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# Charity news

December 09

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## Welcome

Welcome to the first edition of Charity News. We hope in this newsletter to provide you with information on developments in the sector, to share our views with you and assist you in preparing for the changes to come in the sector.

In this edition we have provided an overview of the Charities Act 2009 and an update on the stages of its commencement. Also included is an update from our Pensions specialist, Munro O'Dwyer, who explains the significance of the economic downturn on pension schemes, the challenges that this creates for charities and ways to address these issues.

Other articles include an overview of the tax implications that face many charities, particularly in light of the Commission on Taxation recommendations, an update on IFRS for Public Benefit Entities (PBEs) which include Charities and commentary from our recent Risking it All event.

Please feel free to send this newsletter onto any colleagues or peers who may not be on our mailing list but who may find this communication useful.

We hope you find this newsletter to be an informative and important communication in the months ahead. To discuss any aspect of this newsletter please contact your regular PwC contact or contact me at [teresa.harrington@ie.pwc.com](mailto:teresa.harrington@ie.pwc.com).



Teresa Harrington

PwC Not for Profit leader, Ireland



## Charity Act 2009 – what stage is it at?

On 28 February 2009, the President of Ireland signed the Charities Act 2009 (the “Act”) into law. The Act is being implemented in stages by way of commencement orders by the Minister for Community, Rural and Gaeltacht Affairs.

There will be a consultation with the sector in January 2010 to consider the form and content of annual reports that charities will be required to submit to the New Charities Regulatory Authority. We will monitor this closely and will report on the results of the consultation process in a later edition of Charity News.

The Department of Community, Rural and Gaeltacht Affairs has updated the charities regulation page of its website to include up to date and relevant information on the Act for charities. This information can be accessed at [www.pobail.ie](http://www.pobail.ie).

The purpose of the Charities Act 2009 is to reform the law relating to charities in order to ensure there is accountability for all those who are charged with governance of charitable organisations. The Charities Act 2009, together with the Charities Acts 1961 and 1973, and the Street and House Collections Act 1962, will provide for a compliance regulatory framework for charities through a combination of new legislative provisions and retention of existing charities legislation.

### The main provisions of the Act include:

- A definition of “charitable purpose” – first time in primary legislation;
- Establishment of the Charities Regulatory Authority;
- Establishment of the Register of Charitable Organisations;
- Every charity operating, or proposing to operate, in the Republic of Ireland will be required to apply for registration;
- Charities granted ‘charitable status’ with the Revenue Commissioners will be automatically included on the Register;
- The Revenue Commissioners will continue to determine eligibility for tax reliefs for charities;
- Proper books of account must be kept and statutory audit will be required on all charities, where gross income or expenditure exceeds a pre-determined threshold (threshold set at a maximum of €500,000);
- Annual Activity Report to be submitted to the Authority by every charity;
- All annual reports will be available for public inspection;
- The Companies Acts continue to apply to charities incorporated under those Acts;
- Establishment of the Charity Appeals Tribunal;
- Changes to the Street and House to House Collections Act, 1962; and
- Provision for consultative panels to assist the Authority.



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## Are you ready?

Does this Act apply to your organisation?

Are management and employees of your organisation sufficiently aware of these significant legislative changes?

Do your Board members and Trustees have an adequate understanding with regard to their roles, legal obligations and personal liability?

Are they aware of their duty of care, and are they taking the necessary steps to ensure the organisation's compliance with the new legal requirements?

Are you in a position to prepare and produce the annual activity report with sufficiently detailed information on the financial position, operations and activities of your organisation?

Do you need to review your existing governance and financial operations?

Have you identified the skills and resources that you will need to fulfil the requirements of the Act?

**If you need assistance, contact any of our Not for Profit team.**

All charities, their trustees and their officers must consider the registration and reporting requirements of the Act and be aware of the implications of failure to comply with any of the new provisions.

Trustees should continue to familiarise themselves with their new statutory duties and continue to make preparations to ensure that they are well positioned to satisfy all of the requirements of the Act when it is fully implemented.

In summary, there has been a significant step up in the legal environment in which charities are operating. While this will increase accountability and transparency, it will also increase pressure on the resources of each charity.

In future editions of CharityNews, we will review the key provisions that we believe will have the most significant impact on charitable organisations, including:

- Changes to fund-raising laws and the development of the fund-raising codes of practice;
- Annual financial and reporting requirements of charitable organisations; and
- Governance – the role of trustees.

## IFRS and the future of Irish GAAP

Charities in Ireland are undergoing significant change and will be subject to more onerous requirements under the Charities Act 2009 in terms of reporting to the Charity Regulator once the Act is commenced. The Charities Act provides for financial reporting requirements under the Charities Act 2009 to be developed by way of regulation by the Minister.

Charities that are incorporated are required to prepare accounts that give a true and fair view of the result and financial position of the company. The Charities Act 2009 will extend this requirement to unincorporated charities. The accounting principles under which accounts that give a true and fair view are prepared is referred to as UK and Irish GAAP.

The future of UK and Irish GAAP is under review. On 9 July 2009 the International Accounting Standards Board (IASB) published its standard for IFRS for Small and Medium Sized Entities. On 11 August 2009, the Accounting Standards Board (ASB) issued a consultation paper on its Policy proposal - The Future of UK GAAP. The ASB proposal sets out a differential reporting regime based on public accountability.

Section 3 of the consultation document considers the impact of the ASB's proposals on the future of UK and Irish GAAP on public benefit entities. A public benefit entity is described in the proposals as 'an entity whose principal objective is not the generation of profit' or 'an entity that is organised and operated primarily for community or social benefit whose funders and other resource providers do not receive any financial return from the organisation and any surpluses are applied to support the objectives of the entity.'

Charities fall within the above definition. IFRS is not applicable for public benefit entities and the ASB is seeking views on whether converged UK (and Irish) GAAP needs to be supplemented to provide a practicable accounting framework for the public benefit sector.

The ASB is seeking responses to its Consultation paper by 1 February 2010. It will be important that the sector engages in the debate by responding to the Consultation paper. The Department of Community, Rural and Gaeltacht Affairs in partnership with ICTR will run a seminar on 12 January 2010 to raise awareness

of the Consultation Paper and to commence its consultation with the sector on Reporting by Charities under the Charities Act 2009.

[Click here for further information.](#)



## Pensions - time to take control

The economic downturn in Ireland has pushed the funding of defined benefit pension schemes to the top of many charities' agenda. Scheme funding deficits are increasing due to falling asset values at the same time as there is a significant fall in income, donations and investment returns with a combined impact on the ability of charities to support their pension schemes. The extent of future decreases in charitable income is unknown due to the wider economic environment – all leading to a requirement for charities to balance the competing demands of their charitable activities and pension scheme liabilities in these difficult times.

In normal circumstances, reviewing the operation of pension schemes can often be seen as either far too complicated, or too much of a risk to staff morale and retention. Either way, seeking greater control on your pensions spend often gets consigned to the 'too difficult' pile. The challenge for charities is that we are not dealing with normal circumstances. A combination of difficult investment market conditions and alarming actuarial projections means that many charitable organisations are facing a looming crisis in their pension funds. Now is the time to take a long hard

look at what and how your charity is spending on pensions.

This is one of those issues that hit the sector particularly hard. Ireland's charities can typically have significant workforces with associated pension funding costs where a defined benefit scheme is provided to staff. There are a number of examples where the size and cash demands of the pension fund are significant to the charity.

### So what's the answer?

It's clear that action is needed, but not so clear what course that action might take. How can you get better value for the money currently spent on pensions, and is it really possible to spend less? Can you deal effectively with your deficits, and at the same time find a better way to manage the pensions question into the future?

Munro O'Dwyer, Pensions Director in PwC says, "One thing all charities should be doing right now is engaging actively with the issues. Typically charities have access to a broad range of business expertise through the Board structures which they operate – and we see that the best solutions are achieved where there is recognition that the pension scheme is not an island, but a part of the overall employer,



and where broad business thinking is brought to bear on solving the pension funding challenges. Effectively the financial risks of defined benefit pension schemes should be treated as risk in any business unit would be treated.”

When working through the challenges with charities there are key questions that arise in practically all circumstances:

- How much cash will the pension fund need?
- When will the cash be paid and how?
- What is the risk of bigger deficits, and thus cash and cost?
- How are risks being managed?
- How can rising costs be controlled?

The need for charities to come forward with a sensible plan and to drive the agenda is clear. The employer will know what will work best for the organisation, and a pension deficit funding plan needs to be developed which will accommodate the needs and objectives of the organisation.

Charities, by their nature, have a need for a strong workforce to assist them in delivering their services. Staff relations are key and an efficient, experienced, and motivated workforce is integral to delivery of services. Cutting what you spend on pensions and

managing pensions risk is clearly important, but maintaining staff engagement could well be just as crucial to meeting your objectives as conserving your cash.

Pension arrangements can prove challenging, with a wide range of stakeholders – your employees, the pension scheme trustees, your Board, your benefactors and a range of different pensions professionals including actuaries and pension lawyers amongst others. The key is that as an employer, you do have control and steps taken now can deliver a pension arrangement that is far more cost and risk controlled into the future.

To discuss pension issues that your charity faces contact Munro O’Dwyer (01) 792 8708.

[View the video of Alan Bigley, our PwC Pensions Partner, revealing key pension challenges facing the sector.](#)



## Tax update

On 9 December 2009, Minister for Finance Brian Lenihan will deliver his third Budget speech in less than 14 months. At a time when charitable organisations are experiencing increased demand for their services despite a sharp decline in donations, it is worth looking at the tax implications of some of the main issues facing charities.

The tax relief associated with donations is obviously particularly valuable in the context of falling income and so that is the tax issue on which we focus in this issue of Charity News, particularly in light of the recent recommendations of the Commission on Taxation. Other issues facing the sector, including sectoral consolidation, cost reduction and compliance obligations, also have tax dimensions.

We will discuss these issues in greater detail in later editions of Charity News.

### Fundraising

The report by the Commission on Taxation contained a number of proposals to amend the current system of tax relief on donations to approved bodies. Although many of these proposals were positively received by groups within the charities sector, some of the proposals have met mixed views due to the potential negative impact which could result from their implementation.

On a positive note, the Commission's proposal to reduce the qualifying threshold for tax relief on donations from to €250 to €100 has been welcomed, on the basis that the reduction would open access to new donors who might not have the means to provide funding at the higher level. However, the proposal to limit the level of tax relief to the standard income / corporate tax rate would lead to a reduction in the total amount generated from existing donations, unless donors taxed at the higher rate decided to increase their donations to compensate the charities for the reduced gross up. In addition, the Commission has proposed an upper limit of €500,000 on the value of donations made by each individual which may attract tax relief. It also recommends removing charitable donations from the existing restriction of

“specified reliefs” available to high earning individuals, which was introduced from the beginning of the 2007 tax year.

The position is further complicated by another major change proposed; to extend to self-employed and corporate donors the gross-up arrangement that currently applies only for PAYE taxpayer donors. As can be seen from the table below, the scale of the overall impact of the proposed changes would primarily depend on donor behaviour.

**Illustration of potential impact on charities of proposals of Commission on Taxation**

Example based on self-employed individual taxed at higher rate of income tax.

	Existing arrangement	Proposed by Commission on Taxation		
	A	B	C	D
<b>Donation to charity</b>	1,000	1,000	590	800
<b>Tax relief</b>	(410)			
<b>Gross up</b>		250	147.5	200
<b>Net cost to taxpayer</b>	590	1,000	590	800
<b>Total benefit to charity</b>	1,000	1,250	737.5	1000

Standard rate income tax 20%  
Higher rate income tax 41%

**Column A** of the table reflects the current scheme as it applies to self-employed individuals. Columns B, C and D illustrate how the proposal of the Commission regarding the method of tax relief on donations would operate on donations from self-employed individuals.

**Column B** assumes that the self-employed taxpayer maintains the gross level of donation and is happy to let the charity gain the tax benefit.

**Column C** assumes that the self-employed taxpayer reduces the contribution to take account of the tax relief forgone.

**Column D** assumes that the self-employed taxpayer wishes to strike a balance so as to leave the charity in the same net position as under the existing scheme.

It is evident that the total benefit (or otherwise) to the charity arising from the Commission’s proposal will depend on the behaviour of the donor. In this regard, an additional factor to consider is donor “co-operation” with the housekeeping associated with the proposed new mechanism for relief.

This proposal would have administrative and cashflow implications for approved bodies. We understand that approximately 30% of all donors respond to requests

from charities to provide their tax reference numbers. As the approved body requires this information to facilitate the reclaim of tax from the Revenue Commissioners, this response rate would need to increase substantially in order for the proposal to be of any real benefit.

Although streamlining to one system might in overall terms lead to less housekeeping, the current arrangement is that tax relief can only be claimed after the end of the year in which the donation is made. Indeed relief can be delayed / adjusted subsequent to the taxpaying donor filing their tax return for the period in which the donation is made. There is no reference in the Commission report to a facility to allow interim claims for relief, but perhaps this might be considered by Government were the provision to be introduced.

Another fundraising issue worth mentioning is the current restriction on donor relief to 10% of an individual’s annual income where the donation is made to an approved body of which the donor is an employee or member. The argument in favour of this restriction is that it ensures that donors do not have control over where their donated funds are ultimately applied.

### Conclusion

As charities rely on donations to fund their relief projects and ongoing activities, the issue of the tax relief afforded to such donations is of vital importance. The proposal to reduce the qualifying donation amount is a welcome development, but could be more than offset by the combination of the new mechanism to apply to self-employed and corporate donors and the reduced rate of relief. Streamlining tax relief on donations to a single system is potentially a step forward, but would put more pressure on charities struggling to obtain relevant tax information from donors.

While the cost to the Exchequer of the tax relief on donations is not significant in relative terms, it is particularly valuable to the charities concerned. There is still scope for additional support - measures to facilitate earlier claims, simplify administration and remove impediments to significant donations, for example - and we look forward with interest to developments in this area.



## Risking it all: how should your Trustees react to allegations of fraud or wrongdoing?

These are extremely challenging times for voluntary, charitable and other not for profit organisations as they endeavour to preserve their reputation and increase regulation with both reduced infrastructure and resources. The part that governing boards have to play in ensuring that organisations are both effective and accountable and that reputations are safeguarded cannot be underestimated.

In order to address these issues, we held a seminar on 29 June 2009 focusing on fraud and outlining best practices for how Trustees should react to suspicions or allegations of fraud or wrongdoing in order to limit any financial and reputational damage. We screened a film produced by PricewaterhouseCoopers called "Risking it all" which shows how the senior management, external auditors and audit committee of a publicly listed company react to a crisis situation, demonstrating what could go wrong if correct decisions are not made at key moments.

The film raised questions as to whether Audit Committees/Boards of Trustees spend enough time probing information prepared by management. It also asked whether these bodies would recognise potential pitfalls in choosing the person to investigate suspicions or allegations of wrongdoing, and in setting the initial scope of any investigation.

To discuss the issues raised by the film, we were joined by a panel of experts which included Tom Arnold, CEO of Concern Worldwide, Eugene Gallagher, Detective Superintendent, Garda Bureau of Fraud Investigation and John Keilthy, a Partner in the "reputation management" consultancy ReputationInc. The panel was chaired by Bob Semple, a Partner in our Advisory Services specialising in Internal Audit, Governance & Risk Management.

It became clear during the course of the panel discussion that reputation is very important for not for profit organisations and if Trustees do not exercise sufficient care in monitoring executive management the reputation of the organisation could be irreparably damaged. Eugene Gallagher highlighted the fact that, during a downturn, there are more cases of fraud as individuals come under increased personal financial pressures in the downturn.

The importance of ensuring that Trustees have sufficient support and training so they can properly undertake their roles also became clear. Tom Arnold from Concern discussed the support and training that his organisation provides for any new appointees to their board.

At the end of the seminar an alternative ending of the film was screened, showing what would have

happened if the right decisions had been made when the original dilemma was presented to the Audit Committee. It was clear from both the discussion and the subsequent feedback that the audience, comprising both Trustees and the executive management of prominent charitable and voluntary organisations, thought the film and the panel's contributions both interesting and thought provoking.

If you would like more information on the "Risking it all" screening, please contact any of our Not for Profit team.

A trailer of "Risking it all" is available here

## Community Matters

The current economic crisis has affected all of us to some degree. Now more than ever individuals and families are finding it difficult to manage budgets and expenditure and at the same time trying to maintain a healthy and happy lifestyle.

Similarly the recession has had a significant impact on budgets and activities of community, voluntary and charitable organisations across Ireland. Throughout our communities many organisations are feeling the strain of maintaining the same level of outputs and projects as they were a year or so ago.

At PwC we recognise that we have a responsibility both to our people and to the communities in which we work particularly in this difficult economic climate. As a firm we are involved in a number of charitable and community activities with many of our people contributing their time to these organisations.

In this first edition of Charity News we would like to take the opportunity to share with you some of the initiatives our people are involved in within the local community and how the firm supports these activities.

### Caring in the Community

In September 2008, PricewaterhouseCoopers and Localise, a Youth and Community Development organisation, undertook a development project in conjunction with the 6th class students of St Laurence O'Toole's National School, Sherriff Street, Dublin 1. The aim of the project was to agree and lead a "Caring in the Community" project that will have a positive impact on the community.

With a project team of 25 children and 12 PwC volunteers, the students decided to design and sell their own Christmas Cards to raise money for their local hospital - Temple Street Children's Hospital. The children designed and printed their Christmas Cards in order to sell in the IFSC and other designated areas. The students supported their card selling with carol singing during lunchtime in the restaurant at PwC offices at Spencer Dock.

The children exceeded their target goal by raising €7,780 for Temple Street hospital. All those involved in the project were delighted with the effort and contribution made. To thank those involved, Temple Street hospital invited the students and volunteers to the hospital to share with them the impact the funds raised would have on the hospital and how it would be spent.

To mark the students' success, PwC invited Bill Cullen, Entrepreneur and presenter of the Apprentice to take part in a graduation ceremony at PwC's office at Spencer Dock with the students. Bill presented each pupil with an 'Active Citizenship' award and had photos taken with the children. We were relieved to hear that none of our PwC volunteers got "Fired!" by Bill!

Due to the success of last year's 'Caring in the Community' project, we are delighted to announce that we will be continuing our partnership with Localise in conjunction with St Laurence O'Toole's National School. This year's Localise project will support the Simon Homeless Centre.



### PwC helps to bring the joy of Santa to deserving children

PwC are delighted to announce that the Santa Letter programme will take place again this year. The initiative, which has been run by PwC and its people for the last number of years, involves the children from schools in underprivileged areas, receiving a present from a PwC 'Santa' that they may not otherwise

receive. The schools involved this year are St. Joseph's in Ballymun, City Quay in George's Quay and St. Ronan's in Clondalkin.

Last year was the most successful year to date with a record 800 children benefitting from the generosity of the PwC staff. We hope that we can break this record again this year.



St Laurence O'Toole school children, Bill Cullen and PwC staff.



Bill Cullen with St Laurence O'Toole school children. Also in the picture (from left to right) is Evelyn Kelly (HR, PwC) and Carmel O'Connor (Partner, PwC).



Evelyn with the school children.

## Of further interest



### Budget

Budget Day is Wednesday, 9th December and we are currently developing our dedicated Budget microsite.

This site will feature PwC's:

- Budget commentary on how changes may impact businesses and individuals;
- A 'Calculate Your Tax' calculator;
- Business webcasts; and
- Press articles on the Budget.

The website will be updated on budget night. Look out for our correspondence!

[Click here for further information.](#)



### Fraud Alert

Fraud Alert sets out how Directors and Managers can strengthen their defences against the risk of fraud. The report raises awareness, gives practical advice on how to prevent and detect fraud and sets out the steps organisations should take to reduce the risk of fraud.

[Click here for further information.](#)



### PwC Pensions Survey 2009

The 2009 Pension Survey was conducted against a most challenging backdrop for Irish pension schemes. The purpose of the survey is to provide an up-to-date analysis of the steps being taken by employers to deal with the challenges of the current economic environment.

[Click here for further information.](#)



### Economic Outlook

The November edition of the PwC Economic Outlook.

[Click here for further information.](#)

**Events**

**Annual Alumni Drinks Reception**  
 Friday 15th January 2010,  
 Spencer Dock, Dublin 1  
 For more information on this event please contact Farnaz Bahadori on (01) 792 6053

**HR Business Briefing**  
 Thursday 25th February 2010,  
 Spencer Dock, Dublin 1  
 For more information on this event please contact Catherine Madden on (01) 792 8762

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