

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

8 Dec 2006

Tax and Charitable Giving Project
c/- Deputy Commissioner
Policy Advice Division
Inland Revenue Department
PO Box 2198
WELLINGTON

SUBMISSION ON TAX INCENTIVES FOR GIVING TO CHARITIES & OTHER NON-PROFIT ORGANISATIONS

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 discussion document 'Tax incentives for giving to charities and other non-profit organisations'.
- 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
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Wellington
Phone (04) 382 8759
- 3 The aims of the Association are:

To 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.

To 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 provide 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 aim 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 bureau 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. Since 1995 Citizens Advice Bureaux have dealt with over 5 million enquiries from the public.

INTRODUCTION

- 7 It is very positive that Government is looking at ways of better recognising, reinforcing and encouraging charitable giving in New Zealand. Giving, whether of money or time, is an extremely important activity and without it our society would not be able to function. It is therefore important to send a message that giving is an activity which is valued and appreciated, and to make it easier for people to give. The Association supports the overall purpose of this consultation process on tax incentives for giving and we are pleased to have the opportunity to contribute to the thinking and discussion around possible options such as those outlined in the discussion document.

- 8 In our submission we provide comment on:

Tax incentives for giving of money/in kind giving

- Tax rebates for individuals' donations to charities
- Tax rebates for companies' and Maori authorities' donations to charities
- Other options (tax incentives used in other countries)

Tax incentives for giving of time

- Reimbursement payments to volunteers and honoraria recipients
- A volunteers' rebate (or alternative)

- 9 In analysing the discussion document and in considering our response to it, we have identified some principles sitting behind the issues and questions and we believe these should be upheld through any actions or initiatives that result from this consultation. We have used these to guide our response, and they are:

- (a) The spirit of philanthropic giving which is about making a difference to people and communities through the giving of money or time and without expectation of payment in return
- (b) All those who give in this way, whether they are able to give a lot or a little, make an important contribution to our society and therefore any incentives for giving should be as inclusive as possible

- (c) The various incentives for giving should have a direct benefit for the intended recipients – those who give of their money or time (particularly relevant to the giving of time)
- (d) Such initiatives should have a net benefit for individuals and organisations with minimal impact in terms of administration and compliance costs.

TAX REBATES FOR INDIVIDUALS' DONATIONS TO CHARITIES

- 10 The Association would like to see the removal of the threshold cap for the amount of donations for which an individual can make a tax rebate claim. We see no principled reason for a cap and believe that, as overseas evidence suggests, if it were to be removed it would encourage greater generosity – but that tax claims for individuals' donations would not rise so dramatically as to be of concern in terms of the cost of the incentive.
- 11 Ideally, we would also favour a rise in the rate of the rebate from the current level of 33 1/3 % to at least 45%. A combination of a cap removal and rebate rate rise would acknowledge, reinforce and encourage giving behaviour both for those who are able to give small to moderate amounts (who are the majority of those donating money in New Zealand) and those who give larger amounts.
- 12 As stated, we favour the removal of the threshold cap but if it is to be retained the Association recommends that the rebate rate is raised substantially, to at least 45%, and that the threshold cap is also raised substantially and adjusted annually in line with the increases to the Consumer Price Index. The bottom line is that initiatives to provide greater incentives for giving through charitable donations must be significant enough to have an impact and make a positive and noticeable difference to this kind of giving behaviour.

TAX INCENTIVES FOR COMPANIES' AND MAORI AUTHORITIES' DONATIONS TO CHARITIES

- 13 Likewise, we recommend the removal of the cap on the deduction limit for companies' and Maori authorities' donations to charities.
- 14 Eligibility for tax deductions for charitable donations should be extended to unlisted close companies. The current exclusion is a disincentive and a barrier to giving for these companies. Because unlisted close companies represent a large proportion of companies in New Zealand, charitable organisations in this country are missing out on a potentially significant amount of support.
- 15 Removal of this barrier would effectively create another avenue for giving within the private sector and it would open up further funding opportunities for community and voluntary organisations in New Zealand. It would be one way of helping to expand and diversify the funding base for organisations and increasing the distribution of wealth across the population - with obvious social benefits.

OTHER OPTIONS FOR ENCOURAGING GIVING (TAX INCENTIVES USED IN OTHER COUNTRIES)

- 16 In addition to reinforcing and encouraging giving through the current tax incentives that are in place for charitable donations, the Association strongly supports the development of new initiatives to promote charitable giving. The schemes of other countries outlined in the discussion document warrant further investigation. Of course, any new measures

which are introduced will need a strong and ongoing commitment from Government if they are to be effective, including in the promotion of the schemes to the public.

- 17 There may be some merit in exploring the adoption of a number of new avenues for giving. This would provide individuals and companies with greater choice about the manner in which they give or support giving, and it allows for the fact that one size does not fit all - some schemes may be more accessible and practical than others depending on the individual or company.
- 18 The concept of payroll giving sounds like a potentially very worthwhile and exciting initiative and we would support further consideration of it. For it to be as efficient, workable and effective as possible, the threshold cap on the tax rebate for individuals' charitable donations would have to be removed. This is so employers will not be faced with the administrative complexities, difficulties and costs associated with having to determine when individual employees have reached their donations amount limit (very difficult, especially where an employee may be also making charitable donations through other means). The degree to which employers take up a scheme such as this is likely to be significantly influenced by whether or not a threshold cap is retained.

REIMBURSEMENTS PAYMENTS TO VOLUNTEERS & HONORARIA RECIPIENTS

- 19 With regards to recognition and reinforcement of the giving of time, feedback from within our organisation and within the wider Community and Voluntary sector highlights the need to ensure volunteers are properly and appropriately reimbursed for the out-of-pocket expenses they incur in undertaking their voluntary work and that it is important they do not face disproportionate administration and compliance costs in accessing reimbursements or honoraria payments.
- 20 This has emerged as the most important area to be addressed in terms of providing incentives for the giving of time – in the spirit of volunteering, individuals are not looking to reap financial rewards for the contribution of the time, skills and experience they freely provide, however, the costs that may be involved in volunteering are a burden or a barrier for some. The removal or reduction of these costs may therefore ease the burden and reinforce the goodwill of those who already give, as well encouraging the giving of more time and by more people in our communities.
- 21 Reimbursements payments to volunteers are not income and should not be considered as such within the context of the tax system. Given that volunteers must fund their out-of-pocket expenses from their own personal income and that this income has already been taxed, payment of tax on reimbursement payments means that volunteers are essentially being taxed twice for that money and it is double dipping by the tax system.
- 22 Removal of reimbursements payments to volunteers from the definition of what constitutes taxable income is a way of recognising and reinforcing the giving of time, and it is also a matter of what is appropriate and fair with regards to the way volunteers are treated by the tax system.
- 23 We acknowledge that the issues in relation to the tax treatment of honoraria are somewhat different to those for reimbursements payments because of the element of recognition (but not full recompense) for time and expertise that an honoraria payment reflects. Therefore, only honoraria payments up to a certain level should be treated as exempt income.
- 24 However, the threshold should be set at a reasonable and realistic level, substantially higher than the current threshold. The current threshold is a disincentive for organisations to offer honoraria in situations where they might otherwise be appropriate

and desirable because of the administration and compliance costs attached to them, and the loss of part of even very small payments of only \$50 or more to ACC levies and tax. Modest honoraria payments are therefore, at present, not a very meaningful way for organisations like ours to express our appreciation to people who generously give of their time and expertise to assist our organisation.

A TAX REBATE (OR ALTERNATIVE) FOR VOLUNTEERS

- 25 The guiding principles outlined earlier have been very useful in helping to determine our response to the discussion document. To briefly restate them, they are about:
- The spirit of philanthropic giving
 - Inclusiveness
 - Direct benefit
 - Net benefit (administration and compliance)
- 26 This review represents an opportunity for developing a new and workable initiative that provides tangible and meaningful acknowledgement, support and encouragement of Volunteers. The Association is very pleased that serious consideration is now being given to such initiatives.
- 27 However, we do recognise the challenges in finding a solution that meets all of the above principles. Partly this is because of the rich diversity of volunteering in New Zealand in terms of the wide range of organisations to which volunteers contribute their time, the huge variety of activities volunteers are engaged in, and the diversity of volunteers themselves who come from all parts of the community. We see (and value) this diversity within our own organisation where we have 2,600 volunteers providing the Citizens Advice service in 91 locations around New Zealand.
- 28 In addition to changing the tax treatment of reimbursements payments and honoraria, an important outcome of this consultation process for volunteers is the establishment of some form of financial recognition and support (which aligns with the above principles). This would sit alongside and complement the changes to the tax treatment of the other payments. Having carefully considered the question of a tax rebate for volunteers and having tested the concept against the guiding principles, the Association believes that an *alternative* to the volunteer tax rebate would be preferable.
- 29 The intent behind the option of a tax rebate for volunteers' is sound and in terms of the first principle, it is a debatable point as to whether a tax rebate per se (capped to a certain level) would undermine the spirit of volunteering. Certainly, there is a range of opinion within our organisation and we note that different opinions have been expressed in the wider community and voluntary sector.
- 30 However, the fact that there is a significant level of discomfort with this particular option in terms of its alignment with this principle, suggests it is not the best 'fit' and that we should explore other options which have the intended effect of recognising and encouraging the giving of time but without compromising the ethos of volunteering. It is possible that it could have the unintended effect of undermining what it seeks to support – giving without thought of reward.
- 31 We appreciate there will be limits to available funding and also of the need to proof any system which results from this consultation against abuse – therefore, that some boundaries will have to be drawn around the scheme through establishing eligibility

criteria. We believe though, that the scheme should be as inclusive as possible. This will be important if it is to have credibility and the desired effect of encouraging greater giving of time and by more people in our communities.

- 32 Herein lies the problem with using the tax system to recognise and encourage the contribution of volunteers. Not all volunteers are in receipt of taxable income e.g. students living at home who are not eligible for the student allowance or engaged in paid employment, new migrant unemployed job seekers who do not qualify for the unemployment benefit (which requires having continuously lived in New Zealand for 2 or more years), and people with care responsibilities (for children or other family members) who are not in paid work or in receipt of a benefit or superannuation, or generally, anyone who is financially supported by another person/s and not involved in activity which necessitates the paying of tax.
- 33 While this is likely to be a smaller proportion of volunteers, our organisation values all of our volunteers equally, regardless of how much income they earn and where it comes from. As a matter of principle we would want each and every one of our volunteers to benefit from any scheme which is about recognition for volunteers and volunteering. We would not like to see a system put in place that means some of our volunteers benefit and some do not.
- 34 Limitation of the scheme to volunteers engaged in certain activities would be problematic. Given that volunteering involves a vast range of activities that provide benefit to the community, an attempt to limit the rebate to specific activities may, again, cause volunteers who provide valuable services to miss out. If a volunteer is engaged in activity that helps an organisation to help people and communities then, in this context, that should be sufficient to make them eligible for recognition.
- 35 With regards to the principle about direct benefit, the option of a tax rebate does meet this requirement but only in relation to those who would actually be eligible for the rebate. As stated, the Association would favour the exploration of another option which would provide direct benefit for volunteers but which would also be inclusive, particularly in terms of volunteers within individual organisations (i.e. that *all* volunteers within a particular organisation would benefit).
- 36 Any initiative which is developed must have a minimal impact in relation to the administration and compliance costs involved. Ideally, the initiative should support the capacity of, and have a net benefit for volunteers and the organisations they work for. This is important if the initiative is to be effective.
- 37 The administrative difficulties we see with the option of a rebate for volunteers include the question of where to draw the line in recording volunteering time given. Some volunteers (and their organisations, including our own) may find it hard in some cases to quantify time spent. It is also an aspect of the scheme where it would be difficult to ensure transparency and accountability, which has implications for the workability, credibility and therefore the ongoing survival of the scheme. Further, some volunteers may feel uncomfortable about quantifying their generosity. We also acknowledge the concerns expressed by organisations in the wider community and voluntary sector about the potentially burdensome administrative and compliance requirements of the volunteer tax rebate scheme, particularly for smaller organisations.
- 38 One of the most important issues that has been identified within our organisation in relation to recognising and encouraging the giving of time is the need to ensure volunteers are not out-of-pocket as a result of their volunteering. Regardless of what people have said about the merits of a volunteer tax rebate, they have consistently identified this as the broad outcome they seek.

- 39 While sorting out the tax treatment of reimbursements payments to volunteers and honoraria payments is an important first step in addressing this issue, the other critical step will be to ensure volunteers' organisations are in fact able to reimburse their volunteers for out-of-pocket expenses and also to be able to provide honoraria payments, as appropriate, for recognising (but not recompensing) time and expertise generously given. The feedback we have received indicates that people want their organisation to be in a better position to be able to properly care for their volunteers.
- 40 Therefore the Association favours the establishment of a grants system which will provide organisations money for the purpose of caring for their volunteers. The system should be as streamlined, simple and accessible as possible for organisations. A grants system has the advantage of being inclusive within organisations i.e. all volunteers within a particular (eligible) organisation would benefit, there would be a direct benefit to volunteers through the purpose of the scheme (and the fact that organisations would be required to spend the money for the purpose), and the scheme would not carry the same administration and compliance costs for individual volunteers (no need for them to record their time specifically for the purposes of the scheme or to have to fill in an annual tax return). The Association would welcome the opportunity to be involved in further discussion and work on this concept.

SUMMARY OF RECOMMENDATIONS

- 41 Remove the threshold cap for the amount for which an individual can make a tax rebate claim for charitable donations
- 42 Ideally, also raise the rate of the rebate to at least 45%
- 43 If the threshold cap is to be retained, in addition to raising the rate to 45%, substantially increase the threshold and adjust it annually in line with the Consumer Price Index
- 44 Remove the cap on the deduction limit for companies' and Maori authorities' donations to charities
- 45 Extend eligibility for the deduction to unlisted close companies
- 46 The Association supports the development of new initiatives to promote charitable giving
- 47 Reimbursements payments to volunteers should no longer be treated as taxable income
- 48 Substantially increase the threshold under which honoraria payments are exempted from tax etc
- 49 Establish a streamlined, simple and accessible grants system for the purpose of providing organisations money for caring for their volunteers, including for reimbursements of expenses which is a vital way in which volunteers need to be supported

50 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', with a long horizontal flourish extending to the right.

Kerry Dalton
Chief Executive