

**Submission to Payroll Giving Project
C/- Deputy Commissioner - Policy
Policy Advice Division
Inland Revenue Department
P O Box 2198
Wellington**

Introduction

Philanthropy New Zealand (PNZ) is the peak body bringing together New Zealand's leading private philanthropists, trusts, foundations, businesses, and the community trusts created when community banks and energy utilities were sold.

Philanthropy New Zealand's mission is to foster, inspire and promote the interests of the philanthropic and grantmaking sector in New Zealand through research, communication and education, by being a credible, influential and representative voice.

Our key objectives are:

- Support excellence among grantmakers and learn about high quality grantmaking among New Zealand organisations
- Foster generosity in New Zealand
- Foster philanthropy that is based on equity, fairness and engagement with New Zealand's diverse cultural approaches to philanthropy
- Foster strong networks and sharing among grantmaking organisations in New Zealand
- Participate in international philanthropic networks
- Run a professional and responsive organisation providing high quality services to members
- Advance and protect the common interests of private and corporate grantmakers
- Be a learning organisation
- Improve public understanding of the role of philanthropists and grantmaking trusts and foundations

Executive Summary

Philanthropy New Zealand has a very strong interest in promoting generosity. To this end, we strongly support and congratulate the government on its decision to explore ways to make it easier for people to give. Individual and organisational giving helps support and encourages a healthy and vibrant society. PNZ submits that Payroll Giving is one such way to achieve this. In particular we submit that:

- 1 a before-tax, real-time payroll giving system be supported by the government as a further tool to promote philanthropy and giving
- 2 Option 2 (PAYE credit mechanism) be adopted as the method by which a before-tax, real-time tax benefit is calculated
- 3 Employers are supported by:
 - 3.1 the provision of information materials on payroll giving and DIY implementation
 - 3.2 being informed of available payment and facilitating intermediaries
 - 3.3 having access to payroll giving setup grants (for SMEs)
 - 3.4 being informed on how to move to electronic filing for returns when required
- 4 a government department, or non-government organisation be given the budget and responsibility to run and promote the payroll giving programme
- 5 a nationwide promotion of payroll giving be run to raise public awareness
- 6 any legislative changes be put through before April 2008, with implementation taking place no sooner than 1 April 2009
- 7 a working group be established to bring together representatives from the community and voluntary sector, business and government to investigate further how payroll giving might best be implemented in New Zealand

PNZ would welcome the opportunity to speak to this submission and may be contacted as required for further clarification.

Background:

Compared with other donation alternatives, before-tax payroll giving offers the following benefits-

It:

- provides a cost-effective way to raise funds
- simple for employees to join
- relatively simple for employers to administer
- encourages long-term, regular giving
- reduces the fundraising cost for charities
- provides donors with immediate tax relief
- reduces the government cost of processing rebates
- promotes workplace-based community involvement
- encourages more men to give
- benefits low income donors who typically don't claim rebates
- encourages high income donors who value tax rebates

The main concerns are:

- impact on existing giving
- loss of direct contact between donor and charity c.f. other forms of giving of donor
- ensuring equal access to funds for both small and large charities
- required level of investment relative to potential returns
- history of payroll giving to date in NZ

After weighing the benefits and the concerns, and looking at applicable international experience, Philanthropy New Zealand believes the government should support before-tax, real-time payroll **giving within the greater context of promoting philanthropy and giving.**

The International Experience

The experience of Australia, Canada and the UK, is that while payroll giving makes up a small percentage of the total donation take (0.7%, 3% and 2% respectively), it is steadily growing.¹

In Australia, where a concerted effort in promoting payroll giving (or workplace giving as it is known in Australia) was made as recently as 2002, growth is expected of between A\$1-2 million per annum. Approximately A\$11m was given by way of payroll giving in 2005 through three intermediaries². These three payroll giving payment and facilitation intermediaries play a significant role in Australia – the Australian Charities Fund, Charities Aid Foundation and United Way Community Funds of Australia. In 2005, the Australian government launched a major initiative³ to promote “workplace giving” (which includes financial and non-financial giving). In July 2007, 29% of the Top 1000 companies said they had a workplace giving programme in place, which is expected to double by the end of 2007.

Payroll Giving in Canada is after-tax based and predominantly undertaken through United Way Canada, although as in other countries, some larger companies run their own payroll giving programmes. While only 3% of donations are made in Canada through

1 Payroll Giving: An Overview, Saints Information

2 Katrina Strickland, Things go better.. when the giving is easy, Australian Financial Review, 23 February 2006

3 Payroll Giving: An Overview, Saints Information pg 7

payroll giving, this accounted for 6% of total donations in 2000 (C\$294 million).⁴

Payroll Giving in the UK is run by HM Customs and Revenue, a government department. 2007 was the 20th anniversary of payroll giving in the UK. Payroll giving donations in 2007 exceeded £90m⁵ (compared with £1m in 1987). Donors have increased 10-fold from 60,000 people to 600,000.) In the UK is required that an approved payroll giving agency is used, which is monitored by HM Customs and Revenue. The UK uses a before-tax system. Intermediaries are used, which must be registered with HM Customs and Revenue. As well as promotion campaigns, two financial incentive schemes have been run to encourage participation. These were a government top-up of donations scheme that ran between 2000-2004 and a grants scheme for small employers in 2005-7. As a result 3,380 new employers signed up. The government also funds the Payroll Giving Centre - a comprehensive online information centre about payroll giving which is aimed at businesses, charities and the general public. It also supports the Payroll Giving Quality Mark and Awards system for recognising employers who achieve specified levels of participation.

NZ has limited payroll giving activity. Since 1975 United Way NZ Inc. has acted as a payment intermediary to 46 companies, the largest of which contributes approximately \$9,000 pa, which is matched by the employer 50c for every dollar given.⁶ CAF Australia has a small presence in NZ and more recently Amnesty International, Greenpeace and Oxfam New Zealand initiated their own payroll giving programmes. A number of other large companies operate their own in-house programme, usually as a part of Trans-Tasman operating policies that have been initiated overseas.

4 National Survey of Giving, Volunteering and Participating, 2000

5 <http://www.payrollgiving.co.uk/>

6 David Vukets, Production Manager, Cambridge Clothing and former Chair United Way NZ Inc.

Specific recommendations:

That,

1. **A before-tax, real-time payroll giving system** be supported by the government as a further tool to promote philanthropy and giving.

PNZ believes before-tax, real-time payroll giving will provide another valuable tool to encourage and facilitate increased giving in New Zealand. Before-tax payroll giving has been shown to be successful overseas in similar environments and offers a range of benefits to NZ employers, employees, charities and the government.

2. **Option 2** (PAYE credit mechanism) be adopted as the method by which the real-time tax benefit is calculated.

Option 2 is preferred as the method by which the real-time tax benefit is calculated as it creates no impact on social policy entitlements.

A real-time standard tax-credit of 33 and 1/3% will benefit low income earners who would receive their tax credit at 19.5% if marginally calculated.

There is evidence to suggest that low income earners do not claim the rebates they are entitled, to the same degree as higher income earners⁷. A real-time tax credit will therefore benefit low income earners by removing the need to file a rebate form.

A tax benefit of 33 and 1/3 percent would be consistent with existing after-tax payroll giving rebate claims, as well as non-payroll giving methods of giving, such as direct debits.

A real-time tax relief will reduce the need for issuing tax receipts, reducing the compliance cost for charities in administering donations. For the IRD, a reduction in rebate claims would result in reduced rebate claim form processing and the associated costs.

As employers will be required to file their returns electronically to take up this option it is recommended that extra support be provided to employers to move to an electronically-based filing system.

3. Employers are supported by:

3.1. Having access to information materials on payroll giving and DIY implementation.

Employers should be provided with sufficient information so that they understand both the impact on their business processes and available support and benefits. Information should also be available for those employers that wish to setup their own payroll giving system.

⁷ Tax and Charities Discussion Document, 2000 (See Appendix A)

3.2. Being informed of available payment and facilitating intermediaries.

Information should be made available to assist employers that wish to implement an existing payroll giving system with the assistance of a third party. Information should also highlight the difference between **payment** and facilitation intermediaries.

3.3. Having access to payroll giving setup grants (for SMEs)

The UK operated a grants scheme between 2000 and 2004, offering employers with less than 500 employees up to £500 to setup payroll giving. In the 4 years the scheme ran, over 3,300 new employers initiated payroll giving programmes. PNZ suggests running a limited offer to NZ employers who set up payroll giving, such as offering \$500 to employers with fewer than 100 employees. The offer would expire in 2 years.

3.4. Being well informed of how to move to electronic filing of returns

As option 2 requires employers to file returns electronically, support should be given to employers currently on paper-based systems wishing to change. A long-term objective however should be taken by IRD to review paper returns at a future date with a view to allowing employers to file PAYE payroll tax credit calculations through paper-based systems.

4. A government department or non-government organisation is given the budget and responsibility to **run and promote the payroll giving programme that** maintains strong links to the not-for-profit and business community.

PNZ believes that housing the payroll giving project under one government department or non-government organisation with strong ties to the not-for-profit, business and government communities, will provide a central place from which to drive the launch of before-tax payroll giving in New Zealand and increase the chance of successful uptake.

Some of the duties of this office or department might include:

- preparing information for employers and employees on payroll giving and implementation
- preparing and running a nationwide communications campaign
- administering a payroll giving setup grants programme
- liaising with and promoting payroll giving payment and facilitation intermediaries
- liaising with government, employers, employees and not-for-profit organisations
- assisting employers to move to electronic filing of returns

PNZ also recommends that this organisation have as a goal, the task of promoting and/or running payroll giving programmes among government departments. As one of NZ's largest employers, the government can be instrumental both in leading by example and raising significant funds through its employee base.

5. A nationwide **promotion of payroll giving** is run to raise public awareness.

As referred to above under point 4, PNZ believes that a nationwide media campaign informing employers and employees of how payroll giving can benefit them and the community would create a strong base through which to achieve a baseline signup.

This campaign should comprise of television, radio, print, and web media. A PR campaign should also be undertaken.

As with Kiwisaver, ACC public service messages and other national campaigns, payroll giving will meet with greater success when supported by a concerted and coordinated promotional campaign.

Given recent changes to tax rebate legislation, PNZ suggests running a communications campaign that includes not only payroll giving changes, but tax rebate changes. These combined messages, under one campaign, will make a greater impact and deliver an overall message demonstrating the government's efforts to make things easier for employers and employees to support the community.

6. Any **legislative changes should occur before April 2008**, with implementation taking place no sooner than 1 April 2009.

Philanthropy New Zealand would like to see legislative changes occur before April 2008, so that the changes are incorporated within other Tax and Charities changes coming into effect around this time.

Coupling legislation regarding changes to tax rebate caps, due to come into effect in 1 April 2008, with the introduction of real-time benefit payroll giving, will also provide greater opportunities for media interest and public consumption.

That said, given that many employers and employees are still adapting to Kiwisaver, it is recommended that any implementation takes place no sooner than 1 April 2009. This will also allow for an appropriate media campaign to be prepared and payroll giving payment and facilitation intermediaries to plan how they might operate.

7. A working **group be established** to bring together representatives from the community and voluntary sector, business and government to investigate further **how payroll giving might best be implemented in New Zealand.**

Further thinking needs to be done around how a before-tax payroll giving programme might work in New Zealand. To continue the work that has been started and provide a central body through which future work might progress, PNZ recommends the formation of a working group. This group should represent all relevant stakeholders, including the community and voluntary sector, business, government and employees.

Responses to specific aspects of the Discussion Document

Specific points for submissions

1. Should New Zealand implement a before-tax payroll giving system?

Yes. See point 1.

2. What features could be offered to minimise the compliance costs for employers?

See point 3.

Additionally, it has pointed out in the government discussion paper that anecdotal evidence suggests that for employers with computerised payroll systems, accommodating payroll giving should be straight forward to administer. For both computerised and non-computerised systems, a key issue however is to decide which charities employees may support as this in turn impacts on the level of administration required to process the payment. It is administratively simpler to restrict this to a few, chosen by the employer in consultation with employees, yet it risks excluding donors who wish to support a charity not listed.

With the establishment of the charities commission it is now easier to identify tax-exempt donees. PNZ suggests that where possible, employers provide employees with full discretion to decide who they support. This would also make it possible for smaller, lesser known organisations to benefit.

To make it possible for employers to provide employees with wide donee selection and reduce compliance costs, PNZ suggests that employers be made aware of payroll giving agencies and systems that provide for broad choice in choosing recipient charities. Payroll giving agencies or systems that provide pooled funds (i.e. a fund to collect money for distribution to small or special interest groups) should also be promoted.

3. What concerns would there be if payroll giving was available only to employers who file their employer monthly schedules electronically?

While PNZ would like to see all employers having the opportunity to setup before-tax payroll giving, it acknowledges that implementing Option 2 will in the short to medium term mean only those employers filing electronically will be able to do so. Inland Revenue data show that 19 percent of employers file electronically, representing 71 percent of all employees and 84% of PAYE forwarded to Inland Revenue. PNZ believes that this provides a sufficient target population with which to promote payroll giving.

Two further steps might be taken to address this issue

1. Employers should be supported to move to electronic filing, should they wish to do so. This might involve providing relevant information in payroll giving communication campaigns and devices
2. In the long term, the IRD should aim to change paper-based returns to accommodate before-tax payroll giving.

It should also be noted that electronic filing is a prerequisite only for before-tax payroll giving. Employers may still promote and implement after-tax payroll giving, and should be entitled to any payroll giving setup grant that is made available.

4. What measures could be undertaken to promote payroll giving, and who should undertake this promotion work?

See points 4 and 5.

Additionally, it should be noted that Australia and the UK have both had support from the government to implement payroll giving and/or promote it further. In Australia, this included a major initiative to promote payroll supported by the Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) and the Prime Minister's Community Business Partnership.

In the UK, payroll giving is supported and promoted by the HM Customs and Revenue Scheme. This scheme has promoted payroll giving through the provision of setup grants to SMEs, annual payroll giving awards and holding a 20 year anniversary of payroll giving in the UK (2007).

5. Should tax relief on payroll donations be based on the donor's marginal tax rate (option 1)?

No. PNZ favours Option 2.

6. What are the compliance obligations for employers under this option (option 1)?

Not answered, as Option 2 is favoured.

7. What are the merits of the PAYE credit mechanism (option 2)?

See point 2.

8. Should tax relief on payroll donations be based on a flat rate of 33 and 1/3 percent?

Yes. See point 2 for rationale.

9. What would the level of compliance be for employers under this option (option 2)?

Employers using option 2 would calculate a PAYE credit of 33 and 1/3 percent on the amount of the donation and would offset this amount against the PAYE calculated on the employee's gross pay each payday.

The PAYE credit would need to be reflected in the employee's end-of-year summary of earnings to ensure it had been applied to offset the employee's PAYE liability. This amount must be calculated by the employer. To reflect the PAYE credit, employers would need to provide either the PAYE credit amount or the donation amount. This information could be collected from the employer as part of the employer monthly schedule.

Given that significant changes would need to be made to paper-based returns, employers would be limited in the short to medium term to filing their returns electronically. This will mean that employers wishing to setup before-tax payroll giving will have to switch to e-filing.

While no receipts would need to be held by the employer under a payroll giving scheme, evidence would be required of payroll donations made on behalf of their employees for audit purposes.

10. What support should be provided to employers who offer payroll giving to their employees?

See point 3.

It should be noted that employer buy-in is fundamental to implementing and maintaining a successful payroll giving campaign. This may be achieved through financial and non-financial means.

Cambridge Clothing has over 200 employees giving around \$9,000 pa, with a 50c matching component addition by the employer. Dave Vukets, Production Manager of Cambridge Clothing and former Chair of United Way NZ Inc, a NZ Payroll Giving Intermediary, lists top management buy-in and commitment as well as the buy-in and commitment of the person/people inside the PG organization that will coordinate/drive the effort, as the most important factors of a successful payroll giving programme. He adds that genuine enthusiasm shown by these people will make a difference, particularly if they have mana. This needs to be followed by a well organised and run campaign, he adds.

Providing information on eligible donees

Currently, there is no one, simple way for either employers, employees or intermediaries to find out about eligible donee organisations in New Zealand. This presents the following difficulties:

- makes it difficult for both employers and employees to know if an organisation they wish to support has tax-exemption for tax purposes
- adds extra compliance costs to the employer and intermediaries in accessing contact information for a donee organisation to process payments, which may be passed onto employees
- reduces the options as to who an employer or employee might support to well-known NGOs

One solution to this problem would be to create a central database of NZ community and voluntary organisations that contained information such as legal status, organisational purpose, activities and contact information.

Examples of this kind of system can be found in the US and UK. Guidestar is perhaps the most comprehensive and best known, containing information on over 1.7 million

organisations in the US and 168,000 organisations in the UK. Guidestar is a system developed by GuidestarInternational (GSI), a registered charity in the UK that provides assistance to countries wishing to setup comprehensive, online community and voluntary organisation databases. (See Appendix B)

11. Would a payment or facilitating intermediary be helpful to employers who wish to implement payroll giving?

Yes. While some larger employers run in-house payroll giving programmes, the majority of employers in the UK, Australia and Canada use payroll giving agencies or intermediaries to facilitate payroll giving. Some of the services payroll giving agencies and intermediaries provide include:

- promoting the concept of payroll giving
- developing and providing payroll giving implementation systems to employers
- distributing funds on behalf of employers
- qualifying valid charities
- pooling funds for smaller charities and/or interest groups
- providing related corporate community involvement programmes
- running awards
- working with government to achieve mutually beneficial goals.

PNZ recommends that payroll giving agencies be supported and encouraged to provide a range of services to help get payroll giving off the ground and provide support to those employers wishing to implement it.

As happens in other countries, the methods by which the individual payroll giving systems work would vary. Each system has corresponding strengths and weaknesses.

Payment intermediaries have also been instrumental in providing a mechanism to ensure equal access to payroll giving funds, through pooled funding. In New Zealand there are approximately 97,000 non-profit organisations⁸. In the same way that we have a high proportion of SMEs relative to other OECD countries, we also have a high number of small non-profit organisations. Small non-profit organisations have less profile and resources to promote themselves, and therefore could stand to miss out on being recipients of payroll giving funds. United Way, for example, provides employees the opportunity to make a donation to a pooled fund. This pooled fund makes funds available to smaller charities requiring much needed operating funds.

Other Points:

Philanthropy New Zealand supports the government's intention to review other tax incentives for charitable giving. These include Gift Aid (UK), tax deductions for non-monetary donations and a scheme similar to Australia's prescribed private funds scheme.

Each of these devices supports a pluralistic notion of increasing philanthropy and recognises the different forms in which individuals and organisations participate in their community.

⁸ Statistics NZ

Conclusion

Philanthropy New Zealand strongly supports the introduction of a before-tax, real-time payroll giving programme as a further tool to help increase generosity within New Zealand.

Comparable overseas experience suggests that while this form of giving contributes small amounts as a percentage of total giving, it is a method which is growing in popularity and has inherent advantages for employers, employees, government and the community over other forms of giving.

Looking at what has worked overseas together with incorporating learnings from New Zealand's limited success with payroll giving; PNZ has identified several key points that might be addressed as part of any future payroll giving programme. These include:

- providing a before-tax, real-time tax benefit
- providing adequate support and incentives to employers
- utilising option 2 in determining before-tax tax credits
- resourcing the establishment of an organisation to run the payroll giving programme and nationwide media campaign
- setting up a working party to further investigate how before-tax payroll giving might best work in NZ

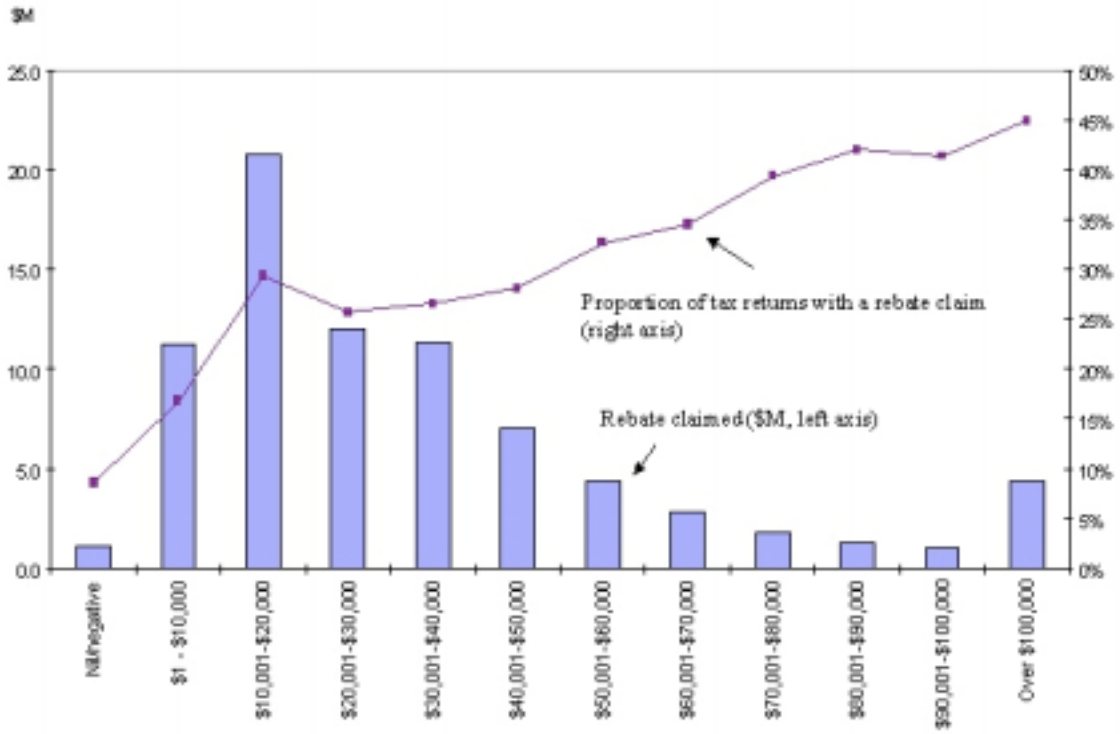
PNZ acknowledges that payment and facilitation intermediaries play a significant role internationally in payroll giving and should also be encouraged to operate within NZ.

In conclusion, PNZ submits that while some useful dialogue has taken place on the subject of payroll giving, more work needs to be done to look at how before-tax payroll giving might best function and succeed in New Zealand.

Appendices:

Appendix A: Tax and Charities Discussion Document 2000

FIGURE 1: 1999 DONATIONS REBATE BY TAXABLE INCOME



Appendix B: Guidestar

www.guidestar.org.uk
www.guidestar.org
www.guidestarinternational.org/

GuideStar International (GSI) seeks to illuminate the work of every civil society organization (CSO) in the world. A GuideStar system provides a highly searchable and comprehensive library of reports on a country's CSOs, enabling them to communicate their work effectively and easily to national and international audiences.

A GuideStar system provides a detailed catalogue of reports on a country's civil society organisations (CSOs) on a powerful but easy to use public website.

Each national GuideStar system is an independent not-for-profit civil society organisation, registered, managed and governed in its country of operation.

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Clustered search results

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- Foundation (27)
- School (22)
- Cancer Care (9)
- Social (17)
- Women (11)
- Knowledge, Knowledge (8)
- Apprentices, Careers (12)
- College (14)
- Hospice, Care (12)
- Working (7)
- More

THE BRITISH GYNAECOLOGICAL CANCER SOCIETY [Icons]

The objects of the charity are to advance the science and art of gynaecological oncology for the benefit of the public.

THE ALNWICK AND DISTRICT CANCER CARE SOCIETY [Icons]

TO PROMOTE THE WELFARE OF THE AGED OR SICK IN ANY MANNER WHICH NOW IS OR HEREAFTER MAY BE DEEMED BY LAW TO BE CHARITABLE WITHIN THE DISTRICT OF THE TOWNSHIP OF ALNWICK IN THE COUNTY OF NORTHUMBRIAND WITHOUT DISTINCTION OF SEX OR OF POLITICAL OR RELIGIOUS OR OTHER OPINIONS AND IN PARTICULAR FOR FROM **CANCER** OF ALL KINDS BY PROVIDING TREATMENT AND MEDICAL CARE OR APPLIANCES EQUIPMENT OR OTHER FACILITIES IN THE PATIENTS HOME.

Summary | [Activities](#) | [Organisation](#) | [Finances](#)

CANCER CARE SOCIETY

Official correspondence address from the Public Register of Charities:
 48 MOUNTBATTEN DRIVE
 FERNDOWN
 DORSET
 BH22 9EL
Telephone: 01202 994696
Charity number 1089603

- [Map - opens new browser window](#)
- [Trustees' annual report & accounts - opens new browser window](#)
- [Make this charity entry my homepage](#)

GuideStar UK: Note to users

The information on these pages comes from regulatory documents produced by the charity. For this charity it includes an annual report for the financial period ending 31 December 2005. Charities are able to update some of this information on-line. Where a charity has made changes a ✓ appears.

- [Showery](#)
- [User guide](#)