



Submission on the  
Government Discussion Document

**Payroll giving:  
providing a real time benefit for charitable giving**

From

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## **Introduction**

This submission is made by Volunteering New Zealand (VNZ). It is made on behalf of VNZ members and also seeks to include the views other organisations involved in volunteering services within New Zealand.

VNZ is an association of regional volunteer centres and national organisations with a strong commitment to volunteering. These organisations cover emergency services, health, welfare, education, sport and recreation, conservation, international aid, special interests and advocacy.

VNZ's mission is to create an environment which supports, promotes, values and encourages effective volunteering by the people of Aotearoa New Zealand. As the national voice of volunteering and volunteers in this country it has a different role from that of other organisations which speak on behalf of not-for-profit or voluntary organisations.

## **Executive Summary**

- VNZ supports the introduction of the payroll giving programme as it will add to existing opportunities for giving of donations for the benefit of voluntary sector organisations. These organisations may rely entirely or significantly on volunteers for their operation but, at the same time, need financial resourcing. For many, donations are a major or the sole source of funding.
- Volunteers and others who are not in paid employment will not have the opportunity of participating in a payroll giving scheme, yet may have other sources of taxable income and be eligible for the current annual tax rebate. VNZ recommends that the Government research options for this group of New Zealanders to be able to receive some form of immediate tax credit for donations given during the course of a tax year.
- VNZ has not determined a preference for either of the two options presented in the Discussion Paper. Each has its merits. Option 1 would be much simpler to operate by employers, which Option 2 could be seen as more balanced.
- If Option 2 were adopted, Inland Revenue should put effective resourcing into encouraging and enabling small employers which include a great majority to the non-profit organisations to file their PAYE monthly schedules electronically. Given Inland Revenue is keen for electronic filing to become the norm, it would be in its interest to undertake this work.
- There is a concern that smaller voluntary organisations may lose out to larger organisations in gaining funding from payroll giving. This needs to be addressed in the communications strategy for the scheme. This would include providing guidance to smaller groups on how best to attract donations and on promoting the benefits for all community groups if payroll giving donations are channelled through local community trusts and other agencies such as United Way.

## **Introduction of Payroll Giving supported**

VNZ supports the introduction of payroll giving. In so doing, it recognises that it will be just one of many ways in which New Zealanders are able to make donations of money to organisations they wish to support. It also recognises that overseas experience suggests that donations made through this mechanism will likely comprise a small part of overall financial giving.

At the same time, it is important to encourage and enable new ways of making donations, especially if this achieves an increase in total giving. The opportunity it will provide for the immediate receipt or benefit of the donations tax rebate should encourage some who do not make donations now to do so in the future. An increase in donations should benefit not-for-profit organisations in general.

VNZ is very aware that volunteers contribute greatly to the functioning of the non-profit sector. Statistics NZ data shows that of the 97,000 non-profit institutions in New Zealand, 90 % function without any paid staff and many of the remaining 10% have significant volunteer teams.

However none or very few of these organisations can operate without financial resources. Donations are an important and for a significant number, the only form of funding they receive. Therefore a scheme such as payroll giving which adds to the total of donated dollars will bring benefit to the non-profit sector.

## **Unpaid and unemployed workers will not benefit from the scheme**

A key incentive for employees to participate in a payroll giving scheme is that they can receive their tax rebate immediately on a pay-as-you go basis. They get the benefit of money in the pocket now rather than having to wait until the end of the tax year and then completing and sending in a claim form to Inland Revenue.

This opportunity, however, will not be available to those who are unemployed and/or unpaid workers (volunteers) even though they may be eligible for tax rebates on any donations they make as they have taxable income from other sources.

Analysis of census data indicates this makes up a considerable group within the volunteering sector. The census collects three sets of figures which cover volunteering activities. These are:

- Looking after a child who does not live in own household
- Looking after a person who is ill or has a disability who does not live in own household
- Other helping or voluntary work through an organisation, group or marae.

Statistics NZ analysis of this data in relation to work and labour force status shows the following percentages of the total who reported activity in each of the above groups.

<u>Looking after a child</u>	%
Unemployed	4.6
Not in the labour force	25.2
Combined	29.8

<u>Looking after an ill or disabled person</u>	
Unemployed	4.5
Not in the labour force	28.1
Combined	32.6

### Other voluntary (unpaid) work

Unemployed	3.8
Not in the labour force	30.1
Combined	33.9

These figures suggest that close to a third of all volunteers in New Zealand are not also in paid employment. Statistics NZ has calculated that there were 1,011,600 volunteers as at 31 March 2004. It can be assumed about 300,000 of them would not have been in paid employment.

In terms of equity, there should be opportunities for this group of people to be able to obtain a tax rebate on their donated dollars on a more regular basis than through the current annual claim. VNZ recommends, therefore, that the Government research options for this group of New Zealanders to be able to receive some form of immediate tax credit for donations given during the course of a tax year.

### **Choice of Options**

VNZ has not determined a preference for one of the two options. Each has its merits.

Option 1 would be much simpler to operate by employers. This would be more attractive for small non-profit organisations with limited administrative resources. Many would be reliant on a volunteer treasurer or secretary to process the pays for the one or few staff employed and to make the monthly PAYE return and payment. At the same time, the nature of these organisations will attract paid staff and volunteers who also wish to make monetary donations. The organisations may find the opportunity of a payroll giving scheme attractive, but only if it is not administratively burdensome.

Option 2, on the other hand, can be seen as more balanced. As the discussion paper notes, it gives the same tax benefit regardless of an individual's tax rate. It also does not affect an employee's social policy entitlements and obligations which use taxable income as a basis for calculation. However, it requires extra steps in calculating the tax benefit and most significantly would only be offered to employers who file their monthly schedules electronically.

Most small non-profit organisation, especially those who rely on volunteers for administrative tasks, will not be filing electronically now and would be unlikely to see the opportunity of participate in payroll giving as sufficient incentive to change from their current paper based payroll management and PAYE filing procedures.

The inhibiting factors include resource limitations that mean a reliance on older IT systems and/or a reluctance to introduce new IT systems because they are comfortable with their traditional paper based administrative systems.

A low take up of payroll giving by this group is therefore likely if Option 2 is adopted and there are no programmes aimed at encouraging and facilitating the introduction of electronic filing systems.

### **Action if Option 2 Chosen - Enabling electronic filing**

If Option 2 is chosen, VNZ recommends that the Government and Inland Revenue in particular initiate programmes which encourage and positively aid the introduction of electronic filing systems.

We understand there are administrative and other cost benefits for Inland Revenue if employers change to electronic filing systems. There is therefore good reason for Inland Revenue to implement programmes which will encourage and assist smaller non-profit and other employers introduce electronic filing. In relation to filing PAYE schedules, it might be through a full electronic pay system.

From our own experience, VNZ is aware that Inland Revenue currently offers a small subsidy towards the cost of electronic PAYE filing for the first five employees of an employer using some external electronic wages payment systems.

However the subsidy is worth only \$1.00 per employee and from discussions with other voluntary sector organisations, it is virtually unheard of. We have not found any quick reference to it on the Inland Revenue website.

If Inland Revenue wants organisations to change to electronic PAYE filing systems it should offer realistic incentives and it should have a proactive promotion programme which does more than just provide information about the scheme. For instance, Inland Revenue could develop a workshop programme for the non-profit sector and other small-medium businesses to introduce them to electronic payroll and Inland Revenue filing systems and the organisations which can assist them in introducing the systems.

In addition, Inland Revenue should provide input to the Government's digital strategy development to ensure it takes into account the funding resource requirements that small and medium sized non-profit organisations will need to purchase and be trained in the use of the IT hard and software needed to undertake processes such as electronic filing.

### **Achieving equitable funding for small as well as larger voluntary organisations**

A concern has been raised that smaller voluntary non-profit organisations may miss out on receiving funding which comes through payroll giving and that only the larger voluntary organisations will benefit.

Whatever option is chosen, this factor should be taken into account when the scheme is being introduced and in its ongoing promotion. This would best be achieved through the communication strategy for promotion of the scheme.

The strategy needs to include smaller voluntary organisations as a key target group and give them guidance on how they can best promote themselves as potential recipients of donations when local employers and their employees opt to introduce payroll giving.

The benefits in choosing to channel payroll giving donations through local community trusts and grant making organisations such as United Way and the Acorn Foundation should also be part of the communications strategy. It should highlight that using such agencies will enable a wide cross-section of voluntary organisations to benefit from the donations given.