

VAT COMPENSATION SCHEME FOR CHARITIES

October 2017



An Roinn Airgeadais
Department of Finance

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Background

1. Charities are exempt from VAT under Irish and EU VAT law. This means that they do not charge VAT on their services and cannot recover VAT incurred on goods and services that they purchase. Non-entitlement to VAT deductibility is a general feature of VAT exemption.
2. Following representations made by the Irish Charities Tax Reform Group (now Charities Institute Ireland), the former Minister for Finance, Mr. Michael Noonan T.D., agreed to the formation of a Working Group to examine proposals to reduce the VAT burden on charities. Comprising representatives from the Department of Finance, the Revenue Commissioners and ICTR, the Group met throughout 2015 with the objective of providing options for the Minister's deliberation ahead of Budget 2016.
3. The Report of the VAT on Charities Working Group was published in October 2015 as part of the Budget 2016 documentation¹, and sets out the issues faced by charities with regard to VAT and the options that could be used to address these issues. The paper presents two possible options to reduce the VAT burden on charities: 1) the introduction of a limited sectoral scheme similar to that in the UK, whereby a series of VAT refund orders are put in place for targeted sectors or activities, and 2) a Danish-style scheme whereby charities can reclaim VAT in direct proportion to fundraised income up to a capped limit.

Budget 2017 reengagement with the Charities Group

4. On the basis of the report, a decision was taken as part of Budget 2016 not to introduce a VAT refund scheme for charities at that time. However, in his Budget 2017 speech Minister Noonan announced that he had asked his officials to engage again with ICTR with a view to reviewing the options published in the Report of the VAT on Charities Working Group. In this context, Department officials reengaged with the newly formed Charities Institute Ireland (a merger of the ICTR and Fundraising Ireland) and met on several occasions in late 2016 and early 2017 to further discuss the possible options of providing VAT relief to charities.
5. Despite this further engagement, the Working Group formed the view that the options presented in the 2015 Report remained the only realistic methods of addressing the issue.

Budget 2018 Decision

6. On the basis of these deliberations, the Minister for Finance has decided to introduce a VAT compensation Refund scheme to compensate charities for the VAT they occur on their inputs,

¹ http://www.budget.gov.ie/Budgets/2016/Documents/VAT_on_charities_working_group_report_pub.pdf

in recognition of the work undertaken by the charities sector. The Charities VAT compensation scheme will take effect from 1 January 2018 but will be paid one year in arrears i.e. in 2019 charities will be able to reclaim some element of the VAT costs arising in 2018.

7. Charities will be entitled to a refund of a proportion of their VAT costs based on the level of non-public funding they receive. For example, where a charity's gross income for 2018 involves 30% funding from State/EU/international organisations and 70% privately sourced income including fundraising, subscriptions and donations, they may claim 70% of their VAT input costs for the year. Not eligible for relief under the scheme will be VAT incurred on private non-charity-related expenses; VAT incurred that is subject to an existing VAT refund order and VAT incurred that is otherwise deductible.

8. A capped fund of €5 million will be available to the scheme in 2019. The scheme, including the amount provided in the fund, will be subject to review after three years. Claims under the scheme cannot be made until 2019 as it will take some time for Revenue to establish IT and administrative systems. Where the total amount of claims in a given year exceeds the €5 million capped amount, charities will be paid on a pro rata basis, e.g. where the total value of claims by all charities in 2019 amounts to €10 million, each charity will receive 50% of their claim. Qualifying charities must be registered with the Charities Regulator, have tax clearance, and provide a set of audited accounts for the year in which the claim is being submitted. For administrative purposes, claims valued below €500 will not qualify.