In Confidence

Office of the Minister of Revenue

Chair, Cabinet Economic Development Committee

**Overseas Donee Status: New Additions for the Next Available Taxation Bill**

# Proposal

This paper seeks the agreement of the Cabinet Economic Development Committee to grant overseas donee status to four New Zealand charities who provide charitable activities overseas, with effect from the 2019–20 income year (starting 1 April 2019). Monetary donations to overseas donee organisations are eligible for tax benefits, such as the donation tax credit.

# Executive Summary

I recommend that the four New Zealand charities with overseas charitable purposes discussed in this paper are granted overseas donee status and listed in the Income Tax Act 2007, with application from the start of the 2019–20 income year. The necessary amendments would be included in the next available taxation bill, scheduled for introduction in mid-2019. The charities are discussed in paragraphs 8 to 11. The purposes and activities carried on by the charities listed above fall within Cabinet’s approval criteria (CM 78/14/7) as described inparagraph 6and are involved in the relief of poverty, or delivery of humanitarian aid and development.

# Background

New Zealand charities that support activities overseas and want their donors to be eligible for tax benefits (such as the donation tax credit) must be approved for overseas donee status and listed in the Income Tax Act. Monetary donations to listed organisations entitle individual New Zealand taxpayers to a tax credit (donation tax credit) of 331/3% of the amount donated, up to the level of their taxable income. Companies and Māori authorities are eligible for a deduction for cash donations up to the level of their net income.

Generally, the availability of tax benefits to donations is limited to charities with New Zealand purposes only. Overseas donee status is therefore an established exception for a specific class of charity. Giving overseas donee status requires legislative change adding the charity to schedule 32 of the Income Tax Act. Advice from the Legislative Design and Advisory Committee in 2016 to the Inland Revenue Department has confirmed that the use of legislation to implement decisions to give overseas donee status is appropriate. There are 152 organisations listed in schedule 32.

Decisions to grant overseas donee status complement the Government’s overseas development efforts.

Cabinet has established criteria for granting overseas donee status.

*(i) the funds of the charity should be principally applied towards:*

*the relief of poverty, hunger, sickness or the ravages of war or natural disaster; or*

*the* *economy of developing countries\*; or*

*raising the educational standards of a developing country\*;*

*(ii) charities formed for the principal purpose of fostering or administering any religion, cult or political creed should not qualify;*

*\* developing countries recognised by the United Nations.*

[CM 78/14/7 refers]

# Charities to be Granted Overseas Donee Status

I recommend that the charities named in paragraphs 8 to 11 be granted overseas donee status. The purposes of the recommended charities come within the criteria in paragraph 6. All the charities recommended in this paper have adequate procedures for the accountability of funds applied to projects and can demonstrate a track record of activity. All are registered under the Charities Act 2005.

## Little Brothers and Sisters International

Little Brothers and Sisters International has been set up to support and work in partnership with Alongsiders International, the latter has a mentorship programme in 15 Asian and African countries which is directed at keeping potentially at-risk children in established education programmes.

## Partners Relief and Development – New Zealand

The Trust was established in 2017 and works in association with the wider Partners Relief and Development network carrying out emergency relief and community development work in the developing world. It is active in South East Asia (Myanmar and Thailand) and the Middle East (Yemen and Syria).

## Project Moroto

Project Moroto was established in 2011 with the purpose of providing safe housing, upbringing, education and advancement of life to vulnerable or orphaned children in Uganda or other impoverished regions of Africa.

## UN Women National Committee Aotearoa New Zealand Incorporated

The UN Women National Committee Aotearoa New Zealand supports the work of the United Nations Entity for Gender Equality and the Empowerment of Women through contributing funds raised in New Zealand for UN Women projects in developing countries worldwide, but particularly those in the Pacific region.

# Consultation

The Treasury, the Ministry of Foreign Affairs and Trade (Pacific and Development Group) and the Department of Internal Affairs – Charities Services have been consulted as part of the preparation of this report. Consultation with these agencies did not identify any concerns with the charities recommended in this paper. The New Zealand Police’s vetting service was also used for the trustees of the charities recommended in this report.

The Ministry of Foreign Affairs and Trade (Pacific and Development Group) notes that apart from the UN Women National Committee Aotearoa New Zealand Incorporated, it does not have any direct knowledge of the activities carried out by the other three charities discussed in this report, and none of the charities are accredited for its various partnership funds.[[1]](#footnote-1)

# Fiscal Implications

The estimated financial implications of granting overseas donee status to the four charities recommended in this report are shown below. The financial implications will be treated as a forecasting change and reflect the increasing cost of the decision to allow donations to New Zealand-based charitable overseas aid organisations to be eligible for tax benefits. The revenue estimates are based on projections made by the charities about the monetary donations they expect to receive for the forecast period.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **$million – increase/(decrease)** | | | | |
| **Vote Revenue**  **Minister of Revenue** | **2018–19** | **2019–20** | **2020–21** | **2021–22** | **2022–23 & outyears** |
| Crown Revenue and Receipts:  Tax Revenue | (0.000) | (0.106) | (0.143) | (0.197) | (0.223) |

# Legislative Implications

Granting overseas donee status to the named charities will require changes to the Income Tax Act 2007. I recommend that the necessary amendments are included in the next omnibus taxation bill scheduled for introduction in mid-2019 with effect from the 2019–20 income year (starting 1 April 2019).

# Impact Analysis

The Treasury confirms that a Regulatory Impact Statement is not required for this proposal because it does not alter current tax policy settings.

# Human Rights

The changes I am recommending in this paper do not have any implications in relation to the New Zealand Bill of Rights Act 1990 or the Human Rights Act 1993.

# Publicity

I will make an announcement about the four charities as part of the content of the relevant taxation bill when it is introduced into the House. Inland Revenue will publish details of the new legislation in *a Tax Information Bulletin* once the tax bill containing the amendments is enacted. Once Cabinet has made its decisions on granting overseas donee status, officials will inform each organisation of the relevant decision.

# Proactive Release

I propose to delay the proactive release of this Cabinet paper, without redaction, and associated Cabinet minutes until the introduction of the proposed omnibus taxation bill which contains the necessary amendments to give effect to the proposal. The expected introduction date for this bill is mid-2019.

# Recommendations

The Minister of Revenue recommends that the Cabinet Economic Development Committee:

1. Agree that the following charities are granted overseas donee status and listed in schedule 32 of the Income Tax Act 2007:
2. Little Brothers and Sisters International
3. Partners Relief and Development – New Zealand
4. Project Moroto
5. UN Women National Committee Aotearoa New Zealand Incorporated
6. Agree that the charities named in recommendation 1 have overseas donee status from the 2019–20 and following income years (starting 1 April 2019).
7. Notethatagreeing to recommendations 1 and 2 has the following estimated fiscal cost, which will be treated as a forecasting change:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **$million – increase/(decrease)** | | | | |
| **Vote Revenue**  **Minister of Revenue** | **2018–19** | **2019–20** | **2020–21** | **2021–22** | **2022–23 & outyears** |
| Crown Revenue and Receipts:  Tax Revenue | (0.000) | (0.106) | (0.143) | (0.197) | (0.223) |

1. Agree to include the charities named in recommendation 1 in the next omnibus taxation bill scheduled for introduction in mid-2019.
2. Invite the Minister of Revenue to instruct Inland Revenue to draft legislation to give effect to the proposals contained in this paper.

Authorised for lodgement

**Hon Stuart Nash**

Minister of Revenue

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1. For example, the Ministry of Foreign Affairs and Trade’s New Zealand aid programmes: the [New Zealand Partnerships for International Development Fund (Partnerships Fund)](https://www.mfat.govt.nz/en/aid-and-development/working-with-us/contestable-funds/partnerships-for-international-development-fund/), the [Sustainable Development Fund](https://www.mfat.govt.nz/en/aid-and-development/working-with-us/contestable-funds/sustainable-development-fund/), the [New Zealand Disaster Response Partnership (NZDRP)](https://www.mfat.govt.nz/en/aid-and-development/working-with-us/contestable-funds/nz-disaster-response-partnership/), and the [Pacific Island Countries Participation Fund (PIC Fund)](https://www.mfat.govt.nz/en/aid-and-development/working-with-us/contestable-funds/pacific-island-countries-participation-fund-pic-fund/). [↑](#footnote-ref-1)