



Saving and Investing

Hon Peter Dunne
Minister of Revenue

Fostering a culture of charitable giving

Budget 2007 lays the foundation for a stronger culture of charitable giving in New Zealand, Revenue Minister Peter Dunne said today.

"New Zealanders are generous people. An estimated 1.3 million people take part in voluntary activities, and donations to charities and other non-profit organisations amounted to \$356 million – and that's just from the people that claimed tax rebates for their donations.

Charitable giving makes an invaluable contribution to our social, cultural, environmental and economic wellbeing. Therefore, Budget 2007 aims to reward and encourage charitable giving by removing the current \$1,890 rebate threshold on donations made by individuals and the 5 per cent deduction limit on donations made by companies and Maori authorities.

"The change, part of a taxation bill to follow the budget, will mean people and companies can claim rebates and deductions for donations up to the level of their annual net income."

It is estimated that this will cost the government around \$25 million a year in forgone revenue from 2009/10 (\$15 million in 2008/09), or \$65 million over four years. A further legislative change will allow unlisted companies with five or fewer shareholders to have access to company deductions for donations.

"Charitable giving is not just about removing the rebate limits; it's about making it easier for people to give in both time and money. Introducing a payroll giving scheme is one of these potential measures, but we must ensure it does not raise excessive costs for employers and is simple to administer.

"In recognition of the substantial contribution that volunteers make to the community, further work will also be carried out to clarify and streamline the tax treatment of volunteers' reimbursement payments and honoraria.

"These changes and possible developments are the direct result of the confidence and supply agreement between United Future and Labour, which called for the development of a new rebate regime for charities and I am delighted that it will be possible for us to make this very significant contribution to the charitable, community and voluntary sectors in New Zealand".

Contact: Ted Sheehan, press Secretary, 04 470 6985, 021 638 920

Fact sheet – charitable giving

Law changes to the tax rules on charitable giving will remove both the \$1,890 rebate threshold on donations made by individuals and the 5% deduction limit on charitable donations made by companies and Māori authorities. The company deduction for charitable donations will be extended to include unlisted companies with five or fewer shareholders.

Together, the changes will provide greater incentives for individuals, companies and Maori authorities to donate more to charities and other non-profit organisations, which, in turn, will benefit charities and the communities they serve. The changes will also align the New Zealand tax relief provisions for charitable donations with those offered in other OECD countries such as Australia, Ireland and the United Kingdom.

Once enacted, the changes will take effect from 1 April 2008.

How will the changes work?

Individuals

- √ The \$1,890 threshold for which individuals can claim a tax rebate on for cash donations to donee organisations will be removed.
- √ Donors will be able to claim a 33⅓% tax rebate for donations up to their annual net income.

Example

Indira donates \$3,000 to various charities and other non-profit organisations, including her local church. Her taxable income for the year is \$35,000.

*Under current rules, she would be entitled to a rebate of **\$630** on her donations.*

*Under the new rules, her rebate claim would be **\$1,000** (33⅓% of \$3,000), a gain for her of **\$370**.*

Company deduction for charitable donations

- √ The 5% limit on deductions that companies can claim for cash donations to charitable donations will be removed.

- √ Companies will be entitled to a deduction for donations made to charitable organisations, limited only by the amount of the company's net income.
- √ The company deduction is also being extended to unlisted close companies (companies with five or fewer shareholders).

Example

Company Ltd is a publicly-listed company. In the 2008/09 income year, its charitable donations amount to \$10,000 and its income, before taking into account its donations, was \$100,000.

Under current law, the company is entitled to a tax deduction of **\$5000**.

Under the new rules, the company is entitled to a tax deduction of **\$10,000** – reducing its net income before tax to \$90,000.

Māori authority deduction for charitable donations

- √ Māori organisations will be able to claim a tax deduction for cash donations to charitable organisations, limited only by the amount of their net income.
- √ The 5% deduction limit for cash donations made by Māori authorities to charitable organisations and Maori associations (as defined in law) is being removed, in line with the changes to the company deduction limit.

The change will operate in exactly the same way as the change to the company deduction.

Where to from here?

The changes are part of the taxation bill to be introduced following the Budget. Once enacted, they will apply from the 2008/09 income year.

Investing in a culture of charitable giving: questions and answers

1. Who was consulted on the proposed tax law changes?

The October 2006 discussion document *Tax incentives for giving to charities and other non-profit organisations* canvassed a range of options for encouraging greater giving to charities and other non-profit organisations and for making it easier to give to these organisations.

A series of consultation workshops seeking public opinions on the options was held around the country and attended by 300 participants. We received 229 written submissions, from a wide range of people and organisations including, individual donors, charities and other non-profit organisations, sector advisors, tax specialists, crown entities, and overseas organisations involved in the charitable community.

Feedback from consultation supported substantially increasing the current tax relief available for charitable donations and introducing other mechanisms for delivering tax relief such as a payroll giving scheme and tax deductions for non-monetary donations.

2. What are the benefits of the proposed tax law changes?

Individuals, companies and Maori authorities will receive greater tax relief for the donations they make.

Unlisted companies with five or fewer shareholders will now have access to company deductions for donations.

Charities may also benefit from extra funding arising from greater donation amounts received.

Removing the \$1,890 rebate threshold limit on donations made by individuals will make it easier to introduce other tax mechanisms such as payroll giving, should we choose to do so in the future.

3. Will the process for claiming tax relief for charitable donations change?

No. Individuals will continue to claim the rebate for charitable donations in the rebate claim form at the end of the year. Companies and Maori

authorities will claim deductions for donations they make in their end of year income tax returns.

4. What else is the government looking at?

We are looking at a range of measures aimed at supporting the charitable, community and voluntary sector. These measures include payroll giving, making it possible to claim tax deductions for non-monetary donations such as artworks and other property and clarifying and streamlining the tax treatment of reimbursement payments and honoraria payments to volunteers.

5. What do other countries do to encourage charitable giving?

Most OECD countries offer a broader range of tax incentives and mechanisms for encouraging philanthropy and giving than New Zealand does. These include tax incentives for both cash and non-cash donations, payroll giving and special rules for charitable trusts.

New Zealand is looking carefully at all the different ways of encouraging giving.

6. What is payroll giving?

Payroll giving enables employees to make regular charitable donations from their pay. The employer then forwards these donations either directly to the chosen charity or to an intermediary who then forwards them to a charity.

Payroll giving is an efficient, low-cost way for charities to raise funds (compared with fundraising activities) and provides them with the regular income support that they need.

For employers, payroll giving provides a low-cost and administratively simple way to support employee engagement in the community while building employee morale and mobilising significant funding and volunteer resources for community benefits.

For employees, payroll giving provides a convenient and simple way to give. In particular, a pre-tax payroll giving scheme is tax-effective and eliminates the need to collect receipts or wait until the end of the year to obtain the tax benefit of donations.