



Stronger Charities.
Stronger Communities.

SUBMISSION TO THE
COMMISSION ON TAX &
WELFARE REVIEW

January 2022

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About The Wheel

The Wheel is Ireland's national association of community and voluntary organisations, charities and social enterprises. We are the representative body for this vibrant and diverse sector and, together with our members, we shape and promote conditions in which people and their communities thrive. We passionately believe that community and voluntary action improves and enriches communities and society.

Our simple but ambitious mission is to make Ireland a fair and just place for all by strengthening the capacity and capability of community and voluntary organisations, charities and social enterprises to play their part. We do this by representing these organisations, supporting these organisations to do their work, and promoting the importance of the voluntarism and community values that power these organisations.

The Wheel has 2,000 members and provides support services and representation on behalf of these members relating to matters that reflect their collective interests.

About the Charity, Community and Voluntary and Social Enterprise Sector

Independent, community-based, voluntary organisations have long played a key role in supporting and advocating with and for people and communities in Ireland. Indeed it is often through the initiative and advocacy of self-organising communities that many community, health and social care services have been initiated.

Community and voluntary organisations are involved in every community in the country, providing health and social supports, services and advocacy on behalf of people with disabilities, older people, young people, children, people experiencing poverty and disadvantage, and people at every stage of the lifecycle. Over the past eighteen months, the COVID-19 pandemic has demonstrated the extent to which we rely on the community and voluntary sector, especially in difficult times.

These organisations played a key part in sustaining communities during the crisis, demonstrating their core role as part of Ireland's public service infrastructure. They restructured services to deliver remotely, responded to the need for socially-distanced and safe provision, cut costs, redirected resources to priority areas and designed new service responses targeted at meeting emergent need.

The community and voluntary sector constitutes a significant social economy within the broader economy. It comprises almost 35,000 community, voluntary and charitable organisations, involves over 86,481 volunteer directors and trustees, directly employs 165,000 people, and manages income of €14.2bn per year. These organisations raise over half of this income (more than €8.3bn) themselves, majorly subsidising the cost of public services in Ireland. Indecon Economic Consultants (in a report published by the Charities Regulator in 2018) estimate that the total direct, indirect, and induced value of the work of Ireland's charities exceed €24bn per annum and supports 289,000 employees.

The Focus of this Submission

This submission from The Wheel will focus primarily on the taxation and welfare system as it pertains to charities, community and voluntary organisations and social enterprises. We have also completed the questionnaire at cotw.citizenspace.com but saw a need to highlight some points that go beyond the headers included there.

Summary of key recommendations:

- Encouraging independent fundraising and giving through a range of focused measures. These include: **increasing the current €5m cap on rebates under the VAT Compensation Scheme; reducing the existing annual €250 lower cap on the Minimum Donations tax relief scheme; introducing a direct tax incentive for Major Gifts and Donors.**
- **Introducing multi-annual (three-to-five-year) funding arrangements**, as contained in the State's strategy for the community and voluntary sector and in the *Programme for Government*.
- Ensuring that the forthcoming review of *National Social Enterprise Strategy* **delivers taxation incentives to support social enterprise** development and ensuring that all **tax supports** available to private companies are **available to charities** and community and social enterprise activity.
- **Introducing specific incentives for community-based initiatives on climate** and full inclusion of relevant community and voluntary organisations in **national platforms and engagements** on climate policy and budgeting/fiscal decisions
- Providing adequate and appropriate income from the public purse raised through the taxation system to community and voluntary organisations working in health and social care, and ensuring that the full cost of essential services is provided for through the relevant grant aid or Service-Level-Agreement-governed funding
- Allocation of **additional resources through the National Training Fund** to support training and development needs of the community and voluntary sector
- **Benchmarking welfare payments against the Minimum Essential Standard of Living index**, with a focus on reducing poverty among vulnerable groups. Moving towards introducing a **Basic Income system** and continued engagement with community and voluntary organisations on taxation and welfare policy .
- Establishing a **dialogue between the Departments of Finance and of Public Expenditure and Reform** and the sector to explore taxation policy development in response to the emerging issues detailed above.

General

While the taxation system for this broad sector has to date worked with reasonable effectiveness, overall taxation policy has generally tended to be developed and implemented without detailed reference to the often **specific needs and situation of charities, community and voluntary groups, and social enterprises**.

Taxation measures are often linked to legislation on regulation of charities and long-term charity law. The sector, while working to achieve sustainability and generate increased income, is not primarily motivated by consideration of profit maximisation and is to a great extent concerned with re-investment of profits and income for social benefit. This is a different perspective to that which underpins our taxation policy, which in general seeks to tax income and profits **without specific reference to social benefit**.

Taxation policy currently lacks a ‘social benefit’ audit or checklist. Ireland’s community and voluntary sector is an integral part of our social infrastructure and a very significant player in Ireland’s economy. The Government’s five-year strategy to support the community and voluntary sector, published in 2019, cites the total direct and indirect value of the Sector as €24bn. This is just over 9% of Ireland’s GNI for 2018 (€254bn).

Charities, community and voluntary organisations, and social enterprises provide essential services in every constituency in Ireland. These include health and disability, social care, education, housing, poverty relief, the arts and sport, as well as international development. The sector is the unseen force powering our communities, driving positive social change and giving people a voice, while providing vitally important supports and services.

We acknowledge that the Irish taxation and welfare systems are likely to meet a range of challenges and opportunities in the next 10–15 years. These include climate crisis, the ongoing impact of the pandemic, an aging population and continuing inequality.

The Wheel recognises that taxation and welfare measures do not operate in isolation from overall fiscal and budgetary policy and spending. In that context this submission suggests parallel measures that must be implemented in support of the taxation and welfare reform measures proposed.

We recommend:

- Implementation of all future tax policy should ensure that charitable, community and social enterprise initiatives are considered when finalising decisions and approaches to tax measures. This could be achieved by including a **‘social benefit’ audit** in finalising all decisions and measures.
- Enabling charity, community and social enterprise-based endeavour to deliver services of social benefit and assist marginalised individuals and communities through introduction of positive tax measures.
- Supporting initiatives to address **delivery of climate change goals** in a manner that does not disadvantage communities and those most in need. Taxation measures are likely to increasingly emphasise energy sustainability and saving. Taxation policy will be significantly linked to measures to deliver carbon neutral living and work.

- Providing adequate and appropriate income from the public purse raised through the taxation system to community and voluntary organisations working in health and social care.

Fiscal Sustainability

Over half of the €14.5bn income managed by charities, community organisations and social enterprises, is raised by these organisations themselves, and represents a **major subsidy to the cost of public services** in Ireland.

The significant extent to which the sector is embedded in the Irish economy should be **acknowledged more clearly in taxation and welfare policy**. The key issues below relate to the charity, community and social enterprise sector and should be addressed in order to deliver a sustainable and resilient tax and welfare system.

We recommend:

- Encouraging independent fundraising by **increasing the current €5m cap on rebates under the VAT Compensation Scheme**. The cap on this scheme is now in its fourth year at this level. Applications from charities under the scheme have averaged over seven times this amount over the past three years. The fund allocated to the scheme should be incrementally increased to at least €20m to provide a realistic rebate. The benefit to the state will accrue from the enhanced ability of the sector to deliver essential services in parallel with state bodies and agencies, often in areas where the state experiences difficulties in effective delivery.
- Encouraging increased small-scale donations and charity focus on such donations by **reducing the existing annual €250 lower cap on the Minimum Donations tax relief scheme**. The next Budget should reduce the annual figure to €240 to bring monthly donations of €20 within the scheme and the cap should be reduced and eliminated in subsequent years.
- Introducing a **direct tax incentive for Major Gifts and Donors**, additional to the current charitable tax relief scheme, as recommended in the *2012 Forum on Philanthropy Report*. This tax incentive should have a minimum level no lower than €5,000 and be capped at €1m. Tax relief should go directly to the donor where major-gift donations are made to grant-making foundations, trusts, donor-advised funds and charities opting into such a new Major Gift Scheme. The proposed consultation on philanthropy announced by Minister Joe O'Brien should involve all relevant stakeholders, including representatives of recipient organisations and communities to ensure an effective and meaningful set of initiatives are agreed and rolled out.

On the issue of legacies, we recommend:

- **Introducing tax incentives to encourage charitable giving**. For example, to encourage charitable giving on death, the rate of inheritance tax in the UK is reduced by 10% – from 40% to 36% – where at least 10% of the net estate is left to charity. In Ireland no tax incentives are offered to support legacy giving in the tax system.
- **Dropping VAT from the cost of a will when a legacy gift is included**.
- **Recognising social enterprises as different form of legal entity** like Community Interest Companies (CIC) in UK. This would allow social enterprises who don't identify as charities to have a clear legal identity and, if they meet certain criteria, be exempt from corporation tax.

These measures will involve delivery of enabling tax relief measures to assist increased community-based delivery of services and contribution to the economy and society. They should be continually developed and enhanced to make delivery outcomes more sustainable and achievable.

Addressing changing demographic pressures and future uncertainties in society requires a strong community sector. These are the organisations that will deliver to vulnerable and marginalised communities.

Ireland's national network of community and charity organisations played a key role in the response to COVID-19 and were ideally placed to provide flexible and immediate support where it was needed most. The importance of established services embedded within communities was clearly evidenced in the crisis, and this has been widely acknowledged by Government and by the public. Charities played a vital role in areas such as homelessness, supports for older people and mental health services, supporting those most impacted by the pandemic.

The Department of Rural and Community Development stated that it was “delighted to provide funding towards the COVID-19 Community Outreach Project,” adding that “DRCD works closely with the Community and Voluntary Sector and....[looks] forward to continuing to work with the sector into the future to help our communities face the challenges of recovery”.

Tax policy should at all times reflect this imperative. The sector has proven its experience and expertise in responding to COVID-19, as well as its capacity to build effective relationships with government agencies and with the public.

We recommend:

- Establishing a **dialogue between the Departments of Finance and of Public Expenditure and Reform and the sector** to explore taxation policy development in response to the emerging issues detailed above.

It also remains vital that Ireland's taxation system is fair and equitable in its essence, with those who have more paying more, and those who have less paying less. In order to sufficiently support a welfare system that truly lifts people out of poverty and moves towards greater equality, we support the wider policy objectives of **broadening the tax base, increasing the overall tax take and developing a fairer taxation system.** An efficient, **integrated welfare and taxation system** must ensure that everyone has access to a **minimum floor of social and economic resources**, enabling them to live with dignity and to fully participate in society.

The Wheel believes that reforms to Ireland's welfare system are needed to address issues of low income and inequality which result in poverty and deprivation. Evidence from the annual *Survey on Income and Living Conditions (SILC)*, the *European Household Panel Survey* and the *Living in Ireland Survey*, demonstrates a clear drop in poverty rates between 2001 and 2009 driven by increases in social welfare payments, particularly payments to the unemployed, the elderly and people with disabilities. Poverty rates since the financial crash and subsequent cuts have continued to rise, with **vulnerable communities continuing to be hit the hardest** and being supported by the work of the community and voluntary sector.

The extensive work carried out by Social Justice Ireland (socialjustice.ie) and the Vincentian Partnership for Social Justice and SVP on the development of a minimum essential standard of living

and universal basic income (budgeting.ie) demonstrates the need for **greater protection of those on low incomes in Ireland.**

- **We recommend:**
 - **Benchmarking welfare payments against the Minimum Essential Standard of Living index**, with a focus on reducing poverty among vulnerable groups such as children, lone parents, jobless households, migrants and people with disabilities
 - Moving towards introducing a **Basic Income system** to ensure all members of society have sufficient income to live life with dignity. Significant progress has been made on pilot schemes in the arts sector and this should be further explored and extended.
 - Fully utilizing the Central Statistics Office's new Wellbeing Hub, which represents an acknowledgement that any meaningful measure of national success must encompass a wide range of **wellbeing measures** rather than simply economic growth
 - **Integration of the taxation and welfare systems** in Ireland to ensure equity for recipients
 - Decent rates of pay for low paid workers
 - Continued support for Community Employment and Community Services Programme schemes
 - **Continued engagement** with the community and voluntary organisations on taxation and welfare policy as it pertains to the most vulnerable.

Promoting Employment

As well as supporting 289,000 employees and involving over 86,481 volunteer directors and trustees (2018 Indecon Report), the charity, community and voluntary and social enterprise sector **mobilises hundreds of thousands of volunteers, and delivers the majority of our social and community services at a saving to the State**. It constitutes a major social economy that drives employment while simultaneously meeting the national demand for essential services. It also progresses social inclusion, equality and the wellbeing of society. **Taxation policy should facilitate further development of the sector's contribution.**

We recommend:

- **Introducing multi-annual (three- to five-year) funding arrangements**, initially on a three-year basis. Multi-annual funding is a framework objective contained in the State's strategy for the community and voluntary sector (*Sustainable, Inclusive and Empowered Communities: A five-year strategy to support the community and voluntary sector in Ireland*), which Government has committed to fully implementing in the Programme for Government.
- Ensuring that the forthcoming review of *National Social Enterprise Strategy for Ireland 2019–2022* is carried out to **ensure delivery of taxation incentives to support social enterprise** development in particular.

To ensure sustainability of the social insurance system into the medium to long term, the *NESC Report 151: 'the Future of the Irish Social Welfare System: Participation and Protection'*, sets out specific proposals on issues such as **income adequacy** and **alleviating poverty, modernising family supports** to reflect gender and care needs, and **supporting high participation in education and employment**.

The report makes the case for a **stronger and better recognition of atypical work**. We believe that the charity, community and social enterprise sector should be evaluated in taxation and welfare policy terms to better enable the diverse nature of motivation, volunteer-led activity and the economic contribution delivered by the sector.

Adjustments as outlined in the *NESC Report* should be made to the social welfare and tax systems to facilitate **'flexicurity'**, which combines a high level of mobility between jobs with a comprehensive income safety net for the unemployed, plus strong supports for job search and retraining. An example of this type of work within the community and voluntary sector is the very diverse range of care services provided by charities.

The most recent *Pension Commission Report* refers to state pension reform to secure public understanding of the importance of sustainability, certainty and poverty prevention. The disadvantaged and precarious nature of work for many employees in the charity, community and social enterprise sector should be investigated to ensure that the sector is able to retain people of expertise and commitment, thereby continuing to deliver effectively for the most vulnerable in our society.

Climate

The Government's recently-published *Climate Action Plan* acknowledges that climate justice must be a key priority for Government and for all society as a matter of urgency. For many years, community and voluntary organisations have led the way on both advocacy and action in relation to climate issues and the UN Sustainable Development Goals. **Tackling climate crisis has been and will continue to involve a ground-up movement led by communities** who understand the necessity of drastically changing the way our economy and societal structures work in order to prevent further climate chaos for future generations.

Going forward, it is vital that community and voluntary organisations are enabled continue in their work to tackle the climate crisis and to ensure that economic justice is achieved for those disproportionately affected by this change.

The *Climate Action Plan* notes that at least 500 MW of renewable energy will be delivered through local community-based projects, subject to competition as appropriate. The proposals in 11.3.3 of the *Plan* on *Microgeneration and Community-Based Projects* have the potential to empower and to drive engagement and participation, creating opportunities for “domestic, community, farming, and small commercial customers” to take **the first steps towards investment in renewable technologies on a community basis**.

The *Plan* commits to further **strengthen the community energy framework**, including consideration of community-benefit funds and community ownership provisions and a Microgeneration Support Scheme (MSS). A small-scale Generation Scheme is proposed to support communities and others to maximise their participation in the energy transition.

Action 104 of the *Plan* seeks to “ensure communities benefit from renewable energy projects.” A proposed National Dialogue on Climate Action (NDCA) led by the Department of the Environment, Climate and Communications, with a Secretariat based in the EPA, includes an aim of “Funding, supporting, and enabling active engagement in climate action at a local and national level....by empowering the public to adopt more sustainable behaviors”.

We recommend:

- Taxation policy that focuses on **clear and specific incentives for community-based initiatives**. The Citizen Engagement process outlined in the *Climate Action Plan* include discussion in its agenda on this area. It should request advance guidance from Revenue and Department of Finance on how suitable taxation models might be applied for community-based energy projects.
- Full inclusion of relevant community and voluntary organisations in **national platforms and engagements** on climate policy and budgeting/fiscal decisions relating to the environment
- Ensuring that community and voluntary organisations can **access funding** relating to taking climate action.

Supporting Economic Activity

Recent Government policy has strongly acknowledged the role and potential of the charity, community and social enterprise sector to deliver jobs, prosperity and services within our economy and society. This is exemplified in the launch of **three detailed policies in the area**: *Sustainable, Inclusive and Empowered Communities: A five-year strategy to support the community and voluntary sector in Ireland 2019–2024*, the *National Social Enterprise Policy for Ireland* and the *National Volunteering Strategy*. The Government made strong commitments to implementing these strategies in the Programme for Government. We believe that **successful implementation must be supported by a proactive tax environment** as outlined below.

In terms of the current taxation system, The Wheel sees a need to promote enterprise hubs, as well as other job and service-creation functions of social enterprises and community organisations. This could involve additional consideration of progressive taxation approaches to investment in social enterprise based on the social reinvestment by social enterprises, the added value of volunteering and commitment to protecting and promoting local or community-based economic activity and to preserving ‘community’.

We recommend:

- Ensuring that all **tax supports** available to private companies are **available to charities** a community and social enterprise activity
- Linking tax incentives to an **expansion of the Rural Regeneration Fund**
- Provision of funding to deliver adequate resources **for implementation of the three government strategies** listed above
- Investigation of tax incentives for investment in increased **active citizenship initiatives** through participatory and democratic decision-making processes
- Allocation of **additional resources through the National Training Fund** to support training and development needs of the community and voluntary sector. This includes assisting organisations to respond to the new remote/socially-distanced working environment and to enable the creation of training/work-experience opportunities.
- Funding for the above initiatives to be provided by a dedicated or **ringfenced allocation for community based and social enterprise work**, which could, for example, be supplied from corporation tax revenues for an initial five-year period
- **Dormant accounts funding**, already in place for social enterprises, should continue to serve as a direct funding mechanism to compliment these initiatives.

Tax Expenditures

The Irish taxation system is complicated and difficult to process for the majority community-based organisations. Many cannot afford the detailed accounting or financial-advisor functions necessary to fully address issues around tax compliance, reliefs and other issues. **Simplification** would facilitate an easier appreciation of taxation.

It is now 13 years since the Report of the last Commission on Taxation and we welcome the current review. Moving forward, a **more regular review** and/or a **dedicated review** process aimed at ensuring fair and progressive taxation while maintaining and increasing total tax income would be beneficial. The process of reviewing taxation measures and expenditures is generally highly intricate and detailed.

The recent **review of the VAT Compensation Scheme** for fundraising charities was very satisfactory, facilitating full engagement by the charity stakeholder with Revenue and the Department of Finance. There was also a mechanism to contribute data and views, as well as address questions and issues related to the scheme in advance of budgetary decisions. We recommend using this process as a model for future engagement and review.

We recommend:

- **Simplification** of the taxation system to for the majority of community and voluntary organisations
- A more **regular review and/or a dedication review process** for the Commission on Taxation and Welfare.

Public Health

The voluntary and community sector comprises a wide range of health organisations that vary in size and in the type of services provided. The statutory and the voluntary sectors clearly depend and rely on each other to a very significant extent.

Government policy should therefore focus on **adequate funding provision for community-based healthcare**. It should ensure parity of resource provision for both the state and community-based services. This is not delivered under current tax expenditure and welfare policy.

Multi-annual funding arrangements, guarantees on **management of deficits** and **simplification of Service-Level Agreements** are all necessary elements that require urgent implementation.

There is a need to rebalance contractual relations between the voluntary sector and agencies such as the HSE, moving from a bureaucratic emphasis to outcomes and the quality of services delivered. The resources required for compliance is disproportionate to the funding received, which should be addressed by the **simplification of financial reporting and contributions to the cost of compliance by funders**.

It is clear that a major impediment on all these matters is **a failure to allocate taxation income on an equitable basis to the community and voluntary sector**. This delivers savings to the public purse at the de-facto expense of the community and voluntary sector and its staff. As a direct consequence, it constitutes a very serious diminution of service quality guarantees to the tens of thousands of service users that rely on these organisations to provide essential supports. These people are regularly affected negatively by such a 'savings' strategy originating from, if not implemented by central fiscal/tax policy.

We recommend:

- Providing **adequate and appropriate income from the public purse raised through the taxation system to community and voluntary organisations** working in health and social care
- Ensuring that the **full cost of essential services is provided for through the relevant grant aid** or Service-Level-Agreement-governed funding.

Conclusion

Community and voluntary organisations, charities and social enterprises have proved that their contribution to the economy and to society as a whole in Ireland is invaluable. The COVID-19 crisis has further demonstrated the sector's flexibility, its ability to meet unprecedented demand for services and its commitment to supporting the most vulnerable.

We recommend that tax and welfare policy should be reformed in the ways outlined in this submission to better support the work on these organisations.

Summary of key recommendations:

- Encouraging independent fundraising and giving through a range of focused measures. These including: **increasing the current €5m cap on rebates under the VAT Compensation Scheme; reducing the existing annual €250 lower cap on the Minimum Donations tax relief scheme; introducing a direct tax incentive for Major Gifts and Donors.**
- **Introducing multi-annual (three-to-five-year) funding arrangements**, as contained in the State's strategy for the community and voluntary sector and in the *Programme for Government*.
- Ensuring that the forthcoming review of *National Social Enterprise Strategy* **delivers taxation incentives to support social enterprise** development and ensuring that all **tax supports** available to private companies are **available to charities** and community and social enterprise activity.
- **Introducing specific incentives for community-based initiatives on climate** and full inclusion of relevant community and voluntary organisations in **national platforms and engagements** on climate policy and budgeting/fiscal decisions
- Providing adequate and appropriate income from the public purse raised through the taxation system to community and voluntary organisations working in health and social care, and ensuring that the full cost of essential services is provided for through the relevant grant aid or Service-Level-Agreement-governed funding
- Allocation of **additional resources through the National Training Fund** to support training and development needs of the community and voluntary sector
- **Benchmarking welfare payments against the Minimum Essential Standard of Living index**, with a focus on reducing poverty among vulnerable groups. Moving towards introducing a Basic Income system and continued engagement with community and voluntary organisations on taxation and welfare policy .
- Establishing a **dialogue between the Departments of Finance and of Public Expenditure and Reform** and the sector to explore taxation policy development in response to the emerging issues detailed above.