities working to increase funding to the sector through reform of the tax legislation as it applies to charities.

ICTRG was formed in 1991. Since then we have worked to optimise tax effective giving and reduce the tax burden on the sector. Our overall goal is to create a policy climate in which philanthropy can thrive in Ireland.

Among the issues on which we have worked successfully with government to date are the introduction in 2001 of a comprehensive system of tax relief for all donations above €250 for eligible charities and the introduction in the 2005 Budget of income tax relief to gifts of publicly quoted shares to charities.

The issues on which we are currently engaged are:

- Removing the VAT burden on charities through the introduction of a VAT compensation scheme by government.
- Reducing the minimum donation eligible for tax relief to €100 with a view to eventually removing the minimum altogether
- Extending tax relief to other non cash donations (such as property)
- Actively supporting the development and implementation of charities' regulation.

Our priority is to seek a positive government response to the demand by charities for compensation for the currently unreclaimable VAT that they pay on expenditure.

VAT compensation is a priority for the following reasons:

- It has been identified by charities as having a significant impact on their ability to undertake their work
- The EU Commissioner has stated that there is no impediment at EU level to such compensation being paid by EU member states
- The Danish government has recently acknowledged that charities have a right to such compensation and are now engaged with charities there in finalising the practicalities of a compensation scheme.

Most people, probably including many political representatives also, will be unaware 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.

The ICTRG believes that the members of the Joint Committee on Finance and the Public Service would not support the continuance of this situation on moral grounds. It is a situation that exists for purely technical reasons and we believe that this Committee can work to achieve positive change with regard to this unfair tax on charities.

An independent study by Ernst and Young in 2001 found that charities' were then paying at least €18m in VAT annually. Adjusted for inflation the figure today is in the order of €25 million.

That is €25 million **NOT** spent on the most needy and vulnerable people and groups. Instead it is paid as an unreclaimable tax to the state.

This tax is paid on expenditure on items such as fundraising, promotion, essential equipment, professional fees, capital expenditure and necessary overheads such as electricity and phone costs.

Once again it is important to repeat: Unlike the business sector, charities **CANNOT** reclaim VAT that they pay on expenditure.

This severely limits the work of charities with those most in need, both at home and abroad. It has a very human cost.

This situation exists because, under EU law, member states may not make **direct** refunds of VAT to charities, because they carry out some non-business activities. Charities are treated as exempt from VAT under the Sixth EU VAT Directive which means that - while they have to pay VAT - they cannot recover the VAT they pay on inputs.

The following are the key considerations to which we wish to draw the Committee's attention:

- The Minister for Finance has the power to relieve the VAT burden by compensating charities without contravening EU regulations. This has been confirmed by the current and previous EU Commissioners and we attach written confirmation of this.
- The actual cost to the Exchequer of introducing a compensation scheme is miniscule in overall budgetary terms, but constitutes a huge burden on individual charities.
- The advantage of a VAT compensation scheme is that control remains with the Revenue Commissioners as to what organisations qualify for refunds.

The EU Commission position is deserving of further clarification. The current EU Commissioner, Mr Laszlo Kovacs, has stated clearly, in 2005, that the VAT burden on charities can be relieved by way of a government grant scheme. Specifically he said:

*“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...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.”*

The essential point to register here is that as long as the VAT is collected at national level, a facility to give it back to charities is **not** an issue at Commission level.

It is significant that in Denmark the Minister for Finance and a separate Minister for Taxation have both confirmed to ISOBRO, the Danish equivalent of the ICTRG, that Danish charities are entitled to VAT compensation. The practical implementation of this compensation is now being finalised between ISOBRO and the relevant Danish government departments.

It is important to emphasise that the amount of VAT paid by charities is not just a dismal statistic produced by our accountants.

It has a very HUMAN COST. It is, therefore, worth drawing to the attention of the Committee some examples of this 'human cost':

- The €300,000 VAT bill paid annually by the Irish Cancer Society would run their 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.
- The VAT bill paid by RESPECT/Daughters of Charity would pay for two extra bungalows - ensuring that 12 additional people with intellectual disability were properly and adequately housed.

- The VAT bill paid by Concern last year was almost as high as their entire Budget for Rwanda, where they provide 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.

It is regrettable, given the clear position of the EU Commission, the relatively small amounts of funds involved and the positive impact that rectifying the situation would have on the work of charities, that the Department of Finance has yet to acknowledge or accept the clear position as stated by relevant EU Commissioners.

A written reply to a Parliamentary Question from Deputy Joe Walsh to the Minister for Finance, on October 17th last, sought to ignore the issue of VAT compensation, instead narrowly stating that “ *under EU law, it would not be possible to introduce new schemes within the VAT Act 1972 to relieve charities from the obligation to pay VAT on goods and services that they purchase.* ”

We accept this, but it is not what we are looking for.

In an earlier letter to the ICTRG on September 14<sup>th</sup> last, Mr Paul Moloney, Private Secretary to the Minister took virtually the same position, adding that the Minister “ *has no plans to make any changes to the current VAT treatment of charities at this time.* ”

In previous correspondence from the Department, there is a concern that a VAT compensation decision would need to be extended to other sectors if the charity sector is facilitated. This, of course, is not so – as there are many precedents where ring fencing can apply in regard to specific legislation, e.g. tax relief on donations.

There are already precedents in legislation where 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 which exists on charities.

It is also relevant to note that the government, on occasion, does not appear to have an objection in principle to VAT compensation.

Almost two years ago to the day, on November 10<sup>th</sup>, 2004, Mr Conor Lenihan, TD, Minister of State for Development Cooperation and Human Rights, announced that he was “ *delighted to confirm 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.* ”

In summary then, the current VAT situation affecting charities is no more than a tax on initiative, it has a major negative impact on the work of charities and the people they seek to help on a daily basis, while forming a miniscule portion of tax revenue for government.

We believe that this Committee can bring this issue strongly to the attention of the Minister and the Department of Finance. It can seek agreement to bring the proposal to provide VAT compensation to charities back to the House as an amendment to the Finance Bill.

We would greatly welcome the personal support of the Chairperson of the Committee in facilitating progress in this regard and we will be happy to supply any further information that may be required.

We thank the Committee for its attention to our presentation and we will be happy to respond to any comments or questions that members of the Committee may wish to raise.

ENDS