

VAT: the Danish example!

In Denmark, the Minister for Finance and a separate Minister for Taxation have both confirmed that Charities there are entitled to VAT compensation. The details of how it will be implemented are now being finalised.

Conclusions

VAT is a significant burden on Irish Charities - costing them at least €18million in 2001 and significantly more today

This VAT burden can be relieved by way of a Ministerial Order under Irish VAT law - without contravening the EU Sixth VAT Directive

The real cost to the Exchequer of introducing a refund mechanism is projected at just 52% of the total VAT bill, since the remainder is paid for from public funding.

A VAT compensation scheme would retain controls regarding who qualifies with the Revenue Commissioners.

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Abolish VAT on Giving!

End the Human Cost of VAT on Charities

VAT- the impact on Charities!

Charities in Ireland pay millions of Euros in VAT each year. Unlike the business sector. Charities are not permitted to reclaim this VAT.

The areas on which Charities must pay this unrecoverable VAT include:

- general overheads,
- capital expenditure
- fundraising and promotional costs
- equipment and other essential items
- professional fees.

A 2001 study by Ernst and Young found that Charities were then paying at least €18m in VAT annually. Today's figures are likely to be significantly higher.

VAT: the Reasons Why!

This situation exists because EU law says that Governments of member states may not make Direct Refunds of VAT to Charities.

The EU has adopted this position because Charities carry out some non-business and exempt operations. This means, however, that Charities' costs are increased by the amount of non-recoverable VAT they pay.

VAT: the Consequences!

Charities working with the seriously ill. Charities working with people with disabilities. Charities working with children. Charities working with the aged. Charities working with the most deprived - at home and abroad. All must pay unrecoverable VAT on essential expenses.

This heavy VAT burden is not just an accountant's nightmare. It significantly curtails the assistance that Charities can provide to those in greatest need. It has a very human cost.

VAT: the Human Cost!

“Our VAT bill could pay for one, if not two extra bungalows – ensuring that 12 people with intellectual disability were properly and adequately housed.”

- **Respect/Daughters of Charity**

“Last year our VAT bill 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.”

- **Concern**

“Our overall VAT cost is c.€300,000. With this amount we could:

- *Run our entire cancer information service for a year, or*
- *Provide an additional 8 Oncology Liaison Nurses who provide emotional and informational support for cancer patients and their families within the hospital setting, or*
- *Support a full year's expenditure of immediate cash assistance grants. These grants help hundreds of people every year, who experience financial stress due to a cancer diagnosis.”*

- **Irish Cancer Society**

VAT: the Solution!

The EU Commission now accepts that this is unfair on Charities but technical issues make it difficult to change the VAT law.

Instead both the present and previous relevant EU Commissioners have stated clearly that the VAT burden on Charities can be relieved by way of a government grant scheme.

This would compensate Charities - without contravening EU VAT law.

The actual cost to the Exchequer of introducing a grant scheme is projected at approximately 52% of the total Charities VAT bill, since the remainder is paid for from public funding.

VAT: Compensation is achievable!

The EU has conceded that VAT paid by Charities is unfair. The next step is for the government to bring forward proposals to refund Charities for the VAT they pay.

VAT: What the EU Commission says!

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.”

VAT: the Government can act now!

The Minister for Finance, in Sect. 20, VAT Act 1972, has the necessary power to make available to Charities, reliefs such as compensation for VAT.

The **ICTRG** position, therefore, is that, while VAT will continue to be charged to Charities under EU law, compensation equivalent to the amount of VAT paid may be effected by way of Ministerial Order.

A Ministerial Order would direct VAT compensation specifically to Charities. Furthermore, under a Ministerial Order control on which organisations qualify for refund would be retained by the Revenue Commissioners.