

To: Tax and Charitable Giving Project  
C/- Deputy Commissioner  
Policy Advice Division  
Inland Revenue Department  
P O Box 2198  
WELLINGTON

**Submission on the**

***Tax incentives for giving to charities and other non-profit organisations  
a government discussion document***

From

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## **Background**

Social Services Waikato is a voluntary organisation engaged in capacity building, information and advocacy and working in partnership with hundreds of tangata whenua, community and voluntary organisations in the greater Waikato region.

This submission from Social Services Waikato was developed following the tax and charities workshop discussion with a number of peer organisations in Hamilton earlier in November.

We facilitated the workshop as part of our information role to present the discussion paper and to ensure organisations in the Waikato had an opportunity to discuss the issues covered in the paper. As part of our collaboration role we worked with Philanthropy New Zealand to hold the workshop and IRD supported the organising, resourcing and presenting of this workshop.

As members of the NZ Federation of Voluntary Welfare Organisations (NZFVWO) and NZ Council of Social Services we have received information from these organisations and have discussed the issues with them.

## **Summary**

Our submission is based on the NZ Federation of Voluntary Welfare Organisations submission and in summary:

1. Strongly supports the principle of encouraging giving through the tax system.
2. Highlights the importance of advancing this work which our sector has been working for ten years to get on to the parliamentary agenda and achieving the passage of legislation this parliamentary term.
3. Argues that the amount individuals, companies and Maori authorities can claim a rebate on should not be capped.
4. Urges the Government to act on the recognition that tax incentives in isolation will not necessarily change giving behaviour and that the New Zealand Government has a broader role to play as a “champion” of generosity.
5. Notes the exclusion of imputation credits from this discussion and calls for this important area of work to be advanced as soon as possible.
6. Cautions that any measures to recognise volunteers must be in keeping with the spirit of volunteering.
7. Urges the Government to invest in research on giving structures, such as gift aid and payroll giving, included in the discussion document, so that we can identify the best options for the New Zealand system.

## **Our Submission**

### *General comments*

Social Services Waikato applauds any move to encourage generous giving to charities and other not-for-profit organisations in New Zealand. Tangata whenua, community and voluntary sector organisations play a significant but under-valued role in the lives of New Zealanders as service providers, advocates, employers, and the primary builders of strong and connected communities.

Funding is an ongoing challenge for our sector with most organisations surviving on a patchwork of funding including government contracts, philanthropic grants, memberships, fundraising events and individual donations. Vast time and effort ends up being funnelled into attracting funding, compliance and meeting the varied accountability demands of multiple funders.

Despite this challenge of attracting funding tangata whenua, community and voluntary welfare organisations deliver very good value for money to their investors. The PriceWaterhouseCoopers report, commissioned by the NZFVWO, *Value Added by Voluntary Agencies*, illustrates that organisations deliver \$3 - \$5 worth of services for every dollar invested.

A significant funding challenge is that many government contracts fund only part of the cost of delivering services. Philanthropic and other trusts are loathe to be 'stuck' with an organisation through funding infrastructure, salaries and overheads and so organisations in our sector are forced to find ways to make up the difference, especially in covering salaries and maintaining infrastructure including IT equipment and training.

Philanthropic organisations are beginning to tire of being approached to making up the difference and in fact don't have the resources required. The increasingly professionalised and competitive nature of the fundraising landscape means that organisations are being forced to invest more and more time and money in fundraising.

### *Key points on Discussion Document*

In this section we have not sought to comment in detail on every point raised in the discussion document but have focused on identifying the significant principles involved for Social Services Waikato.

We recognise that a discussion document is the beginning of a longer process of investigation and development of policy and we look forward to also being involved in further stages of the process.

### ***Tax rebates and deductions:***

#### **No threshold cap for rebates for individuals**

We feel the focus should be on where donated money is going, to a recognised public benefit or charitable purpose, and that there is no principled reasoning to have a cap on the amount of donations on which individuals can claim a rebate. Removing the threshold cap would serve as both a practical assistance to allow donors to make larger donations, as well as a general endorsement of the value of giving to charities and other not-for-profit organisations.

However if the Government is determined to continue with a cap then Social Services Waikato feels that it needs to be raised and it needs to be significant enough to encourage people to change their giving behaviour.

If the Government continues to impose a cap then we agree with the NZFVVO that there is a strong argument for increasing the rebate rate to 45% because potential donors are likely to make a psychological leap about 'getting almost half back' on a rebatable donation. If the Government retains a rebate threshold, increasing the rebate to 45% would provide a particular benefit to lower income, smaller scale donors who collectively make up a significant percentage of the total amount donated.

Note: a cap on the rebate threshold would be a disadvantage for employers in a payroll giving scheme.

#### Rebates rather than deductions

We recognise that moving to deductions for individuals would undermine the recent simplification of tax processes for individuals, which we understand have significant support from the community.

#### Deductions for companies and Maori Authorities

We have chosen to address companies and Maori Authorities together as we think they should be treated equally.

As with individuals, Social Services Waikato can see no principled reason for having a cap on the amount companies and Maori authorities can donate and claim as a deduction. We feel that the focus should be on the cause receiving the donation rather than limiting the tax offset the donor can gain.

The single most important issue to address here is the close companies. Close companies should be treated like other companies when making donations. Out of a total of 297,000 companies who filed a return with the Inland Revenue Department for 2005, 195,000 of them were registered as Close Companies.

Social Services Waikato's experience is that small and medium sized enterprises, most of which would be close companies, generally have strong sympathy for the community and voluntary sector. Denying these companies deductibility on donations directly denies a potentially significant source of financial support for community and voluntary sector organisations.

#### ***Our priorities on the above points are:***

- ❖ ***No cap on rebate threshold for individuals***
- ❖ ***No cap on deductible donations for companies or Maori Authorities***
- ❖ ***Extending deductibility for donations to close companies.***

***Recognising the contribution of volunteers:***

Social Services Waikato applauds the effort to recognise the contribution of volunteers to New Zealand society. Any recognition must be equitable and equally apply to volunteers across a range of different environments – i.e. apply not only to those working for charities but also sport, art, education, environment, and other fields of public or cultural benefit that volunteers put their time into.

There is strong feeling among those who attended the Hamilton workshop that a rebate for volunteers' time would be so small an amount as to be inadequate or even insulting, administratively burdensome, potentially inequitable and out of step with the spirit of volunteering.

The issue of equity has been raised in the example of where a Meals of Wheels scheme is administered by a District Health Board, as opposed to a registered charity such as Red Cross. This example also highlights the limitation of using Charities Commission registration as an eligibility requirement, as suggested by the discussion document.

To recognise the contribution of volunteers Social Services Waikato agrees with NZFVVO that a grant system where organisations can apply for grants towards the costs of caring for their volunteers is a preferred option. However it would be essential that the administration of such a grants system be simple for organisations and their volunteers. It could be added to an existing funding scheme such as COGS.

A much more pressing issue is the tax treatment of payments for expenses and honoraria. Social Services Waikato is aware that many organisations are currently unwittingly breaking the law, or rather putting volunteers in the position of breaking the law, if they do not realise that expenses payments and honoraria must be declared as income and receipts provided for expenses. The administrative burden for volunteers to obey the law in this regard is burdensome and a disincentive to volunteer.

Social Services Waikato understands that some organisations have tax rulings that allow their volunteers to not declare expenses and honoraria payments under certain amounts. Social Services Waikato recommends that such a ruling should be applied universally to volunteers, to simplify processes and avoid volunteers unwittingly breaking the law.

***Our priorities on the above points are:***

- ❖ ***A clear tax ruling to apply to all volunteers for exempting honoraria under an annual set amount and all directly reimbursed expenses from withholding tax***
- ❖ ***A grants system to give organisations access to funds to support their volunteers, including the payment of reasonable expenses***

### ***Tax incentives used in other countries***

Social Services Waikato recognises the research done by Philanthropy New Zealand and IRD in this area. The experiences of Australia and the United Kingdom are encouraging in terms of promoting generosity.

Social Services Waikato feels that all the major initiatives, including the gift aid scheme, payroll giving and recognition of non-cash donations warrant further investigation for a New Zealand context. Any measures should be administratively simple for both donors and organisations.

Payroll giving may be particularly complicated in the New Zealand context if the Government elects to retain a cap on the rebate threshold. Would employers be expected to calculate when an employee had exhausted their maximum rebate? This could be complicated if a donor worked for multiple employers.

A key element of any scheme must be a strong government commitment to promote the scheme and to fund and work with Philanthropy NZ to promote generosity. Tax incentives in themselves will not be sufficient to encourage greater generosity unless government and political leaders are 'champions' of giving.

### ***Our priorities on the above points are:***

- ❖ ***Support for further research into possible incentive programmes and how they would work in New Zealand***
- ❖ ***Strong promotion would be essential for any chosen schemes***
- ❖ ***Simple administration for donors, recipient organisations and employers.***

### ***Other ways of promoting charitable giving***

Social Services Waikato is encouraged that the final chapter of the discussion document recognises that international experience shows that an approach broader than tax reforms is needed to encourage giving. This is illustrated by both the high domestic profile of the Australian Prime Minister's Community Business Partnerships and the targeted campaign that went along with the United Kingdom's Gift Aid scheme.

We appreciate the opportunity to respond to the *Tax incentives for giving to charities and other non-profit organisations* and look forward to the development of a valuable and ongoing work stream coming out of this process.

It is important to note that this work cannot exist in isolation. The issue of imputation credit treatment is a key tax issue for charities. It is essential that this issue is addressed positively in the planned 2007 review of imputation credits.

### ***Further work for charitable and not for profit sector***

In conclusion, the public interest and discussion around this document has been welcomed by Social Services Waikato and it has created useful focus for communications among our regional organisations.

In the spirit of the Statement of Government Intent we would welcome ongoing focus by Inland Revenue on issues to do with the tangata whenua, community and voluntary, charitable and not-for-profit sector.

***Thank you for the opportunity to submit on this paper. We are happy to be contacted and to speak to our submission.***