Pre Budget Submission

Promoting a Culture of Legacy Giving in Ireland

August 2019

Introduction / About My Legacy

My Legacy is a charitable umbrella organisation comprising 65 Irish charities. Our group vision is to create social change; to make charitable bequests the norm in Ireland and widely recognised as a respected way of supporting a charity. Based in Dublin, My Legacy is managed by a voluntary board of directors including representatives from member organisations.

As a group of national charitable organisations working together, we aim to raise awareness of the great importance of making a will generally and how legacies support the work of charities and benefit Irish society into the future. We do this through a range of activities including a national media campaign every Autumn - My Legacy Month. We also conduct on-going research into Irish and international best practice. We work closely with our members and engage with other stakeholders such as legal and financial planning professions, the Irish public and the wider charitable sector.

Summary

Four Key Requests:

1. Introduce a tax incentive for disponers
2. Introduce a tax incentive for inheritors
3. Initiate a match challenge grant for My Legacy marketing campaign to build a culture of legacy giving in Ireland.
4. Make charitable wills exempt from VAT

ASK 1 and 2 - Tax incentives for both disponers and inheritors

Background

Available estimates suggest that aggregate charitable bequests are currently running at about €50m a year in Ireland, thereby accounting for about 6% of all charitable giving or about 0.9% of the inter-generational transfer of wealth at death. In contrast, charitable bequests are estimated to account for 9% of all charitable giving in the UK and 12% in the US. Source: the *Legacies for Good* report by The Community Foundation for Ireland in 2018.

Tax Take is Rising

The total gift and inheritance tax paid in 2010 was €243million. The economy has improved in the intervening years with CAT receipts up significantly since then. In 2017 Inheritances and gifts worth some €1.4 billion were subject to inheritance tax, resulting in CAT of €460million in 2017, up by 11% on 2016. The *Legacies for Good* report suggests that total inter-generational inheritance is somewhere between €5.5n and €6bn per annum. This may suggest that about between 23% and 25% of inherited wealth incurs a tax bill.

The tax yield remained steady at €141 million for 2017 on sums inherited by sons and daughters, accounting for just 33% of the overall yield. This represents an almost three-fold increase on 2011, when just €50 million in tax was collected from this cohort.

Note from 1999 -2011 the full CAT rate was under 30% before increasing to 30% for a year, rising to 33% in 2012.

We need to encourage wealth-based giving in Ireland

In the Irish system, unlike the system in the UK (see Appendix 1), inheritance tax is not levied on the value of the estate. Instead, it is paid as Capital Acquisitions Tax (CAT) on individual inheritances (and gifts) in so far as they exceed certain thresholds. Charities are exempt from CAT: a charity that benefits from a legacy does not have to pay tax on that account.

The Irish system provides a much weaker incentive to make charitable bequests than the UK system. In the UK, not only is such a bequest tax-free in the hands of the receiving entity, but the amount of the bequest is fully deductible against the inheritance tax bill faced by the estate. Since inheritance tax in Ireland is not levied on the estate, the second incentivising element present in the UK is not replicable here under our current system.

Ways in which the Irish system might be reformed in order to encourage charitable and philanthropic giving associated with the wealth transfer process can be designed to encourage those who are beneficiaries of wills to donate a portion of their inheritance to a good cause.

We suggest that it be the "new norm" that 10% of each estate is given to charity. This still results in very little reduction in the overall tax take to Revenue, but potentially significant benefits to charities.

Example: If someone gives 10% of their estate to charity, they are certified by the Revenue as a "certified disponer". This would be a box that can be ticked very easily on the inheritance tax form submitted to Revenue when somebody dies. Revenue can do a very simple check to see what is the total value of the estate (from information they should already have to hand) and if the disponer has given at least 10% to charity. If it was introduced today the result would be tax being reduced from 33% to 29.7%. The relief would be received by reducing the tax payable by the beneficiaries of that person's estate.

A parallel proposal that incentivises inheritors could have a more immediate impact. The proposal suggests that, incentivising those making the wills – the disponer or legator, is strategically very important, but that the impact will not be seen for some years. It is our understanding that should the law be changed, only wills made or updated from that time would be subject to the incentive. Fundraisers generally talk of a seven year timeframe from starting a legacy fundraising campaign to seeing an impact, and it is likely to be a number of years before any legislative change brings a significant effect. However the change would send out a message to the people of Ireland, that when making a will, there is a very positive incentive to consider including charities in one's will. It is difficult to assess the cost to the Exchequer but the legislative change would probably only be relevant to 23% - 25% of those who write a will (i.e. percentage of inheritances where tax is relevant). It will however encourage professional advisers – tax advisers, accountants, lawyers etc to reference the option in discussions with clients – to help develop a more encouraging environment for philanthropy in Ireland.

The UK is currently looking at simplification of inheritance tax laws. The Office of Tax Simplification (OTS) has published the first part of its inheritance tax (IHT) simplification review.

Of note from the initial finding s is that "IHT returns are submitted for about half of all estates, even though tax is paid by less than 5%". Note – it is possible that the suggestion above re Ireland that between 23% and 25% of inherited wealth incurs a tax bill may be on the high side.

Taking the dual approach would be innovative and will be encouraging giving on both sides, by the person who died and by the person who received the inheritance. Unlike the UK, Ireland has tax on gifts (not just inheritances) and, again unlike the UK, Ireland taxes the person receiving a gift or inheritance (rather than taxing the estate). This makes it very appropriate to have a relief that is targeted at the person who receives the gift or inheritance and encourages them to give 10% to charity – as well as for the disponers / legators.

ASK 3 - Challenge grant

Cultural Change Needed for Ireland Inc

As referenced above, My Legacy now has charitable status. Income is raised from members. To promote legacy giving required an increase in the current marketing campaign spend of €35,000. We ask that the Irish government considers a challenge euro for euro matching programme – so that for every euro committed to My Legacy by charities in Ireland, the government would match this income – to a maximum capped amount of €100k p.a. – on a trial basis for three years. This could be transformational and would demonstrate real leadership and commitment by government in Ireland to the long term sustainability of the not for profit sector in Ireland. This would ideally run in tandem with the tax changes with key aspects of the marketing monies committed to promoting and explaining the tax changes to:

- The Charity sector
- Professional advisers, especially those with private clients and working in probate and tax
- General public

Sources: Legacies for Good, Wealth Transfer and the Potential for Philanthropy by The Community Foundation for Ireland 2018

Other: Smee & Ford reports, UK Fundraising,UK Inland Revenue, Irish Times, https://www.afhwm.co.uk/news/19/01/ots-iht-review/

ASK 4 - To make charitable wills exempt from VAT

Remember A Charity, a UK entity similar to My Legacy, since 2017 has been calling on government to make charitable Wills exempt from VAT. The consortium estimates that VAT exemption on charitable Wills could double the number of people leaving a gift to charity in their Will, generating a further £800 million for good causes for the relatively low cost to UK government of £375,000.

This, it is claimed, could make a huge difference to UK charities, giving solicitors and Will-writers cause to highlight the option and benefits of legacy giving with all clients. We need to ensure that legacy giving is not just something reserved for the wealthiest in society; that it is something we are all given the opportunity to do. There is no reason to suppose Ireland would not benefit from a similar change. Remember A Charity's research delivered in partnership with the Behaviour Insights Team and University of Bristol shows that advisers who inform clients about the opportunity of legacy giving, write significantly more charitable Wills. This can help to close the gap between the public's willingness to give and the number of legacy gifts charities receive. It is estimated that if all professional advisers reference legacy giving, this could generate a further 15,000 charitable estates a year in the UK. Pro rata for Ireland – based on lower population (7.4) and lower death rates (9.4 deaths/1,000 population in UK v death rate of 7.7 per 1,000 population in Ireland) – this could equate to over 800 additional charitable estates in Ireland. This is significant given the current low number of bequests in Ireland. Information in Ireland is remarkably poor but figures we know of for charitable bequests are:

Note: Information below provided on cash or cash and residuary bequests (termed cash/residuary bequests below).

Number of Bequests

2005	**2,700**
2006	**2,841**
2007	**2,823 – from 1,282 wills / charitable estates**
2008	**3,360 – from 1,463 wills / charitable estates**
2009	**2,362 – from 1,072 wills / charitable estates**

Source: Commissioners for Charitable Bequests 2005, 2006, 2007, 2008, 2009

The good news is that idea on VAT exemption to grow legacies in the UK has been taken forward in Tax Commission recommendations. The Charity Tax Commission launched their report on 17 July 2019. The independent group have been consulting with charities for their recommendations on how charity tax can be further improved; maximising the value of donations given, providing an incentive for people to give, and a sign of public recognition from central government that donating to charities is a positive social action.

Sources: https://www.rememberacharity.org.uk/latest-news/remember-a-charity-leads-sector-campaign-for-vat-exemption-on-charitable-wills/

Appendix 1

UK Legacy income is growing – since Tax changes were introduced

Legacy income across the charity sector has grown significantly since 2011/12 from £1.8 billion in 2011/12 to £2.6 billion in 2016/17 and a recently announced record amount of just over €3bn for 2018. The number of charities reporting legacy income has also increased: from 1,679 organisations in 2007/08 to 2,579 organisations in 2016/17. Over 121,000 bequests were recorded in 2015, close to the 122,144 figure for 2017. This can in part be attributed to tax changes but also significantly to better marketing by charities and demographics in the UK.

Charitable estates were worth £17.9 billion in 2017, and legacy income was worth £2.8 billion, thus 15.6% of the net worth of estates with a charitable element went to charities.

The UK tax system was amended in 2013. It now works as follows:

Inheritance Tax rates

Example: The standard Inheritance Tax rate is 40%. It's only charged on the part of your estate that's above the threshold. An estate is worth £500,000 and the tax-free threshold is £325,000. The Inheritance Tax charged will be 40% of £175,000 (£500,000 minus £325,000).

However, the estate can pay Inheritance Tax at a **reduced rate of 36%** on some assets if leaving 10% or more of the 'net value' to charity in one's will.

Office of Tax Simplification backed our recommendation to retain the current inheritance tax (IHT) rate relief.

2019 Review of UK Scheme - Tax Office agrees to continue rate that benefits charity giving

Charitable gifts in wills are currently exempt from IHT (charged at 40%) and those that donate over 10% of their estate to charity benefit from a discounted rate of 36% across the remaining value of their estate. The review questioned whether the 10% incentive – which applies to a minority of estates from which the majority of legacy income is raised – was to be continued. If current giving levels continue, over the next five years over 10,000 estates will likely benefit from this reduced rate of tax, generating millions in legacy income.

Source: https://www.institute-of-fundraising.org.uk/blog/latest-news-three-key-updates-in-legacy-fundraising/

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