

**PUBLIC CONSULTATION ON
IMPLEMENTATION DETAILS FOR BUDGET 2007
CHANGES TO PROMOTE PHILANTHROPY**

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MINISTRY OF FINANCE

AND

MINISTRY OF COMMUNITY DEVELOPMENT, YOUTH AND SPORTS

1 AIM

- 1.1 This paper seeks views from members of the public on the proposed implementation details for the philanthropy initiatives announced in the 2007 Budget Statement.

2 BACKGROUND

- 2.1 Philanthropy is growing exponentially around the world. There is an increasing number of individuals and corporations that are keen to further contribute to the community with the setting up of philanthropic organisations such as charitable foundations. In a bid to develop Singapore as an attractive philanthropic hub, the Government announced a number of important changes in the 2007 Budget Statement (please refer to the [Annex](#) for the extract of the Budget Statement). These changes are:

- (i) ***Remove the 80:20 rule for income tax exemption for registered charities and exempt charities under the Charities Act. The rule requires these charities to spend at least 80% of their annual income receipts on charitable objects in Singapore within 2 years in order to receive income tax exemption.*** The change will allow these charities automatic income tax exemption, with no condition on how their income should be spent. It will enable charities to optimise their investments and use of funds over time to sustain their charitable programmes.
- (ii) ***Remove the 80:20 fund-raising rule for private donations raised by approved entities¹ for foreign charitable causes, but retain the rule for donations raised from the general public.*** The 80:20 fund-raising rule requires any organisation seeking to raise funds for any foreign charitable purpose to spend, in Singapore, at least 80% of the funds raised. The change will support the charitable work of reputable charitable organisations and grantmakers with an international or regional orientation, while ensuring that funds raised from the general public goes primarily towards benefiting the Singapore community.

¹ These include registered charities that can meet governance standards set by the Commissioner of Charities office, and not-for-profit organisations (NPOs) approved under the NPO tax incentive scheme administered by MAS and EDB. Please refer to para 4.4 for more details.

- (iii) *Allow double tax deductions for donations to qualifying grantmaking philanthropic organisations as long as the donations are channelled to Institutions of a Public Character (IPCs) in Singapore.* This will allow donors greater flexibility in how they wish to support local IPCs, whether through direct donations to the IPCs or by making donations through an intermediary who can facilitate a more structured and sustained form of giving to the IPCs.
- (iv) *Introduce a tax incentive scheme to give income tax exemption to non-charitable not-for-profit organisations (NPOs) that can bring economic value to Singapore.* The scheme is administered by the Economic Development Board (EDB) and Monetary Authority of Singapore (MAS) and is available from 15 February 2007 to 14 February 2017.

2.2 Initiative (i) in para 2.1 will take effect from Year of Assessment 2008 (YA2008). With this change, registered charities and exempt charities under the Charities Act will not be required to file their tax returns with IRAS annually.

2.3 Initiatives (ii) and (iii) in para 2.1 will take effect from 1 January 2008.

3 IMPLEMENTATION DETAILS FOR CONSULTATION

- 3.1 Sections 4 and 5 outline the proposed implementation details for initiatives (ii) and (iii) in para 2.1, i.e.
- relaxation of the 80:20 fund-raising rule for private donations raised for foreign charitable causes; and
 - granting of double tax deduction for donations to qualifying grant-making philanthropic organisations which are subsequently channelled to an IPC.

4 RELAXATION OF 80:20 FUND-RAISING RULE FOR PRIVATE DONATIONS RAISED FOR FOREIGN CHARITABLE CAUSES

Fund-Raising Permit Framework

Current fund-raising permit framework

- 4.1 Today, any person or organisation conducting fund-raising appeals for local charitable, benevolent and philanthropic purposes do not need to apply for a permit from the COC. However, a permit must be obtained from the National Council of Social Service (for NCSS members) or from the Police (for non-NCSS members) if the local fund-raising appeal is conducted by means of house-to-house or street collection (HHSC) from the public.
- 4.2 If a person or organisation wishes to conduct fund-raising appeals for foreign charitable, benevolent and philanthropic purposes, a permit is needed from the COC. In addition to this, a permit must also be obtained from NCSS or the Police if the fund-raising appeal is conducted by means of house-to-house or street collections (HHSC) from the public.
- 4.3 The approval of the permit to raise funds for foreign charitable causes granted by COC is conditional upon the applicant undertaking to apply 80% of the funds raised through the fund-raising appeal, on charitable objects in Singapore (i.e. “80:20 fund-raising rule”).

Changes to fund-raising rule announced at Budget 2007

- 4.4 The relaxation of the 80:20 fund-raising rule for private donations outlined in para 2.1(ii) will apply to:
 - (i) registered charities that can meet the governance standards set by the office of the Commissioner of Charities (COC). These governance standards have been posted for public consultation from 12 June 2007 to 31 August 2007 on www.reach.gov.sg (please refer to the “Draft Code of Governance for Charities and Institutions of a Public Character”); and
 - (ii) not-for-profit organisations (NPOs) approved under the tax incentive scheme administered by the Economic Development Board (EDB) and Monetary Authority of Singapore (MAS).

- 4.5 Funds raised from the public (or “man-in-the-street” donors) will continue to be subject to the 80:20 fund-raising rule so as to safeguard these donations.
- 4.6 A permit from COC will continue to be required for fund-raising appeals for foreign charitable causes, regardless of whether the funds are raised from public or private donors.
- 4.7 The new fund-raising permit framework can be summarised by the matrix in Table 1:

Table 1: Fund-raising permit framework

	Local Charitable Causes	Foreign Charitable Causes
Public Donations	<ul style="list-style-type: none"> ▪ COC permit not required ▪ Police / NCSS permit required if HHSC is conducted 	<ul style="list-style-type: none"> ▪ COC permit required and 80:20 fund-raising rule <i>imposed</i> ▪ Police / NCSS permit required if HHSC is conducted
Private Donations	<ul style="list-style-type: none"> ▪ COC permit not required ▪ Police / NCSS permit not required since donations are sourced privately 	<ul style="list-style-type: none"> ▪ COC permit required²but 80:20 fund-raising rule waived ▪ Police / NCSS permit not required since donations are sourced privately

Proposed Guidelines on Public Donations vs. Private Donations

- 4.8 To implement the relaxation of the 80:20 fund-raising rule for private donations, there is a need to distinguish between public donations and private donations. There is currently no definition of “public” donations or “private” donations in our legislation. Based on Table 1, public donations are generally construed as monies fund-raised through house-to-house or street collections. However, this definition is inadequate because there are now many other ways whereby organisations could solicit monies from the public. For example, telemarketing is a common fund-raising tool employed by charities; a large company could also invite members of the public sourced from its customer database to donate to charitable causes via mailers. There is therefore a need for the definition of “public” donations to extend beyond house-to-house and street collections.

² The permit is still required to enable the COC to have jurisdiction over such fund-raising activities. For those with proven track records, COC will work with relevant agencies to automatically grant the permit if the case falls within the guidelines of "Private Donations".

4.9 We welcome your feedback on the proposed guidelines on public and private donations set out in para 4.10 to 4.13.

Public Donations

4.10 Public donations are sourced from members of the public, who are typically “man-in-the-street” donors who may not be discerning enough to question the intent of the fund-raiser. Therefore, the state must protect the public’s interest by weeding out rogue fund-raisers and educating the public to be more informed in their giving. Essentially, the following guidelines will determine whether the donations are considered as from the public:

- (i) House-to-house and street collections: the appeal intends to fund-raise by way of house-to-house or street collections e.g. use of student volunteers to sell “flags”; or
- (ii) Use of Media Publicity: the appeal, direct or indirect, leverages on any form of mass media publicity e.g. news coverage on the plight of individuals, use of Internet advertising, fund-raising appeal through radio, etc; or
- (iii) Use of Outdoor Display: the appeal, direct or indirect, leverages on any form of outdoor display such as billboards, banners and blimps that is accessible to the general public; or
- (iv) Accessibility of Collection Instrument: the collection instrument used for the fund-raising appeal is accessible to the general public e.g. donation boxes used by companies such as MacDonaldis and other charities such as Society for the Prevention of Cruelty to Animals (SPCA).
- (v) Relationship of Donors: the fund-raising appeal is not publicised in the media or in the open but yet targeted at members of public who have no previous or current relationship³ with the fund-raising organisation. For instance, the use of telemarketing, flyers, mass mailers and spam email will be in this category.

³ Examples of a previous relationship could be that of an ex-volunteer or ex-employee.

Private Donations

4.11 Private donors are generally assumed to be more sophisticated and discerning in their giving compared to “man-in-the-street” public donors. However, sophistication is highly subjective and too qualitative to be codified into a guideline. Hence, the focus of the initial guidelines is on the tangible characteristics of private donations. Essentially, the following guidelines are proposed to determine whether the donations can be considered as private:

- (i) Defined Donor Relationship: Private donations should be sourced from donors who share a defined relationship to the organisation conducting the fund-raising appeal, and not from the general public. These defined relationships could include the organisation’s subscribed members, family members, personal friends or business associates. In addition, the *ultimate target group* of the fund-raising appeal should have a direct relationship⁴ with the organisation or belong to a unique or exclusive category of individuals that would not constitute as the general public⁵. Categories of unique target groups could include religious congregations, a university’s alumni network and members from a particular club, society or association. Exclusive categories of individuals could include Chairmen/CEOs in public-listed firms or companies in a specific sector; and
- (ii) No Advertisement of Fund-Raising Appeal: The fund-raising appeal should not be advertised to the general public by means of print advertisements, media commercials, news articles, outdoor displays, online broadcasts or collection instruments accessible to the general public.

4.12 Organisations that wish to fund-raise for foreign charitable causes from private donors would have to abide by all the guidelines in para 4.11 above to be exempted from the 80:20 fund-raising rule. If any of the guidelines above is not met, the fund-raising appeal would be considered as targeting public donations and the 80:20 fund-raising rule will be imposed. COC’s

⁴ This is to prevent a situation whereby a fund-raiser accesses the database of a “member” company to solicit funds from individuals in that database, who are not directly related to the fund-raiser. A fund-raiser using this practice could thus access many databases, effectively targeting its appeal at the general public. However, if the database is a unique or exclusive list of, say, rich persons, then this can be considered as private.

⁵ The intent behind the “public” vs “private” distinction is really to safeguard public monies. Presumably, exclusive individuals like the rich would be sophisticated enough to discern whether to respond to the fund-raising appeal.

office may allow appeal on a case by case basis if there are strong justifications for exceptions to the guideline.

- 4.13 For organisations that wish to raise funds from both public and private donors for the same foreign charitable cause, they can apply for two permits from the COC office, one to raise public donations (this would then be subjected to the 80:20 fund-raising rule), and another to raise private donations (this would not be subjected to the 80:20 fund-raising rule if it fulfils all the guidelines in para 4.11).

Questions:

- Q1) Do you think the proposed guidelines on public donations vs. private donations in para 4.10 to 4.13 will be effective in achieving the objectives of promoting philanthropy in and from Singapore, while safeguarding public interest?
- Q2) Are the proposed guidelines on public donations vs. private donations in para 4.10 to 4.13 clear and unambiguous? How can we improve on them?
- Q3) Are the proposed guidelines on public donations and private donations in para 4.10 to 4.13 comprehensive enough? If not, what other guidelines should be included? (Please state your reason(s) for each proposed inclusion)
- Q4) Do you have any other comments on the proposed guidelines on public donations vs. private donations in para 4.10 to 4.13?

5 DOUBLE TAX DEDUCTION FOR DONATIONS MADE TO QUALIFYING GRANTMAKING PHILANTHROPIC ORGANISATIONS WHERE SUCH DONATIONS ARE CHANNELLED TO IPCs

Current Tax Treatment Of Donations

5.1 Currently, section 37(3)(c) of the Income Tax Act allows a double tax deduction (“DTD”) on a donation of money made by a person to an Institution of a Public Character (IPC). Where a person makes a donation of money to a grantmaking philanthropic organisation that does not have the IPC status, tax deduction on such a donation is not allowed even if the donation is eventually channelled to an IPC.

Changes to the Tax Treatment of Donations made to Grantmaking Philanthropic Organisations

5.2 In the 2007 Budget Statement, one of the announced changes to promote philanthropy was to allow DTD to donors of qualifying grantmaking philanthropic organisations, where the donations are intended for and channelled to an IPC. This is applicable even where the grantmaking philanthropic organisation itself is not an IPC.

5.3 The Government is considering the conditions that must be met by grantmaking philanthropic organisations to ensure that the donations intended for IPCs are in fact so channelled, so that the donors may be eligible for DTD in respect of these donations.

5.4 We welcome your feedback on the proposed conditions set out in paragraph 5.7 below.

Proposed Conditions For Allowing DTD On Donations Made To Grantmaking Philanthropic Organisations

5.5 A grantmaking philanthropic organisation must meet certain conditions as reflected in para 5.7, before it can be approved as a qualifying grantmaking philanthropic organisation such that its donors are able to receive a DTD on their cash donation which the grantmaking organisation in turn channels to an IPC.

- 5.6 For the purpose of allowing DTD to donors to a qualifying grantmaking philanthropic organisation, the Government is prepared to allow 2 options in the granting of DTD:
- (1) to grant DTD at the point of donation by the donor to the grantmaking organisation; or
 - (2) to grant DTD at the point of disbursement of the donation by the grantmaker to the IPC.

A qualifying grantmaking philanthropic organisation will be allowed to select one of the 2 options for the purpose of allowing DTD to their donors for donations which are channelled to IPCs. Once selected, the election is irrevocable.

- 5.7 The grantmaking organisation must fulfil the following conditions listed in (a) to (g):
- (a) the grantmaking organisation must be either a registered charity under the Charities Act or an approved not-for-profit organisation (NPO) under the NPO tax incentive scheme⁶ administered by MAS or EDB, before it can apply to be approved as a qualifying grantmaking philanthropic organisation for DTD purposes;
 - (b) the grantmaking organisation must channel the donation that is intended for the IPC to a segregated account/fund (hereafter "designated IPC fund") that is designated for donations to IPCs only;
 - (c) For a grantmaking organisation that selects option (1) as reflected in para 5.6, it must distribute the donations to IPCs within 2 years of receipt of the donations from the donors. For a grantmaking organisation that selects option (2) as reflected in para 5.6, it must distribute minimally a certain percentage (based on the fund's net asset value) to IPCs;
 - (d) upon dissolution of the designated IPC fund, the grantmaking organisation must distribute any residual funds/assets (if any) to IPCs;
 - (e) the grantmaking organisation must institute proper procedures to

⁶ Please refer to para 2.1(iv) for more details on the NPO tax incentive scheme.

ensure that the donations are in fact channelled to IPCs;

- (f) the grantmaking organisation must keep proper records such as the identity of each donor, date of donation, amount of donation received from each donor and the amount of DTD receipts that was issued to each donor;
- (g) the grantmaking organisation must subject the designated IPC fund to an annual external audit, and submit the annual audited accounts to IRAS; and
- (h) any amount of DTD that has been incorrectly granted or that is not properly due to a donor will be recovered from the grantmaking organisation.

Questions:

- Q5) Are the proposed conditions in para 5.7 clear and unambiguous? How can we improve on them?
- Q6) As a grantmaking organisation, are you likely to select option 1 or option 2 under para 5.6, for the administration of the DTD? Please state your reasons.
- Q7) With regard to para 5.7, where the grantmaking organisation that selects option (2) as reflected in para 5.6 would be required to distribute minimally a certain percentage (based on the fund's net asset value) to IPCs:
- (i) What is an appropriate minimum distribution percentage (based on the fund's net asset value) that is applicable to your grantmaking organisation?
 - (ii) What do you think should be the minimum distribution percentage to be applied across the board for all grantmaking organisations that wish to qualify for the new DTD treatment?
 - (iii) As a grantmaking organisation, would you prefer to be authorised to issue the DTD receipts directly to your donors or would you

prefer to inform the IPCs of the identities of the donors so that the IPCs can issue the DTD receipts to those donors accordingly?

(Please state your reason(s) for your proposal)

Q8) As a grantmaking organisation, is there any issue or practical difficulty in complying with any of the proposed conditions? If so, please provide suggestion(s) on how the condition(s) can be refined, bearing in mind the policy intention to allow the DTD on the basis that the donations would eventually be channelled to IPCs.

Q9) Do you think this list of proposed conditions in para 5.7 is comprehensive enough? If not, what other conditions should be included? (Please state your reason(s) for each proposed inclusion)

Q10) Do you have any other comments on the proposed conditions?

6 CONSULTATION DETAILS

6.1 Your feedback is important to us and we would appreciate it if you could adhere to the following guidelines:

- a. Please identify yourself, as well as the organisation you represent (if any), so that we may follow up to clarify any issues, if need be;
- b. Please make your comments clear and concise, and explain your points with illustrations, examples or data, as far as possible; and
- c. Please use the prescribed template provided if you are submitting via email, fax or post.

Period of Consultation

6.2 The period for public consultation is from 18 July 2007 to 17 August 2007.

Feedback Channel

6.3 Please send your comments to one of the following:

a. Online Questionnaire:

http://app.mof.gov.sg/consultation_current/pub_con_imp_bud_frm.asp

b. Email: mof_pc_philanthropy@mof.gov.sg

c. Fax: +65 6332 7435

d. Address: Public Consultation on Philanthropy Initiatives
Ministry of Finance
100 High Street, #10-01
The Treasury
Singapore 179434

6.4 We encourage comments via online questionnaire as these will reach us faster and speed up the review process.

Summary of Response

6.5 We will publish a summary of the key comments we have received, together with our responses, on this website by 30 September 2007. The summary will not disclose the identity of respondents, and will not separately address or acknowledge every comment received.

7 SUMMARY OF ISSUES FOR CONSULTATION

Proposed Guidelines on Public Donations vs. Private Donations

- Q1) Do you think the proposed guidelines on public donations vs. private donations in para 4.10 to 4.13 will be effective in achieving the objectives of promoting philanthropy in Singapore, while safeguarding public interest?
- Q2) Are the proposed guidelines on public donations vs. private donations in para 4.10 to 4.13 in clear and unambiguous? How can we improve on them?
- Q3) Are the proposed guidelines on public donations and private donations in para 4.10 to 4.13 comprehensive enough? If not, what other guidelines should be included? (Please state your reason(s) for each proposed inclusion)
- Q4) Do you have any other comments on the proposed guidelines on public donations vs. private donations in para 4.10 to 4.13?

Proposed Conditions For Allowing DTD On Donations Made To Qualifying Grantmaking Philanthropic Organisations

- Q5) Are the proposed conditions in para 5.7 clear and unambiguous? How can we improve on them?
- Q6) As a grantmaking organisation, are you likely to select option 1 or option 2 under para 5.6, for the administration of the DTD? Please state your reasons.
- Q7) With regard to para 5.7, where the grantmaking organisation that selects option (2) as reflected in para 5.6 would be required to distribute minimally a certain percentage (based on the fund's net asset value) to IPCs:

- (i) What is an appropriate minimum distribution percentage (based on the fund's net asset value) that is applicable to your grantmaking organisation?
- (ii) What do you think should be the minimum distribution percentage to be applied across the board for all grantmaking organisations that wish to qualify for the new DTD treatment?
- (iii) As a grantmaking organisation, would you prefer to be authorised to issue the DTD receipts directly to your donors or would you prefer to inform the IPCs of the identities of the donors so that the IPCs can issue the DTD receipts to those donors accordingly?

(Please state your reason(s) for your proposal)

Q8) As a grantmaking organisation, is there any issue or practical difficulty in complying with any of the proposed conditions? If so, please provide suggestion(s) on how the condition(s) can be refined, bearing in mind the policy intention to allow the DTD on the basis that the donations would eventually be channelled to IPCs.

Q9) Do you think this list of proposed conditions in para 5.7 is comprehensive enough? If not, what other conditions should be included? (Please state your reason(s) for each proposed inclusion)

Q10) Do you have any other comments on the proposed conditions?

ANNEX – EXTRACT OF 2007 BUDGET STATEMENT ON PHILANTHROPY INITIATIVES

Growing Singapore as a Philanthropy Hub

- 3.36 We will also capitalise on our strengths as a key financial centre to develop Singapore as an attractive hub for global philanthropic organisations. Philanthropy is growing exponentially around the world. More MNCs are now establishing charitable foundations and seeking to extend their reach into Asia. We can play a useful role as a centre for these organisations. Local philanthropy, too, is blossoming — witness, for example, the very substantial donations that have been made to our universities and medical schools in recent years. The presence of more global philanthropic grantmakers in Singapore will go hand in hand with the growth of local philanthropy - injecting vibrancy, promoting collaborative ventures and sharing best practices.
- 3.37 To facilitate the growing interest in philanthropy from both the local and international community, we will make a number of important changes. First, I will remove the 80:20 spending rule for income tax exemption for registered charities. This rule currently requires charities to spend at least 80% of their annual receipts on charitable causes in Singapore within two years in order to enjoy income tax exemption. International philanthropic grantmakers and local foundations, which are looking to contribute towards worthy causes in the region, apart from Singapore, perceive this rule as overly restrictive on their use of funds. Even those who are looking for causes in Singapore see the two-year limitation as too restrictive. Henceforth, I will grant all registered charities and exempt charities automatic income tax exemption. This will enable charities to optimise their activities in Singapore and in the region, and the use of their funds over time to sustain their programmes.
- 3.38 Second, we will relax the 80:20 fund-raising rule, which requires any organisation seeking to raise funds for any foreign charitable purpose to spend, in Singapore, at least 80% of the funds raised. This lifting of the 80:20 fund-raising rule is done so as not to hinder the efforts of reputable charitable organisations and grantmakers with an international or regional orientation, provided that the funds are raised from private donors rather than from the general public.

- 3.39 Currently, individuals and companies can obtain double tax deductions for donations to Institutions of Public Character (IPCs) but not for donations to foundations and other grantmakers. I will therefore allow double tax deduction for all donations made to philanthropic grantmaking organisations, as long as these donations are subsequently channelled to an IPC in Singapore. More details on these initiatives will be released later.
- 3.40 Finally, I will introduce a tax incentive scheme to give income tax exemption to other Not-for-Profit Organisations (NPOs) that can bring economic value to Singapore. Our targeted NPOs include those which have links to key clusters of our economy, such as the International Bar Association (IBA) and the Joint Commission on Accreditation of Healthcare Organisations (JCAHO). EDB will administer this incentive.