

EVANGELICAL ALLIANCE IRELAND

Guideline No. 05

The Tax Treatment of Charitable Donations and Fundraising

Contents

1. Overview
2. Stage One; Seeking Charitable status from the Revenue Commissioners.
3. Definition of a charitable gift.
4. Stage Two; Obtaining Eligible Status
5. Reclaiming tax on donations
6. Fundraising
7. Additional resources

1.0 Overview

Charities and not-for-profit organisations such as churches are heavily dependent on public and private support to maintain their operations. That support is realised in various ways such as direct fundraising activities, regular standing order donations through bank accounts or offering collections.

The Charities Regulatory Authority was established on 16 October 2014 by Ministerial Order under the Charities Act 2009. Among its functions is to ensure the accountability of charitable organisations to donors and beneficiaries of charitable gifts, and to the public. It is therefore important that careful attention is given to the procedures and practices in relation to charitable gifts to ensure full and proper accounting. It is also important that organisations are aware of and avail of the tax reclaim facility provided by the Revenue Commissioners.

This guideline is intended to provide assistance in establishing the appropriate procedures for your organisation in relation fundraising and to achieving Charitable Status from the Revenue Commissions, processing charitable gifts and reclaiming the tax element from the Revenue Commissioners. Another EAI guideline, Guideline No.10, deals with the registration of churches with the Charity Regulator.

Achieving the ability to reclaim tax on your donations is a two-stage process. The first stage is to obtain a declaration of Charitable Status from the Revenue Commissioners (not the Charity Regulator). The second stage is to be designated an Eligible Charity by the Revenue Commissioners.



2.0 Stage One: Seeking Charitable Status From the Revenue Commissioners

2.1 Application for charitable status with The Revenue Commissioners:

In order to access the financial benefits accruing to charities a church must first seek a designation of charitable status from the Revenue Commissioners. Charitable status is established by the allocation of a CHY number by the Revenue Commissioners Charity division. A CHY number is highly desirable for a charity or church because:

- It enables exemption from payment of corporation taxes, D.I.R.T., capital gains tax and stamp duty on purchases of property.
- It enables exemption from payment of county council rates
 - Registered charities may own property which in the normal course might be liable for rates. Application can be made to the Rates Valuation Office for a waiver of payment of rates. The Valuation Office will most likely send an inspector to view the premises. Note: any commercial activity carried on in the premises might compromise the outcome of the waiver application.
- For fundraising, it is important for donors to see a CHY number on your letterheads and formal documents as it is official recognition of charitable status.
- It enables the claiming of a refund of the income tax paid on donations by donors.

2.2 Applying for a CHY number:

The following documents must be submitted to the Revenue Commissioners. This is done via the Revenue's online ROS system, therefore your church must first apply for ROS registration at www.revenue.ie . You will need the following: -

1. A completed application form CHY1 (download From the Revenue Commissioners website ,see link below)
2. A copy of the constitution or governing document of the organisation. If you have set up as a company limited by Guarantee (CLG) then this will be your Constitution which incorporates your Memorandum and Articles of Association. If you are set up as a Trust then this will be your Trust Deed. If you are an unincorporated body (a club) it will be your constitution or rules.
3. A statement of activities to date and plans for next 12 months, including any trading activities undertaken/proposed such as the operation of a 'charity' shop. This need not be a long document but should briefly set out what activities your church is engaged.
4. Your latest financial statements or projected income and expenditure. The organisation may have only recently commenced operations in which case audited financial accounts may not be available and projected accounts will need to be prepared.
5. Annual reports and other documentation, if applicable.



Note that being granted charitable status, as evidenced by the allocation of a CHY number by the Revenue Commissioners, does not immediately confer the right to reclaim tax on donations, (see below), but is a necessary first step.

3.0 Definition of a Charitable Gift

3.1 Charitable Gifts : A gift or donation is a charitable gift if it meets the following conditions:

- The gift is not a loan and is donated to a charity to be used for the purposes of the charity.
- No benefit is received by the donor or connected parties in lieu of the donation
- The donation is not repayable under any circumstance.

3.2 Restricted Gifts: These are charitable gifts donated for a specific purpose, specified by the donor, outside of the normal furtherance of the organisation’s mission e.g. a donation to fund a specific new outreach programme. When funds are donated in this way, the donor’s request must be honoured and the funds should not be used for general purposes without first seeking the donor’s express permission, even if this would further the aims of the organisation.

If the charity/church invites donations for a specific cause, then the charity/church should have a plan for handling any shortfall or excess in the funding of the specific purpose. If funds raised or received for a particular purpose prove to be in excess of the actual funding requirement, the donors should be advised accordingly. This allows them to have the funds returned or to give permission for the gift to be applied for a different purpose.

Restricted donations should be identifiable in the accounting / banking records and should be matched against the related expenditure when completed. At that point, the shortfall or excess of funding will become apparent. (Ref: Guideline No.03)

4.0 Stage Two: Obtaining Eligible Status

4.1 Eligible Charities: The second step in accessing financial benefits is to become an Eligible Charity. Only Eligible Charities are permitted under the Taxes Consolidated Act 1987 to reclaim tax deducted from donors. Eligible charities must be registered charities, which have been granted a CHY number by the Revenue Commissioners and that have also been granted authorization as an Eligible Charity.

4.2 Applying for authorization as an Eligible Charity

- Allow 24 months to pass from date of approval of charitable status. The Revenue may then consider a request for change of status to an “eligible charity” which enables the charity to apply for a refund of tax paid on donations, subject to certain conditions. Again, you apply for the change of status via the Revenue’s on-line ROS system.



- Applying via the ROS system: -
 - Submit CHY AUTH form
(obtainable at www.revenue.ie/en/business/charities.html)
 - Submit CDS tax registration form
(Obtainable at www.revenue.ie/en/business/charities.html)

The Revenue Commissioners will re-designate your church as an Eligible charity if the above two forms are in order and if: -

- You are generally tax compliant
- You maintain your charitable status with the Charities Regulatory Authority.
- Use all your income for your main charity purpose only
- Keep proper records and accounts.

5.0 Procedure for reclaiming taxation of gifts:

5.1 Completion of returns and associated records

The filing of tax refund claims by charities is processed through the Revenue Online Service (ROS). The tax reclamation process is a simple process involving the listing of donors, their Tax number and the amount of their donations using an on-line form. The following points should be noted.

- Tax is reclaimed in the following tax year i.e. donations made during 2016 are reclaimed in 2017.
- Tax can be reclaimed on donations where the aggregate (sum total) of donations by the individual to the charity exceed €250 in a calendar year. Individual donors may be either self-employed or registered for PAYE.
- Donors must complete a form to enable the charity to process a tax reclaim. Forms may be completed at the time of the donation or, more frequently, may be requested from eligible donors at the end of the tax year. Beginning in 2013, the Revenue has now made available a donor “Enduring Certificate” form CHY3, which is good for five years. If a donor does not wish to sign a five-year form they may opt for a single one-year option. Forms may be downloaded at <http://www.revenue.ie/en/business/charities.html>
- A record should be compiled with the names of donors who have signed a certificate.
- Donations received should be referenced to the signed-up donor.
- At the end of the tax year, the records should be checked and total donations calculated for each signed-up donor.
- Records of donations from signed-up donors should be retained for six years as Revenue may conduct an audit of donations for which tax has been reclaimed.
- The tax refund for donations from all individual donors regardless of their tax status (PAYE or self-assessed) will now go to the charity in all cases at a blended rate of 31%., which actually equates to 45% of the amount of the donation.



Illustration of tax reclaim benefit	
	€
Donation received from signed-up donor	300
Revenue deem the donation to have been net of deducted tax @31%	
To calculate the gross amount divide the donation by 69%	
i.e. $(300/69) \times 100 =$	435
Difference is the tax deemed paid, which can be reclaimed	135
Tax reclaimed as a percentage of donation received is therefore 45%	

- Organisations must preserve the donor records and related certificates as evidence for the tax reclaim for a six year period.
- Note that churches may not actually receive the full total of tax claimed at any time. Payments may also be made in instalments. The failure to receive the full amount claimed may be because the donor has not actually paid that tax to the revenue commissioners. You will not be informed about individual donors but will only receive summary information on your claim.

5.2 Restrictions on donations which are eligible for tax reclaim

- The amount donated in the calendar year to the charity must total at least €250.
- A threshold for eligible donations of €1 million to all charities applies to individual donors.
- The donor or connected party cannot receive a benefit in lieu of the donation.
- A maximum of 10% of donor’s total income applies where the donor is associated with the charity e.g. is an employee / member / trustee / director.
- The donor must have actually paid the amount of tax claimed to the revenue commissioners.

5.3 Data Protection:

Churches should consider having a policy and procedures which address the security aspects of any personal data held by the charity to ensure compliance with Data Protection legislation. (Visit www.dataprotection.ie and click on Guidance. You will find specific links to Guidance for the charity / voluntary sector).

6.0 Fundraising

Fundraising is an important element in the life of all churches and related organisations and it is important that the highest standards be applied to this activity. The Irish Charities Tax Reform Group (www.ictr.ie) has published a comprehensive set of guidelines around fundraising (see link below).



It is recommended that all churches consider signing up to the Statement of Guiding Principles for Fundraising on the ICTR website. There are three core principles (Respect / Honesty / Openness) that underpin the guidelines. The names of signed-up organisations are published on the website. The following points should also be adopted:

6.1 Information to be given to donors:

All not-for-profit charities including churches should provide periodic updates to donors of progress and activities of the organisation. This could be in the form of a letter or newsletter. Contact should be maintained with donors as an acknowledgement of the value of their support. Consideration may also be given to the sending of occasional letters of gratitude or seasonal remittances such as Christmas cards or invitations to attend special events.

6.2 Acknowledgement of donations received:

Receipt of donations should be confirmed to the donor as soon as possible but not later than seven days after receipt. The organisation should retain evidence of having sent the acknowledgement (paper or electronic). Any restrictions on the use of the funds that have been imposed by the donor should be stated on the receipt.

6.3 Excess funding for stated requirement / excess of restricted funds:

As stated above, where funds raised or received for a particular purpose prove to be in excess of the actual outlay, the donor should be advised accordingly and given the option of applying the balance to other purposes or having it returned to them.

7.0 Additional Resources

Forms available at www.revenue.ie/en/personal/charities.html

- CHY 1 information booklet
- CHY3
- CHY AUTH
- CDS Registration form
- ROS registration

Statement of guiding principles for fundraising:

www.ictr.ie/content/fundraising-codes-practice.html

Data protection in the Charity & Voluntary Sector: Visit www.dataprotection.ie.html and click on Guidance. You will find specific links to Guidance for the charity / voluntary sector.

