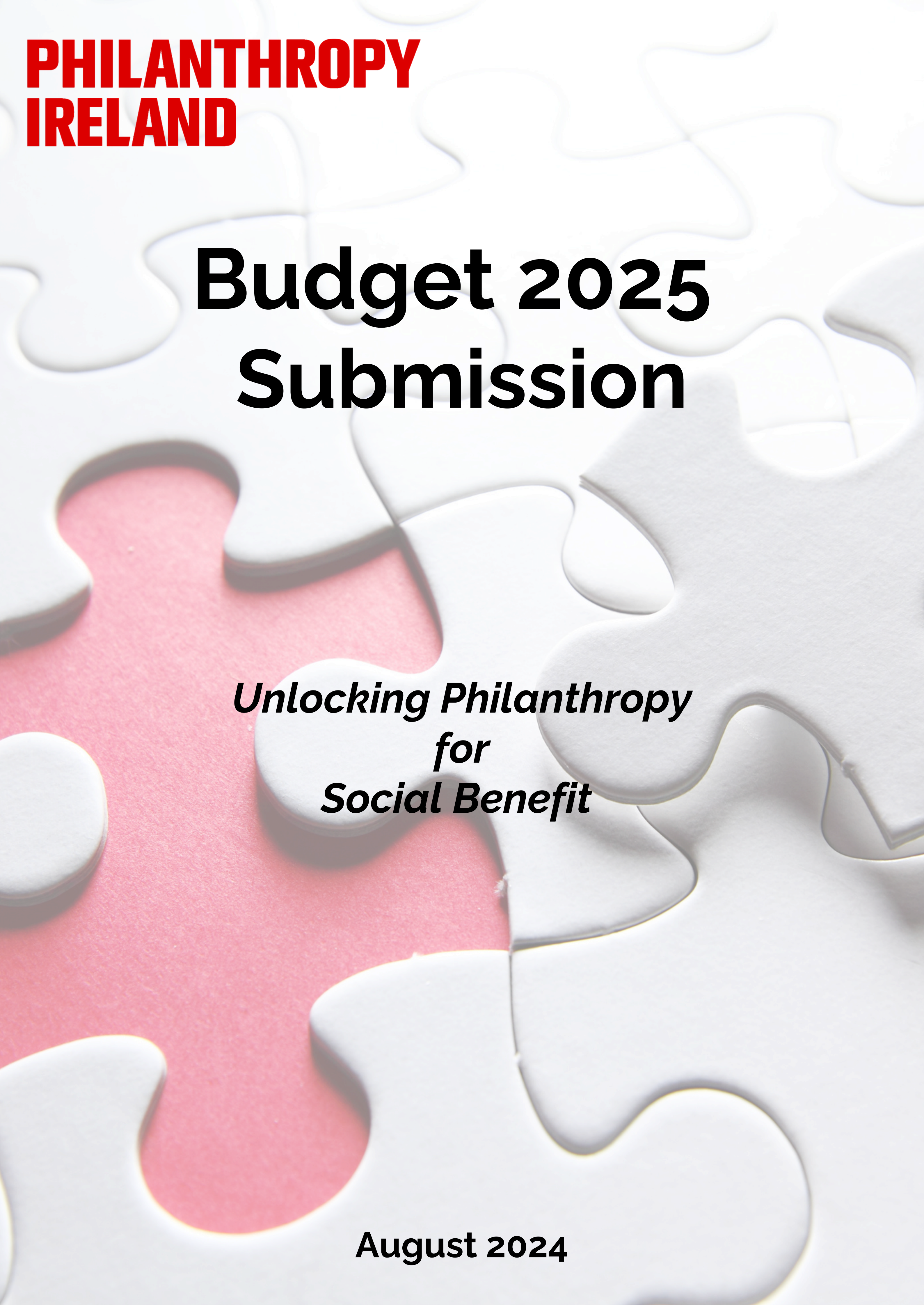


PHILANTHROPY IRELAND

Budget 2025 Submission

Unlocking Philanthropy for Social Benefit

August 2024

PHILANTHROPY IRELAND

Introduction

Philanthropy can be a powerful tool for creating positive social impact across communities. It can drive and support change that benefits all of society. It is a key partner for the not-for-profit sector across Ireland and overseas. The range of projects benefitting from philanthropy is diverse, ranging from small community groups to large national organisations.

We know that Philanthropic giving has contributed to every county across the island of Ireland. Ireland has a long and rich history of giving over many years, with all our citizens benefitting from that support. The Philanthropy Ireland community of members reaches almost 40% of the more than 11,500 charities registered with the Charities Regulator. This reach does not include private philanthropic giving, which is not captured through our membership, or all overseas giving.

The National Philanthropy Policy 2024 – 2028 publication is a vital and welcome step. The intent to support an enabling environment is noted in the opening statement of the policy:

> *"The purpose of this Policy is to deepen understanding and knowledge, create an enabling environment, and accelerate engagement with philanthropy in Ireland for social good."*

National Philanthropy Policy 2024-2028
Department of Rural and Community Development

A stated aim of the policy is to create an enabling environment and accelerate engagement with philanthropy in Ireland for social good. An enabling environment, including fiscal measures, can stimulate and facilitate greater philanthropic giving.

Introduction

Recent progress on strategy implementation is welcomed, noting the multiple strands of activity underway to support actions. However, it is vital that strategic opportunities to accelerate fiscal measures are fully utilized and momentum is maintained on commitments made by the government in this respect. This includes the commitment made in the last budget to support the development of philanthropy:

"I am committed to considering how our tax system can better encourage and support philanthropy."

Minister for Finance, Michael McGrath
Budget Statement 2024, 10th October 2023.

The vision articulated in the policy for philanthropy, when aligned with the above commitment to the tax system, provides a unique opportunity for strategic engagement to activate fiscal measures to support the development of philanthropy in Ireland.

Developing the domestic philanthropy space in Ireland, in a way that produces effective focused investment at scale, requires a multi-faceted approach. Fiscal measures play a key role as they engage directly with the donor. Not alone can they provide incentives to encourage giving but also to create the space for important discussions about philanthropy both within families and between families and their advisors.

On the demand side, the community and voluntary sector are experiencing increasing pressure to respond to growing social needs. Social and environmental challenges continue to emerge, demanding multiple and often innovative responses. While the government provides significant resources, there is a limit to what it can do, and indeed it may not be appropriate for the government to do so in certain circumstances.

On the supply side, we know some want to do more and to do it more efficiently. We also know there are significant resources In Ireland. The challenge is to create pathways to unlock those resources. Many donors with the capacity to do significant giving want to positively contribute, at scale and as effectively as possible. We believe there is scope to do more philanthropy in Ireland. An enabling environment can support the advancement of major giving.

The implementation of the National Philanthropy Policy represents a key milestone to shape philanthropy in Ireland over the next five years and beyond. Supported by strategic fiscal measures there is real opportunity to build a sustainable model of philanthropy in Ireland for the benefit of society and future generations.

For Budget 2025 Philanthropy Ireland is asking the government to follow through on the commitment made in Budget 2024, by advancing changes to unlock philanthropy for social good. We are making this submission to signpost simple measures to achieve this, in alignment with calls made by the Implementation and Monitoring Group for the National Policy on Philanthropy.

About Philanthropy Ireland

Philanthropy Ireland is the representative body for the philanthropic sector in Ireland, giving a collective voice to over 50 philanthropic entities and their multiplicity of donors for more than 20 years. With a strong commitment to promoting diversity and engagement, we actively advocate for best practices, seek to inform policy, and raise awareness about the transformative power of strategic giving for social change. With our CEO serving on the Board of Directors, Philanthropy Ireland is an active member of Philea, the European Philanthropy Association, connecting with best international practices in philanthropy.

Our goal is to advance philanthropy in Ireland by expanding the network of dedicated, strategic, and long-term donors who consistently contribute to meaningful causes. The insights presented here are informed by our knowledge and practice of philanthropy and that of our network of members. While our membership is diverse, collectively they are committed to proactively and positively supporting the development of a more just, equal, fair, and inclusive society. They seek to work in partnership and collaboration to maximise impact for all.

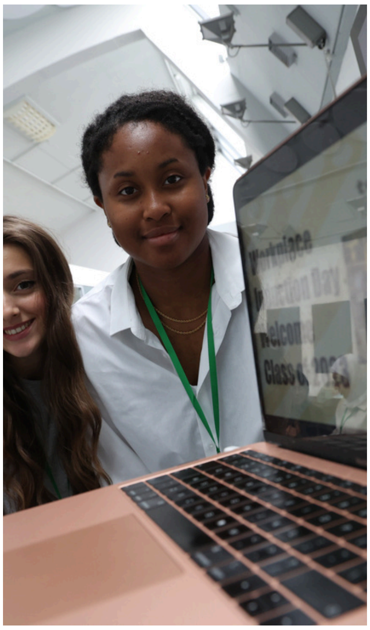
About Philanthropy

Philanthropy refers to a form of private giving that is strategic, long-term in focus, seeking to achieve sustainable change for public benefit. It is solution-driven, often evidence-based based, and can take risks not always within the gift of others, including the government. It is private giving for the public good.

There are several examples of philanthropy positively impacting society, many of which are illustrated on the Philanthropy Ireland interactive Philanthropy Map. The examples in the map provide real insight into what is being achieved across Ireland. Philanthropy Ireland's vibrant community of members partners with over 5,000 voluntary and community initiatives across the island of Ireland and overseas.

Philanthropy takes many forms including gifts, grants, legacies, social investment, in-kind donations, etc., providing vital resources to individuals and organisations, Philanthropic giving is generally done by families, individuals, companies, or a combination of all, via private and community foundations, family trusts, and philanthropic grantmakers. It is collaborative, working in partnership with stakeholders, including communities and/or government, seeking to achieve lasting change.

There is no single measure that precisely captures the overall scale and scope of philanthropic giving in Ireland. Charitable giving to all not-for-profit organisations in Ireland was estimated at €1.7bn in 2020(1). Of this, almost €80m(2) is approximated as being from philanthropy. This is likely an underestimation, as much of individual philanthropic giving is done in private or through corporate structures and is not fully captured. It is reasonable to assume therefore that if captured, private and corporate philanthropy would substantially increase this figure.



1- Analysis and Insights on Funding of the Non-Profit Sector in 2021', Giving Ireland 2023
2- Philanthropic and Charitable Giving in Ireland 2021', Benefacts 2021

Summary of Budget 2025 Proposals

In considering the most effective incentives and supports that Budget 2025 could provide to encourage giving, the following measures are proposed to maximise philanthropy:

1. Provide relief to the donor (to be taken in their tax return) from Capital Acquisitions Tax (CAT) on donations given out of a bequest received.
2. Provide relief to the donor (to be taken in their tax return) from Capital Gains Tax (CGT) on donations given out of large-scale capital gains.
3. Review the “spend-down” rule currently imposed at 2 years (subject to individually negotiated exceptions) for larger-scale philanthropic organisations to encourage long-term strategic initiatives.
4. Amend Schedule 26, Part 3, Para 2, Taxes Consolidation Act 1997, which provides that tax relief is only available after the charity has been registered for two years. This should be adjusted such that if a donation is made under 1 or 2 above, and the charity meets the conditions retrospectively, a refund of the tax relief that would have been given to the individual will be given to the charity once the two-year rule has been met.
5. Review the current relief measures for donations above agreed thresholds to stimulate major gift-giving into designated vehicles.
6. Invest in Data and Research to provide an evidence base to map and fully inform philanthropy in Ireland to advance deeper engagement for social good.

1. Capital Acquisitions Tax Relief

CAT is charged at a rate of 33% on gifts and inheritances received which are in excess of prescribed thresholds that depend on the family relationship between the giver and the receiver. At present, if a person leaves an amount in their will to a philanthropic cause, then this bequest will not attract a charge to tax. This amounted to approximately €95m in 2023 (CRA 2023) and has the potential to grow substantially.

However, if the recipient of a gift or an inheritance wishes to pass on part or all of what they have received to a philanthropic cause, they must do so out of the net amount they receive after having paid any CAT due at the rate of 33%.

Full relief against CAT should be provided where the person receiving the gift or inheritance donates at least €1m of this to a qualifying philanthropic organisation. The intention to make such a donation and the intended amount should be declared in the relevant CAT return, thus providing a time-limited window for discussion and decisions on the donation to be made before the making of the tax return.

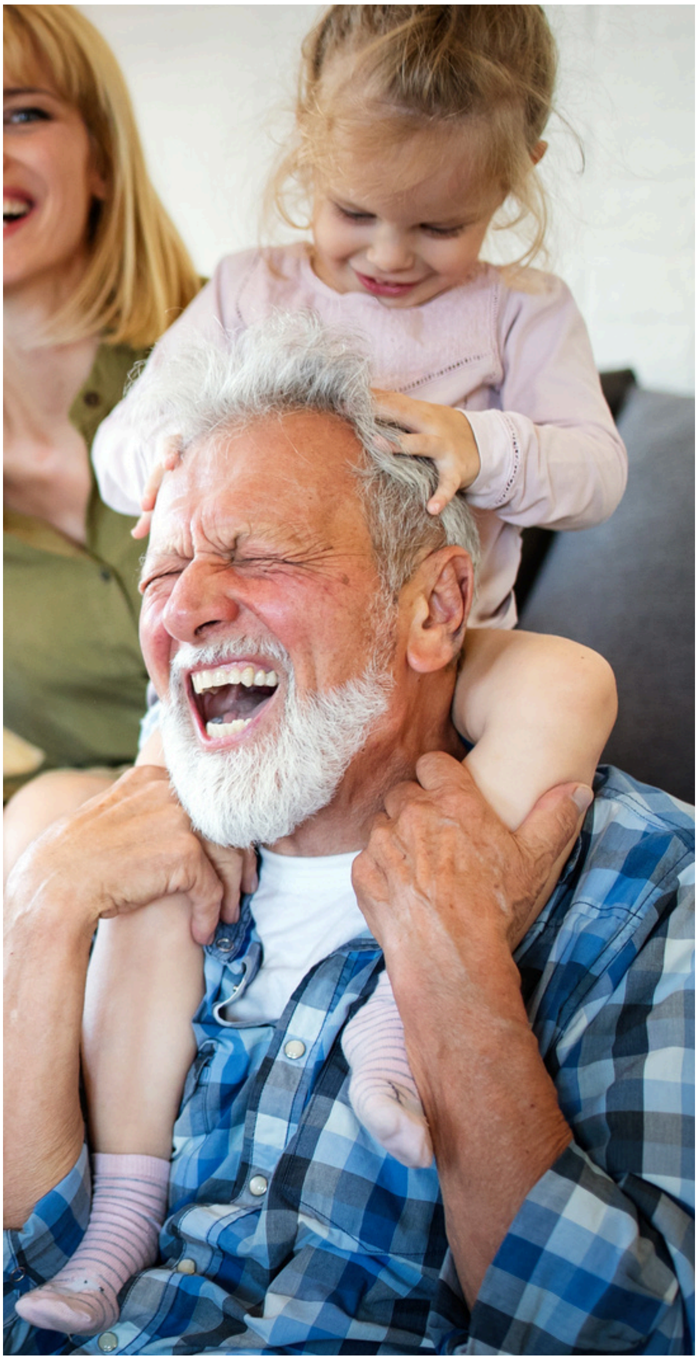
To avail of the relief, and a refund of any CAT paid, the donation should be completed to a qualifying philanthropic organisation within 4 years of the relevant CAT return filing date.

The relief should run for an initial phase of five years from 2025 to 2029, to cover the period of the National Philanthropy Policy, with its effectiveness reviewed in 2029. Data points on the deployment of philanthropic investing can be collected over that period which would aid the review and inform the subsequent decision-making process about improvements to the relief or how to maximise social impact out of the reliefs granted.

The financial investment is such that with a 33% tax rate, for every €1 of tax relief, €3 is invested in projects for the common good. Put another way, every €1 of tax expenditure is matched by €2 of private funding and 100% of the resulting amount is invested in projects for the common good and public benefit. All tax relief goes back into the intended philanthropic causes. The cost of granting this relief will entirely be offset by the 200% private investment in philanthropic projects made at the same time.

1. Capital Acquisitions Tax Relief

Why is this important?
This relief is aimed at growing domestic philanthropy, such that funds are provided for long term strategic projects that benefit the common good. It is intended as a measure to effect behavioural change in the deployment of inherited wealth by creating a space and opportunity for consideration of the allocation of resources to philanthropic purposes.



The objective of the relief is to grow the scale of philanthropic giving by Irish individuals, families and organisations, such that there is an effective philanthropic environment that provides funds for projects that for one reason or another (including early stage and high-risk projects) fall outside the remit of direct Government financing either in part or in whole at the present time.

The impact of the relief would be to focus funding on areas of need or development by engaging private finance through philanthropy. The impact should be expected to be both financial and social.

Our Ask
Full relief against CAT should be provided where the person receiving the gift or inheritance donates at least €1m of this to a qualifying philanthropic organisation.

2. Capital Gains Tax Relief

CGT is generally charged at a rate of 33% on capital gains made on the disposal of assets, which could include, for example, shares in a company, property, etc. In some circumstances, such gains can constitute substantial windfalls arising out of a lifetime of work by the individual or individuals involved, or the result of long-term strategic investment by a company.

At present, if a person in receipt of such a gain donates part or all the gain to a philanthropic cause, then that person will not qualify for tax relief and only the net amount after tax may be donated.

Relief against CGT (or corporation tax on chargeable gains) should be provided where the person making the gain donates at least €1m of this to a qualifying philanthropic organisation. The intention to make such a donation and the intended amount should be declared in the relevant annual tax return in which the gain is declared, thus providing a time-limited window for discussion and decisions on the donation to be made before the making of the tax return.

To avail of the relief, and a refund of any CGT or Corporation Tax paid to the charity as necessary, the donation should be completed to a qualifying philanthropic organisation within 4 years of the relevant tax return filing date.

The relief should run for an initial phase of five years from 2025 to 2029, to cover the period of the National Philanthropy Policy, with its effectiveness reviewed in 2029 as part of the budgetary process for 2030. Data points on the deployment of philanthropic investing can be collected over that period which would aid the review and inform the subsequent decision-making process about improvements to the relief or how to maximise social impact out of the reliefs granted.

The financial investment is such that with a 33% tax rate, for every €1 of tax relief, €3 is invested in projects for the common good. Put another way, every €1 of tax expenditure is matched by €2 of private funding and 100% of the resulting amount is invested in projects for the common good and public benefit. All tax relief goes back into the intended philanthropic causes. The cost of granting this relief will entirely be offset by the 200% private investment in philanthropic projects made at the same time.

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The impact of the relief would be to focus funding on areas of need or development by engaging private finance through philanthropy. The impact should be expected to be both financial and social.

Our Ask
Relief against CGT should be provided where the person making the gain donates at least €1m of this to a qualifying philanthropic organisation.

3. Amend the Current 'Spend Down' Rule

Revenue's manual on the Charitable Tax Exemption, in Part 3, Conditions for Retaining Charitable Tax Exemption, states that the charity must:

"request prior approval from the Charities and Sports Exemptions Unit if you intend on accumulating funds for more than two years. This should include the reasons for the accumulation."

Given the nature of philanthropy, the focus is on longer-term projects for sustainable impact, it is expected that all such endeavors would have a spend-down period of well more than two years. For example, in the context of endowments or long-term strategic funding, such a discussion would be well more than the 5 to 10 years normally considered as extensions under this rule. Research currently underway for the European Law Institute Enterprise Foundation project notes that a foundation that is aiming for endowment (over time) must be able to build its year-on-year reserves over time if it is to be able to achieve its long-term objectives, a feature facilitated in other European countries.

Why is this important?
In discussions with international philanthropic organisations, which are already multi-generational, the timescale of their strategic vision often extends to decades on individual projects. If philanthropy is to develop in Ireland at scale and with strategic vision, then the approach to spend-down in philanthropic organisations needs to be reformed.

The proposal is that Part 3, Schedule 26A, Taxes Consolidation Act 1997 be amended at paragraph 3(b) to read as follows:

"the income of the body is applied for charitable or philanthropic purposes only,"

And that a new definition be included in Paragraph 1 of Part 3 to define philanthropy as follows:

"philanthropy means private giving for the public benefit that is long-term, strategic and sustainable, and philanthropic purposes shall be interpreted accordingly"

The impact of reform in this area would be to take down barriers to the formation of philanthropic endeavors in Ireland that can operate in the long-term strategic timescales associated with philanthropy. There should be no monetary cost associated with reforming this provision.

Our Ask
Review the "spend-down" rule currently imposed at 2 years (subject to individually negotiated exceptions) for larger-scale philanthropic organisations to encourage long-term strategic initiatives.

4. Amend the Current 2yr Condition on Qualification for Relief

Schedule 26, Part 3, Para 3(c)(i), Taxes Consolidation Act 1997 provides that a charity is only eligible to apply for “eligible charity tax status” two years after it receives its charitable tax-exempt status from Revenue. This means that any donation received by a charity in its first two years after CHY registration as a charity does not qualify for tax relief.

Given the nature of philanthropic giving, it is often effected through the establishment of a new charitable institution to further philanthropic goals. In the reliefs suggested above, and those that relate to a significant initial donation, it is not possible for these new philanthropic organisations to avail of charity relief as the two-year rule has not been met.

This legislative provision should be adjusted as follows:

- Where the donation is made under the proposals set out at 1 and 2 above, or where the donation is made by a corporate entity, at a time when the 2-year condition in Paragraph 3(c)(i) is not met and the charity subsequently meets the 2-year condition in Paragraph 3(c)(i), a refund of the tax relief that would have been given to the taxpayer will be given to the charity as soon as this condition is fulfilled.

- The same condition should be amended in respect of relief provided under Section 848A Taxes Consolidation Act 1997 (although in this case, it would be a payment of the tax credit to the charity that would have originally been due to it had the two-year rule been met at the time of the donation).

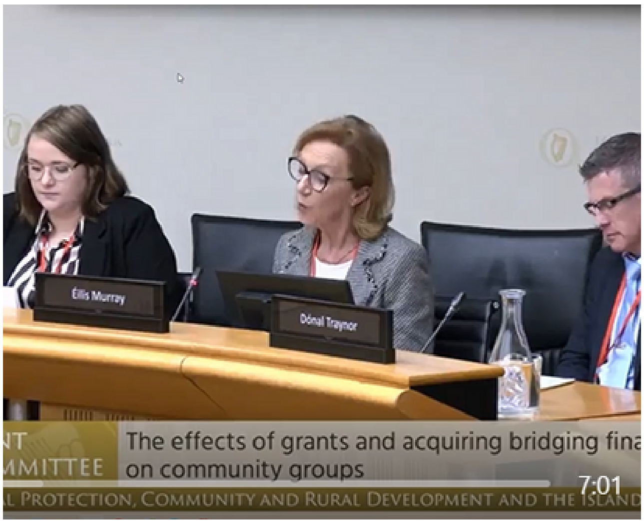
This should be straightforward to implement if the intention to donate is set out clearly in the tax return for the year in which the gain, inheritance, or income is received.

4. Amend Current 2yr Condition on Qualification for Relief

Why is this important?
This reform is aimed at facilitating the making of large philanthropic donations on the occurrence of large, often one-off events (e.g. sale of a business). It is intended to facilitate the operation of the reliefs suggested elsewhere in this paper.

The impact of reform in this area would be to remove barriers to the formation of philanthropic endeavors in Ireland and facilitate greater discussion of philanthropic options at the time of receiving large gains, inheritances or gifts. This reform will stimulate and incentivise philanthropy and help to grow new foundations established by either individuals or corporations. There should be no monetary cost associated with reforming this provision other than facilitating the effective operation of the philanthropic endeavors funded by the reliefs suggested elsewhere in this paper and that are already available under Section 848A, Taxes Consolidation Act 1997.

Our Ask
Amend Schedule 26, Part 3, Para 2, Taxes Consolidation Act 1997, which provides that tax relief is only available after the charity has been registered for two years. This should be adjusted such that if a donation is made under 1 or 2 above, and the charity meets the conditions retrospectively, a refund of the tax relief that would have been given to the individual will be given to the charity once the two-year rule has been met.



5. Review Relief for Major Gift Philanthropy

For specific cases of donations over €1m but less than €5m, rather than extending the provisions of S848A, an income tax relief at a taxpayer's marginal rate of tax could be applied. This could be designed so that donations into designated vehicles (e.g., grant-making foundations, trusts, donor-advised funds, charities, etc.) that opt into the scheme could issue an official confirmation of donation that would entitle the donor to the income tax relief in their annual income tax return. Thus, rather than 40% being collected in tax a full 100% of the income is diverted to a public good project. Clearly, such relief would not also attract relief under S848A.

The relief could run for an initial phase of five years from 2025 to 2029, to cover the period of the National Philanthropy Policy, with its effectiveness reviewed in 2029.

Why is this important?
A relief such as this would talk directly to the levels of donations that should be meaningful in the context of philanthropy. If organised such that the income tax relief is claimed on an annual income tax return, it introduces the possibility of professionals advising individuals of the philanthropic possibilities during the process of return preparation and thus extends the conversation on philanthropy among the cohort with the wherewithal to finance philanthropic endeavors.

By stimulating philanthropic giving we can advance the probability of significant gifting being the norm for those who have the capacity and desire to engage.

Our Ask
Review the current relief measures for donations of over €1m to stimulate major gift-giving into designated vehicles.

6. Invest in Data and Research

Data collection is fundamental for the effective operation, development, and growth of philanthropy in Ireland. Trusted data, research, and analysis about philanthropy, the wider voluntary sector, and the individual organisations in it are essential in supporting key decisions on both the development and the allocation of philanthropic funds to ensure integrity in decision-making.

Activation of measures to undertake an annual or bi-annual comprehensive survey of the scale of philanthropic giving in Ireland by the Central Statistics Office would aid the sector. The census holds significant importance for philanthropy as it provides a comprehensive and accurate demographic and socioeconomic understanding of populations to inform decisions supporting the ongoing development of philanthropy.

Ireland is an outlier in Europe in not having a center of excellence for the development of data and research on philanthropy. As noted in the National Philanthropy Policy, research to inform and understand environmental and contextual issues is essential for the advancement of a culture of philanthropy in Ireland.

Why is this important?
A positive culture of philanthropy is dependent on trust and transparency with access to reliable information. International evidence points to credible publicly available data being a key factor in building the confidence of philanthropists to allocate funding and to increase their strategic contributions(3).

Trusted open data source(s), data that anyone can access, use, and share, is key to providing crucial analytical insights fundamental to any policy planning. Trend data for improved policy making, and greater transparency and public accountability for government, philanthropies, and charities alike is an essential investment(4). Effective measurement is a vital element for driving positive change.

Robust data and research are essential for growing more and better philanthropy in practice. Research can strengthen the understanding and practice of philanthropy. An identifiable center of excellence in research ensures a continuum of support to build sustainable models of philanthropy in Ireland for social benefit.

Our Ask
Invest in data and research in line with international best practices to provide an evidence base to inform and guide the development of sustainable models of philanthropy in Ireland for social benefit.

3- 'The Landscape of Philanthropic Giving', November 2021, Indecon
4- 'Using Data for Action and for Impact Summer 2016', Stand Social Innovation Review

Additional Calls to Action

In the lead-up to Budget 2025, many of our members have made individual submissions noting areas of interest, advocating for measures, and recommending additional ideas for change. These include:

- Advancing changes to unlock the potential in **Legacy Giving**.
- Advancing **Match Funding** mechanisms to leverage private donations.
- Creation of a **Sustainable Futures Fund.**
- Activation of further measures to support growth in **Social Innovation** funds.

We fully support these calls in partnership and collaboration with our member organisations.

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