A summary of feedback on the discussion document “Tax incentives for giving to charities and other non-profit organisations”

From written submissions and consultation workshops

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Inland Revenue

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CHAPTER 1

Introduction

Purpose of this document

1.1 This document summarises the views expressed in written submissions and in consultation workshops on the proposals contained in the discussion document, *Tax incentives for giving to charities and other non-profit organisations*. The document does not comment on or evaluate the content of the feedback or the practicality of any suggestions.

1.2 Most of the feedback received in consultation workshops closely mirrored the views expressed in written submissions.

Structure of the document

1.3 The document is arranged in chapters and sections that broadly reflect those in the discussion document. Each chapter begins with a brief introduction and description of the relevant options, and then a summary of feedback and more detailed comments on the options.

1.4 The views expressed in this document are not identified by author. The main reason for this is that some organisations have not specified their membership numbers and so weightings can not be assigned to their views. Attempts to assign weightings across categories of submissions would be imprecise and potentially misleading.

Discussion document proposals

1.5 The discussion document, *Tax incentives for giving to charities and other non-profit organisations*, was released on 16 October 2006 as part of the government's Confidence and Supply Agreement with United Future, to develop a new tax rebate regime for charities during the current term of Parliament.

1.6 Measures included in the discussion document were:

Individual tax rebate for donations

- raising the threshold at which the rebate is capped;
- increasing the rate of the rebate claim; or
- a combination of both.

Company deduction for donations

- increasing the company deduction limit; and
- extending the company deduction to close companies not listed on a recognised stock exchange.

Māori authority deduction for donations

- increasing the Māori authority deduction limit.

A volunteers' rebate

- introducing tax relief for volunteers in the form of a tax rebate to recognise the value of the time given by volunteers to charities registered with the Charities Commission which, like the tax rebate for cash donations, would be subject to limitations; or
- as an alternative to the volunteers' rebate, providing grants directly to charitable organisations.

Reimbursement payments to volunteers and honoraria recipients

- clarifying the uncertainties in the tax treatment of reimbursement payments to volunteers and honoraria recipients and reducing their compliance costs.

1.7 The discussion document also examined other tax initiatives for encouraging charitable giving such as the United Kingdom's gift aid scheme, Australia's prescribed private funds scheme, tax relief for non-cash donations, and work-place giving.

1.8 Feedback was also sought on what further measures could be employed to encourage increased generosity and to support any tax measures that might arise out of this discussion document.

Consultation process

1.9 Following the release of the discussion document a series of information workshops were held in the five main centres, Wellington, Christchurch, Dunedin, Hamilton and Auckland. About 300 people including individuals, tax practitioners and representatives from charitable, community and voluntary organisations attended these workshops.

1.10 The purpose of these workshops was to ensure that as many people as possible were well-informed about the content of the discussion document and to mobilise people to make a submission. The workshops were arranged and hosted by local Tangata Whenua, community and voluntary sector groups.

1.11 The following people chaired and facilitated the consultation workshops:

- Tina Reid, New Zealand Federation of Voluntary Welfare Organisations and Robyn Scott, Philanthropy New Zealand – Wellington.
- Sharon Torstonson, Christchurch Council of Social Services – Christchurch.
- Sue Russell, Dunedin Council of Social Services – Dunedin.
- Dr Bev Gatenby, Trust Waikato – Hamilton.
- Jennifer Gill, ASB Community Trust – Auckland.

1.12 Charles Ngaki from Inland Revenue presented an overview of the discussion document and answered questions from the floor. Tina Reid and Robyn Scott provided extra support and facilitation at the workshops.

1.13 A record of the feedback from each of these workshops was taken. Where appropriate this feedback has been reflected in this document. This feedback can be viewed on the New Zealand Federation of Voluntary Welfare Organisations' website at http://www.nzfvwo.org.nz/

Submissions

1.14 A total of 229 submissions were received. These are listed numerically in Appendix A.

1.15 A wide range of people and organisations made submissions, including individual donors, charities and other non-profit organisations, sector advisors, tax specialists, crown entities and overseas organisations involved in the charitable community.

1.16 Written submissions were from a wide range of people and organisations as shown in Table 1:

Table 1

Category of submitter	**Number**
Government – Culture and recreation	3
Government – Education and research	1
Government – Social services and emergency/relief	2
Government – Not elsewhere classified	1
Individual	56

Tax specialists	4
Advisory organisations to the NFP* sector (business, legal, financial, communications)	8
NFP – Culture and recreation	13
NFP – Education and research	7
NFP – Health	7
NFP – Social services, and emergency/relief	42
NFP – Environmental / animal protection	4
NFP – Development and housing	12
NFP – Civic and advocacy groups	16
NFP – Philanthropic and other intermediaries	13
NFP - International organisations, aid and relief	7
NFP – Religious congregations and associations	24
NFP – Unions, business and professional associations	5
NFP – not elsewhere classified	0
Overseas – business	2
Overseas – NFP	1
Overseas – individual	1
Total	229

**NFP – not-for-profit*

1.17 The government groups included the New Zealand Police, the Charities Commission, Creative New Zealand and Sport and Recreation New Zealand.

1.18 There were also group submissions presented by:

- the 12 community trusts.
- the Community Sector Taskforce, which was supported by the New Zealand Federation of Voluntary Welfare Organisations, Volunteering New Zealand, Philanthropy New Zealand, Wellington Māori Service Providers' Forum and Napier Pilot City Trust.

- the New Zealand Federation of Voluntary Welfare Organisations. A number of submitters specifically supported the views of the Federation.

CHAPTER 2

Tax rebate for individuals – options

2.1 This chapter summarises feedback on options relating to the current tax rebate for charitable donations discussed in chapter 2 of the discussion document *Tax incentives for giving to charities and other non-profit organisations*.

2.2 The options being considered are:

- raising the donation threshold (currently $1,890) at which the rebate is capped;
- increasing the rate (currently 33 1/3 cents in the dollar) of the rebate claim; or
- a combination of both.

2.3 The government also sought feedback on whether the tax rebate should be changed to a tax deduction.

2.4 Feedback was also sought on the following matters:

- Are the current rebate threshold and rate a constraint on the money that individuals donate?
- If the tax rebate is retained, should the government raise the donations threshold, increase the rate, or do both?
- What would be an appropriate level for the donations threshold and rate?

Summary of feedback

2.5 A total of 188 submitters (or 82 percent) commented on the options relating to the individuals' tax rebate.

2.6 Table 2 shows the responses received on each option.

Table 2

	Retain existing rebate	Raise threshold	Increase rate	Combination of both	Move to a tax deduction
Supported	61	101	70	39	14
Opposed	14*	1	11	Nil	14

* *The number that supported a tax deduction mechanism*

2.7 The general themes expressed in feedback on these options were that:

- the existing rebate should continue in its present form and not be changed to a tax deduction. The present rebate has the advantage of simplicity and is more beneficial to donors overall;
- the current donations threshold and rate are a constraint on the money that individuals donate. Neither the threshold nor the rate provide significant incentive to change behaviour for meaningful gifting. If the rebate is retained, a significant liberalisation of the rebate is needed if it is to have any impact on the level of charitable giving in New Zealand;
- there is no principled reason for having a limit on the dollar amount eligible for tax relief. The donations threshold should be removed;
- enhancements to the existing rebate should be made immediately and should not be delayed while more complex and radical options are investigated further; and
- enhancements to the existing rebate should not be substituted for any personal tax rate reductions or the implementation of the initiatives contained in the Business Tax Review.

Option: Retain existing rebate

2.8 A total of 61 submissions (32 percent) who commented on the rebate options preferred retaining the existing rebate arrangement rather than moving to a tax deduction mechanism. They considered that the existing rebate is:

- simple and user-friendly – retaining the existing rebate would minimise complexity and compliance costs; and
- fair – the value of the donation is the same regardless of the donor's income level.

Option: Raise threshold

2.9 A total of 101 submissions (54 percent) who commented on the rebate options supported raising the threshold. The majority of these indicated that should the removal of the threshold be considered too radical then it should be significantly increased.

2.10 Submissions also supported inflation-proofing and periodical review of the threshold.

2.11 Table 3 shows the specific responses received on this option.

Table 3

	No amount specified	Amount specified	Inflation proof	Percentage of gross income
Comment	34	47	10	10

2.12 The suggested thresholds ranged from $2,120 to $20,000, with the most frequently suggested threshold being $5,000.

2.13 One submission considered there should be no change to the threshold.

Remove threshold

2.14 Feedback from consultation workshops strongly favoured removing the threshold (cap) altogether. This view came through in written submissions with 107 submissions (57 percent) who commented on the rebate options supporting the removal of the donations threshold.

2.15 The main reasons advanced by participants at the consultation workshops and submitters were.

- *Encourage greater giving.* More people would be encouraged to give (thereby increasing take-up especially by high-wealth individuals) and give more.
- *Consistency with overseas jurisdictions.* Removing the cap would bring New Zealand into line with both the United Kingdom and Australia. There has been a sizable growth in charitable donations in Australia since the move to a "no cap" environment. From 1997 to 2003 giving of money by individuals increased by 58 percent.
- *Charitable donations should be tax-exempt.* Income donated to a charity, like income derived by the charity itself, is income dedicated for charitable purposes and, on that basis, should not be subject to income tax.
- *Equivalence with trust treatment.* The effective non-imposition of income tax on income dedicated to charity after derivation can already be achieved by some taxpayers. For example, the current trust rules allow a family trust to make a distribution as "beneficiary income" to a charity free of tax thereby recognising the charities marginal tax rate of zero. There is no policy reason for distinguishing between the tax treatment of donations made by a trust and those made by an individual.
- *The focus should be on promoting greater giving.* The government should not be any more concerned about misuse or abuse of an uncapped rebate, compared with any other type of tax credit/deduction. First and foremost, the focus should be on recognising and promoting greater contributions to charity. Any concern could be mitigated by the registration rules under the Charities Act 2005 (for charities) and there are practical limitations on the amounts that individuals can donate.
- *Weakness of the existing rebate.* The current individual maximum rebate of $630 is easily reached by people in most income brackets and is recognised as one of the weakest tax incentive schemes in the developed world.

Several submissions cited the Centre for Global Development's report *Tax policies to promote private charitable in DAC countries*, as providing the strongest analysis of how New Zealand compares with 20 other countries. The report's key finding was that of the 18 countries that offered a targeted income tax incentive, 15 capped eligible donations and of those, New Zealand's incentive for giving was considered the weakest.

The report commented that low caps almost certainly reduced donations in three countries: Denmark, Norway and New Zealand. In comparing New Zealand against the United States, high income earners claimed only 6 percent of total deductions while in the United States, people with income over $100,000 claimed 54 percent of all charitable donations. The report went on to say that the large difference between the two countries might be as a result of the low maximum rebate offered in New Zealand, which is easily reached by people in many income brackets. Such a low ceiling could flatten the overall distribution and restrict the amount donated by high income earners.

The report also calculated the relationship between the presence of tax incentives and the increase in charitable giving. It found that New Zealand's $630 rebate reduced the value of its tax incentive to 16.7 percent, leading to an increase in giving of only 9.5 percent. Australia, where there is no cap, has increased charitable giving by 39.3 percent.

- *Support the implementation of a payroll giving scheme*. Removing the cap would support a payroll giving scheme and reduce compliance costs for employers as there would be no need to monitor the level of employees' donations.
- *Valuing the contribution of the charitable, community and voluntary sector*. Removing the cap would show the value of giving to charities and other non-profit organisations.

Option: Increase rate

2.16 A total of 70 submissions (37 percent) who commented on the rebate options supported increasing the rebate rate. Just 11 submissions considered that the rate should not be raised.

2.17 Some indicated that increasing the rate was less important than raising the threshold.

2.18 Again, there was a range of opinions on the appropriate rebate rate. The most frequently suggested rates and the reasons for them were:

- *39%*: This rate would ensure that donors on the top marginal tax rate would receive the full tax benefit of their charitable donations.
- *45%*: Potential donors are likely to make a psychological leap about "getting almost half back" on a rebateable donation.

- *50%*: This rate would enhance the value of the tax rebate for individuals at all income levels, particularly for taxpayers on the top marginal tax rate who would have more discretionary income to donate.

Option: Deduction mechanism for donations by individuals

2.19 The government also proposed an alternative approach to delivering tax relief for charitable donations made by individuals. The approach was to allow individuals to claim a deduction rather than a rebate similar to that allowed before 1 April 1978.[1] Under a deduction mechanism, charitable donations would be deducted from the donor's pre-tax income. This would mean that the tax value of charitable donations to donors would be determined by the donor's marginal tax rate.

Support for a deduction mechanism

2.20 A total of 14 submissions (7 percent) who commented on the rebate options supported replacing the existing rebate with a tax deduction mechanism.

2.21 The main reasons for supporting a deduction mechanism were:

- *Fairer for high marginal tax rate donors*. The extent of the incentive would depend upon the marginal tax rate of the donor. This could be viewed as "favouring" donors on high marginal tax rates. However, it could be argued that it is equitable that the incentive should reflect the marginal tax rate of the donor as the tax relief is equivalent to the tax that would otherwise be paid by the donor on the amount donated.
- *Better for increasing overall donations*. Donors on high marginal tax rates would be more responsive to incentives for charitable giving, especially given that their discretionary income is likely to be greater than taxpayers on low marginal tax rates and the aim of increasing overall donations to charity would be best achieved in this manner.
- *Consistent with overseas experience*. Australian experience shows that the deduction mechanism is more effective in encouraging greater giving.
- *Beneficial for donors*. Donors receive the tax benefit immediately and would not have to wait until the end of the financial year to make a rebate claim. Furthermore, the current rebate process is cumbersome and involves high compliance costs.
- *Supports payroll giving*. A tax deduction regime would be compatible with payroll giving.

2.22 One submission supported a tax deduction mechanism with no limit on the annual tax deduction. This would ensure that any donations are effectively untaxed. In supporting an unlimited deduction for charitable donations, the submission cited the reasons outlined in paragraph 2.15.

[1] The deduction was allowed as a special exemption against income. See section 58 of the Income Tax Act 1976.

2.23 In addition, the submission considered that a tax deduction mechanism need not result in non-filing taxpayers having to file an income tax return. For taxpayers filing a tax return, the deduction could be dealt with in that return. For taxpayers who are otherwise non-filing taxpayers, the deduction could be dealt with in the same way as the current tax rebate through a separate claim process. In effect, the taxpayer would be claiming a "tax rebate" determined by their marginal tax rate. This would generally involve a refund of tax already paid through the PAYE system.

Opposed to the deduction mechanism

2.24 Fourteen submissions opposed the deduction mechanism.

2.25 The main reasons for opposing the deduction mechanism were:

- *Inconsistent with past simplification reforms*. A tax deduction mechanism would compromise past efforts to simplify and minimise personal income tax return filing obligations in New Zealand. It could potentially result in increased compliance costs for individuals and administration costs for Inland Revenue.
- *Inequitable for people on low marginal tax rates*. It would be inconsistent with the concept of encouraging generosity within the community regardless of a person's income – that is, the tax benefit of $1 would have the same monetary value.
- *Lower donations.* Changing the claim process for charitable donations could have a negative impact on the level of donations made.

Other suggested options

2.26 Some submissions also suggested alternate options for providing tax relief for charitable donations made by individuals.

Hybrid rebate/deduction option

2.27 A rebate should apply to donations up to a certain dollar amount at a set rate. Donations in excess of that dollar amount should be eligible for tax deduction. It was suggested that any tax deductions should be unlimited or, if that was too radical, limited to the taxable income of a donor. A range of thresholds were suggested, from $3,000 to $7,500.

2.28 One submission suggested that tax deductions should be available to those who donate more than $100,000 per year through a medium similar to the prescribed private fund rules in Australia. This proposal is intended to encourage more large-scale giving from wealthy individuals, a trend seen more recently in Australia. The submission also suggested that the existing rebate threshold be increased to $3,030.

2.29 Another variation on this option was that if a deduction mechanism was implemented, donors with marginal tax rates equal to or below 29% should receive a tax rebate on their donations at the highest marginal tax rate (currently 39%). All other donors should receive a tax rebate at the lowest marginal tax rate (currently 19.5%).

Return filing option

2.30 Under this option donors should be able to claim:

- a rebate on donations at 33 1/3 percent through the existing tax rebate form if there is no obligation to file an income tax return; and
- a tax deduction for donations in their income tax return if they are required to file an income tax return. Given that higher income earners are more likely to be filing income tax returns as a result of other tax obligations such as other investments held or claiming income protection insurance, they would benefit from claiming the donation as a deduction in their returns. Also, many of these people already have existing relationships with tax agents, so their likely compliance costs would remain the same.

A family-unit based option

2.31 The donations rebate should be based on the income and donations of the family. The simplest solution would be to double the threshold amount for families. This suggestion would not be required if the donations threshold were removed.

Tax credit option

2.32 If the rebate rate were raised, consideration should be given to moving to a tax credit system. The current rebate is more akin to a "refundable tax credit".

CHAPTER 3

Tax deductions for donations by companies and Māori authorities

3.1 This chapter summarises feedback received on tax relief options relating to donating companies and Māori authorities. These options were discussed in chapter 2 of the discussion document *Tax incentives for giving to charities and other non-profit organisations*.

3.2 The options being considered for companies include:

- raising the company deduction limit – currently the limit is 5 percent of a company's net income before deducting any charitable donations; and
- extending the company deduction to close companies whose shares are not quoted on any official list of a recognised exchange.

3.3 The option being considered for Māori authorities is to raise the Māori authority deduction limit – currently the limit is 5 percent of a Māori authority's net income before deducting any charitable donations.

3.4 Views were sought on the following matters, in particular:

- Is the current 5 percent limit on donations made by companies and Māori authorities a constraint on their giving and, if so, what would be an appropriate limit to encourage further donations by companies and Māori authorities?
- If the company deduction for donations was extended to close companies not listed on a recognised stock exchange, what concerns might need to be dealt with?

Summary of feedback

3.5 A total of 133 submissions commented on the company deduction options. The general themes expressed on these options included:

- The deduction limit should be removed. Sixty nine percent of submissions (or 92 submissions) who commented on the company deduction options strongly favoured removal of the current deduction limit.
- Close companies should be eligible for the company deduction for charitable donations.
- While the deduction alone would not instantly make a company want to support a charity it sends a clear message to companies that giving to charities and other non-profit organisations is something that society supports and encourages.

- Government support is essential for encouraging greater corporate giving. For example, the UK government has shown an awareness of the need to support smaller companies by reducing compliance costs and rewarding generosity within a simplified tax structure.
- These measures are not about providing tax breaks for companies, but rather they recognise that the business sector is a huge source of giving in New Zealand.
- Some companies become "sponsors" of charities to get a more tax efficient outcome for "donations" they make to charities. These donations are made in the form of sponsorship or advertising expenditure, which is tax deductible and not subject to any deduction limit.

3.6 A total of 59 submissions commented on the Māori authority deduction option. The general themes expressed in feedback were that:

- the treatment of Māori authorities should be consistent with the tax treatment of individuals and companies and that any cap on giving should be removed. Fifty submissions strongly favoured removal of the current limit; and
- the system of tax relief for Māori authorities should be simple.

3.7 Table 4 shows the responses received on the each of the options.

Table 4

	Raise company deduction limit	**Extend company deduction to close companies**	**Raise Māori authority deduction limit**
Supported	42	88	15
Opposed	1	1	1

Option: Raise deduction limit for companies

3.8 A total of 42 submissions (32 percent) who commented on the company deduction options supported raising the limit. The majority indicated that should the removal of the limit not be possible, then the threshold should be raised.

3.9 The most common suggested rate was 10 percent.

3.10 Alternative views were that:

- the deduction should be changed to a percentage of turnover but the deduction should be disallowed if it creates a loss;

- if the government wishes to retain a limit on the deduction, the reference to "net income" should be changed because currently companies in a loss position are not allowed any level of deduction for donations;
- the limit should be the amount of the assessed and paid income tax for the previous financial year; and
- the limit should not be less than 10 percent of gross income.

3.11 One submission opposed any change in the deduction limit on the grounds that the current limit was sufficient.

Remove deduction limit

3.12 Feedback from consultation workshops strongly favoured removing the current limit (cap) on company donations to charities and other non-profit organisations. Ninety two submissions (69 percent) who commented on the company deduction options also supported removing the deduction limit. The main reasons were:

- *Consistency with overseas regimes*. Abolishing the cap would bring New Zealand into line with the United Kingdom and Australia, both of which have been successful in increasing a culture of giving. In particular, Australia has found that since removing the cap on corporate donations companies have changed the way they give – that is, providing "untagged" donations rather than specific sponsorship.
- *Income dedicated to charity should be exempt*. There is no principled reason for having a cap on the amount companies can donate and claim as a deduction. The focus should be on where the donation is going, rather than limiting the tax offset the donor can gain.
- *Deduction no different than any other*. The government should be no more concerned about misuse or abuse of this concessionary deduction, than with any other type of deduction. First and foremost, the focus should be on recognising and promoting greater contributions to charity.
- *Regulation under the Charities Act 2005 should minimise avoidance concerns*. Any compliance concerns are also mitigated by the registration rules under the Charities Act 2005. The deduction could be made available for donations to charities registered under that Act only. (If the deduction is to be available for donations to non-charitable entities, then the registration regime could be expanded to apply to those entities.)
- *Equivalence with sponsorship treatment*. Removal of the cap is required to establish a level tax playing field between the tax treatment of sponsorship payments and donations made to charities and other non-profit organisations. The availability of the concessionary tax deduction for bona fide donations to charity avoids the need to limit corporate contributions to charity to sponsorship or similar expenditure in order to achieve deductibility. Furthermore, adding back an amount that is not deductible because the company is in a loss position is

inconsistent with most accounting systems – that is, the donations would have to be separately traced outside the system to ensure they are not inadvertently claimed despite the loss.

The cost to charities and other non-profit organisations is much greater in a sponsorship funding arrangement than with philanthropic giving, both in terms of time and resources. Often a sponsor would require brand loyalty and significant promotional opportunities and sponsorship tends to benefit larger organisations rather than smaller ones. Philanthropic giving by companies should be encouraged and made easier through the tax system.

- *Equivalence with the tax treatment of trusts*. Income derived using a company structure should be able to be dedicated to charity in a tax-efficient manner, as in the case of income derived by individual taxpayers, under a tax deduction (or rebate) scheme, and income passed through trusts. For example, a trust can nominate a charity as a beneficiary and can distribute pre-tax income to that charity as beneficiary income, so that no income tax would be paid on that income (unless it is dividends received).
- *Avoid unnecessary limitations*. Natural limits and safeguards already operate, including the constitution of the company, shareholder accountability, criteria for donee organisation status and the profit motive – the need to stay in business. The current unlimited deduction for sponsorship restricts the charitable giving of companies. Removing the cap would widen the range of public benefits that can be supported by companies.

Option: Extend company deduction to close companies

3.13 A total of 88 submissions (67 percent) who commented on the company deduction options supported extending the companies deduction to close companies not listed on a recognised stock exchange. The main reasons advanced by submitters were:

- *Maximising the potential for corporate donations to charity*. Close companies are a potentially significant source of financial support for charities and other non-profit organisations given that the majority of New Zealand companies are close companies. This is an untapped area, as there are a number of wealthy individuals and family trusts that use company structures.

  Furthermore, close companies generally have strong sympathy with the communities in which they operate. Therefore, they are more likely to donate to charities closer to the shareholders' convictions – for example, helping the arts in Wanganui or establishing a women's refuge in Timaru.
- *Current exclusion is discriminatory*. There is no principled reason for treating unlisted, close companies differently. Any potential avoidance or compliance concerns are misplaced.

- *The focus should be on encouraging greater giving*. The government should be no more concerned about misuse or abuse of this concessionary deduction compared with any other type of deduction. First and foremost, the focus should be on recognising and promoting greater contributions to charity.

  An implication of the comment that close companies are not subject to the same degree of public scrutiny as public companies, is that "sweetheart" deals might be made between companies and charities enabling excessive deductions to be claimed by companies. One submission did not accept that reputable charities would enter into arrangements that enabled companies to obtain excessive deductions. The whole provision is one that was first enacted in a different era and one that reflects a paternalistic approach to the deduction of charitable donations by companies. A separate disclosure could be required in the IR 4 return to detect any tax avoidance.
- *Market regulation*. Companies are accountable to shareholders and the market should regulate the amount of deductions that are claimed by companies.

3.14 Other views expressed on this option were that:

- there should be a limit on the amount of the deduction for close companies based on net income after adding back shareholders' salaries. This would in effect raise the donation threshold as families would be able to donate as individuals as well as through their company; and
- the normal receipting procedures as required by an individual should be applied, and monitored and audited by Inland Revenue in the normal manner. Any company donations to these charities, cash, shares or employees' time, should give the company a 1:1 tax break.

3.15 One submission opposed the extension on the basis that close companies are in essence "incorporated individuals" and that it is not appropriate that such individuals gain a tax benefit (both as an individual and by way of their corporate form) that is not available to others.

Suggested option: Tax relief for non-cash gifts

3.16 A total of 16 submissions (12 percent) who commented on these options also suggested providing tax relief for non-cash items provided by companies. Specific comments were:

- companies receive frequent requests to provide surplus stock, staff time (such as through an Employee Volunteer Programme) and the use of their premises;
- companies should be given some form of financial reward (reimbursement rebate) for allowing their staff to volunteer during work hours;

- tax incentives for companies which seek to sponsor charities and other non-profit organisations should be explored; and
- any compliance concerns are also mitigated by the registration rules under the Charities Act 2005. The deduction could be made available for donations to charities registered under that Act only. If the deduction is to be available for donations to non-charitable entities, then the registration rules could be expanded to apply to those entities.

Option: Raise deduction limit for Māori authorities

3.17 A total of 15 submissions (25 percent) who commented on the Māori authority deduction option supported raising the deduction limit. The most common suggested rate was 10 percent.

3.18 One submission opposed any change in the deduction limit but no discernible reason was given.

Remove deduction limit

3.19 A total of 50 submissions (85 percent) who commented on this option would support removal of the company deduction limit.

CHAPTER 4

Recognising the contribution of volunteers

4.1 This chapter summarises the feedback received on the volunteers' rebate and the alternative option of a grant, which were discussed in chapter 3 of the discussion document *Tax incentives for giving to charities and other non-profit organisations*.

4.2 In recognising the vital contribution that volunteers make to New Zealand society, the government sought feedback on the desirability of introducing a tax rebate for individuals who donate their time to charities, in recognition of the value of the time they donate (the volunteers' rebate).

4.3 Volunteers would be eligible for the rebate if they give their time to a charity registered with the Charities Commission.[2] Volunteers would be able to claim the rebate provided they have a declaration certificate (such as a receipt) from the registered charity to which they have volunteered their time. The declaration certificate would show the number of hours volunteered.

4.4 Like the current tax rebate, the volunteers' rebate would be subject to limitations. The number of hours a volunteer could claim for the tax rebate would be capped and a nominal hourly rate would be set. The hourly rate would be the same for every volunteer rather than based on factors such as individual expertise.

4.5 The declaration certificate would be used by a volunteer to claim the rebate through the current donations claim process. Like the donations rebate, a volunteers' rebate would be available only if the volunteer had derived a certain amount of taxable income for the year.

4.6 Instead of providing a rebate to recognise the value of volunteers' time, the government could direct the funds to charitable organisations. Grants could be made on the same basis as the volunteers' rebate – that is, based on the number of volunteers in the organisation and the number of hours volunteered, with a cap on the number of hours eligible for the rebate. Alternatively, grants could be given to selected charities that have a high level of volunteering.

4.7 The key difference between providing grants and providing a tax rebate is that government funds would be directed to charities instead of volunteers.

4.8 Feedback was sought on the following matters, in particular:

- Should a rebate for recognising volunteers' time be adopted, even though the rebate may be viewed as inconsistent with the notion of volunteering?

[2] The registration requirements for charities are set out in annex B.

- If it were adopted, what should the *nominal hourly rate* be and how should it be set?
- Likewise, what should be the *limit on the number of hours* in a year and how should it be set?
- Should the rebate *form part* of the current donation rebate or be *in addition to* the current donation tax rebate for individuals?
- Should the rebate be *limited to volunteers who give their time to charities* that are registered with the Charities Commission only?
- Should the rebate be *limited to specific activities* and, if so, what activities should be covered?
- Would a *grant system be a better alternative* to the volunteers' rebate?

Summary of feedback

4.9 A total of 173 submissions commented on the volunteers' rebate and the grant mechanism. A large number of these submitters neither supported nor opposed the rebate but raised concerns about it. Table 5 illustrates the responses to the options presented.

Table 5

	Volunteers' rebate	Grant option
Support	45	56
Opposed	50	15

4.10 The vast majority of submissions supported some form of acknowledgement of the contribution that volunteers make. Recognising the contribution of volunteers would have a positive impact on the services that can be provided to the community.

4.11 The volunteers' rebate was generally viewed as a noble idea that sends a clear message that involvement in the community is a valued part of our culture. However, there were numerous concerns raised.

4.12 There is strong feeling among voluntary organisations that the rebate for volunteers' time would be so small an amount as to be inadequate or possibly offensive, administratively burdensome, potentially inequitable and, some felt, out of step with the spirit of volunteering. These organisations preferred the grant mechanism over the volunteers' rebate as a way of recognising volunteers' time.

Option: Volunteers' rebate

Support for the volunteers' rebate

4.13 A total of 45 submissions (26 percent) who commented on the volunteers' rebate supported the option.

4.14 The main reasons advanced were:

- The social value of donated time is just as important as the social value of cash donated.
- It is a practical way to recognise the vital and tangible difference that volunteers make to the charitable, community and voluntary sectors.
- It would remove barriers to volunteering for some people and help encourage voluntary activity among people who do not currently participate.

Nominal hourly rate

4.15 A total of 22 submissions (13 percent) who commented on the volunteers' rebate answered the question of what the nominal hourly rate should be set at. These responses are shown in Table 6.

Table 6

	Minimum hourly wage rate	**Low or $5**	**More than $10**	**Other**
Comment	9	9	1	3

Annual limit on rebateable hours

4.16 A total of 25 submissions (14 percent) who commented on the volunteers' rebate answered the question of what and how the limit on the number of hours in a year should be. The suggested annual limits ranged from 416 hours to no limit. The responses are shown in Table 7.

Table 7

	52 hours too low	**52 hours**	**More than 100**	**No limit**
Comment	1	7	14	3

Minimum level of hours

4.17 A total of 8 submissions (5 percent) considered that there should be a minimum number of hours per year that should be receipted before the volunteer is eligible for the rebate. The main reasons given were that there is a minimum amount for cash donations and such a measure would reduce compliance costs for organisations required to verify voluntary time.

Accumulation of voluntary hours

4.18 One submission considered that it should be possible for voluntary hours to be accumulated if volunteers serve more than one organisation.

Separate rebate

4.19 A total of 20 submissions (11 percent) answered the question of whether the rebate should form part of the current rebate rules or be in addition to the current rebate. The vast majority of responses were that the rebate should be separate as it relates principally to acknowledging the giving of personal time rather than financial support and, in some cases, would be in addition to existing financial donations.

4.20 It was also considered that the volunteers' rebate and the cash donations rebate should be claimed on the same return, which would avoid an increase in Inland Revenue paperwork, handling returns and refunds.

4.21 One submission considered that the volunteers' rebate should form part of the current donation rebate. No reason was given for this view.

Limit to volunteers serving charities

4.22 A total of 39 submissions (22 percent) answered the question of whether the rebate should be limited to volunteers who give their time to charities that are registered with the Charities Commission only.

4.23 Eighteen submissions agreed that the volunteers' rebate should be limited to registered charities for ease of administration. Their view was that the charities registration requirement is appropriate as registered charities will be required track volunteers' hours anyway so their record-keeping should be more accurate than other organisations.

4.24 Twenty-one submissions disagreed with the restriction for reasons of consistency and equity. There are many groups that rely on volunteers, but might not currently be charities, and may be unable to be registered as charities by the Charities Commission. Careful consideration should be given to aligning the rebate for volunteers' time to the rebate for cash donations, so that rebates would be available to donors and volunteers and to a common range of qualifying organisations. Furthermore, the proposed restriction increases the incentive for organisations to register with the Charities Commission, where they otherwise would have no need to register. Increasing registration numbers would also affect the Charities Commission's operations and resourcing requirements.

Limit rebate to specific activities

4.25 A total of 18 submissions (10 percent) answered the question of whether the rebate should be limited to specific activities and, if so, what activities should be covered.

4.26 One submission considered the rebate should be limited to individuals carrying out the duties of President/Chairperson, Secretary and Treasurer of a donee organisation. Finding volunteers with the skills to carry out these duties is frequently very difficult. Some form of tax incentive might provide encouragement, particularly to people on lower incomes. People on higher incomes could choose to donate the tax saving to the organisation. The donee organisation could provide a certificate to the taxpayer to file with his or her return for verification purposes.

4.27 Another submission considered that the rebate should be limited to fundraising, office administration and social assistance activities only.

4.28 Sixteen submissions opposed limiting the rebate to specific activities on the basis that it would favour certain activities over others, creating a distortion in volunteering towards the more favoured activities.

Opposed to the volunteers' rebate

4.29 A total of 50 submissions (29 percent) that commented on the volunteers' rebate option opposed the rebate.

Concerns with the volunteers' rebate

4.30 A total of 92 submissions (53 percent) raised concerns with the volunteers' rebate. These concerns were:

- *Further consideration and separate review*. The rebate should be the subject of a separate review so more time could be devoted to developing and considering the options further.
- *Inconsistent with the notion of volunteerism*. "Volunteering is an activity that is undertaken by one's own free will, choice or cultural obligation, unpaid, for the betterment of the common good". The rebate was viewed as downgrading volunteerism and inconsistent with the altruistic nature of most volunteers. There was also concern that the volunteers' rebate would change the basis of volunteering from "community service" to one "for revenue". This would have a profound effect on the charitable sector and should be approached very cautiously.
- *Unfair*. The requirement to register with the Charities Commission would mean that many volunteers who give their time to organisations such as Meals on Wheels or the Fire Service would be excluded and therefore not qualify for the rebate. So too would those who volunteer their time informally, such as helping out elderly neighbours. It is essential that there is both clarity and uniformity in the tax treatment of volunteer work and equal recognition and support for those who volunteer, regardless of the way they do so.

  It was suggested that the rebate should be given to volunteers of those organisations that have donee organisation status. The eligibility criteria should be weighted towards public or community benefit and enable groups of entities that have common rules of association and purpose to be registered collectively.

  For example, it is estimated that there are approximately 500,000 volunteers in the sport and recreation sector in New Zealand. These volunteers would likely be ineligible, depending on whether the sport organisation was a registered charity.

- *Administratively burdensome.* The rebate would impose significant compliance costs on registered charities as they would be required to record, verify and document the hours given by their volunteers. There could be circumstances where it is difficult to distinguish between participation and volunteering – for example, a person may attend a meeting out of interest, but also make an intellectual contribution in the form of information or advice that contributes to the outcome of the meeting. This is particularly true for kaumatua, who attend many hui.

  The administration of the rebate would adversely affect smaller voluntary organisations. For example, one submission noted that it could have more than 500 people contributing different amounts of time and energy to a particular project. Keeping a list of who and how many hours they worked would be a huge extra load on an organisation's administrator(s). Compliance costs would outweigh the benefits.

- *Creates a low-paid workforce.* The rebate blurs the distinction between paid work and volunteering. A rebate is a kind of payment for voluntary work, and is contrary to the idea of volunteerism. One submission asked whether charities would have to treat volunteers as employees for certain purposes such as the payment of ACC levies.

- *Potential for abuse.* The rebate could be open to corruption or abuse and could be hard to monitor and corroborate information on volunteers' hours.

- *No income.* The volunteers' rebate discriminates against volunteers who do not have income. Volunteering is a common means of giving for those who have little or no income. It would be disingenuous and discriminatory to recognise only the efforts of those who are taxable.

4.31 Other relevant comments on the volunteers rebate included:

- The rebate seems to be a payment for "inputs" rather than the expected "outputs" required by government.
- Many volunteers are reluctant to give accurate measures of time spent on their volunteer work, as they see it as downgrading the spirit of generosity.
- The rebate is unlikely to increase the time, in aggregate, that volunteers contribute and would be an inappropriate application of government revenue.
- Treasurers (and other officers) of charitable entities should be protected from liability in relation to any certificate they provide. One submission suggested that there be an exclusion of liability for an officer that relies on a certificate provided by the volunteer himself or herself.
- There is a need to ensure that recognition of volunteers' contribution to charities and other non-profit organisations do not generate additional compliance costs. There should be some financial support from government to cover operational aspects of reporting.

- The benefit of the volunteers' rebate rests with the volunteer and not the charity or non-profit organisation.

Option: A grant

4.32 A total of 22 submissions (13 percent) that commented on the volunteers' rebate specifically stated that the provision of a grant to the organisation itself would be a better alternative to the volunteers' rebate. Two submissions disagreed.

Support for the grant option

4.33 A total of 56 submissions (32 percent) that commented on the volunteers' rebate preferred a grant option over the volunteers' rebate. The main reasons for supporting a grant were:

- A grant would allow organisations more flexibility and creativity in how they recompensed or reimbursed volunteers. It would be a positive step away from paying them for their time towards rewarding them for their efforts.
- Providing grants to the organisations would be consistent with the notion of volunteerism.
- The grant model used in the United Kingdom provides non-profit organisations with small grants to cover the costs incurred by volunteers and the host organisations. It is a simple method that ensures volunteering is not costly to anyone involved. This model could offer useful support to the community and voluntary sector in New Zealand.
- The grant should be dedicated to covering the costs of supporting and valuing an organisation's volunteers.
- The grant would involve lower compliance costs than a volunteers' rebate. Grant applications should account for money received in the previous period. Random audits, with penalties for abuse, might be necessary to ensure compliance. The grant option would address several limitations associated with the volunteers' rebate.

4.34 Other comments on the grant option were:

- Grant recipients should be able to use the grant for any purpose they choose.
- A portion of the grant should be dedicated to specified purposes such as to reimburse the costs of volunteers.
- A discretionary fund should be established to offer grants to those organisations not registered with the Charities Commission.

- The grant should be set at a low level so that charities and other non-profit organisations do not rely on the grant as their main source of income. The grant should also be capped – it was suggested that for a local organisation the grant should be capped at $10,000 and for national organisations $25,000.
- The grant system should be added to an existing funding scheme, such as COGS.
- The definition of "volunteer" might be problematic.
- The grant should be generous enough to justify the costs involved in complying with the grant system.
- The proposal to base the grant amount on the number of volunteers serving a particular organisation and the number of hours volunteered is reasonable but it also should take account of the type of voluntary activity. Some involve greater travel and other costs. Such a consideration would ensure that resources are directed to where they are needed and makes organisations accountable for their activities and any volunteers they work with to deliver them. One submission suggested that an average cap of 200 hours per volunteer should be used to compute the grant.
- Administration of the grant should be streamlined, simple and accessible.

Opposed to the grant option

4.35 A total of 15 submissions (9 percent) who commented on the volunteers' rebate opposed the grant mechanism. The main reasons were:

- The grant would reward the charity rather than the individual volunteer. It would not provide an incentive for people to participate in voluntary work.
- The charity or voluntary organisation would be making their own submission on volunteers' time to receive a direct benefit which could be open to misuse.
- There could be potential ethical dilemmas if charities actively sought volunteers to replace paid staff.
- The grant would change the basic fundamentals of volunteering and could result in compliance costs for organisations and administration costs for Inland Revenue
- The grant would too closely tie the charitable sector to government; it would create "golden handcuffs" constraining the government and the sector.

Other ways of recognising volunteers' contribution

4.36 Submitters put forward other ways of recognising volunteers' contribution, including:

Tax deduction for a volunteers' time

4.37 A tax deduction for a volunteer's time, rather than a rebate should be adopted. The amount of the deduction should be calculated using the average hourly wage rate. The deduction should be in addition to the current rebate for cash donations.

Charities (voluntary time) rebate

4.38 One submission suggested that charities should be paid a "rebate" based on a percentage of their certified/audited operational expenses.

4.39 Another submission suggested that such a rebate could be claimed by the charity, with an individual limit, similar to the individual tax rebate, per volunteer. The volunteer and the charity would verify the amount through a form filed by the organisation. The rebate would be taxable in the hands of the charity.

Recognise volunteer expenses as a rebate

4.40 If expenses are incurred in volunteering and these are not refunded to the volunteer, they should be counted as part of the volunteers' rebate. Such a rebate could have an upper cap of say $260, applied where a volunteer made a commitment for a full year and attended training, meetings or delivery of volunteer services on a minimum of 26 occasions during a year.

Student loans rebate

4.41 Eight submissions suggested that voluntary work should be able to be offset against a person's student loan balance. While there may be compliance costs, the measure would provide students with valuable work experience, assisting them towards securing employment and an understanding of the nature of charitable organisations and the work they do. One submitter runs an internship programme which promotes the concept of students spending time assisting with submitter's work during their study year. Students usually give one or two days a week to undertake specific projects and tasks in the submitter's office or at events.

4.42 An extension to the student loan idea would be to permit registered charities to enter into contractual arrangements with students who have student loans. This would equate to a job equivalent of a contracted sum that would effectively reduce the size of the loan by the amount of the contracted sum. For example, four weeks of physiotherapist work at $12.50 per hour for 37.5 hours per week would reduce the physiotherapist's student loan by $1,875.

Rebate for annual leave taken for voluntary activities

4.43 Three submissions suggested that people who use their annual leave to undertake voluntary activities should be eligible for some form of tax incentive – for example, by allowing a tax deduction equal to the monetary value of the annual leave in the tax calculations of volunteer employees.

4.44 The records required to support this tax incentive would be kept by the volunteer and provided in the event that they were to undergo an Inland Revenue audit of their annual tax calculation. Volunteers would need to keep sufficient details of the organisation they volunteered with, the work carried out and would need to submit a claim to Inland Revenue to have the deduction included in their annual tax calculations.

4.45 As with any benefit granted through the tax system, there is a risk that some participants would take advantage of the system. However, there are natural limitations on employers granting excessive leave to fund volunteer work: labour is in short supply.

Community leave

4.46 This option would give employees paid leave to volunteer their services to a non-profit organisation.

Rebate for employers who allow volunteers time off work on pay

4.47 Under this option an employer rebate would be provided to employers who release their employees on full pay to deliver volunteer services or undergo volunteer training. The rebate could be calculated on an hourly rate and have an upper cap.

Recognise volunteer training and study as a tax rebate

4.48 Tax incentives should be available to the volunteers who undertake training programmes and study towards NZQA programmes. This measure would encourage continued education in the field as well as making the volunteers feel supported and valued in their roles.

Overseas volunteer schemes

4.49 Recognition and encouragement of volunteers should not be limited to financial reforms only. Volunteering is recognised as an excellent pathway to new skills and employment and programmes supported by the government are a way to ensure the ongoing wellbeing of the economy as well as that of the voluntary sector. Programmes such as Austria's *Volunteer Passport scheme* or the UK's *Millennium Challenge* are simple, yet successful models which New Zealand could consider adopting.

GST

4.50 Volunteers should be able to claim tax and GST deductions against their overall income in a similar way to any self-employed person.

Income support

4.51 Volunteers that work with and on behalf of charities delivering services and carrying out assignments that under normal circumstances would involve paid staff should receive a fixed allowance in keeping with existing provisions applying to recipients of income support.

CHAPTER 5

Reimbursement payments to volunteers and honoraria recipients

5.1 This chapter summarises feedback on the options for simplifying the tax obligations for people who receive reimbursement payments and honoraria. These options were discussed in chapter 3 of the discussion document *Tax incentives for giving to charities and other non-profit organisations*.

5.2 The discussion document indicated that the government is already reviewing the tax treatment of reimbursement payments to volunteers and people who receive honoraria from charitable organisations. The feedback received here will form part of that review.

5.3 The options being considered are:

- To allow the payer of honoraria to determine what amounts should be exempt from tax – in other words, the amount of income that the recipient would be able to claim as a tax deduction.
- To exempt from income tax reimbursement payments below a specified threshold. Volunteers who receive reimbursement payments below the threshold would not have to file income tax returns in respect of those payments. Reimbursement payments over the set amount would be subject to the current tax rules as to whether they constitute income and, if so, how much of the income would be taxable. In that case, it would be necessary for a volunteer to file an income tax return and produce evidence of amounts claimed as deductions. Tax would be payable when there was an element of "profit".

5.4 Views were sought on the following matters, in particular:

- Should honoraria payments up to a certain level be treated as exempt income and what would be an appropriate threshold level?
- What should be the set amount under which reimbursement payments to volunteers are considered exempt income?
- Should volunteers who receive reimbursement payments over the set amount be required to file an income tax return for the total amount, or only for that part that is over the set amount?

Summary of feedback on the options

5.5 A total of 104 submissions commented on the options relating to the tax treatment of reimbursement payments to volunteers and honoraria recipients. These options also attracted considerable attention at all of the consultation workshops. Table 8 shows the breakdown of support for these options.

Table 8

	Honoraria	Reimbursement payments
Supported	50	23
Opposed	9	28

5.6 The tax treatment of honoraria and reimbursement payments for volunteer expenses is a significant issue for the voluntary sector. The difficulty in applying a correct tax treatment in this area is a major concern to many people in the sector. It came as a surprise to many in the consultation workshops to learn that if volunteers were to follow the law, they would be declaring reimbursement payments as income with offsetting expenses in a tax return.

5.7 The feedback called for the government to take urgent action on this matter to ensure that the legal framework and requirements are clarified and simplified.

5.8 The current uncertainty of tax treatment and the costs of complying correctly with the law are potential disincentives for volunteering.

5.9 The review of this area of tax law was considered long overdue. Many organisations are currently unwittingly breaking the law, or putting volunteers in the position of breaking the law, if they do not realise that expense payments and honoraria must be declared as income and receipts provided for expenses.

5.10 One of the main points raised in feedback was that volunteers should not be out-of-pocket for giving their time and expertise. Out-of-pocket expenses of volunteers should be tax-free (no returns and no receipts would be required). This treatment would be consistent with the tax treatment of community taskforce allowances.

5.11 Several submissions considered that a legislative amendment is the best way to achieve a result which is clear for organisations and the volunteers concerned.

5.12 Some submissions specifically questioned Inland Revenue's interpretation of the current law relating to reimbursement payments to volunteers. They considered that a reimbursing payment is not income at law on the basis that it does not have the quality of income in the hands of the recipient.

Option: Honoraria

Support for the option

5.13 Fifty submissions supported this option.

5.14 Twenty-one submissions specified a threshold level. These amounts varied widely. The most commonly suggested thresholds were between $500 and $5,000. Other suggested thresholds were:

- $25 per meeting per trustee;
- $500 per year for local organisations and $5,000 for national organisations;
- $500 and amounts in excess of that threshold should be subject to PAYE;
- $5,000 taxed at 19 percent as a final tax;
- Payment by way of honoraria or some similar upper limit but that should be set at a realistic level.

Opposed to the option

5.15 Nine submissions opposed this option on the basis that:

- honoraria should be subject to withholding tax to reflect the fact that such payments are being made for services without the normal fee being charged. These payments are in the nature of income, albeit at a reduced rate and, therefore, should be subject to withholding tax;
- honoraria should be tax-exempt; and
- taxpayers should not have to file a return if the honorarium is below a certain level. Any excess should be declared in a tax return but only if tax has been deducted at source at the incorrect rate. Taxpayers could choose to voluntarily file a tax return if they wish to claim for their expenses. It should not be the responsibility of the payer to assess whether the payment should be exempt from tax.

5.16 It is also noted that some submissions who commented on the options in this chapter considered that honoraria should be tax-exempt. These submitters, however, did not specifically indicate their view on the honoraria option.

Other comments

5.17 Other relevant comments on this option included:

- Some organisations have received tax determinations that allow their volunteers (such as school boards of trustees) to not declare expenses and honoraria payments under certain amounts. It is suggested that such a ruling should be applied universally to volunteers, to simplify processes and avoid volunteers unwittingly breaking the law.
- Honoraria for substantiated expenses paid to volunteers should be excluded from their taxable income. Each organisation should be allowed to deal with the level of reimbursement and the level of substantiating detail required, under their constitution. It should not be the subject of legislation.

- Honoraria recipients incur considerable compliance costs as they are required to lodge income tax returns. This acts as a disincentive for volunteers to be reimbursed for their expenses.
- There should be a reduction in the withholding tax deducted from honoraria.
- There is a current compliance issue with the tax declaration form IR 330.
- Withholding tax should be deducted from the net amount – honorarium less expenses.
- The wording of the provision in the Income Tax (Withholding Payments) Regulation 1979 applying to honoraria, should be amended to ensure that it only applies to work done or services rendered and not reimbursement of costs. The current Inland Revenue treatment of travel from one job to another should be amended, as currently, travel between two places of work is not deductible unless both places of work relate to the same job and the job requires that travel.

Option: Other reimbursement payments

Support for the reimbursement payment option

5.18 Twenty-three submissions supported setting an amount under which reimbursement payments to volunteers should be considered exempt income. They considered that the amount should be reasonably substantial to minimise compliance costs for volunteers.

5.19 The most commonly suggested threshold amounts were between $250 and $5,000. Other suggested thresholds were:

- a minimum hourly rate multiplied by 10 or 20 hours per week;
- a cap on local organisations of $500 per year and national organisations $2,000, with no requirement to provide proof of expenses;
- $10 per day – the cost of a return public transport fare and a lunch if a person lives a short distance from the locality of the charity is easily more then $10;
- mileage reimbursement – 62 cents per km or the AA published mileage rates; meals – breakfast at $20, lunch at $15, and dinner at $35; accommodation – reasonable and actual up to a maximum of $100 per night unless paid directly by the volunteer's agency;
- same level as the unemployment benefit.

Declaring any amounts over the set amount in tax return

5.20 Two submissions considered that consistent with recent tax simplification reforms individuals should not be required to file tax returns unless their reimbursement payments exceed the set amount. One submission considered that a separate return should be used for amounts over the threshold and such amounts should be subject to a standard rate of tax (33% or 19.5%). This approach would avoid the need for more taxpayers to complete IR3 returns.

Opposed to the reimbursement payment option

5.21 Twenty-eight submissions considered that reimbursements of direct costs (out-of-pocket expenses) incurred or necessarily incurred in the course of volunteering activities, on behalf of the organisation, and if properly receipted, should be exempt from tax.

5.22 Six submitters considered that if reimbursement payments to volunteers were exempt, there would be no need to return such income. However, this would not undermine Inland Revenue's ability to monitor the application of the exemption, by investigating or auditing charities who make these payments.

5.23 One submission specifically stated that reimbursement payments that relate to time should be included in a person's income tax return as "taxable income".

Other comments

5.24 Other relevant comments on this option included:

- Payments in the nature of a reimbursement for costs incurred on behalf of a charity or voluntary organisation should be exempt from tax on the basis that they are not in the nature of income. If the payment merely reimburses an individual for costs incurred on behalf of the organisation it does not confer an additional benefit on the individual and no PAYE or withholding tax obligation should arise. In contrast, however, payments to individuals over and above what is a reasonable reimbursement for costs incurred on behalf of the charity should be subject to the withholding tax rules.
- Volunteers should always be able to be reimbursed tax free for reasonable and actual out-of-pocket expenses, such as travel and child care, provided that documentation is received and kept by the charity to support the payment. They should not be required to complete a tax return solely for this purpose. A clear tax ruling should be made to clarify this issue for charities and volunteers.
- Reimbursement payments to volunteers should be treated as exempt income, in the same manner as employee reimbursements. The exemption should be based on the income tax exemption for expenditure on account, and reimbursement, for employees under section CW 13 of the Income Tax Act 2004. The exemption proposal could apply to volunteers serving registered charities only. This would mitigate any compliance concerns with the exemption. If the exemption were available for payments made by non-charitable entities, then the charities registration rules could be expanded to apply to those entities.
- The necessary legislative changes should be made at the earliest opportunity.

Other suggested options

5.25 A better way to recognise volunteers would be to allow a reimbursement of up to $10 a day for travel and other expenses without this becoming taxable income and without a requirement for proof of expenditure. For example, a person who spends $3.80 on bus fares in a situation where the organisation has a travel compensation of $4 or a person who drives to the volunteering placement but has difficulty demonstrating proof of payment about how much petrol was used. Instituting a reimbursement level which was non-taxable would be a tangible recognition of volunteers' contribution

5.26 Volunteers should be able to claim volunteering expenses that have not been reimbursed by the charity or voluntary organisation, in their tax return. This submission is made on the basis that many organisations cannot refund all volunteer expenses.

CHAPTER 6

Tax incentives used in other countries

6.1 This chapter summarises feedback received on the following options:

- United Kingdom's gift aid scheme;
- payroll giving;
- tax relief for non-cash donations; and
- Australia's prescribed private funds regime.

6.2 Feedback was sought on whether the government should undertake further investigation of these options and their suitability in the New Zealand environment.

Summary of feedback on the options

6.3 Table 9 shows the responses received on the options covered in this chapter.

Table 9

	United Kingdom's Gift aid scheme	**Payroll giving**	**Tax relief for non-cash donations**	**Australia's prescribed private funds**
Supported	59	95	81	32
Opposed	8	7	2	3

Option: United Kingdom's gift aid scheme

6.4 Under the United Kingdom's gift aid scheme the tax paid by the donor on the amount donated can be reclaimed by a registered charity if the donor has provided the charity with a gift aid declaration and the charity can establish an audit trail.

6.5 The amount of the tax that can be claimed back depends on the amount of tax that has been deducted from the income on which a charity is claiming. To reclaim the tax, the charity returns a schedule for each income year listing the donors, the dates of the donations and the amounts donated. The tax to be reclaimed is calculated on the total amount donated and is at the basic tax rate, which is 22%. This means that a donation of £10 made under the scheme would be worth £12.82 to the charity. (The amount of tax that may be reclaimed is 22/78 multiplied by the dollar value of the donation. In the example, the tax to reclaim would be equal to £2.82.)

6.6 Donors who pay tax at a rate higher than the basic rate can claim the difference between the higher rate and the basic rate, not claimed by the charity through their own tax return. Since April 2004, donors have been able to give the difference between the higher rate and basic rate directly to a charity, which means that the original donation could be worth even more to the charity.

6.7 There is no limit on the donations that may be claimed or the tax that may be reclaimed by the charity.

6.8 Views were sought on whether the United Kingdom's gift aid scheme would be more effective than the existing mechanisms for delivering tax relief on charitable donations.

Support for further consideration

6.9 Fifty-nine submissions supported further investigation of the gift aid scheme. The main reasons advanced were:

- An innovative idea, worthy of further consideration.
- Since its inception in 1990, gift aid has been the fastest growing tax effective scheme in the United Kingdom, causing the government to remove the minimum limit for gifts, simplify the paperwork required and make it accessible by phone and internet. Gift aid donations now account for one-third of total giving to charity and in 2004–2005 the total gross amount going to charities via this scheme was £2.8 billion.
- International literature overwhelmingly asserts a strong correlation between the "price" of giving and the level of generosity. By lowering the price of donations through gift aid, the UK government has been extremely successful in increasing generosity. Such success has led to the extension of the gift aid programme to include those means of income for charitable organisations not traditionally perceived of as pure "gifts", such as entry fees to heritage sites, museums and zoos.
- The scheme would reduce compliance costs for donors and empower them in their giving, and result in direct tangible receipts to charitable organisations.
- It would also address the growing trend for people not claiming the rebate because of the administrative difficulty in doing so (for example, obtaining and keeping receipts and filing a separate claim form)
- This scheme could address the inequity for high-rate taxpayers by providing donors who pay a higher tax rate the option to claim the difference between the net rebate rate and their ambient tax rate.

Further comment on the gift aid scheme

6.10 Submissions also raised the following matters:

- Paying the tax benefit of the donation to the charity should be the donor's choice. Alternatively, the donor should be required to opt out of the scheme – that is, the donor must request the refund otherwise it goes directly to the charitable organisation.
- Placing the onus on charitable organisations to claim the tax benefit of the donation would mean greater compliance costs for these organisations, but there is a tangible return for this.
- This scheme would require charitable organisations to collect the IRD numbers of donors but many donors would not be willing to provide their IRD numbers.
- A major factor to be considered with the implementation of such a scheme would be the additional fiscal cost for the government.
- This scheme could only operate as an alternative to the donation rebate.
- The scheme would need to use a 33 1/3 rate with no cap.
- Strong promotion of the scheme would be required.
- Consideration should be given to an entry-level threshold.

Would the gift aid scheme be more effective?

6.11 Thirteen submissions considered that the gift aid scheme would be more effective in encouraging greater giving than the existing rebate system or the other tax incentives raised in the discussion document.

Opposed to a gift aid scheme

6.12 Eight submissions opposed the introduction of a gift aid scheme. These submitters favoured retention of the existing rebate system for simplicity and compliance reasons.

Option: Payroll giving

6.13 This scheme would be available to any employee who pays income tax through the PAYE system and who chooses to make charitable gifts through an employer-operated payroll system. The employer deducts the amount of the gift from the employee's salary before deducting tax. The payment is usually passed on to an approved payroll giving agency, which forwards the money to the chosen charity.

6.14 In the countries where a pre-tax payroll giving scheme has been employed there is no limit on the level of donation that can be made for which tax relief may be claimed under this scheme other than the amount of taxable income derived by the donor.

6.15 A pre-tax payroll giving scheme is a simple and convenient way for employees to make regular donations through their pay. Donors receive the tax benefit immediately and do not have to wait until the end of the financial year to claim. The recipient organisation benefits from certainty of donations being received on a regular basis and lower administration costs.

6.16 Views were sought on whether payroll giving would provide a better mechanism for promoting charitable giving in New Zealand.

Support further consideration

6.17 Ninety five submissions supported further investigation of a pre-tax payroll giving scheme. The main reasons included:

- Payroll giving is a significant development and worthy of further consideration.
- Payroll giving is one of the most democratic and simple ways for people to give and offers one of the best solutions to the question of how to provide charities and other non-profit organisations with a sustainable source of "untagged" income. Although a handful of New Zealand companies have entered into payroll giving relationships directly with charities, such programmes are in their infancy here and lack the kind of infrastructure required for their support and encouragement.
- A key way in which to increase generosity is to make the donor's opportunity to give as simple and convenient as possible. Payroll giving offers this.
- Payroll giving far outweighs traditional forms of giving terms of efficiency for both the individual donor and the recipient charities. In 2005, payroll giving in Australia alone accounted for almost $11 million of extra income to charities, with the total pool growing at between $1 million and $2 million a year. In the United Kingdom it is estimated that payroll giving has increased as a result of the UK government's "corporate challenge" from £55 million to £86 million.
- Payroll giving would have the benefit of normalising the practice of giving among people who have not seen it as their responsibility until now.

6.18 One submission supported the introduction of a form of payroll giving scheme referred to as "KiwiDonor" for employees, which would allow employees to sacrifice salary (pre-tax income) for contributions to charity. The submission identified the following key issues:

- *Benefits of the scheme:* The principal benefits of a payroll giving scheme would be equivalent to those provided under a tax deduction (or rebate) regime, as discussed above. The added benefit of such a scheme is that it would provide a simple and structured mechanism for employees to make regular contributions to charity. The tax effect is also immediate because tax is not imposed at all on income dedicated to charity, and donations do not need to be paid and then claimed back by the donor.

- *Additional, not alternative:* A payroll giving scheme should be facilitated in addition to tax deductions (or tax rebates) for individuals making donations to charity, not as an alternative. However, if considered necessary, the amount of salary sacrifice and deductible (or "rebateable") donations could be aggregated for the purpose of applying any overall cap on tax relief for monetary contributions to charity.
- *Compatibility with tax deduction rules:* A payroll giving scheme would be compatible with tax deduction rules. Apart from the timing of tax relief, the tax effect of allowing employees to sacrifice salary for contributions to charity would effectively be the same as allowing that person a tax deduction against their income.
- *Administration:* The administration costs would not be prohibitive; the current payroll system should readily facilitate the introduction of a payroll giving scheme. If an employee wishes to contribute to one or two charities, it would be simple enough for payment directions to be made.
- *Synergies with KiwiSaver:* There could be synergies with the new KiwiSaver scheme to be offered by employers. The salary sacrifice scheme might even be conveniently marketed along the lines of KiwiSaver, for example as a "KiwiDonor" scheme.

Further comment on a pre-tax payroll giving

6.19 Submissions also raised the following matters:

- A cap on the donations rebate would complicate the effectiveness of payroll giving in New Zealand. For example, it is not clear how employers would be expected to track employee's levels of giving to ensure that the threshold was not exceeded. The infrastructure implemented with the introduction of KiwiSaver could also be used to support payroll giving in New Zealand. To be effective there should be no cap on donations eligible for tax relief.
- While it could mean compliance costs for employers this cost would likely only be the establishment cost. If this option were implemented the government should make a contribution towards the employer's establishment costs.
- There could be complications if a donor worked for multiple employers.
- It might be difficult for smaller less well known, charities to receive donations from workplace giving.
- Organisations seeking to operate a payroll giving scheme should have a minimum number of employees.
- There should be some incentive for employers to offer workplace giving to their employees.

- The use of an intermediary agency or clearing house would add security and transparency to the process. Inland Revenue could act as the "payroll giving agency".
- Employers could be encouraged by charities to match or top up donations from employees.
- Payroll giving should be additional to, and not replace the current rebate for individuals.
- Assuming a rebate threshold remains in New Zealand, donations made through payroll giving would be required to be taken out of post-tax income in a similar manner to social club subscriptions, healthcare premiums and superannuation contributions. The existence of a rebate threshold should not operate as an impediment to the introduction of payroll giving.
- It is critical that some investment is made by the government even if it is to create an infrastructure that the companies and charities can use if they decided to enter such a relationship.
- It is more acceptable to follow the model employed in Australia rather than the United Kingdom. The Australian model is simpler in its structure and more palatable to New Zealand citizens with philanthropic ideas.

Would payroll giving be a better mechanism?

6.20 Forty submissions agreed that payroll giving would provide a better mechanism for promoting charitable giving in New Zealand. Payroll giving was considered:

- administratively simple for both donors and charitable organisations;
- a safe and efficient way for employees to donate and engage with their local community;
- a co-ordinated response to numerous unsolicited fundraising calls; and
- a stable source of funding that is free of administrative and fundraising costs.

Opposed to payroll giving

6.21 Seven submissions opposed the introduction of payroll giving because:

- the act of giving should be a conscious decision reaffirmed every time a gift is made; and
- it would add to the compliance costs for employers.

Option: Tax relief for non-cash donations

6.22 Some countries offer tax relief for non-cash donations. In general, an amount equal to the market value of the non-cash donations (plus miscellaneous costs) is permitted as a deduction against the donor's gross income.

6.23 Views were sought on whether it would be a good idea to allow non-cash donations to be deductible for tax purposes.

Support further consideration

6.24 Eighty-one submissions supported further investigation of tax relief for non-cash donations. The main reasons advanced included:

- There are three scenarios where the ability to claim a deduction for non-cash donations would be very favourable:
  - the donor might not have any readily available cash;
  - the donor might not be in a financial position to give cash; and
  - the donor might be able to create something of particular value to the charity.
- Businesses would make greater contributions to charitable organisations if gifts in kind were eligible for tax relief.
- Overseas experience suggests that valuations of non-cash donations such as land, shares and equipment can be undertaken. One submission considered it would not be difficult to find experts who are competent in valuing non-cash assets. When estate duty was payable in New Zealand some years ago there was no difficulty in securing valuations for assets in deceased estates. In the submitter's case, one of its major donors donated shares in a company that owned land in the Coromandel area. When the land was sold the submitter benefited to the extent of $3.54 million and the donor, who was a US citizen, was able to secure a deduction of this amount in the United States. Without the benefit of this deduction the gift would probably not have been made.

Further comment on tax relief for non-cash donations

6.25 Other comments on this option included:

- Any definition of a "non-cash donation" should include the lending of an asset to a charity or non-profit organisation. It was acknowledged that each asset loaned would require a monetary value to be placed on the benefit foregone by the donor before a deduction could be claimed.

  In practical terms, it would be the responsibility of the donor claiming the deduction to obtain an independent valuation of the loaned asset. The valuation could be attached to the receipt from the recipient charity acknowledging the gift, which is then filed with the donor's tax return.

While there may be some further avoidance matters to consider, it is noted that these have already been adequately dealt with in Australia and the United Kingdom. It is preferable to adopt specific avoidance prevention legislation rather than allow the possibility of avoidance behaviour to prevent the policy being adopted at all.

- Further exploration on how other countries handle non-cash donations should be undertaken. This is a definite option for the future. A separate discussion document on this issue should be prepared during the current parliamentary term for public consideration.
- Clear guidelines are required for valuing non-cash donations. Tax relief should apply to new goods or to goods with a provable cost price valuation, an invoice, stock record or the like or, in the case of a service, proven costs based on standard rates of service. (Other views supported valuations at recommended retail price, wholesale price or current market value.)
- There should be some way of allowing firms who do pro bono work for charities (either providing free services or resources) to benefit from tax rebates or deductibility. This would encourage greater contribution by businesses to the charitable sector.
- Administrative costs of this would be high. It would be time-consuming and expensive to value some assets, and could be open to abuse.
- Gifts of property that have been held by the donor for more than 12 months, and valued by the Commissioner at more than $5,000, should be tax deductible. Environmental and heritage property donated to approved organisations could also be included. Since 2001, Australian taxpayers have been able to make a deduction for gifts of property held for more than 12 months and valued in excess of $5,000. From 2002 these deductions can be spread over five years.
- Publicly listed securities should be tax deductible. Deloitte and Touche, in a report on gifts of publicly listed securities in Canada in 2000, commented that the results showed gifts of publicly listed securities are an important part of most charities' revenues and tax incentives stimulate donations and are considered to be an essential tool by many. Given the relatively small amount of marketing that is being done around this incentive to giving (except among the very large organisations), there is an opportunity to increase awareness of the incentive and to educate donors of the benefits of this type of giving.
- Non-cash donations should be rebateable up to a maximum of 50 percent of their value. Large donations over $5,000 should be subject to a valuation (the cost to be borne by the donee) and rebateable at 50 percent of value.
- A deduction limit should apply. There should be a minimum threshold of $1,000 for gifts in kind. This is to avoid claims for perishable items such as food which would be too difficult to value.

- Under the proposed financial reporting standards a charity is required to put a dollar value on non-cash donations and record it in their books in the same manner as cash donations. Such donations should have a receipt issued and the donor should receive the appropriate tax rebate on the value of the donation.

Would it be a good idea to allow tax relief for non-cash donations?

6.26 Twenty-three submissions agreed that it would be a good idea to allow tax relief for non-cash donations.

Opposed to tax relief for non-cash donations

6.27 Two submissions considered that providing tax relief for non-cash donations could incur high administrative costs and would be time-consuming and expensive to value some assets, and could be open to abuse.

Option: Australia's prescribed private funds regime

6.28 Australia's prescribed private funds regime were introduced in 1999. They enable individuals, families and businesses to establish their own private trusts for philanthropic purposes. Donations made to these trusts are deductible to the donor. There is no limit on the donations that may be eligible for tax deduction by the donor. The trusts must disburse their funds for charitable purposes. These trusts provide a planned formal mechanism for giving, which offers greater control for donors.

6.29 Applications for prescribed private fund status are made to the Australian Tax Office (ATO). Limits apply to the accumulation of money within these trusts, such that investment income can be accumulated only at a rate equal to the Consumer Price Index, with the rest disbursed for charitable purposes. A simple annual return is filed with the ATO outlining the source of the funds and the payment of funds to various gift deductible recipients (charitable organisations) as well as the extent and recipients of management fees.

6.30 Views were sought on whether it would be a good idea to adopt Australia's prescribed private funds regime.

Support further consideration

6.31 Thirty-two submissions encouraged further investigation a prescribed private funds regime. The main reasons advanced were:

- The regime has been very successful in Australia. One submitter has already held discussions with the Australian Prime Minister's community business partnership on the merits of the regime. This group was instrumental in advocating a suite of tax-related initiatives (including the private charitable trust regime) to enhance philanthropy in Australia.

- Changes to the limits imposed on individuals, companies and Māori authorities would improve contributions to private trusts.
- High-wealth individuals with a philanthropic nature would be more likely to donate more if there are associated tax breaks with the increase in donations being more than the tax break resulting in a net benefit to New Zealand.

Would it be a good idea to adopt the regime?

6.32 Six submissions agreed that it would be a good idea to adopt a prescribed private fund regime. One submission opposed any restriction on capital accumulation.

Opposed the prescribed private funds regime

6.33 Three submissions opposed the introduction of a prescribed private funds regime because New Zealand has its own structure for charitable trusts.

Suggested tax incentives for encouraging giving

6.34 A number of other tax incentives for encouraging giving were suggested in submissions. These are outlined below.

Simplicity of administration and generous

6.35 Any tax incentives adopted must be simple and at a level that motivates people to give generously.

Share giving scheme operating in New Zealand

6.36 In 2006, the Robin Hood Foundation collaborated with Goldman Sachs JBWere to launch "Shares for good" in New Zealand. Inspired by the share gift programme in the United Kingdom, the Robin Hood Foundation is a recipient of unwanted shares, particularly those that would cost more to sell than they are worth. Goldman Sachs JBWere provides all brokerage fees free of charge.

Giving by high-wealth individuals

6.37 Seven submissions considered that more investigation is required on how best to encourage high-wealth individuals to give.

Endowments

6.38 More endowment funding should be encouraged. Endowment funds ensure a steady revenue stream while maintaining the capital component of the endowment.

A cultural gifts programme

6.39 Six submissions considered that the government should investigate the feasibility of implementing a scheme similar to the Australian cultural gifts programme with the aim of increasing the donation of significant objects and art works to cultural institutions for the benefit and enjoyment of all New Zealanders.

6.40 The tax incentives provided by the Australian programme include: the market value of the gift is fully tax deductible (with some exceptions), gifts are exempt from capital gains tax, donors can elect to spread the deduction over up to five income years, donors can also claim a tax deduction for the costs of obtaining valuations specifically for the programme.

6.41 A tax deduction of 150 percent of the value of the donated item was suggested. This type of scheme would cost only the value of the tax deduction or rebate at 33 1/3 percent, rather than the full cost of the item itself. Safeguards would need to be put in place to ensure the system is not abused. Measures to reduce risks could include the appointment of approved valuers and the establishment of a body to which non-profit organisations apply for approval to accept such gifts.

Reference to other jurisdictions

6.42 The government's consideration of overseas jurisdictions should not be limited to different forms of tax incentives and to the United Kingdom and Australia only. Other overseas examples might be useful, not only in relation to different forms of tax incentives, but also in relation to the core tax incentives for charitable giving. For example, the United States offers generous tax deductions for charitable contributions.

Employee volunteers

6.43 The review should be broadened to allow businesses to receive tax relief for non-monetary donations of services to remove the bias towards monetary donations. This would allow businesses to make and charities to request, the type of donation that they would most benefit from, be consistent with the government policy on volunteering and obtain the same benefits and not artificially distinguish between volunteers who are donating their own time and those who are donating a business's time. For employee volunteers, businesses should be able to claim a fixed amount which reflects a reasonable value for the donated time. It might also encourage more businesses to allow their staff to volunteer.

CHAPTER 7

Other ways of promoting charitable giving

7.1 This chapter summarises feedback on what further initiatives can be employed to encourage increased generosity in New Zealand and to support any tax measures that may arise out of this discussion document.

7.2 Sixty-seven submissions provided their views on further initiatives to reinforce and encourage giving to charities and other non-profit organisations. Detailed comments are outlined below.

Government's role in promoting charitable giving

7.3 Nineteen submissions considered that the government has a lead role to play in promoting generosity and giving in New Zealand, not just through the taxation system but also through education and promotion.

7.4 Many submissions supported a government-funded strategic marketing campaign that would seek to lift public appreciation and understanding of the value of philanthropic giving and to create a culture in which benefaction and donations are encouraged.

7.5 One submission considered that New Zealand is lagging well behind other Commonwealth countries in promoting a culture of giving. A range of other initiatives that encourage, enhance and sustain a culture of giving in New Zealand should be explored. The United Kingdom, Australia and Canada have been particularly successful in increasing generosity within their populations. The government in these countries has been the main driving force behind the development and implementation of new philanthropic initiatives and has borne the majority of the associated costs. It is suggested that the success of any comparative New Zealand programme should be similarly linked to government involvement.

7.6 The countries which have been most successful in increasing generosity among their citizens have been those where there has been an active partnership between the community and voluntary sector and the government. A recent example of this partnership approach can be seen in the United Kingdom. The Carnegie UK Trust in partnership with the UK government established the Scottish Executive and Economic and Social Research Council (ESRC) as the United Kingdom's first centre of excellence for research into charitable giving and philanthropy.

Education campaign

7.7 Six submissions considered that any government tax initiatives aimed at promoting greater giving to charities and other non-profit organisations should be combined with an education campaign to help people understand the value of the work of charities and how their donations help those charities to make New Zealand a better society.

7.8 Any amendment to the existing tax incentives should be supported by an in-depth public education campaign to raise awareness of the issues involved. To date it has been disappointing that so little is known about the current tax treatment of donations to charities.

7.9 Social marketing campaigns to both promote generosity and inform citizens how they can donate efficiently and effectively should be undertaken.

Tax is not the whole answer – pluralistic approach is required

7.10 Eight submissions considered that a range of initiatives are required to persuade a person to give for the first time and to encourage existing donors to continue giving. However, relying exclusively on tax to promote giving is not the answer. When comparing New Zealand tax structures for giving to other countries' tax incentives, it is important to be mindful that there could be other not so obvious factors that contribute to their level of generosity. Research and discussion needs to continue before finding a model that would work best in New Zealand.

7.11 Increasing a culture of generosity is most likely to be achieved by the co-ordinated use of several approaches – both fiscal and other tools.

Research and evaluation

7.12 The government should invest in statistics-gathering and research initiatives for the charitable, community and voluntary sectors either as part of current government practice or in collaboration with third parties.

7.13 More research should be commissioned to identify the barriers and opportunities to the creation of more family philanthropies, especially for high-wealth individuals to create charitable trusts.

7.14 A significant aspect of the New Zealand context involving Māori and their giving, along with other cultural and ethnic forms of giving need to be researched.

7.15 As part of Cheers Volunteers, SPARC recently completed the first New Zealand-based study on the motivations of volunteers in the sport and recreation sector. This research provides an understanding of what motivates people to volunteer in sport and recreation and identifies factors that prevent them from volunteering. At the heart of volunteering in sport and recreation are four drivers or values that characterise all volunteering and volunteers in the sport and recreation sector. The core values are: generosity, love of sport, social connection, and appreciation. These core values may differ to those that compel New Zealanders to give their money, skills and time, to charities and other non-profit organisations.

Achieving a strong philanthropic culture

7.16 The United States is regarded as the recognised leader in seeking philanthropic support for higher education, with a very successful 350-year history to draw on. There is also a far greater incidence of "naming" as a public reward for donations; plaques honouring donors are prominent on the walls of hospitals and universities in the United States. Americans often support charities from which they benefit personally, such as orchestras, museums, top universities or organisations promoting the interests of their own ethnic or religious group.

7.17 More recently the United Kingdom has begun challenging its universities to start raising more money. Part of that challenge has been examining why they have not been able to raise the same level of money as their American counterparts. One of the reasons is an ingrained culture of giving in the United States compared with a great reluctance in the United Kingdom to ask for funds. Fundraising should be regarded as a central part of their activities, cultivating prospective donors, asking for support, thanking, recognising and stewarding donors and serving as proud and faithful custodians of their gifts.

E-Philanthropy

7.18 An online charitable-giving portal is argued to be the most cost-effective form of fundraising and has the added benefit of being one of the least intrusive. It is considered that internet-based philanthropy programmes have real potential for both increasing the generosity of New Zealanders and making the process more accessible.

7.19 UK GUIDESTAR – according to a new report from Network for Good, the Internet's largest non-profit giving portal, the typical online donor is generous, significantly younger than the average offline donor, and not new to giving. Based on analysis of $100 million in giving that came through the Network for Good site from its inception on 19 November 2001 to 3 September 2006 – the report, "The Young and the Generous", found that the median age of the typical online donor was 38, that 96 percent of all online donors had given to charity before, and that their average gift size was $163 – significantly more than offline donors give on average.

7.20 The report also found that equal numbers of men and women donate online, and that their main reason for doing so was convenience. There was a steady increase in giving in the last five years, from $17.1 million in 2002 to $32.3 million in 2005. The increase in the number of donors grew from 41,138 in 2002 to 180,794 in 2005. The data collection carried out with the establishment of the Charities Commission could make such a resource a possibility for New Zealand in the near future, and this suggests that a similar portal to GUIDESTAR could be of tremendous value to the community and voluntary sector in New Zealand.

Engaging youth in philanthropic giving

7.21 The government should explore possible philanthropic pathways which take into account the unique needs and circumstances of New Zealand's young people.

7.22 Encouraging generosity in schools as part of civics education is another strand of a co-ordinated approach.

Ongoing policy work and sector involvement

7.23 Eight submissions expressly indicated that they would like to be involved in ongoing policy work relating to the charitable and not-for-profit sector.

Rebate claim process

7.24 Simplifying the claims process would go a significant way to encouraging more donations from the New Zealand public.

Advertise the rebate claim process

7.25 Ten submissions considered that Inland Revenue should be more active in promoting the existing rebate claim process.

Send rebate claim form to all taxpayers

7.26 Eighteen submissions supported sending the rebate claim form to all taxpayers.

Option on the rebate form for giving directly to a charitable organisation

7.27 Six submissions considered there should be an option on the rebate claim form to enable the donor to direct his or her rebate to the charity.

Evidence of donations

7.28 The current rules require donation receipts to be furnished with a rebate claim. It then allows tax agents to make a claim on behalf of a client as long as they have seen the receipt and retain it for four years. This has lead to fraudulent claims being made by tax agents. The submission suggests that this provision should be removed, or limited to tax agents who are members of an approved professional body that has a code of conduct and disciplinary procedures, with an accompanying carve-out to section 81 of the Tax Administration Act 1994 to enable the Commissioner to forward cases involving fraudulent claims to that membership body.

CHAPTER 8

Other issues

Refundability of imputation credits

8.1 Forty nine submissions were strongly in favour of imputation credits being refunded to charities. (See Appendix B for feedback.)

Submission date

8.2 One submission recommended for time to make a submission. Ten others sought and received extensions of time to make their submissions.

Removing the tax restriction on charities' overseas operations

8.3 A number of people at the consultation workshops voiced their concerns on this issue, with sixteen submissions providing written comments.

8.4 Currently, New Zealand charities' income is only exempt to the extent that their charitable operations are exercised in New Zealand. Thus any charity that wishes to support an event overseas or promote something overseas must bear an additional taxation burden over the cost of the actual expense incurred. Feedback considered that this restriction prevents charities from gaining valuable exposure overseas, which can lead to benefits such as increased skills for the charity's personnel, assistance from other organisations and additional donor support.

8.5 This issue is best illustrated in relation to donations to faith-based organisations carrying out missionary work overseas. In general, donations to these organisations do not qualify for the current tax rebate. Submissions strongly recommended that such organisations should be eligible for donee status and that donors are eligible for tax rebate and deductions for the donations they make to such organisations.

8.6 Churches, and New Zealand-based agencies operated by them that have charitable purposes overseas mainly send out medical personnel, teachers, agriculturalists and the like (all "missionaries") to work alongside and under the jurisdiction of indigenous people. Very often this assistance is sought by the government of the country concerned. Such work is aimed at assisting third world countries at grass-roots level. This is to the benefit of the country concerned and is more effective than inter-government aid (with all the risks of unauthorised diversion that can occur there). Organisations working overseas seeking donee status face a cumbersome process involving approval of their donee status by Cabinet.

8.7 Charities applying their funds overseas should be eligible for donee status on the same basis as charities applying their funds within New Zealand. Alternatively, donee status for charities that apply their funds overseas should be approved on the same basis as other charities. This would avoid the need for Cabinet approval.

8.8 The distinction presently drawn between humanitarian and religious charities is not an appropriate one. The submission recommended that the government give consideration to widening the availability of tax rebates for money given overseas beyond the 64 organisations listed in section KC 5 of the Income Tax Act 2004. Section KC 5 (1) should be amended to remove the current exclusion for charities that apply their funds overseas.

8.9 The charities excluded under section 5(1) of the Charities Act 2005 are mainly religious charities. Many of the religious charities that are penalised under the Income Tax Act 2004 are being penalised in spite of them meeting the definition of a "charitable entity" as set in section 5(10) of the Charities Act 2005.

Reciprocal arrangements with other countries

8.10 Four submissions commented on this issue.

8.11 Residents in the United States and the United Kingdom are eligible for tax deductions for donations they make to New Zealand charities so long as the charity in question has established a charitable entity in the country of residence. One submitter has established charitable trusts in both countries. This has proved to be very successful as a funding tool for alumni in those countries. The submitter has received substantial donations from US residents who were able to claim tax deductions through this mechanism. The submitter suggests that the government should consider amending the New Zealand tax law to allow residents in New Zealand to make donations on the same basis as in the United States and United Kingdom.

8.12 Another submission suggested that New Zealand should enter into a reciprocal arrangement with Australia to allow tax relief for donations made by each other's citizens to charitable organisations in each country. The submitter was approached by a company in Australia which employed large numbers of New Zealand ex-pats. The company wanted to donate proceeds from a corporate event to the submitter but as the sponsors could not get a tax deduction from New Zealand, they decided to give the proceeds to an Australian charity. The submitter also has a large number of donors in the US and they would be more inclined to give more if they received tax deductions for their donations.

GST issues

8.13 Registered charities should be allowed to claim back GST without earning GST taxable income.

8.14 Seven submissions considered that non-profit organisations should be exempt from GST.

8.15 One submission noted that any grant received by a charity from a government agency such as COGS, the Lottery Board, TEC or local government is charged with GST. The submitter suggested that all grants from central and local government should be GST exempt.

Charities Commission and registration issues

8.16 The Charities Commission is unnecessary and has created unwarranted tension in the philanthropy sector. Organisations should be reimbursed for direct expenses incurred in registering with the Commission.

8.17 Charities should not be made to reapply for their charitable status if they have already gone to the effort of having their status confirmed with Inland Revenue. This is potentially a considerable cost to the voluntary sector. Registration should be automatic.

Definition of "charitable purpose"

8.18 The definition of "charitable purpose" should be reviewed.

8.19 "Caring for the environment" should be listed as a charitable purpose. Remove the requirement to file annual accounts from the Incorporated Societies Act if it is included in the Charities Commission Act – to minimise paperwork.

8.20 One submission contended that sport organisations are not generally eligible for charitable status unless their stated purposes include a public benefit such as education. The submission recommended that sport and recreation organisations should be eligible for any tax incentive to encourage charitable giving, as the vast majority of sport and recreation organisations inherently provide public benefits by encouraging people to be physically active, by providing infrastructure and services, and by strengthening communities.

Universal basic income

8.21 A universal basic income should be introduced as this would give people a form of financial security so that they can undertake voluntary work.

Tax review of issues relating to school boards of trustees

8.22 An across-government review should be undertaken on the range of tax and other incentives and disincentives relating to boards of trustees and other volunteers in school. The Ministry of Social Development treats the honoraria paid to members of school boards of trustees as "income" for the purposes of benefits while Inland Revenue does not. Even within the tax regime there are anomalies; state schools are exempt from income tax but have to pay GST and FBT.

Rebate splitting

8.23 The current possibility of transferring any donations exceeding the maximum amount to a spouse who has not used the full maximum threshold should continue to be available. Section 41A(3) of the Tax Administration Act 1994 should continue to apply. The rebate claim process should not be changed.

Personal income tax exemptions for employees of charities and other non-profit organisations

8.24 Ten submissions suggested tax reductions for all personnel employed by registered charities.

8.25 A portion of the salary of employees of registered charities or non-profit organisations should be exempt from income tax as charities and not-for-profits find it difficult to compete with the salaries paid in the open market. One submission suggested that the first $16,000 of an employee's salary should be exempt from income tax.

Gift duty exemptions for gifts made to and from local authorities

8.26 A gift-duty exemption should be established for gifts made by a person to a local authority for either the benefit of the community or where there is a *gift simpliciter*. These gifts should be eligible for the tax rebate if made by an individual or a tax deduction if made by a company.

8.27 Where a local authority makes a "gift" to a not-for-profit body or other local authority, such a gift should be exempt from gift duty.

Local authorities

8.28 Section DB 32(3) of the Income Tax Act 2004 should be amended to clarify that:

- Local authorities can obtain an income tax deduction for contributions to local organisations within the area of that local authority where that local organisation would otherwise qualify under section DB 32.

- Where income received by a local authority is held in trust beneficially to be used for the community, then that income qualifies for the local authority exemption.
- If funds are held by a local authority on behalf of a third part, which is not using those funds for purposes beneficial to the community, then the income arising from those funds does not qualify for the local authority exemption.

Fringe benefit tax

8.29 Six submissions commented on this issue. There should be better FBT treatment for charities, including special salary packaging provisions for the community and voluntary sector.

More government funding

8.30 The government should provide appropriate levels of direct funding to organisations providing essential services. One submission considered it inappropriate that organisations providing essential community services have to seek philanthropic-sector funding to provide these services. Services identified as critical should be appropriately funded by government, not just given grant contributions.

8.31 Currently, charitable causes such as St John's Ambulance, the Child Cancer Foundation, the Cancer Society and Plunket must ask the private purse to fund public good activities that are reasonably the responsibility of a forward-thinking government. The services these organisations provide are pivotal to the development and success of our community. As long as necessary healthcare-related charities remain unfunded by government, there cannot be a level playing field for other charitable causes and not-for-profit organisations. It is difficult to justify giving to a cultural cause when core healthcare causes remain dependent on private and corporate donations. Thus, a key issue for government to consider is who should be in the pool for public fundraising and whose needs can be most effectively met through a direct government grant system.

Definition of "donee organisation"

8.32 Donee organisations should be defined as "those organisations registered under the Charities Act 2005".

Equivalence of tax relief for individuals, trusts, companies and partnerships

8.33 A tax deduction for charitable donations should be available to all forms of business ownership, irrespective of whether the entity is a company, widely held or listed on a recognised stock exchange. This would enable alternative forms of business ownership such as sole traders, partnerships and trusts to claim a full deduction for all donations made. Disallowing a tax deduction for donations made by these entities his inequitable and acts as an impediment to charitable giving.

Criteria for assessing the discussion document options

8.34 The criteria for assessing options should be expanded to include a further sentence at paragraph 1.23 of the discussion document *Tax incentives for giving to charities and other non-profit organisations* that "In considering costs and benefits, regard shall be had to the need to promote public trust and confidence in the charitable sector, and to enable the effective use of charitable resources."

Art galleries and museums

8.35 Many public art galleries and museums rely heavily on private-sector philanthropy and gifts to supplement the limited funding they receive from local and central government to develop and acquire for their collections. (See *Strategy for the Museum Sector* in 2005.[3])

Future review

8.36 The government should commit to a review five years after implementation of the proposed options. The review should aim not only to assess the impact of changes made but also seek to establish additional or extended strategies to further improve the return for donors and volunteers in a manner which benefits charitable organisations.

Insufficient coverage of donor group

8.37 The discussion document and consultation workshops targeted charities and other non-profit organisations and not specifically donors.

IFRS standards

8.38 There is concern at the significant compliance costs that could arise from an accounting and reporting point of view if complex rebate mechanisms are put into place to recognise volunteer effort. To meet IFRS reporting requirements, charitable bodies must meet minimum reporting requirements for audit purposes. This means they must have records and systems in place to accurately report such matters. There is no ability to use differential reporting and hence apply a lesser level of compliance.

8.39 Officials have been asked to consider not only the tax effectiveness of the mechanisms but also the flow-on additional costs which an organisation may

[3] *Museums Aotearoa, a strategy for the museum sector in New Zealand, 2005*. Downloadable at www.museums-aotearoa.org.nz/site/publications.

necessarily incur in order to meet the accounting disclosures in respect of those tax measures.

Loans to charities

8.40 One submission suggested the creation of a special class of bonds or loans for registered charities. Charities often require loans to fund capital works, or initiate projects for which supporting income will come in later years. There would be a benefit in being able to raise money via debentures or loans which are cost-effective for the charity but do not involve the provider losing purchasing power of their capital. A possibility would be for a special class of bonds which pay interest at a rate of say, two-thirds of the Government 10-year bond rate (reflecting the after-tax rate the holder would receive). The income would be exempt to the holder, and no withholding tax would be deducted by the registered charity issuing the bonds. This would provide charities with cost effective funding, and protect the lender from erosion of their capital.

Reporting requirement for charities

8.41 Charities should report publicly on the amount of funds spent on administration and promotion compared with the programme.

Rebate for EFTPOS transactions

8.42 A rebate on EFTPOS transactions should be available to charities and other non-profit organisations. Bank charges should not apply to these organisations.

APPENDIX A

List of submissions

Submission Number	Name of submitter
0001	David Stewart
0002	Stephen Bayldon
0003	The Australian Charities Fund
0004	A H Biss
0005	John and Sheila Hammond
0006	Habitat for Humanity Waikato
0007	Relationship Services Whakawhanaungatanga
0008	Toy Library Federation of NZ
0009	Fred
0010	Todd Foundation
0011	SIM New Zealand
0012	Martin Ryan
0013	Chris Gallagher
0014	Reegan Pearce
0015	Frederik Dean
0016	HUTTCOSS
0017	Scott Gilmour
0018	Tjeerd & Louise Smilde
0019	Tony Sullivan
0020	Lifeway Ministries Trust Inc
0021	Mike and Bethany Ripley
0022	North City Apostolic Church
0023	Reg Mundy
0024	Dr John Mayo
0025	National Association of ESOL Home Tutor Schemes
0026	Family First (Inc)
0027	Pamela Matthews

Submission Number	Name of submitter
0028	Parkinsonism Society Waikato Inc
0029	Bethlehem Foundation
0030	Jan Brown
0031	J M Welch
0032	Stu Sanders
0033	Simon McCracken
0034	Tony Smyth
0035	Howick Baptist Church
0036	Robin Fenwick
0037	New Zealand Council Of Social Services
0038	Volunteering Canterbury
0039	Volunteer Nelson
0040	Kidpower Teenpower Fullpower Trust
0041	Age Concern Otago
0042	Problem Gambling Foundation of New Zealand
0043	Rose Florence
0044	Rural Women New Zealand
0045	New Zealand School Trustees Association
0046	Dunedin Budget Advisory Service
0047	J R McKenzie Trust
0048	Deloitte (on behalf of client Jan Cameron)
0049	NZ Police
0050	The Cancer Society of New Zealand
0051	Ruth Chapman
0052	R Heath
0053	Rev Dr Keith Carley
0054	Daniel Ledergerber
0055	Anglican Parish of Northland Wilton
0056	Motuora Restoration Society

Submission Number	Name of submitter
0057	Foundation for Youth Development
0058	Philanthropy New Zealand
0059	Wellington Region Kidney Society
0060	Volunteer Wellington
0061	Sisters of Compassion
0062	Sisters of Mercy Wiri
0063	Missions Interlink (NZ)
0064	Hutt Council of Social Services
0065	Alzheimers Auckland Inc
0066	WEC International
0067	Progress to Health
0068	Freemasons
0069	Council of Social Services (Christchurch)
0070	B J Coles
0071	Oxfam New Zealand
0072	Lion Nathan Limited
0073	Arts Waikato
0074	Atawhai Assisi Home & Hospital
0075	Ideas Shop Ltd
0076	Johannes Balzer
0077	Alison Given
0078	YMCA New Zealand
0079	Royal New Zealand Foundation of the Blind
0080	Canterbury Museum
0081	Nurse Maude Association
0082	Funding Information Service
0083	Grant Thornton
0084	Social Services Waikato
0085	Carmel College Auckland Limited

Submission Number	Name of submitter
0086	Vestry (Governing Council) of the Tawa Anglican Church
0087	C & K Kyle
0088	New Zealand Council of Victim Support Groups (Inc)
0089	Autism New Zealand Inc
0090	Methodist Mission Northern
0091	Youthline Auckland Charitable Trust
0092	Onslow Anglicans
0093	Karori Anglican Churches
0094	Sisters Of Mercy Auckland Limited
0095	New Zealand Fire Service Commission
0096	Community Trusts (12)
0097	Barnardos New Zealand
0098	United Way NZ Inc
0099	Ronald McDonald House Charities NZ
0100	Royal New Zealand Coastguard Inc
0101	St Albans Baptist Church
0102	Volunteering Auckland
0103	Kim Squire
0104	Auckland Philharmonia Orchestra
0105	Museum of New Zealand Te Papa Tongarewa (Te Papa)
0106	M J Breg
0107	PricewaterhouseCoopers
0108	Standing Committee of the Uniting Congregations of Aotearoa New Zealand
0109	Parent to Parent New Zealand Inc
0110	St Ronan’s Presbyterian Church
0111	Sisters of Mercy New Zealand
0112	Ngati Kahu Ki Whangaroa Co-operative Society Ltd
0113	Jenny Campbell
0114	Federation of NZ Ostomy Societies Inc

Submission Number	Name of submitter
0115	Karen Keats
0116	Auckland Workers Educational Association
0117	Church of Jesus Christ of Latter-day Saints
0118	Presbyterian Support New Zealand
0119	G Messenger
0120	Kit Howden
0121	Community Sector Taskforce New Zealand Federation of Voluntary Welfare Organisations Volunteering New Zealand Philanthropy New Zealand Wellington Māori Service Providers' Forum Napier Pilot City Trust
0122	Volunteer Service Abroad Inc
0123	Auckland Art Gallery Toi o Tamaki
0124	Community Waitakere
0125	Haemophilia Foundation of New Zealand
0126	Lisette Taylor
0127	Psychiatric Consumers Trust
0128	Spreydon Baptist Community Ministries
0129	New Zealand Federation of Voluntary Welfare Organisations
0130	Manukau Community Foundation
0131	Presbyterian Support Otago
0132	World Vision
0133	Marg O'Connell
0134	Neurological Support Centre
0135	Surf Life Saving New Zealand
0136	Saints Information
0137	Volunteering Otago
0138	Pacific Leprosy Foundation
0139	Women's Health Action Trust
0140	Hayes Knight NZ Limited & Hayes Knight Audit
0141	Vestry of the Wellington Cathedral of St Paul (Anglican)

Submission Number	Name of submitter
0142	Rowena Sinclair
0143	Diabetes New Zealand Incorporated
0144	Volunteer Western Bay of Plenty
0145	Cancer Society of New Zealand Taranaki Centre Inc
0146	John Pinner
0147	OMS New Zealand
0148	Dilworth Trust Board
0149	University of Auckland
0150	Charities Commission
0151	Association of Non-Governmental Organisations of Aotearoa
0152	Auckland Art Gallery Foundation
0153	Feilding Baptist Church
0154	Inter Church Working Party
0155	Museums Aotearoa
0156	Creative New Zealand
0157	Alzheimers New Zealand Incorporated New Zealand Incorporated
0158	Staples Rodway Waikato Limited
0159	Otago Museum
0160	Caritas Aotearoa New Zealand
0161	Keep New Zealand Beautiful
0162	Vaughn Taylor
0163	Royal New Zealand Society for the Prevention of Cruelty to Animals
0164	Starship Foundation
0165	Community Foundation Hawkes Bay
0166	Association of Blind Citizens of New Zealand Inc
0167	Otago Museum (Treasurer)
0168	Volunteering New Zealand
0169	Tindall Foundation
0170	New Zealand Trustees Association

Submission Number	Name of submitter
0171	Rabobank Australia & New Zealand
0172	Stewart Financial Group Limited
0173	ESOL Home Tutors (Waikato)
0174	Sport and Recreation New Zealand
0175	Bill Mancer Charities & Supporters of Tiritiri Matangi Inc
0176	Gallagher Hockey Centre
0177	Home and Family Society Inc
0178	Diocese of Dunedin
0179	New Zealand Catholic Education Office
0180	Dunedin Council of Social Services
0181	Te Omanga Hospice
0182	Eric Russell
0183	Rev T A Joll
0184	Dame Vivienne Boyd
0185	Association of Development and Alumni Professionals in Education (Australasia)
0186	New Zealand Society of Genealogists Inc
0187	Anglican Parish of St Marks
0188	Waiapu Anglican Social Services Trust Board
0189	Heart Children New Zealand Inc
0190	Errol Pike
0191	Mission Without Borders (New Zealand)
0192	R U Penning & Associates
0193	Age Concern New Zealand Inc
0194	The John Ilott Charitable Trust
0195	Christian World Service
0196	The Church of St Michael and All Angels
0197	Wellington Community Law Centre
0198	Suzanne Aubert Compassion Centre
0199	Bible Society in New Zealand (Inc)

Submission Number	Name of submitter
0200	Council for International Development
0201	Board of Presbyterian Support Central
0202	Whanganui Community Foundation
0203	St Matthew Lutheran Church
0204	Wellington Ostomy Association
0205	Lyle Dodds
0206	Diabetes Auckland
0207	Challenge 20001
0208	Alison & David Grant
0209	Henry Kramer
0210	Name unknown
0211	Frances Lee
0212	Garth Morgan
0213	Toovey Eaton & Macdonald Limited
0214	Humanist Society of New Zealand (Inc)
0215	Tawa Music Centre (Inc)
0216	Volunteer Parent
0217	Abbeyfield New Zealand
0218	Cancer Society of New Zealand Auckland Division Inc
0219	David Thomson
0220	Anglican Parish of Kapiti
0221	Literacy Aotearoa
0222	Society for the Prevention of Cruelty to Animals (SPCA), Auckland Inc
0223	CCS
0224	New Zealand Institute of Chartered Accountants
0225	Westpac
0226	Citizens Advice Bureaux
0227	National Council of Women of NZ
0228	Community Solutions

Submission Number	Name of submitter
0229	Coastguard Gisborne

APPENDIX B

Refundability of imputation credits

There have been many calls from the charitable sector for the government to deal with the question of whether imputation credits to charities should be refundable for tax purposes. The government acknowledges the importance of this issue to the charitable sector. For this reason, it will be examined separately as part of a wider review of imputation credits, and who should be entitled to use those credits. The review is expected to take place in 2007.

The issue

Currently companies are able to make donations to a charity from pre-tax income, but a charity holding shares in that same company and receiving a dividend equal to the donation will have a tax burden.

	Donations	**Shares**
Company pre-tax income	100,000	100,000
Company donations	5,000	-
Company taxable profit	95,000	100,000
Tax paid by company	31,350	33,000
Distribution of retained earnings:		
Gross dividend		5,000
Imputation credits attached		1,650
Net dividend		3,350
Charity net benefit	**5,000**	**3,350**

The end result is that charities are actively discouraged from investing in shares. The Australian government has recognised this issue and dealt with it appropriately and so the submitter feels that New Zealand should follow their lead.

Feedback from submissions

Forty nine submissions were strongly in favour of imputation credits being refunded to charities. The specific comments raised in submissions were:

- One submission noted that if imputation credits were refundable that it would be able to contribute up to 50% more per year to charities.

- The current rules make it more advantageous for charities to invest overseas than in New Zealand as overseas shareholders are entitled to a supplementary dividend from the company in which they hold shares.
- Priority should be given to addressing the issue of the inconsistency around the imputation credits: either by allowing the charity a tax refund equal to the imputation credits or by a mechanism where the benefit is paid by the company to the charity, and the tax refund is then paid to the taxpaying company.
- The inability for charitable organisations to be refunded imputation credits is contrary to the concept of being "tax-exempt". Currently for commercial reasons a charity may chose to invest in, or separate its activity into, a corporate structure. This comes at a tax cost, which would be overcome if imputation credits received by the charity could be refunded in cash. This has been an ongoing issue since the introduction of imputation credits and is long overdue for a complete review.
- One submission considered that the effect of the delay in resolving this matter is that a conceptual error in the design of the imputation system would be allowed to continue. That error is that tax-exempt shareholders do not benefit from the overall purpose of imputation of taxing income from companies at the tax rate of the shareholder. The submitter wished to record its view that the time for correcting the error is well overdue. The error is of considerable importance to the charitable sector as a whole.
- In contrast, if a charity invests in fixed interest investments, it would be exempt from tax on any interest earned and would be able to claim a refund for any resident withholding tax that was deducted at source. This is consistent with the policy of tax-free status of charities.
- Three submissions contended that charities in Australia have benefited enormously by being able to use imputation credits. In the case of one submitter, a donor gifted two million shares in a listed company. These shares are being held on trust for the benefit of the submitter and already more than $20,000 of available funds has been lost due to the inability of being able to use the imputation credits. The submitter suggested two ways of addressing this issue: (i) allow charities to claim the tax paid from the Inland Revenue Department; (ii) allow charities to receive a supplementary dividend from the companies paying the dividend.