

New Zealand Association of
Citizens Advice Bureaux Inc
Ngā Pokapū Whakahoki Pātai mai i te Iwi Whānui

16th January 2008

Taxation of reimbursement payments and honoraria
c/- Deputy Commissioner, Policy
Policy Advice Division
Inland Revenue Department
PO Box 2198
WELLINGTON

SUBMISSION ON THE TAX TREATMENT OF HONORARIA AND REIMBURSEMENTS PAID TO VOLUNTEERS

BACKGROUND

- 1 The New Zealand Association of Citizens Advice Bureaux (the Association) – Ngā Pokapū Whakahoki Pātai mai i te Iwi Whānui welcomes the opportunity to comment on the officials' paper 'The Tax Treatment of Honoraria and Reimbursements Paid to Volunteers'.
- 2 We would value any further opportunities for input on the issues raised in the discussion document and can be contacted through:

Kerry Dalton
Chief Executive
New Zealand Association of Citizens Advice Bureaux
PO Box 9777
Wellington 6141
Phone (04) 382 8759
- 3 The purpose of our organisation is to promote knowledge and understanding in our society. To achieve this purpose our organisation aims to:

Support the principle of partnership reflected in the Treaty of Waitangi – E tautoko ana Ngā Pokapū Whakahoki Pātai mai i te Iwi Whānui, i te mātāpono nohotahi (hononga), e whakaatahia ana i roto i te Tiriti o Waitangi.

Ensure that individuals do not suffer through ignorance of their rights and responsibilities or of the services available; or through an inability to express their needs effectively — Me noho matāra kia kua te tangata e mate i tōna kore mōhio ki ngā āhuatanga e āhei atu ana ia, ki ngā mahi rānei e tika ana kia mahia e ia, ki ngā ratonga rānei e āhei atu ana ia; i te kore rānei ōna e āhei ki te whakaputu i ōna hiahia kia mārama mai ai te tangata.

Exert a responsible influence on the development of social policies and services, both locally and nationally — Kia tino whawāhi atu ki te auahatanga o ngā kaupapa-ā-iwi me ngā ratonga-ā-rohe, puta noa hoki i te motu.

- 4 From our 91 locations around New Zealand the Citizens Advice Bureaux (CAB) provides a free, impartial and confidential service of information, assistance, and referral to individuals, and we use our experience with clients to seek socially just policies and services in Aotearoa New Zealand.
- 5 We work to empower individuals to resolve their own problems and to strengthen communities by identifying and raising local and national issues. The person to person information, advice, advocacy and support service provided by over 2,600 CAB volunteers is unique in New Zealand, as is our ability to provide a national snapshot of community issues and concerns.
- 6 In making our comments we draw on the knowledge and experience from bureaux in delivering the Citizens Advice service to clients. Last year the Citizens Advice Bureaux dealt with over six hundred thousand enquiries from the public. In the past ten years our organisation has dealt with approximately six million enquiries.

INTRODUCTION

The Focus of this Consultation Process

- 7 The introduction in the officials' paper *The Tax Treatment of Honoraria and Reimbursements Paid to Volunteers* (pages 1 to 3) places the focus on addressing current problems and uncertainties to make it easier for volunteers to comply with their legal obligations. Our organisation wholeheartedly agrees it is necessary to make it easier for volunteers (and their organisations) to comply.
- 8 However, this consultation takes place within the context of a larger exercise, the overall purpose of which is to better encourage charitable giving (whether of time or money) within New Zealand society. It is important not to lose sight of the broader purpose of this consultation process so that it is reflected throughout the process and in the solutions and initiatives that result from it. Otherwise there is a risk of constraining people's thinking and minimising the potential of this process for better encouraging and supporting voluntary activity in New Zealand.
- 9 The aim of this exercise therefore should not simply be to make it easier for volunteers and their organisations to comply with their obligations, but to look at treating honoraria and reimbursements in ways which make it easier and more attractive to volunteer and to provide voluntary services.
- 10 This is more than just an academic distinction, it is a very real one; the latter approach allows broader and more creative thinking which may involve solutions requiring fundamental changes both to the way in which honoraria and reimbursements are viewed as well as to the laws which relate to them.
- 11 The purpose of the larger exercise within which this consultation process is taking place – to better encourage charitable giving - may require a whole new approach to the treatment of honoraria and reimbursements for volunteers. The stated focus of this officials' paper doesn't fully reflect this purpose, but the suggested aim comes closer to doing so.

Recommendation:

- 12 That this consultation process on honoraria and reimbursements for volunteers is clearly framed within the broader aim of better encouraging charitable giving and that this is reflected in the process from this point forward.

VOLUNTEER REIMBURSEMENT

- 13 The Association strongly agrees that the inclusion of *all* reimbursement payments to volunteers is included in the definition of exempt income. We take this position not only because we believe it will reduce administrative burdens and reinforce goodwill within the community and voluntary sector, but also because we see it as a matter of justice.
- 14 Paid employees do not have to pay tax on reimbursement for work expenses which they have paid for out of their own personal income. This makes sense given that otherwise, the employee would be paying tax twice on that amount. The current situation is unfair because volunteers are being treated less favourably by the tax system than paid employees and they are being taxed twice on the money they spend for out-of-pocket costs related to their voluntary work (double dipping by the tax system). This consultation process represents a chance to resolve this anomalous and unfair situation by exempting from taxation *all* reimbursement payments to volunteers.

Recommendation:

- 15 That *all* volunteer reimbursement payments are included in the definition of exempt income.

REIMBURSEMENT OF TRANSPORT COSTS

- 16 In the spirit of encouraging and supporting charitable giving, we believe that when volunteers are reimbursed for transport costs associated with performing their voluntary activities – including for costs incurred in getting to and from the place of volunteering - this should also be included in the definition of exempt income.
- 17 The current tax treatment of such reimbursement payments may be a deterrent for those organisations which would otherwise be in the position to make at least a partial contribution towards the travel costs of their volunteers.
- 18 Often the reimbursement amounts per volunteer are very small and so to have the volunteer lose part of these payments in tax and with the necessity to put time and resources into declaring the payments, there is little incentive for organisations to offer such support or for volunteers to accept it. Removal of this disincentive will provide some organisations with another way in which they can support their volunteers.
- 19 This is a very pertinent issue in the context of the rising cost of fuel and transport which is increasing the financial contribution volunteers have to make in order to maintain their voluntary activity.
- 20 The cost hikes place more pressure on volunteers particularly those on low or fixed incomes in rural areas with greater distances to travel or in larger metropolitan areas with heavy traffic flows. If an organisation is in the financial position to offer volunteers assistance with travel costs, then Government should support it to do so and reflect this support in the tax treatment of such payments.

Recommendation:

- 21 That reimbursement of transport costs for volunteers is included in the definition of exempt income – including costs incurred in getting to and from home and the place where voluntary activity is carried out.

HONORARIA

- 22 From time-to-time an organisation may want to provide honoraria payments in recognition of specialist and professional services rendered to it by individuals who do so without expectation of payment for such services – services which the organisation would otherwise not be able to afford. And so, to support the giving of such services to the community, the compliance and other costs attached to honoraria should be minimised. Up to a certain threshold honoraria should not be taxable.
- 23 However, because the concept of honoraria involves recognition of skills and time provided, it is different from simple reimbursements. The tax treatment of honoraria should reflect this difference. Unlike for payments which are solely to reimburse volunteers for out-of-pocket expenses, there should be a threshold for honoraria with the remaining balance treated as taxable income.
- 24 In the spirit of encouraging charitable giving, and to avoid burdensome compliance costs for volunteers and their organisations, the threshold should be set at a reasonable and realistic level, significantly higher than the current threshold of \$50. The current threshold is far too low and is a disincentive for organisations to offer honoraria or for individuals to accept such payments.
- 25 We believe a more realistic threshold in today's world would be in the region of \$5000. The threshold should be regularly adjusted in line with changes to the Consumer Price Index to ensure this exemption remains meaningful into the future.

Recommendations:

- 26 That all honoraria up to a threshold of \$5000 be treated as exempt income.
- 27 That the threshold for tax-exempt honoraria is regularly adjusted in line with changes to the Consumer Price Index.

SUMMARY OF RECOMMENDATIONS

- 28 That this consultation process on honoraria and reimbursements for volunteers is clearly framed within the broader aim of better encouraging charitable giving and that this is reflected in the process from this point forward.
- 29 That *all* volunteer reimbursement payments are included in the definition of exempt income.
- 30 That reimbursement of transport costs for volunteers is included in the definition of exempt income – including costs incurred in getting to and from home and the place where voluntary activity is carried out.
- 31 That all honoraria up to a threshold of \$5000 be treated as exempt income.

32 That the threshold for tax-exempt honoraria is regularly adjusted in line with changes to the Consumer Price Index.

CONCLUSION

If you have any questions relating to this submission, please do not hesitate to contact me at the Association office as per the contact details on the front page of this submission.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Kerry Dalton', written in a cursive style.

Kerry Dalton
Chief Executive