



**Submission to the Tax and Charitable Giving Project
C/- Deputy Commissioner
Policy Advice Division
Inland Revenue Department
PO 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.

Executive Summary

Philanthropy New Zealand strongly supports and congratulates the government on its decision to review the current tax regime. Philanthropy New Zealand submits that increasing tax incentives for those that give is a positive step towards supporting and encouraging a healthy and vibrant society. In particular we submit that:

1. Imputation credits should be refundable for tax purposes and we support government's commitment to reviewing this issue in 2007.
2. Gift giving by individuals, companies and Māori authorities should be treated consistently and any cap on rebates and deductions should be removed.
3. Further research is required into whether a volunteer's rebate or grant system will encourage greater participation in the voluntary sector.
4. The tax treatment of honoraria should be simplified and clarified.
5. Government should consider the implementation of efficient tax incentives in New Zealand such as the Gift Aid programme and the pre-tax payroll giving scheme in the UK.
6. Non-cash donations should be deductible for tax purposes.

7. Compliance costs for the implementation of tax incentives should be borne by Government and not the voluntary and non-profit sector.
8. There needs to be a commitment by government to educate and promote the existence and availability of tax incentives to increase gift giving. Tax incentives do not exist in a vacuum. In order to be effective there needs to be a greater public awareness of the availability of the relevant tax incentives. The international experience shows that increased generosity has occurred where there has been targeted public awareness campaigns to support the regimes
9. International research has shown that tax incentives are only part of a number of initiatives that can assist and encourage the promotion of generosity. We encourage the use of tax incentives as part of a multi-pronged approach to promoting greater generosity in New Zealand. Any amendments to the existing legislation must be supported by government in addition to the corresponding infrastructure programmes to support such changes. Philanthropy New Zealand would like the opportunity to be involved in the development and implementation of such infrastructure.

Overview of submission

The community and voluntary sector is an essential aspect of New Zealand's civil society, providing key services in almost every sphere of human activity; from recreation and arts and culture, to emergency and social services, conservation and the environment. This sector is quite literally embedded in the communities it serves, and is in a unique position to respond to changes, challenges and crisis faced by those communities as and when they appear. A civilised society encourages philanthropy and enables greater generosity.

Philanthropy New Zealand applauds the Government's initiatives in reviewing the existing tax legislation with a view to enabling more tax effective giving in New Zealand.

Philanthropy New Zealand's view is that to be effective, greater tax incentives are part of an holistic approach necessary to encouraging greater generosity in New Zealand. We urge the government not to apply tax incentives in isolation but as part of a range of options to encourage and promote philanthropy in New Zealand. Although international research has identified tax incentives as one way of increasing giving by individuals and groups, it has also highlighted that "philanthropy promotion" is most likely to produce results when it:

- is promoted through a range of approaches, not just tax incentives,
- recognises the unique character of a local community and the wide diversity of potential donors within it, and
- creatively employs multiple strategies to cultivate philanthropy within diverse populations.¹

With this in mind, Philanthropy New Zealand strongly supports the government's decision to review the current tax regime and encourages the prompt revision of existing legislation. We submit that the government needs to commit to ongoing support of the community and

¹ Promoting Philanthropy: Global Challenges and Approaches, December 2004, pg. 14

voluntary sector and should take measures to:

- cultivate awareness of the sector,
- continue to develop and support the comprehensive infrastructure required for the continued success of the community and voluntary sector,
- enable the collection and availability of information relating to the sector and its participants so that subsequent decisions and endeavours can be informed by New Zealand's unique cultural and historical context,
- insure the community and voluntary sector's continued sustainability, particularly as current generations are succeeded by those to come,
- accept a majority of the compliance costs involved in the implementation of any tax changes and resulting infrastructure programmes so as to avoid adding further financial burden to the community and voluntary sector.

Responses to specific aspects of the Discussion Document

1. Imputation credits (*Discussion Document references 1.11*)

When companies declare dividends the dividend is paid as a net amount. That is because there has effectively been tax deducted. The amount of tax is known as an imputation credit. Taxable entities and individuals are able to claim this amount against taxable income. Charities are exempt from paying tax and are therefore unable to claim the imputation credit against taxable income. This means that a body which is intended to be a non tax-payer is de facto paying tax. Furthermore, the current regime makes it more advantageous for charities to invest overseas than in New Zealand as overseas shareholders are entitled to a supplementary dividend from the company in which they hold shares.

- *Philanthropy New Zealand strongly supports the government's commitment to reviewing imputation credits in 2007 with a view to allowing imputation credits to charities to be refundable for tax purposes during this current parliamentary term.*

2. Individual Tax Rebate Threshold (*Discussion Document references 2.4 – 2.19*)

Philanthropy New Zealand submits that there should be no cap on tax rebates for donations made by individuals. We note that this would bring NZ in line with both the UK and Australia. The current individual maximum rebate of \$630 is easily reached by people in most income brackets and is recognised as one of the weakest tax incentive schemes in the developed world.² **(A copy of the paper referred to is attached in the appendices to this submission).** The rebate provides little incentive for those who are able to make significant donations to do so. We submit that the removal of the threshold at which the rebate is capped would result in greater generosity by more New Zealanders and would encourage more substantial gifts. Removing the tax rebate threshold would encourage endowments and bequests and support payroll giving. If a cap is retained it will make tracking of payroll giving onerous and complicated - refer to later discussion under payroll giving paragraph 7 (ii).

² David Roodman and Scott Standley, Tax policies to promote private charitable giving in DAC countries

- *Philanthropy New Zealand submits that there should be no cap on tax rebates for donations made by individuals.*

3. Company Deductions for Donations (*Discussion Document references 2.25 – 2.30*)

Companies which shares are listed on the official list of a recognised stock exchange are able to receive a limited deduction for cash donations. With this limit set at 5% of the company's net income (or \$4,000) there is little incentive for substantial giving, except through sponsorship, which can be written off as a marketing expense. Consequently sponsorship is the predominant means of giving by corporate New Zealand. However, while this provides assistance to non-profit organisations, it greatly restricts the uses to which such organisations can put these funds.

Approximately 65% of all small businesses in New Zealand are closely held companies and even some of its largest (e.g. the Datacom Group). Abolishing the cap and allowing closely held companies to get a deduction would again bring NZ into line with the UK and Australia, both of which have been successful in increasing a culture of giving in their populations. Australia in particular has found that since removing their cap on corporate donations the way in which companies give has tended towards the provision of 'untagged' donations and away from the more restrictive sponsorship approach.

Philanthropy New Zealand submits that Government support is essential for encouraging greater corporate giving. The UK Government has shown an awareness of the need to support smaller companies by reducing compliance costs and rewarding generosity within a simplified tax structure. For example, any company with fewer than 500 employees, who sets up a payroll giving scheme before December 2006, is entitled to a Government grant of up to £500 to assist with the costs of doing so. They have also offered to match employee donations pound for pound, up to a maximum of £10 per employee every month for six consecutive months.

- *Philanthropy New Zealand submits that removing the threshold for charitable donations by companies and removing the current exclusion for close companies whose shares are not quoted on a recognised stock exchange will encourage greater charitable donations.*

4. Māori Authorities Deductions for Donations (*Discussion Document references 2.31 – 2.34*)

Māori authorities are currently entitled to deduct donations made to donee organisations in the same way as companies do and this also applies to donations made to Māori associations. The deductions for donations made by a Māori authority cannot exceed 5% of the authority's net income for that year.

- *Philanthropy New Zealand submits that the treatment of Māori authorities should be consistent with the tax treatment of individuals and companies and subsequently that any cap on giving should be removed.*

5. **Volunteers** (*Discussion Document references 3.1 – 3.25*)

Philanthropy New Zealand supports any proposal which aims to encourage more volunteering by both simplifying and reducing the costs for volunteers. It certainly should not COST volunteers to volunteer. Philanthropy New Zealand submits that further research is required into the particular needs of the New Zealand voluntary sector and the approaches and methods most likely to support it. The overseas experience, particularly that of Canada, the UK and Australia, suggests that in order to achieve a healthy voluntary sector, there needs to be a multi-pronged approach which raises public awareness of volunteers and provides on-going opportunities for participation, training, support and information.

Although tax rebates may encourage a greater level of volunteering there are some complications and disparities which could arise through a solely tax based approach. We are not convinced that the volunteer rebate is the BEST way to support volunteers – and volunteering in New Zealand.

We note the following issues:

- First, registration with the charities commission would be required. Many volunteers who give their time to organisations such as Meals on Wheels and the Fire Service would be excluded and therefore not qualify for rebates. So too would those who volunteer their time informally, such as helping out elderly neighbours. We believe that it is essential that there is both clarity and uniformity in the tax treatment of volunteer work and equal recognition and support for those who volunteer, regardless of the vehicle they use to do so.
- Secondly, volunteering is a particularly common means of giving for those who have little or no income. It would therefore be both disingenuous and discriminatory to only recognise the efforts of those who are taxable. This is not only inconsistent but also sends the wrong message in regards to the value of every volunteer.
- Thirdly, there are questions concerning the costs involved in volunteering, both for those giving their time and also for host organisations. Currently, the cost of transport or even having to pay a babysitter can impede those who would like to volunteer from doing so. The cost of training, recruiting or supervising volunteers can prevent organisations from taking on more volunteers.

The grant model utilised in the UK provides non-profit organisations with small grants to cover the costs incurred by the volunteers and the host organisations and is one simple method to ensure that volunteering is not costly to anyone involved. We suggest that such a system may offer useful support to the community and voluntary Sector in New Zealand.

Philanthropy New Zealand also submits that volunteer recognition and encouragement should not be limited to financial reforms. In the countries mentioned above, volunteering is recognised as an excellent pathway to new skills and employment and programmes are supported by the government as a way to ensure the ongoing wellbeing of the economy as well as that of the voluntary sector. Programmes such as Austria's Volunteer Passport scheme or the UK's Millennium Challenge are simple, yet successful models which New Zealand

could consider adopting.

Austrian Volunteer Passport

In 2005 the Austrian Government created the Austrian Volunteer Passport with the aim of promoting voluntary work. The passport is filled in by the host organisation and gives information on the time spent by the volunteer on a voluntary activity, the person's functions within the organisation, the volunteer's tasks, skills and competencies as well as the completed training.

In order to promote volunteering on a large scale the Ministry for Social Security, Generations and Consumer Protection has created a special website on volunteering in Austria³. This web site serves as an information tool on all aspects of volunteering. It covers volunteering policy, information about all Austrian volunteer centres, information about projects, awards, and other information on volunteering. It enables people to find out about the volunteer opportunities in their region and generally covers all aspects of volunteering infrastructure in Austria.

UK Millennium Volunteers

The UK Millennium Volunteers Programme was launched by the Government in 1988. Its aim is to promote and recognise a sustained commitment by young people aged between 16 and 25 years to voluntary activity. The programme must benefit young people, the host organisations with which they volunteer and the wider community. After 200 hours of volunteering, millennium volunteers receive an Award of Excellence signed by the Secretary of State. Through the course of their voluntary work Millennium Volunteers (MVs) gain valuable skills and experience that they can make use of in the workplace such as team-working, decision making and communication. There are over 130 MV projects established around England mostly based in local volunteering centres, schools or colleges.

- *Philanthropy New Zealand submits that further research is required into the particular needs of the New Zealand voluntary sector and the approaches and methods most likely to support it.*

6. Honoraria (Discussion Document references 3.26 – 3.28)

Currently people who receive honoraria may incur considerable compliance costs. 'Anomalies' in the tax treatment of honoraria mean that there is a disincentive for volunteers to be reimbursed for their expenses. Honoraria and associated payments are classified as withholding payments thus requiring the holders of such to file income tax returns.

- *Philanthropy New Zealand submits that the Government takes urgent action on this matter to ensure that the legal framework and requirements are both clarified and simplified.*

³ <http://www.freiwilligenweb.at>

7. Tax incentives used in other countries (*Discussion document references 4.1 onwards*)

NZ is lagging well behind other comparative Commonwealth countries in promoting a culture of giving. In addition to the government's current efforts concerning tax incentives for charitable giving, Philanthropy New Zealand submits that a range of other initiatives should be explored in order to encourage, enhance and sustain a culture of giving in NZ. The UK, Australia and Canada; have been particularly successful in increasing generosity within their populations. The Government in these countries has been the main driving force behind the development and implementation of new philanthropic initiatives and have borne the majority of the associated costs. Philanthropy New Zealand suggests that the success of any comparative New Zealand programmes would be similarly linked to Government involvement. Philanthropy New Zealand would support being an active partner in any ongoing work in this area, and has only been limited to date by its capacity as a small organisation to undertake more work.

- ***Philanthropy New Zealand submits that a range of other initiatives should be explored in order to encourage, enhance and sustain a culture of giving in NZ. In particular the Government should consider the applicability of the following overseas schemes to the New Zealand situation:***

(i) Gift Aid (*Discussion document paragraphs 4.3 – 4.10*)

Since its inception in 1990, Gift Aid has been the fastest growing tax effective scheme in the UK, causing the government to remove the minimum limit to gifts, simplify the paperwork required and make it accessible by phone and internet. Basically by donating through Gift Aid, 28% of the tax portion of the donation goes to charity, essentially lessening the cost of the donation to the donor. For those in higher tax brackets any remainder of tax paid can be claimed as a rebate. Gift Aid donations now account for one third of total giving to charity and in 2004/2005 the total gross amount going to charities via this scheme was £2.8 billion.

The international literature overwhelmingly asserts a strong correlation between the 'price' of giving and the level of generosity. By lowering the price of donations through Gift Aid, the UK Government has been extremely successful in increasing generosity. Such success has led to the extension of the Gift Aid programme to include those means of income for charitable organisations not traditionally perceived of as pure 'gifts', such as entry fees to heritage sites, museums and zoos.

- ***Philanthropy New Zealand submits that the government should consider the adoption of a similar scheme in New Zealand. Obviously this will require further research and funding to determine its applicability to the New Zealand situation. As noted earlier, Philanthropy New Zealand would appreciate the opportunity to be involved in any further consideration of such a programme.***

(ii) Payroll Giving (*Discussion document paragraphs 4.11 – 4.17*)

Payroll giving is one of the most democratic and simple ways for people to give and offers one of the best solutions to the question of how to provide charities and other non-profit sector organisations with a sustainable source of ‘untagged’ income. Although a handful of New Zealand companies have entered into payroll giving relationships directly with charities, such programmes are in their infancy here and lack the kind of infrastructure required for their support and encouragement. The UK and Australian experience have shown that any successful payroll giving programme is reliant on such infrastructure and also shows just how successful they can be with the right kind of support, particularly from Government. In 2005, payroll giving in Australia alone accounted for almost \$11 million of extra income to charities, with the total pool growing at between \$1 million and \$2 million a year. In the UK it is estimated that payroll giving has increased as a result of the UK government’s “corporate challenge” from 55 million pounds to 86 million pounds.

We note that if the Government decides to continue to cap rebate thresholds that this will complicate the effectiveness of payroll giving in New Zealand. For example, it is not clear how employers would be expected to track employee’s levels of giving in order to ensure that the threshold was not exceeded.

- ***Philanthropy New Zealand submits that the New Zealand government should support payroll giving from pre-tax pay and that the infrastructure implemented with the introduction of Kiwi Saver could also be used to support payroll giving in this country. To be effective there should be no cap on rebate thresholds.***

(iii) Non-cash Donations (*Discussion document paragraphs 4.27 and 4.28*)

Although the IRD has argued that non-cash donations are problematic in that they are difficult to value, overseas experience suggests that it can indeed be done. Gifts of land, shares and equipment donated to charity by either individuals or companies qualify for tax relief in both Australia and the UK and this is in addition to any relief from Capital Gains Tax that would normally be applied. In Australia, donors may now receive a tax deduction for gifts of property held by the donor for more than 12 months and valued by the Commissioner of Taxation in excess of \$5,000, including environmental and heritage property donations to approved environmental organisations. If these are made through the Cultural Gifts Program, they may now be spread over a period of up to five income years. Such efforts have led to a definite increase in generosity. For example, by reducing Capital Gains Tax alone on stock donations to charities, the Canadian government increased the gifts of publicly traded securities to charities from C\$69.1 million in 1997 to C\$200.3 million by 2000.

In 2006 the Robin Hood Foundation collaborated with Goldman Sachs JBWere to launch “Shares for Good” in New Zealand. Inspired by the ShareGift programme in the UK, this is a registered charity that exists to provide a charitable home for unwanted shares, particularly those that would cost more to sell than they are worth, with Goldman Sachs JBWere providing all brokerage fees free of charge. Although the newness of this programme gives little insight into its current success, the overseas experience shows that with Government support, particularly through tax exemption, this, as well as other non-cash donations programmes, has the potential to greatly increase charitable income in New Zealand.

- *Philanthropy New Zealand submits that non-cash deductions should be tax deductible.*

(iv) Web Portal

E-Philanthropy is argued to be the most cost-effective form of fundraising and has the added benefit of being one of the least intrusive. Currently, New Zealand has one of the highest internet user rates in the world and Philanthropy New Zealand believes that an internet based philanthropy programme has real potential for both increasing the generosity of New Zealanders and making the process more accessible and therefore democratic. GuideStar⁴ in the UK was set up in 2003 to provide detailed information about every charity and voluntary organisation in the UK. The site provides a high profile free web presence, not just for established charities but also for the smaller and specialist organisations that may not have their own websites. It is an invaluable source of statistical and financial information for grant maker and public policy makers. No one pays to be included on the database and use of the website is free. Importantly, GuideStar is supported by a mixture of government and private grant making trusts including Treasury, Home Office and the Charity Commission. **(Further information about GuideStar UK is included in the appendices to this submission).**

In a recent study conducted by Philanthropy New Zealand on giving in New Zealand, those surveyed attested to the importance of the transparency of the organisations they gave to. Successful international e-philanthropy projects, such as GuideStar have utilised the communicative potential of the internet to enable charities, including even the newest and smallest, to have an open, transparent presence while providing a one-stop-shop for people to find any information they require concerning non-profit entities and how best to support them. GuideStar US, for example, is currently used by 20,000 people a day.

In 2002 Washington Grantmakers launched a regional e-philanthropy Web portal⁵ in partnership with GuideStar.org and Network for Good. The site was created to encourage D.C area residents to contribute to 1 or more of the 25,000 nonprofit organisations in the greater Washington metropolitan area, either through on-line donations, offering volunteer support or both. A comprehensive public awareness campaign was launched at the same time to introduce

According to a new report from Network for Good, the Internet's largest nonprofit giving portal, the typical online donor is generous, significantly younger than the average offline donor, and not new to giving. Based on an analysis of \$100 million in giving that came through the Network for Good site from its inception on November 19, 2001, to September 3, 2006, the report, 'The Young and the Generous', found that the median age of the typical online donor was 38, that 96 percent of all online donors had given to charity before, and that their average gift size was \$163 significantly more than offline donors give on average. The report also found that equal numbers of men and women donate online, and that their main reason for doing so was convenience. Reflecting overall trends, the report noted that Network for Good has seen a steady increase in online giving over the past five years, with donations

⁴ <http://www.guidestar.org.uk>

⁵ <http://www.touchDC.org>

rising from \$17.1 million in 2002 to \$32.3 million in 2005. The increase in the number of donors has been similarly striking, growing from 41,138 in 2002 to 180,794 in 2005. **(This report is included in the appendices to this submission)**

- *Philanthropy New Zealand submits that the data collection carried out with the establishment of the Charities Commission could make such a resource a possibility for New Zealand in the near future, and suggests that a similar portal to GuideStar would be of tremendous value to the Community and Voluntary Sector in New Zealand.*

(v) Youth

Philanthropy New Zealand submits that in order for philanthropy in New Zealand to be sustainable it is essential to engage youth in philanthropic efforts and imbue them with an appreciation of the value of giving. Accordingly we applaud recent Government efforts to address topics such as citizenship and generosity in the national curriculum and support the ongoing importance placed on “participation and contribution” as a key competency for all of our children to achieve.

Philanthropy New Zealand submits that there needs to be a greater effort in “democratising” philanthropy and involving young people in philanthropic activities and initiatives which reach beyond the classroom. In countries that have been successful in doing just this, the generosity shown by young people often outshines that shown by their elders. For example, the Randomkid website, a not-for-profit organisation in the US which tracks donations from children, highlights that US school children donated more to Hurricane Katrina victims than many leading corporations such as Coca-Cola, AT&T, Verison, G.E and Chevron. Leading international examples of youth philanthropy programmes include those that involve directly engaging young people in grant making; such as YouthBank in the UK and Youth in Philanthropy in the US and Canada, and those which promote youth volunteering and support young people in undertaking such endeavours; such as Americorps in the US and the Millenium Challenge in the UK. A ten year longitudinal study on the Youth In Philanthropy programme in Michigan showed that as they moved into adulthood those who had been involved in the programme were more inclined than their peers to be engaged in philanthropy; with 96% continuing to donate money and 94% still donating time to charitable causes.⁶

- *Philanthropy New Zealand reiterates the importance of engaging youth in philanthropy for the sustainability of philanthropy in New Zealand. Although we would support the introduction of similar initiatives in New Zealand, we urge the Government to explore possible philanthropic pathways which take into account the unique needs and circumstances of New Zealand’s young people.*

(vi) Public Awareness Education

Philanthropy New Zealand submits that any amendment to tax incentives must be supported by an in-depth public education campaign to raise awareness of the issues involved. The

⁶ Karin E. Tice, Leadership, Volunteerism and Giving; A Longitudinal Study of Youth Grantmakers (1993-2003), available from <http://www.youthgrantmakers.org/Documents/Leadership.pdf>

success of tax effective legislation internationally has always been supported by correlating public education campaigns. Amending the tax legislation to encourage New Zealander's generosity will only be effective if the public is made aware of it. To date it has been disappointing that so little is known about the current tax treatment of donations to charities. For example it is not widely known that charities can be named as a discretionary beneficiary of a family trust and that the beneficiary income will be exempt from income tax to the charity.

(vii) Government and community and voluntary partnership

Philanthropy New Zealand notes that the countries which have been most successful in increasing generosity amongst their citizens have been those where there has been an active partnership between the community and voluntary sector and the Government – see for example GuideStar UK. A recent example of a partnership approach to the issues addressed in this submission can be seen in the UK where the Carnegie UK Trust in partnership with the UK Government, the Scottish Executive and the Economic and Social Research Council (ESRC) is to establish the UK's first centre of excellence for research into charitable giving and philanthropy.

The aim of the centre will be to support high-quality research aimed at developing a better understanding of charitable giving and philanthropy, and to inform policy and practice decisions in the UK. The centre will work closely with academics, policy-makers, donors and fund-raisers, to build a credible intelligence base for the sector and to promote its research. It will also provide training support and an extensive publications and seminar programme. The creation of the £2 million Research Centre was jointly championed by the Government and Carnegie. Discussions are also taking place with the Big Lottery Fund, which it is hoped will provide further funding support.

- *Philanthropy New Zealand welcomes the opportunity to work alongside Government to research and facilitate a range of options to increase generosity in New Zealand.*

Summary

Philanthropy New Zealand strongly supports and applauds the Government's decision to review the existing tax regime to encourage greater generosity in New Zealand. In order to be successful any legislative change must be part of a multi-pronged approach to encouraging greater giving. Philanthropy New Zealand welcomes the opportunity to be a partner in an ongoing discussion with Government to promote the community and voluntary sector in our society.