

# Regulatory Impact Statement: Taxation and the not-for-profit sector: Changing donation tax credit policy settings

<b>Decision sought</b>	Analysis produced for the purpose of informing final policy decisions
<b>Agency responsible</b>	Inland Revenue
<b>Proposing Ministers</b>	Minister of Finance, Minister of Revenue
<b>Date finalised</b>	12 May 2026

## Description of Minister's regulatory proposal

The proposal is to reduce the maximum entitlement threshold for donations eligible for the donation tax credit to the lower of \$100,000 or the donor's taxable income. The rate of the tax credit remains at 33 $\frac{1}{3}$ %. This would yield a maximum tax credit of \$33,333.33.

## Summary: Problem definition and options

### What is the policy problem or opportunity?

The purpose of the donation tax credit is to encourage and reinforce charitable giving. The policy settings could be better targeted to improve value for money, tax integrity and fiscal sustainability.

#### Value for money

The existing donation tax credit settings result in Crown expenditure of around \$350 million per year. The empirical evidence is mixed on whether such a tax credit is cost effective in encouraging charitable giving. In Inland Revenue's view the literature is not conclusive and donor responsiveness, especially for large donations, is very dependent on the specific donor. Therefore, this has raised questions about when the donation tax credit incentivises donations.

#### Tax integrity

The donation tax credit can be misused for aggressive tax planning. For example, donors can receive tax credits well in advance of funds being applied for charitable purposes or derive private benefit (for example, through loans received back from the charity). Inland Revenue has observed an increase in such behaviour, which may be facilitated by New Zealand's comparatively generous settings.

#### Fiscal sustainability

The donation tax credit operates as an open-ended subsidy, limiting the Government's ability to manage costs. On current trends, expenditure on the donation tax credit is growing at an

average of 2.6% a year. Reintroducing a lower maximum entitlement threshold would improve expenditure discipline.

### **Policy objectives**

The objectives are to improve the donation tax credit's value for money and fiscal sustainability, and address tax system integrity concerns.

Different weightings of these objectives lead to different policy outcomes. Prioritising integrity aligns with a cap on donation tax credit entitlements, whereas fiscal sustainability could support a rate reduction (for example, to 25%). We have given these objectives an equal weighting, which favours imposing an entitlement ceiling.

### **What policy options have been considered, including any alternatives to regulation?**

Options are limited to changes to the donation tax credit under the Income Tax Act 2007 and the Tax Administration Act 1994. Non-regulatory options are not available. Other tax concessions (including company and Māori authority deductions, donated trading stock, and payroll giving) are only considered when necessary to support an option's effectiveness.

The options considered are:

- Status quo: Retain the 33⅓% credit, capped at taxable income.
- Lower the maximum entitlement threshold: Reduce the maximum entitlement threshold to \$4,500, \$15,000, or \$100,000, with the rate unchanged.
- Lower the credit rate: Reduce the rate to 25%, with the cap remaining at taxable income.

All options would continue to support charitable giving across a broad donor base, while advancing value-for-money and fiscal sustainability objectives.

Other options, including multiple rates, removing certain charitable purposes, or introducing a United Kingdom-style gift aid scheme, were considered but not progressed due to complexity, or fiscal or timing constraints. Removing all donation tax concessions was also considered but rejected as inconsistent with the Government's objective of supporting charitable giving. Increasing direct funding by Government support was not considered, noting this approach is preferred by the community and voluntary sector.<sup>1</sup>

### **What consultation has been undertaken?**

Direct public consultation was not undertaken due to Budget conventions. Analysis draws on feedback from:

- Inland Revenue's regulatory stewardship review of the donation tax credit (published February 2025).<sup>2</sup>
- An officials' issues paper, "Taxation and the not-for-profit sector" (February 2025).<sup>3</sup>
- Targeted consultation on donor-controlled charities (November 2025 to January 2026).<sup>4</sup>

Consultation feedback consistently emphasised that Government support for the sector through the tax system should be maintained or increased. Submitters also cautioned that reducing donation tax concessions could discourage giving and reduce funding to donee organisations.

<sup>1</sup> [Bloomsbury-Associates-The-Future-of-Charitable-Giving-in-NZ.pdf](#), August 2025

<sup>2</sup> <https://www.taxpolicy.ird.govt.nz/publications/2025/rs-dtc-regime>

<sup>3</sup> <https://www.taxpolicy.ird.govt.nz/consultation/2025/taxation-and-the-not-for-profit-sector>

<sup>4</sup> <https://www.taxpolicy.ird.govt.nz/news/2025/targeted-policy-consultation-on-not-for-profits>

**Is the preferred option in the Cabinet paper the same as preferred option in the RIS?**

The preferred option in the Cabinet paper is the same as the preferred option set out in this RIS.

**Summary: Minister’s preferred option in the Cabinet paper**

**Costs (Core information)**

The preferred option would increase an individual’s after-tax cost of gifts of money for amounts above \$100,000. The extent to which the increased cost of donations above that amount results in a reduction in overall charitable giving is not known. The wider (and indirect) impact on the charitable and voluntary sector from the preferred option is also not known. Inland Revenue expects the administration cost connected with the change to be around \$1.5 million over the forecast period 2026/27 to 2029/30.

**Benefits (Core information)**

The preferred option is expected to improve the integrity of the tax system in a simple and understandable way and is not expected to affect the giving behaviour of 99.9% of the population that currently uses the donation tax credit system. It would mean that it no longer operates as an open-ended subsidy, improving the Government’s ability to manage costs in a highly fiscally constrained environment. The preferred option is expected to reduce the Government’s expenditure on the donation tax credit by \$19 million a year when fully implemented (\$51.8 million over the forecast period 2026/27 to 2029/30).

**Balance of benefits and costs (Core information)**

On balance, and based on the available evidence, the benefits of the Minister’s preferred option are expected to outweigh the costs.

**Implementation**

Inland Revenue is responsible for the ongoing operation of the proposal. The proposed changes to the donation tax credit settings would be implemented through amendments to the Income Tax Act 2007 and Tax Administration Act 1994, in a Budget Bill. The changes would apply to donations made on and after 1 April 2027. The expected administration operating cost is \$1.5 million over the forecast period (2026/27 to 2029/30). The preferred option considers the treatment of the donation tax credit only. Inland Revenue will monitor any behaviour changes in respect of the use of payroll giving, trustee distributions to charities and tax deductions for companies and Māori authorities and report to Ministers if additional policy changes are needed to those concessions to meet the objectives.

**Limitations and Constraints on Analysis**

We have not carried out a comprehensive review of donation tax concessions, and we have not compared the merits of using the tax system to support philanthropy versus direct government funding (such as grants).

Inland Revenue considered options that could be delivered in time for Budget 2026.

Inland Revenue’s ability to undertake a comprehensive policy analysis of this issue has been constrained by an inability to consult owing to Budget convention and limited information on donor price sensitivity and behaviour.

Where possible, these limitations were addressed using internal data sources and qualitative evidence. Some of the effects and impacts described may be under- or overstated. For example, we have limited information to assess whether a reduction in taxpayer entitlements would produce a behavioural response in the following areas:

- The uncertain and subjective value of the externalities (wider social benefits) provided by the voluntary and community sector.
- Whether households withdraw or refrain from contributing financial resources to the voluntary and community sector.
- Whether, in response, the community and voluntary sector withdraw the supply of goods and services to the communities in which they operate.
- The extent to which the donation tax credit supports giving behaviours by households. New Zealand specific academic literature suggests that the tax credit is not passed on by way of additional giving.

The 2023–24 stewardship review found that there was no case for a fundamental review of the donation tax credit and that it was largely fit for purpose. This RIS has considered the donation tax credit from an integrity and expenditure control perspective, while balancing the need to support the sector.

The absence of New Zealand specific literature on the effect of a reduction in entitlements means that conclusions are at best indicative. We have considered studies in other countries, however, the difference in tax settings with respect to encouraging donations renders the findings indicative, and far from conclusive. The changes proposed in this RIS are likely to be felt unevenly throughout the community and voluntary sector depending on the responsiveness of donor behaviour and the degree by which affected donee organisations depend on donation income.

**I have read the Regulatory Impact Statement, and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits, and impact of the preferred option.**

**Responsible Manager(s) signature:**

s 9(2)(a)

**Charles Ngāki**

**Policy Lead**

**12 May 2026**

## Quality Assurance Statement

**Reviewing Agency:** Inland Revenue

**QA rating:** Partially meets

### Panel Comment:

The quality assurance panel from Inland Revenue has reviewed the regulatory impact statement (RIS) titled Taxation and the not-for-profit sector: Changing donation tax credit policy settings prepared by Inland Revenue and considers that the information and analysis summarised in the RIS **partially meets** the quality assurance criteria.

Owing to Budget conventions, public consultation on the proposal has not been undertaken.

Where relevant, the RIS authors have drawn on existing qualitative and empirical research, perspectives from Inland Revenue's regulatory stewardship review on the donation tax credit regime, and recent consultation on taxation and the not-for-profit sector.

Acknowledging the noted limitations in the evidence base, the panel considers that public consultation on the options would have provided additional insight to support the analysis and comparison of options.

## Section 1: Diagnosing the policy problem

---

### What is the context behind the policy problem and how is the status quo expected to develop?

1. In New Zealand, charitable giving is encouraged by the availability of a refundable tax credit for individuals and by tax deductions for companies and Māori authorities, for gifts of money they make to donee organisations. A donee organisation is an entity or trust whose activities are not carried out for the private pecuniary profit of any individual and whose funds are applied principally for charitable, benevolent, philanthropic or cultural purposes in New Zealand. Some of the major donee organisations include churches, and social service organisations.
2. Individuals donate for a range of reasons, including altruism and the personal “warm glow” of giving. This RIS considers the tax treatment of individuals’ gifts of money and the role of the donation tax credit in supporting those gifts. Individual payroll giving, corporate giving, trustee distributions to charities, and in-kind gifts are out of scope.
3. Tax-based tools to encourage giving, such as the donation tax credit, assume donations are typically made from after-tax income. The credit reduces the after-tax cost of giving and recognises that donations can create wider social benefits (externalities). In the absence of tax benefits, donations may be lower than is socially desirable, providing a rationale for Government involvement even when the fiscal cost may exceed the additional giving stimulated.
4. The donation tax credit has a fiscal cost, so in a broader sense it shifts Government decisions about how public resources support social, human, and natural capital towards, in this case, individual donor preferences.<sup>5</sup>
5. This RIS draws on public feedback Inland Revenue received through:
  - Inland Revenue’s stewardship review of the donation tax credit system (completed in 2023–24 and published February 2025). The review considered end-to-end settings and operation, including policy, administration, customer experience, compliance, data, technology, and cultural considerations. This work included customer surveys and focus group sessions.<sup>i</sup>
  - An officials’ issues paper “Taxation and the not-for-profit sector” was released on 24 February 2025, which considers some of the donation tax integrity measures raised in this RIS.
  - “Taxation and the not-for-profit sector: Targeted policy consultation on detailed design”, which considered the role of the donation tax credit and other tax concessions for donations to “donor-controlled” charities in November 2025. In February 2026 we invited all 140 submitters on the targeted consultation to meet, hear the combined feedback and share what our recommendations were likely to be.

---

<sup>5</sup> Tax Working Group interim report (2018) [Future of Tax: Interim Report \[HTML\] | The Tax Working Group](#)

## Donation tax credit

6. The donation tax credit allows individuals to claim 33⅓% of every \$1 donated to approved donee organisations (up to the level of their taxable income). The credit is available for every donation that is \$5 or more. This tax concession is generous by international standards owing to a combination of settings:
  - the credit is payable as a refundable tax credit
  - the credit is set at a relatively high rate
  - the credit has a high maximum entitlement threshold, and
  - the list of eligible donee organisations is relatively large.
7. Changes in 2008 removed a ceiling that limited the donation tax credit to a maximum of \$630 a year. The donation tax credit is now limited to the individual's taxable income.
8. Using the tax system to support individuals' charitable giving has been a longstanding feature since 1962 as a means of encouraging the allocation of financial resources from households to further wider social objectives.<sup>6</sup> Government reviews, such as the 2018 Tax Working Group, generally acknowledge the positive role of charitable giving and the case for using tax concessions to encourage such giving. However, the Group recommended that the settings be periodically reviewed in terms of how they can be best structured, such as for minimising abuses and maximising the social benefit from foregone government revenue.<sup>7</sup>
9. Donee organisations can help governments to further social objectives, such as increasing support to those members of society who are disadvantaged, and to foster a more caring and cohesive society. The activities of donee organisations can provide wider benefits (externalities) to society over and above the value of the tax benefits received by the recipient or the supplier of the activity. For example, other members of society may gain direct or indirect advantages from the goods and services provided, as well as from the overall enhancement of community wellbeing. These goods and services might not otherwise exist if provided by the Government or under for-profit commercial conditions.
10. The activities of donee organisations can also be more responsive to the needs of society and able to deliver timely programmes that respond to changing social needs. Donations to such organisations can provide an effective indicator of the extra goods and services that society feels are needed.
11. The trade-off is the fiscal cost. For the 2023–24 tax year, approximately \$350 million was paid in donation tax credits to around 350,000 individuals, who donated a total of over \$1 billion.<sup>8</sup> Expenditure on the donation tax credit is growing at an average of 2.6% (between the 2021–22 and 2023–24 tax years). From the Government's perspective every concession has a cost. It reduces government revenue and therefore transfers the cost to other taxpayers.

---

<sup>6</sup> The Budget announcement in 1962 described it as a "modest scheme".

<sup>7</sup> [Future of Tax - Final Report Volume I - Recommendations - 21 February 2019](#).

<sup>8</sup> Despite these values, Inland Revenue's recent stewardship review into the donation tax credit system indicated that there is low general public awareness of the tax credit. This suggests that there is an upside financial expenditure risk if the concession is promoted more actively.

12. Amounts paid through the donation tax credit represent about 90% of the tax concession support the Government provides to encourage gifts of money to donee organisations. The other 10% consists of tax deductions for companies and Māori authorities, and payroll giving.

### **Regulatory stewardship review of the donation tax credit**

13. In 2023 and 2024 Inland Revenue conducted a regulatory stewardship review of the donation tax credit. The final report and the Inland Revenue response was published in February 2025.<sup>9</sup> The review tested whether the donation tax credit is operating efficiently and effectively, achieving intended outcomes and is fit for purpose now and for the future.
14. The review found that the donation tax credit is well established, valued by donors and donee organisations who are aware of it, and has strong taxpayer compliance and administrative strengths with a flat-rate tax credit. It is fit for purpose but had integrity risks.
15. In response to the review, Inland Revenue has been more actively promoting the donation tax credit and reviewing areas for policy change. Alongside these improvements, Inland Revenue has considered the case for better targeting the credit in response to integrity concerns and introducing some discipline to the Government's expenditure on the donation tax credit.<sup>10</sup>

### **Statistics and data**

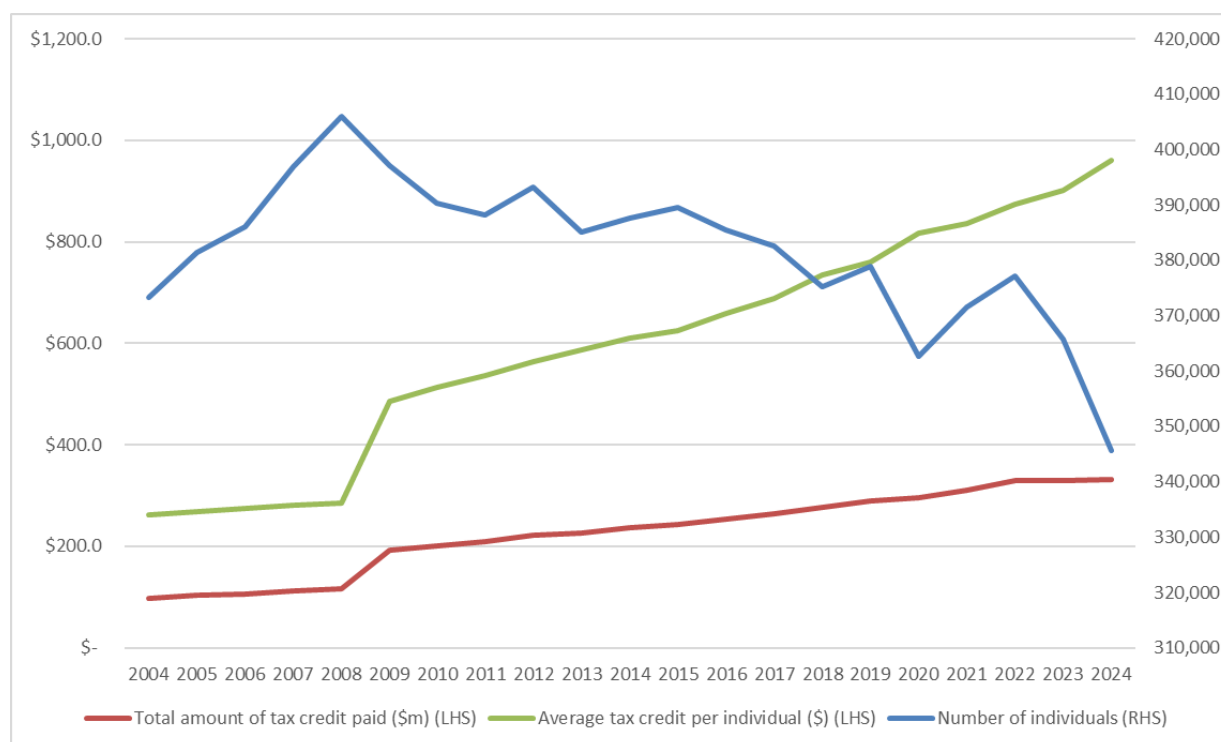
16. Graph 1 illustrates the relationship between the number of individuals that claim the donation credit and the value of the tax credit over the last 20 years. Over the last decade, the value of the average claim has increased from \$625 to \$961, but the number of individuals claiming the credit has declined from 390,000 to 350,000. Part of the drop can be attributed to programmes such as the Government's School Donations Scheme, which has reduced the number of claims related to school activity donations from around the 70,000s to 62,000 since its introduction in 2020.

---

<sup>9</sup> [DTC regime regulatory stewardship review findings and response](#). The final findings were published 10 February 2025.

<sup>10</sup> [Tax and Charities](#), a government discussion document on the tax issues relating to charities and non-profit bodies, June 2001 at paragraph 2.12, page 7. Tax-based support for charities raises key risks: it reduces Government revenue (potentially requiring higher taxes elsewhere), can distort resource allocation and create inefficiencies, and is difficult for the Government to control because benefits are linked to income or donor choices rather than need. It can also be non-transparent, obscuring the true level of public support, therefore such assistance should be targeted, transparent, and subject to review.

**Graph 1: Relationship between donation tax claim numbers and tax credit paid**



Source: Inland Revenue 2023–24 tax year, ending 31 March.

- For the last decade (2014 to 2024) the proportionate value (not volume) of donations gifted to “schools” (entities registered under the Education and Training Act 2020), “religious” entities (including social services carried out by religious entities), and “other” entities has remained constant. Approximately 8% by donation value relates to donations to “schools”, 63% to “religious” entities, and the remaining 29% to “other” entities. The “other” entities include registered charities involved with medical research, animal welfare, international aid, and donations to the arts.
- Table 1 illustrates the shift in the value of donations made per statutory income tax band. While salary and wage growth can account for some of the movement up bands, the largest growth has occurred for incomes above \$70,000.

**Table 1: Donation tax credit claims by income band**

Personal income tax band	2019	2020	2021	2022	2023	2023	2024	2024
	\$m	\$m	\$m	\$m	\$m	No. of donors	\$m	No. of donors
1-14,000	8.0	7.5	6.8	6.9	6.3	15,244	3.6	12,355
14,001-48,000	84.3	80.2	85.5	84.8	80.4	126,216	69.1	107,563
48,001-70,000	53.7	53.9	54.8	56.9	53.9	65,890	50.8	62,202
70,001-180,000	92.8	97.2	103.5	119.9	129.4	132,800	137.9	138,929
180,001+	49.7	57.9	60.4	60.9	59.7	28,856	70.8	31,769
<b>Total</b>	<b>288.5</b>	<b>296.7</b>	<b>311.0</b>	<b>329.4</b>	<b>329.7</b>		<b>332.2</b>	

Source: Inland Revenue 2023–24 tax year, ending 31 March.

- Overall, Inland Revenue statistics and data show charitable giving occurs across the income tax bands and the value of donation tax credits paid is concentrated among

higher-income individuals. Taxpayers earning above \$70,000 receive the majority of total credits, and very high-value donations drive overall expenditure growth. Inland Revenue's promotion of the donation tax credit should in principle see an increase in claims across the bands.

### **Value for money and supporting donee organisations**

20. Philanthropy can reveal what activities society values and can generate positive externalities (wider social benefits) by devolving funding decisions to individuals rather than central Government. However, externalities vary widely across charities and are difficult to observe or quantify.
21. New Zealand-specific academic literature suggests that donor responsiveness to the donation tax credit is weak.<sup>11</sup> The fiscal cost may exceed the value of additional donations in some cases, that is, the donation would have occurred irrespective of tax settings. The research concluded that if donations are not highly responsive to subsidies (such that a dollar of support leads to less than a dollar of additional giving), the policy would be considered an inefficient use of government funds.
22. We note that sector-led studies have reached different conclusions.<sup>12</sup> Other academic studies dismiss the concept of donor responsiveness and consider the value of government support should be determined in accordance with the externalities from donations.<sup>13</sup>
23. Sector-led studies emphasise that externalities provide a strong rationale for continued public support. From the sector's perspective, donations can improve social outcomes, reduce pressure on public services, and generate community benefits beyond the donor and immediate recipient. From this viewpoint, subsidies can be justified even if they do not fully "pay for themselves" through additional giving.

---

<sup>11</sup> Cruickshank, A. (2022). "Elasticity of reported donations: Bunching evidence from New Zealand". Working Papers in Public Finance, Victoria University Chair in Public Finance (WP21/2022) found at: <https://www.wgtn.ac.nz/business/research/centres-institutes/previous-chairs/chair-in-public-finance/publications/working-papers/2022-working-papers/WP21-2022-Elasticity-of-reported-donations-Bunching-evidence-from-New-Zealand.pdf>. The study concluded that the donation tax credit did not appear to be an effective tool for encouraging additional donations, that is, for every additional \$1 tax credit, donors appeared to increase their giving by less than \$1 (an estimated range of \$0.40 to \$0.70). This finding is consistent with international research on charitable giving tax incentives. Studies by Fack and Landais (2010) in France and Almunia et al. (2020) in the United Kingdom similarly found donation price elasticities of less than one, indicating that tax credits typically generate less in additional donations than the Government foregoes in tax revenue. The New Zealand research extends this international evidence, suggesting that the current tax concessions for gifts of money may not be an optimal use of public funds.

<sup>12</sup> The Future of Charitable Giving in New Zealand, White Paper 2025 Bloomsbury Associated August 2025, [Bloomsbury-Associates-The-Future-of-Charitable-Giving-in-NZ.pdf](#).

<sup>13</sup> Optimal Income Tax and Charitable Giving, L Kaplow, Tax Policy and the Economy, Vol 38, 2024.

24. Submissions on Inland Revenue’s consultation documents<sup>14</sup> also stressed that tax benefits support donation levels, and that reducing support could reduce household funding to the community and voluntary sector.<sup>15</sup> However, the extent to which changing tax benefits (particularly for high-income households) would change giving cannot be readily verified.
25. An Australian Productivity Commission study (July 2024)<sup>16</sup> found that while tax benefits can increase donations for some donors, household income is a much stronger predictor of how much a household gives.
26. United States-based studies, by contrast, have observed reduced giving following reductions in tax benefits, with larger effects for non-religious charities (including poverty relief). This suggests donation tax changes may affect non-religious organisations more than religious organisations.<sup>17</sup> In New Zealand, donations often gravitate towards religious, international aid, and animal welfare causes, while government funding tends to prioritise education, health, and social services. The impact of donation tax policy changes would therefore differ across the sector depending on donee organisations’ purposes.<sup>18</sup>
27. In Inland Revenue’s view the literature is not conclusive and donor responsiveness, especially for large donations, is very dependent on the specific donor. Therefore, this has raised questions about when the donation tax credit incentivises donations and provides value for money for the Government.
28. This underscores the importance of ongoing stewardship (such as improving targeting, uptake efficiency, and administrative simplicity), to ensure that the donation tax credit continues to represent a cost-effective tool within the Government’s overall approach to supporting the charitable and community sector.

### **Tax integrity: Growing integrity concerns**

29. Inland Revenue has observed a growing number of instances when the donation tax credit has been misused for aggressive tax planning. The current high maximum entitlement threshold appears to contribute to this behaviour. As part of Inland Revenue’s compliance work, it regularly reviews charities that have entered into arrangements with donors to access donation tax credits. In the issues paper “Taxation and the not-for-profit sector”, in relation to donor-controlled charities, Inland Revenue provided some examples of integrity issues:<sup>19</sup>
  - Circular arrangements, when the donor gifts money to a charity they control, claim a donation tax credit or gift deduction, and the charity immediately invests the money

---

<sup>14</sup> Ibid. footnote 9.

<sup>15</sup> The overarching theme from consultation was that the Government should be increasing its support of the sector and not reducing it. It was also observed that changes to reduce taxpayer entitlements to tax concessions for gifts of money would likely result in the withdrawal of financial resources to donee organisations.

<sup>16</sup> [Inquiry Report - Future Foundations for giving | Productivity Commission](#) (May 2024, released publicly July 2024).

<sup>17</sup> “Tax incentives for charitable giving: New findings from the TCJA”, National Bureau of Economic Research, July 2024, Xiao Han, Daniel M Hungerman, Mark Ottoni-Wilhelm; “Tax Prices and Charitable Giving: Projected Changes in Donations Under the 2017 TCJA”, November 2019, Jonathan Meer and Benjamin A Friday; and “Reforming Charitable Tax Incentives: Assessing Evidence and Policy Options” the Tax Policy Center, November 2018, Joseph Rosenberg and Eugene Steuerle.

<sup>18</sup> <https://www.wgtn.ac.nz/news/2025/05/charity-donation-tax-incentives-not-as-generous-as-we-think>

<sup>19</sup> Ibid, footnote 9.

back into businesses controlled by the donor or their associates. While the investment may earn a market rate return, typically the investment income is accrued and no cash is actually paid to the charity for many years.

- In donor-controlled charities there can be a significant lag between the time of tax concessions for the donor and the charity, and the time of the ultimate public benefit. This occurs when the donor-controlled charity accumulates most or all its funds and makes no or very minimal charitable distributions.
  - Arrangements when donor-controlled charities purchase assets from the donor or their associates at prices exceeding what would normally be paid by unrelated parties.
  - Arrangements when donor-controlled charities regularly acquire goods or services from the donor or their associates, on terms that would not normally exist between unrelated parties.
30. Questions about the genuineness of a charity are best left to the charities regulator. The broader issue is whether that charity would (or should) have existed if it were not for the current tax settings that encourage such arrangements. Existing anti-avoidance provisions, including a donation-specific provision that took effect from April 2019, can be difficult and resource-intensive for Inland Revenue to enforce in these situations.
31. Reducing the value of the donation tax credit could minimise behaviours that compromise the integrity of the tax system.

### **Fiscal sustainability**

32. The current policy settings that support the donation tax credit represent an open-ended subsidy over which the Government has limited ability to control costs. Reviewing those settings would support expenditure discipline.<sup>20</sup>
33. Expenditure on the donation tax credit has grown since the change to the income cap (from the previous monetary cap) in 2009. On current trends, expenditure on the donation tax credit is growing at an average of 2.6% a year.
34. As Graph 1 shows, the expenditure trend is not the result of an increase in the number of individuals donating, but an increase in the total amount of donations claimed by a reduced pool of donors. The concentration of giving among higher-income households is not unique to New Zealand, and a similar outcome has been observed in Canada.<sup>21</sup>
35. Inland Revenue is, however, concerned that expenditure on the donation tax credit is growing not as a result of more taxpayers using the scheme, but because it is being used by a very few.
36. Reintroducing a lower maximum entitlement threshold would improve expenditure discipline.

### **What is the policy problem or opportunity?**

---

<sup>20</sup> For example, but not limited to, reducing New Zealand's significant structural deficit, which the Treasury has assessed needs to be closed in a way that does not reduce long-term economic growth.

<sup>21</sup> "Understanding the Efficacy of Tax Credits for Charitable Donations in Canada" R Hickey, A Payne, J Smith, Canadian Tax Journal (2024). The study noted that donors across the income distribution respond to the tax credit, but responsiveness (tax-price elasticity) is strongest among lower-income households and closer to one-for-one among higher-income donors.

37. There is an opportunity for the Government to update policy settings in relation to the donation tax credit that balances three competing (but equal) considerations:
- The support of donee organisations (paragraph 1), when that support represents good value for money for the Government.
  - The integrity of the tax system and the possible use of the donation tax credit for aggressive tax planning purposes.
  - The fiscal sustainability of the Government’s current expenditure on the donation tax credit.
38. We note this opportunity allows the Government to review the best use of its funds. This involves taking into account its value-for-money and fiscal sustainability objectives, allowing resources to be prioritised for public benefit in other forms. Given that the reprioritisation of these funds is interdependent with the wider Budget process, we cannot comment on whether alternative possible uses of these funds represent better value for money than the existing tax credit.

### **What objectives are sought in relation to the policy problem?**

39. The objectives are to ensure the donation tax credit encourages and reinforces charitable giving by balancing the following three outcomes:
- It provides value for money for the Government.
  - It operates with fewer tax integrity concerns.
  - It is fiscally sustainable.
40. Different weightings of these objectives lead to different policy outcomes. Prioritising integrity aligns with a cap on donation tax credit entitlements, whereas fiscal reprioritisation could support a rate reduction (for example, to 25%). We have given these objectives an equal weighting, which favours imposing an entitlement ceiling.

### **What consultation has been undertaken?**

41. Owing to Budget convention, no direct public consultation has been undertaken on the problem definition, the proposed options, and the preferred solution.
42. The comments and observations in this RIS have been sourced from Inland Revenue’s stewardship review of the donation tax credit and written and verbal feedback on two Inland Revenue consultation documents.
43. Inland Revenue’s 2023–24 stewardship review (paragraphs 13 to 15) involved 2,876 customer survey responses and 490 frontline staff survey responses. The review also involved interviews and focus groups.
44. On 24 February 2025, Inland Revenue published a public officials’ issues paper, “Taxation and the not-for-profit sector”, that sought public views on matters relating to the charities and not-for-profit sector. The closing day for feedback was 31 March 2025. We received over 900 submissions from tax practitioners, individuals, donee organisations, iwi groups, and industry representatives. On the matter of tax settings and charities generally, submitters considered that the not-for-profit sector was not a net cost to the Government (that is, the value of the externalities provided by the sector was worth more than the cost

to the Government in the form of lost tax revenue). Submitters considered it worthwhile to consider a direct response to deal with “bad actors”, but that broader changes were not needed.

45. On 25 November 2025, Inland Revenue sought feedback on detailed proposals concerning the treatment of donor-controlled charities and other matters via a targeted consultation paper. Most submitters considered that existing charities law and fiduciary duties provide adequate safeguards for addressing integrity concerns, and that these rules should be enforced by the regulator, Charities Services, instead of Inland Revenue. The proposals for donor-controlled charities considered whether to require minimum distributions or restrict donation tax credits to a specific class of donee organisation. The closing date for feedback was extended to 30 January 2026. We received 140 submissions from tax practitioners, donee organisations, iwi groups, and industry representatives. Those that commented on the donor-controlled proposal voiced concerns about limiting donation tax credit entitlements, and that this form of policy response could discourage donor behaviour.
46. The Department of Internal Affairs (DIA) and the Ministry for Culture and Heritage were informed of the options considered by this RIS. From DIA’s perspective, reducing entitlements puts the delivery of goods and services by the community and voluntary sector particularly in regions that are vulnerable and are not well serviced by either the Government or under for-profit conditions at risk. DIA’s preference is to retain the current tax settings for the donation tax credit. It notes that changing the donation tax credit settings is a blunt instrument for addressing Inland Revenue’s tax integrity concerns.
47. Both agencies note that the current policy setting for the donation tax credit is an important platform for the Government to further initiatives that promote philanthropy and deliver social and community outcomes and facilities.

## Section 2: Assessing options to address the policy problem

---

### What criteria will be used to compare options to the status quo?

48. The five criteria used to assess the options are:
- **Supporting donee organisations:** Does the option encourage and reinforce charitable giving?
  - **Tax integrity:** Does the option improve integrity for the donation tax credit? Does the option reduce the administrative effort currently required by Inland Revenue to detect and address integrity concerns?
  - **Fiscal sustainability:** Does the option provide the Government with additional financial headroom by reducing its expenditure on the donation tax credit?
  - **Compliance costs:** Does the option create costs (monetary, time or other) on donors, agents/intermediaries, employers (through payroll giving), and payroll giving software providers that are additional to the status quo? This will also consider the complexity of implementation.
  - **Administrative impact:** What are the monetary, time or other costs associated with Inland Revenue implementing this option? This will also consider the complexity of implementation.

### What scope will options be considered within?

49. The scope of feasible options, apart from the status quo, is limited to legislative changes that can be made to the donation tax credit settings. There are certain aspects of the rules that should remain unchanged and are therefore out of scope of this RIS, namely, the individuals who can claim the donation tax credit and the types of organisations for which they may claim. All options set out here would continue to encourage charitable giving across a broad base of donors.
50. The entitlement to the donation tax credit is created and managed through the Income Tax Act and the Tax Administration Act so there are no non-regulatory options available.
51. Although a full repeal of the donation tax credit is an option, we consider it has an important role in encouraging giving in New Zealand. Therefore, repealing the donation tax credit is not a viable option. The focus on fiscal sustainability also meant that other options, such as gift aid as used in the United Kingdom, were dismissed early on as suitable options. In addition, Inland Revenue's regulatory stewardship review of the donation tax credit found that overall, it is working well with no fundamental flaws that would otherwise necessitate a fundamental reform in the area.
52. Some companies can be used as a substitute for individual giving, so the donation tax deduction concessions for these entities are within scope for some of the options when it is necessary to prevent substitution in the method by which the donation is made. Because the donation tax deduction rules for Māori authorities are aligned with the company rules, any changes to the latter would, in principle, need to be applied

consistently to Māori authorities. These tax concessions and payroll giving<sup>22</sup> are only considered in this RIS when necessary to support an option's effectiveness.

53. Only gifts of money are within scope of this RIS. Businesses (including companies, sole traders, and trading trusts) can claim a deduction for donations of trading stock. This deduction is not subject to any cap because the policy intent was to minimise the compliance and administrative costs for businesses and Inland Revenue. This rule was recently introduced and applies to trading stock donated on or after 1 April 2024. Amendments to this rule are out of scope.
54. There is insufficient data for Inland Revenue to quantify the overall impact on the sector and donee organisations, or for different population groups. Claiming the donation tax credit is optional, which means Inland Revenue does not hold information on donations that are not claimed and donors who do not claim at all. Examples of what Inland Revenue does not have visibility over include:
  - Individuals who do not include some of their donations in their claim (for example, an individual might choose to only claim for regular monthly donations but not one-off street collection appeals).
  - The proportion of parents who claim for school and kindergarten donations and whether they claim for all related school costs.
  - Individuals who give regularly but do not claim (and by how much they give).
55. Inland Revenue has relied on conclusions from recent stewardship work and information held on donors that interact with the donation tax credit system to help provide a sense of the impact and its scale when analysing the effects of each option.
56. The options could impact on other elements of the tax system. Inland Revenue has not been able to engage with impacted parties such as payroll giving software providers to understand their compliance costs associated with the feasible options.
57. Inland Revenue does not collect ethnicity data from payroll giving or cash donations submitted for the donation tax credit. Therefore, Inland Revenue is unable to quantify the impact on Māori or test potential impacts by way of consultation. The proposals in this RIS, however are directed at donating individuals and households generally, irrespective of ethnicity, and therefore we anticipate that Māori are not expected to be disproportionately impacted by the options analysed in this RIS relative to the status quo.

### **What options are being considered?**

58. The options considered are the status quo (retain the 33 $\frac{1}{3}$ % credit, capped at taxable income), lower the maximum entitlement threshold (to \$4,500, \$15,000 or \$100,000) with the rate unchanged and lower the rate of the donation tax credit to 25% with the cap

---

<sup>22</sup> Payroll giving is a complementary tool to encourage and reinforce donor behaviour. It is a voluntary arrangement under which an employer allows employees to make donations to Inland Revenue-approved donee organisations directly from their salary or wages through the employer's payroll system. The donation is deducted each pay period, and the employee receives an immediate tax credit by way of a reduction in their PAYE (pay as you earn) tax for that pay period. For the 2023–24 year, ending 31 March, there are 1,630 employers offering payroll giving with 11,970 participating employees. The value of donations made through payroll giving is \$6.6 million.

remaining at taxable income. All options would apply to donations made on and after 1 April 2027.

### Option One – Status quo

59. Under the status quo, there is no change to the donation tax credit settings. This option maintains the Government's current support through the donation tax credit and current growth in claims. Concerns regarding the integrity of the tax system would continue to be managed using audit and interventions by the regulator of the charities sector.
60. **Supporting donee organisations:** The donation tax credit would continue to support donee organisations.
61. **Tax integrity:** Tax integrity concerns remain. This could erode perceptions of fairness and trust in the tax system if there is a view that well-resourced individuals are able to abuse the donation tax credit.
62. **Fiscal sustainability:** Based on current trends, the status quo does not reduce the Government's expenditure on the donation tax credit.
63. **Compliance costs:** No change.
64. **Administrative impact:** If public confidence in the donation tax credit system declines, Inland Revenue would need to allocate additional resources to enforcement and compliance to increase integrity and bolster public confidence.

### Option Two – Entitlement ceiling of \$4,500

65. Under this option, the maximum entitlement threshold would be the lower of \$4,500 or the taxpayer's income. The rate of the tax credit remains at 33 $\frac{1}{3}$ %. This option would yield a maximum tax credit of around \$1,500. Under this option, it is expected that 54,000 individuals (or 16% of users) would have their entitlements reduced. This option prioritises the integrity of the tax system and fiscal sustainability ahead of supporting the sector.
66. **Supporting donee organisations:** Relative to the status quo, this option reduces the Government's support of donee organisations.
67. **Tax integrity:** Relative to the status quo, this option improves integrity for the tax system because it reduces the amount of the entitlement that individual taxpayers can obtain from the donation tax credit. Reducing entitlements under the donation tax credit is anticipated to reduce incentives to use the credit as part of tax-aggressive schemes.
68. **Fiscal sustainability:** Relative to the status quo, this option is anticipated to provide the Government with additional financial headroom by reducing its expenditure by \$146 million a year when fully implemented.
69. **Compliance costs:** Relative to the status quo, this option would increase compliance costs. It would require supporting measures that affect the tax deduction rules for donations by companies and Māori authorities. Inland Revenue also considers that payroll giving would cease to be viable. The removal of payroll giving would reduce compliance costs for employers. Across the system, the compliance cost savings from removing payroll giving would be outweighed by the impact on companies and Māori authorities in terms of determining their reduced entitlements to tax deductions.

70. **Administrative impact:** Relative to the status quo, this option would require supporting measures that affect the tax deduction rules for donations by companies and Māori authorities. Inland Revenue considers that payroll giving would cease to be viable. Inland Revenue would need to allocate additional resources to enforcement and compliance.

### Option Three – Entitlement ceiling of \$15,000

71. Under this option, the maximum entitlement threshold would be the lower of \$15,000 or the taxpayer's income. The rate of the tax credit remains at 33 $\frac{1}{3}$ %. This option would yield a maximum tax credit of around \$5,000. Under this option, it is expected that 8,000 donor entitlements (or 2% of users) would be impacted. This option prioritises the integrity of the tax system and the support of the sector (many tax credit claims are under this threshold), but would disincentivise high-value giving. This option also supports the objective of fiscal sustainability.
72. **Supporting donee organisations:** Relative to the status quo, this option reduces the Government's support of donee organisations in respect of supporting high-value donations to the sector. In all other cases, donee organisations involved in education and religious purposes may not observe a change, but other charities involved in the relief of poverty, and the arts, could see a reduction in financial support.
73. **Tax integrity:** Relative to the status quo, this option creates more integrity for the tax system because it reduces the amount of the entitlement that individual taxpayers can obtain from the donation tax credit. Reducing entitlements under the donation tax credit is anticipated to reduce incentives to use the credit as part of tax-aggressive schemes.
74. **Fiscal sustainability:** Relative to the status quo, this option is anticipated to provide the Government with additional financial headroom by reducing its expenditure by \$58 million a year when fully implemented.
75. **Compliance costs:** Relative to the status quo, this option would increase compliance costs for high-value giving because only donations up to and equal to \$15,000 would be eligible for the donation tax credit. This may result in a shift in behaviour in the way that high-wealth individuals choose to donate to the sector. Other donors who use the donation tax credit would not observe any difference from the status quo. Payroll giving should continue under this option, alongside other tax concessions such as tax deductions for companies and Māori authorities.
76. **Administrative impact:** Relative to the status quo, Inland Revenue would need to monitor to assess if there is a strong behavioural response to using other tax concessions, including payroll giving, and consider increasing audit activity.

### Option Four – Entitlement ceiling of \$100,000

77. Under this option, the maximum entitlement threshold would be the lower of \$100,000 or the donor's taxable income. The rate of the tax credit remains at 33 $\frac{1}{3}$ %. This option would yield a maximum tax credit of \$33,333. Under this option, it is expected that 350 donor entitlements (or 0.1% of donors) would be impacted. While the potential affected population is small, donations from that group represent 10% of all donations submitted as a claim (\$103 million). This option prioritises tax integrity and support of the sector, except when high-value donations are being considered by donors. This option also supports the objective of fiscal sustainability.

78. **Supporting donee organisations:** Relative to the status quo, this option reduces the Government's support of donee organisations in respect of supporting high-value donations to the sector. In all other cases, donee organisations involved in education and religious purposes may not observe a change, but other charities involved in the arts, for example, could see a reduction in financial support.
79. **Tax integrity:** Relative to the status quo, this option creates more integrity for the tax system because it reduces the amount of the entitlement that individual taxpayers can obtain from the donation tax credit particularly in cases when large amounts are being donated. Reducing entitlements under the donation tax credit is anticipated to reduce incentives to use the credit as part of tax-aggressive schemes. It is not a complete integrity solution when contrasted against specific integrity proposals for donor-controlled charities because the donation tax concessions for companies remains and trusts can continue to allocate beneficiary income to charities with no tax impost. Inland Revenue would need to monitor and further policy work may be required.
80. **Fiscal sustainability:** Relative to the status quo, this option is anticipated to provide the Government with additional financial headroom by reducing its expenditure by \$19 million a year when fully implemented.
81. **Compliance costs:** Relative to the status quo, this option would affect high-value giving because only total donations up to and equal to \$100,000 would be eligible for the donation tax credit. This may result in a shift of behaviour, for example by using alternative gifting avenues, increasing compliance costs. Other donors that use the donation tax credit would not observe any difference from the status quo. Payroll giving should continue under this option, alongside other tax concessions, such as tax deductions for companies and Māori authorities.
82. **Administrative impact:** Relative to the status quo, this option uses Inland Revenue's existing administrative systems and frameworks. Inland Revenue would need to monitor to assess if there is a strong behavioural response to using other tax concessions, including payroll giving, and consider increasing audit activity.

#### Option Five – Reduce tax credit to 25%

83. Under this option, the maximum entitlement to donation tax credits would continue to be limited to the taxpayer's income. The rate of the tax credit is reduced to 25%. Under this option, it is expected that 350,000 donor entitlements (100% of individuals who use the donation tax credit system, and payroll giving) would be impacted. This option prioritises fiscal sustainability and support of the sector (by continuing to support high-value giving, albeit at a lower rate) ahead of tax integrity.
84. **Supporting donee organisations:** Relative to the status quo, this option continues the tax system's support of donee organisations, including high-value giving. However, relative to the status quo this support is reduced.
85. **Tax integrity:** Relative to the status quo, this option does not address tax integrity concerns, but reduces the incentive connected with the donation tax credit.
86. **Fiscal sustainability:** Relative to the status quo, this option is anticipated to provide the Government with additional financial headroom by reducing its expenditure by \$95 million a year when fully implemented.

87. **Compliance costs:** Relative to the status quo, this option has the same compliance costs for individuals who use the donation tax credit. Software developers and employers would need to update payroll giving systems to reflect the new rate, but this should be a one-off implementation cost. The reduction in the rate of the credit may have an impact on the cost of living because the after-tax cost of donations is increased. Other tax concessions, such as tax deductions for companies and Māori authorities, would remain as per the status quo.
88. **Administrative impact:** Relative to the status quo, this option uses Inland Revenue's existing administrative systems and frameworks. Inland Revenue would need to monitor to assess if there is a strong behavioural response to using other tax concessions, such as donation tax deductions for companies and consider increasing audit activity.

## How do the options compare to the status quo/counterfactual?

	Option One – Status quo	Option Two – Entitlement ceiling of \$4,500	Option Three – Entitlement ceiling of \$15,000	Option Four – Entitlement ceiling of \$100,000	Option Five – Reduce tax credit to 25%
<b>Supporting the community and voluntary sector</b>	0	--	0 / - <sup>23</sup>	0 / - <sup>24</sup>	--
<b>Tax integrity</b>	0	++	+	+	0
<b>Fiscal sustainability</b>	0	++	+	+	++
<b>Compliance costs</b>	0	--	-	0 / - <sup>25</sup>	0
<b>Administrative impacts</b>	0	-	0	0	0
<b>Overall assessment</b>	0	-	-	+	0

Key for qualitative judgements:

- ++ much better than doing nothing/the status quo/counterfactual
- + better than doing nothing/the status quo/counterfactual
- 0 about the same as doing nothing/the status quo/counterfactual
- worse than doing nothing/the status quo/counterfactual
- much worse than doing nothing/the status quo/counterfactual

<sup>23</sup> Donors making gifts of money above \$15,000 may reduce or withdraw financial support of some donee organisations. Apart from donations above that amount, the impact on donors is expected to be the same as the status quo.

<sup>24</sup> Donors making gifts of money above \$100,000 may reduce or withdraw financial support of some donee organisations. Apart from high-value donations above that amount, the impact on donors is expected to be the same as the status quo.

<sup>25</sup> Donors making gifts of money of \$100,000 would continue to receive their current entitlements under the donation tax credit, capped to the amount of their taxable income. Apart from high-value donations above that amount, the impact on donors is expected to be the same as the status quo.

## What option is likely to best address the problem, meet the policy objectives, and deliver the highest net benefits?

89. Introducing a maximum entitlement threshold of \$100,000 and retaining the current tax credit rate of 33 $\frac{1}{3}$ % (Option Four) would have the following expected benefits:
- It targets tax integrity risks by reducing the value of the tax benefit available for large donations, which Inland Revenue has observed can be associated with aggressive tax planning arrangements.
  - It affects the decision-making of only a very small proportion of donors (around 350 individuals, approximately 0.1% of donation tax credit claimants), preserving existing incentives for most donors and households.
  - A threshold is relatively simple to understand and administer, compared with more complex integrity-focused options (such as donor-controlled charity rules), and can be implemented within existing Inland Revenue systems.
  - It maintains payroll giving and other existing donation mechanisms without requiring immediate supporting changes to company or Māori authority donation deduction rules.
  - It reduces Government expenditure on the donation tax credit and provides fiscal headroom by reducing its expenditure by \$19 million a year when fully implemented (\$51.8 million over the forecast period 2026/27 to 2029/30).
90. The trade-off with lowering the maximum entitlement threshold is that it may reduce incentives for very high-value donations, particularly from high-wealth individuals whose donations exceed the threshold, potentially affecting discretionary philanthropic giving to certain arts, cultural, or specialist charities, which may experience reduced donation revenue. While the potential affected population is small, donations from that group represent 10% of all donations submitted (\$103 million).<sup>26</sup> In contrast to paragraph 17, the main recipients (using 2023–24 tax year information) of donations from these individuals are “religious” charities (27% of the total value of donation tax credits claimed), “other” charities (68%) and “schools” (5%).<sup>27</sup>
91. It is proposed that the change would apply to donations made on and after 1 April 2027. On transition, we expect that some very high-value donations may be brought forward. Therefore, in the year before the application of the change we expect there would be a transitional increase in the amounts processed through the system.

### Simplifications for donors

92. Alongside the options outlined in the RIS, Inland Revenue has recommended to Ministers changes to the Income Tax Act and the Tax Administration Act to support administrative improvements to the donation tax credit system. The changes would allow Inland Revenue to refund donation tax credits to donors during an income year (when there is reportable income to support the refund) and give donors the choice to have the value of

---

<sup>26</sup> This amount is not the value of the tax credit, but the donation value submitted for the donation tax credit for the 2024 tax year.

<sup>27</sup> In paragraph 17 we noted that the main recipients of total donations submitted for the donation tax credit are for “religious” charities (63%), “other” charities (29%), and “schools” (8%).

the donation tax credit refunded directly to the donee organisation. These changes are intended to make better use of Inland Revenue technology and to support philanthropy.

93. These changes were the subject of consultation and most submitters were supportive, subject to the associated compliance costs being manageable. Overall, these changes have limited or minor impacts and would come into effect from 1 April 2028. Legislation implementing these changes is expected to be included in an omnibus taxation Bill introduced in 2026.

### **Inland Revenue to monitor substitution behaviour**

94. In November 2025, Inland Revenue consulted on the design of rules that would limit tax entitlements for donations to donor-controlled charities. The design of the donor-controlled rules included donations by individuals and companies, and distributions from trustees.<sup>28</sup> The options discussed in this RIS are directed at individuals only. As noted earlier, the donation tax credit represents 90% of the value of tax entitlements provided under the Income Tax Act to donee organisations. The difference in approach is because the options in this RIS place weight on value-for-money considerations, as well as integrity and fiscal sustainability.
95. The design of the two approaches also differs in terms of the affected population. Donor-controlled charity changes apply narrowly, affecting only donors and charities that fall within defined control-based criteria. Most donors and donee organisations would be unaffected. Changes to the donation tax credit, however, apply across the entire donor population that claims the credit, irrespective of the governance characteristics or behaviour of the recipient donee organisation. As a result, the options in this RIS are broad-based, while donor-controlled charity changes are deliberately targeted at a small group of higher-risk arrangements. In contrast to the donor-controlled charity changes, the options in this RIS reduce the maximum available entitlement, thereby lowering the incentive to use large donations as part of tax-motivated arrangements, but without directly distinguishing between low-risk and high-risk charities.
96. The choice between these approaches therefore reflects differing judgements about proportionality, administrative feasibility, and the appropriate balance between a targeted, more complex response and a broader, but simpler, response.
97. Applying the broad-brush approach considered in this RIS to companies would likely require further consideration of the limitations that applied to company tax deductions for donations that applied before 1 April 2008. The framing of the deduction rule is very different to the rules that apply to refundable tax credits. While changes to the tax deduction rules (and Māori authorities) are not considered at this time, Inland Revenue intends to monitor these deductions, trustee distributions to charities and payroll giving to determine if taxpayers are substituting the methods by which they donate. If there is an observable change, Inland Revenue would provide further advice to Ministers about the desirability of additional legislative change to these other tax concessions.

---

<sup>28</sup> These proposals seek to address behaviours such as circular transactions and excessive accumulation, by imposing conditions on how affected charities operate or how donations to them are treated.

## Treaty of Waitangi considerations

98. Due to Budget processes, our ability to obtain additional insights and feedback from Māori, stakeholders, and other interested parties has been limited by both the inability to consult and opportunity to receive feedback. The Crown nonetheless acknowledges that the tikanga of koha is an important aspect of te ao Māori. Manaakitanga holds an important place in all areas of Māori culture.
99. The principle of partnership ensures that Māori and the Crown work together as partners. Both the Crown and Māori have not had the opportunity to work together from the policy development phase to the decision-making processes. Philanthropic behaviours and attitudes of Māori have not been directly surveyed against these potential options, meaning that the principle of participation for this analysis is lacking in meaningful feedback around the options being considered and related impacts and outcomes.
100. It is, however, our opinion that Māori are not expected to be disproportionately impacted by the preferred option analysed in this RIS relative to the status quo. This is because:
- Māori average incomes are within the \$48,001 to \$70,000 income band (being the statutory tax rate of 17.5%).<sup>29</sup> This income band is not within scope of the preferred option recommended in the RIS.
  - The design of the preferred option does not result in changes to existing policy settings to the tax deduction rules for Māori authorities.
  - From a manaakitanga perspective, the provision of volunteer labour and goods (voluntary contributions that are not gifts of money) hold equal or greater value to gifts of money. The settings for these in-kind contributions are not within scope of the preferred option.
101. Individual Māori may be affected to the extent that they contribute more than \$100,000 to activities that support charitable cultural or social development in their rohe or nationally. Affected individuals would therefore experience a higher after-tax cost of giving for every \$1 above the maximum entitlement threshold (when there is taxable income to support the donation). This outcome would be no different from other taxpayers (estimated to be 350) who are affected by the preferred option.

### **Is the Minister's preferred option in the Cabinet paper the same as the agency's preferred option in the RIS?**

102. The Minister's preferred option in the Cabinet paper is the same as the agency's preferred option in this RIS.

---

<sup>29</sup> Source: For consistency with the rest of this RIS, Inland Revenue 2023–24 tax year, ending 31 March.

## What are the marginal costs and benefits of the preferred option in the Cabinet paper?

Affected groups (identify)	Comment nature of cost or benefit (eg, ongoing, one-off), evidence, and assumption (eg, compliance rates), risks.	Impact \$m present value where appropriate, for monetised impacts; high, medium, or low for non- monetised impacts.	Evidence Certainty High, medium, or low, and explain reasoning in comment column.
<b>Additional costs of the preferred option compared to taking no action</b>			
Donors (individuals)	Individuals who donate more than \$100,000 would face a higher after-tax cost of gifts of money on the first \$1 above \$100,000.	\$19 million a year reduction in amount paid as a donation tax credit when the proposal is fully implemented (2028/29). Over the forecast period the amount is expected to be \$51.8 million (2026/27 to 2029/30).	Medium (based on comments from consultation on donor-controlled proposals and Inland Revenue's stewardship review of the donation tax credit)
Inland Revenue	Inland Revenue would face additional operating costs in terms of monitoring the threshold and any behaviour changes. These costs decline over time.	\$1.5 million expected administration operating cost over the forecast period (2026/27 to 2029/30).	High (self-assessed impact on the agency)
Government	The Government may be expected to expend more on grants and subsidies if the community and voluntary sector experience a decline in donation income.	Unknown, unquantifiable	Low (based on comments from consultation on donor-controlled proposals)
Donee organisations	The community and voluntary sector may face a reduction in amounts received by donors, particularly high-value donations.  Affected organisations may reduce the volume and value of goods and services provided to the communities in which they operate.	Unknown, unquantifiable	Low (based on comments from consultation on donor-controlled proposals)  Low (the preferred option does not prohibit high-value donations, it limits the tax benefit)
<b>Total monetised costs</b>		Medium	Medium
<b>Non-monetised costs</b>		Low	Low

<b>Additional benefits of the preferred option compared to taking no action</b>			
Donors (individuals)	Confidence that donation tax credit system is not being used to create tax advantages for a select group of individuals.	Medium, unquantifiable	Low (feedback received on Inland Revenue's stewardship review)
Inland Revenue	The change is expected to have a positive effect on tax integrity and reduces the value of some tax aggressive arrangements involving the donation tax credit.	Medium, unquantifiable	High (self-assessed impact by the agency)
Government	Increased fiscal discipline.	\$19 million a year reduction in Government expenditure when the proposal is fully implemented (2028/29). Over the forecast period the amount is expected to be \$51.8 million (2026/27 to 2029/30).	High (assessed by the agency)
Donee organisations	Increased integrity may disincentivise "bad actors" from entering the voluntary and community sector and improve overall confidence in the sector.	Medium, unquantifiable	Low (feedback received on Inland Revenue's stewardship review)
<b>Total monetised benefits</b>		Medium	Medium
<b>Non-monetised benefits</b>		Medium	Medium

## Section 3: Delivering an option

---

### How will the proposal be implemented?

103. The proposal would be implemented by amending the Income Tax Act and Tax Administration Act. The legislative changes would be included in the next omnibus taxation Bill, scheduled for introduction in September 2026, with effect for donations made on and after 1 April 2027.
104. Inland Revenue is responsible for the proposal in this RIS and the ongoing operation and enforcement of the donation tax credit scheme.
105. Inland Revenue would issue guidance in the Act commentary and on its website to support understanding of the new rules and taxpayer compliance. Internal guidance would also be prepared to support operational business units within Inland Revenue.
106. Implementation costs are expected to be small for one-off initial implementation costs and low to medium over the medium term. There is a transitional issue for four years while historical donations by individuals make their way through the system. Under current law, donations made within the four-year time bar are eligible for the tax treatment that applied at the time the donation was made. Inland Revenue would therefore need to maintain a dual system for that period.
107. The main change to Inland Revenue's systems would be updating the donation tax credit claim process, along with updates to accompanying information on Inland Revenue's website and for customer-facing staff.
108. Overall, there would be no change, subject to the new entitlement ceiling, to the way in which individuals file donation tax credit claims. If individuals have queries about the changes, they can contact Inland Revenue through existing channels (for example, by phone or through myIR).
109. However, with a prospective application date of 1 April 2027, Inland Revenue expects additional customer contact because some individuals may choose to bring forward their donations to the 2026–27 income year to take advantage of the existing tax settings. It is also expected that the number of future claims by individuals should increase in cases where households allocate receipts among taxpayers (a situation that was common before the 2008 tax changes). These behaviours will be monitored in case it gives rise to any integrity concerns. There may be additional contacts in the first year of implementation if, following filing a donation tax credit claim, donors do not understand why their refund is smaller than in previous years. Any resourcing requirements arising from these additional contacts will be managed internally by Inland Revenue.
110. We have also considered whether a change to the donation tax credit system would need to be supported by additional changes. Presented with a reduced entitlement, donors may consider using alternative methods of donating, such as using companies or payroll giving. Our assessment is that the risk of substituting donation behaviour is low and does not require an immediate response. However, Inland Revenue will monitor (using existing systems) the volume and value of donations going through the donation tax credit system and the value of donations going through companies and payroll giving to determine if additional policy responses are required for inclusion in a later omnibus taxation Bill.

111. Additional changes to support take-up of the donation tax credit are proposed for implementation from 2028. These would permit in-year refunds of tax credits and transfers to donee organisations. Inland Revenue would prefer to have the substantive changes to the donation tax credit discussed in this RIS in operation for a year before any additional simplifications are implemented to spread the impact of the changes needed to Inland Revenue's system and to give the sector adequate time to prepare if donors start requesting additional donation receipts.

### **How will the proposal be monitored, evaluated, and reviewed?**

112. Inland Revenue would monitor the fiscal effectiveness of the proposal by normal compliance processes and communication. Inland Revenue regularly reports on amounts paid through the donation tax credit system.<sup>30</sup> The impact of the changes in this RIS would be reflected in this data when it is published. We note, however, that because of the four-year time bar, it is likely that the full impact of the change would be seen no earlier than in five years' time. The impact on donee organisations will be harder to monitor because donation revenue is only a component of the revenue derived by charities and other donee organisations and is subject to general economic conditions.
113. From a Government sustainability perspective, there would be public visibility of the impacts of the proposal over time, noting that not all charitable donations are subject to a claim under the donation tax credit.
114. Inland Revenue monitors, and publishes, the average amount of claims made per donor, so Inland Revenue and the public can assess the extent to which the reduced entitlement impacts on donation tax credit claims. Donation behaviour outside the tax system is more difficult to monitor because neither Inland Revenue nor the charities regulator have comprehensive data sets.
115. Inland Revenue would continue to monitor the donation tax credit system for instances of fraud and aggressive tax planning. It would also monitor changes in behaviour because the prospective application date could mean some taxpayers bring forward their donations to take advantage of the higher rate before the proposal is in effect.
116. Changes to other tax settings for gifts of money, such as corporate tax deductions, trustee distributions to charities and payroll giving, are not currently within scope. As part of the implementation of any changes to the donation tax credit settings, Inland Revenue will monitor the extent to which donor behaviour changes and will recommend further policy and legislative changes if required.

---

<sup>30</sup> [Donation tax credit statistics datasets](#)