



Submission on the

***Tax incentives for giving to charities and other non-profit organisations
– a government discussion document***

From

Volunteering New Zealand
P O Box 24526
Wellington

To

Tax and Charitable Giving Project
C/- Deputy Commissioner
Policy Advice Division
Inland Revenue Department
P O Box 2198
WELLINGTON

Contact: Tim Burns Executive Director,
Volunteering NZ
PO Box 24526 Wellington
Phone [04] 3843636 Mobile 0275 595955
email: ed@volunteeringnz.org.nz

Introduction

This submission on the Tax Incentives for Giving Discussion Document is made by Volunteering New Zealand. It represents the views of VNZ members and other organisations involved in volunteering services within New Zealand. Many of those who have provided the comments are themselves volunteers with their organisations, whether as Board members or in hands on service roles. The submission thus represents a perspective from volunteers

Volunteering New Zealand 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.

Its 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.

With this perspective, our comments on the discussion documents focus mainly on Chapter Three, which outlines the proposals for a tax rebate for volunteering time, an alternative of grants to organisations to support volunteering services and reviewing and improving the taxation situation in relation to reimbursement of expenses incurred by volunteers.

We do comment, however, to a lesser extent on the other Chapters of the Discussion Document, recognising that the charitable dollar is a most important source of funding for organisations who have volunteer involvement in their activities and services.

Summary of key points

- ❖ The Government's initiative to consider changes to the tax regime as it relates to giving is welcomed by Volunteering New Zealand.
- ❖ The cap on the limits for monetary donations made by individuals which qualify for a tax rebate should be removed.
- ❖ An increase in the rate of the rebate is supported if it does not compromise removing the cap.
- ❖ The cap allowable donations for companies and Maori authorities should be removed and closed companies should be included in the regime.
- ❖ Volunteering NZ does not support the proposed tax rebate for volunteering time.
 - It can be viewed as compromising the principle of volunteering being unpaid;
 - the compliance costs are a major concern
 - it would inequitable as the many volunteers not involved with registered charities would not be eligible to receive it.
- ❖ The alternative of grants to support volunteer services has merit. Volunteering New Zealand would welcome further work on this proposal.
- ❖ The review of tax law as it applies to reimbursement of expenses is welcomed. Such payments should not be declarable income. Documented expenses should be able to be paid on an actual and reasonable basis without a dollar limit. However a limit for non-documented expenses and allowable honoraria is accepted.
- ❖ Volunteering NZ is supportive of further consideration of the overseas examples of enabling the giving of donations.
- ❖ The need for other supporting programmes to encourage giving is acknowledged.

General Comments on the Discussion Document

Volunteering New Zealand welcomes the publication of the Discussion Document. While we do not agree with some of the detail, it is both timely and important that there is discussion about what changes should be made to the taxation system to encourage increased giving to the voluntary and community sector.

Volunteering NZ is fully supportive of proposals that will genuinely encourage increased giving in money and time to not-for-profit organisations in New Zealand. Community and voluntary sector organisations play significant roles in the lives of New Zealanders, covering all sectors within our society.

In terms of dollar income, for most community and voluntary sector organisations this is an ongoing challenge, with many relying on funding from many sources. Despite this challenge or perhaps partly because of it, community and voluntary welfare organisations deliver very good value for money to their investors.

The PriceWaterhouseCoppers report, *Value Added by Voluntary Agencies*, commissioned by the Federation of Voluntary Welfare Agencies, indicated that the 10 participating organisations delivered \$3 - \$5 worth of services for every dollar invested.

Recruiting and retaining good volunteers is a different challenge for voluntary organisations. For many it is the challenge of ensuring the opportunity they offer to volunteers is one that will interest and excite. At the same time, personal financial costs which volunteers often have to meet to undertake their volunteering can be a barrier to taking up the volunteering role. It is a barrier which can be removed or reduced in size through enabling the proper payment of volunteers' out-of-pocket expenses.

Census data from 2001 showed that more than more than 1 million New Zealanders aged 15 and over undertook voluntary activities – 40% of this section of the population. The 1999 Time Use survey recorded that volunteers contributed a total of 260 million hours per annum. The value of this was very conservatively estimated to be about \$2.5 billion.

This demonstrates the very major contribution made by volunteers to New Zealand society. It is important that this is not diminished because of any barriers caused by taxation and other Government policies which affect volunteering. Indeed the policies should be designed to encourage increases in the level of volunteering. This is the aim of the Government's Policy in Support of Volunteering.

Detailed comment on the Discussion Document

Chapter 2 Tax rebates for donations

Tax Rebate for individuals –

Volunteering New Zealand proposes that:-

- The current method used for individual taxpayers to apply for a rebate should be retained as it is “user friendly”
- The cap be removed on the dollar amount for which a rebate can be claimed. As the money has to be **given away** before the rebate can be claimed, it acts as a self limiting system. This is demonstrated by the fact the current average rebate claim is lower than maximum amount which can be claimed. Overseas experience, such as in Australia, also indicates that tax claims for donated dollars will not rise dramatically if there is no cap. At the same time, it would enable those who are able to make larger donations to do so and get the full tax rebate for their giving.
- A fixed rate for the rebate should be retained. Volunteering NZ would support an increase in the rate of the rebate, but only if this did not compromise removing the cap on the amount which may qualify for a rebate.
- Volunteering NZ acknowledges that increasing the amount of the rebate will not on its own increase giving and the other proposals for promoting giving as outlined in the Discussion Document need to be pursued.

Company and Maori Authority deductions for Donations –

Volunteering NZ supports removing the cap on the proportion of expenditure which may be given in donations and accounted for in pre-tax expenditure. Similar arguments as above would apply. The regime should also be applied for those many thousands of closed companies which at present are excluded from any tax benefit for donations they may make.

Chapter 3 – Taxation in relation to volunteering

Volunteering NZ welcomes the recognition for the contribution made by volunteers which is inherent in the proposals set out in this section. It is most encouraging to see the Government and United Future, as a support party for the Government, giving this issue priority.

Tax Rebate for Volunteers.

Although the intent of this proposal is commendable and it also has some attraction, Volunteering NZ is not able to support its introduction. We have received feedback on the proposal since the proposal was promoted by United Future earlier this year. Some people and organisations have spoken in support of rebate proposal. They do not see any philosophical problems with a tax rebate nor for them major compliance issues. However the great majority of comment has not been in favour. The reasons for this include:

- It is seen as being contrary to one of the basic tenets of volunteering that voluntary work is undertaken without pay. It is considered that a tax rebate would undermine this principle.
- Compliance is an issue. This is acknowledged in the Discussion Document, but the suggestion it would not be a significant problem. Volunteering NZ does not agree with this view. The feedback we have received is that many organisations, especially the smaller to medium ones, would have to provide extra resources – time, people and money – to record data not currently kept about their volunteers’ time involvement. Additional audit requirements must also be expected. Many organisations operate with minimal administrative support, but have hundreds or even thousands of volunteers involved in their activities. The hours contributed by volunteers within one organisation

are often extremely varied. If the rebate were introduced, organisations which found they were not able to do the work to provide their volunteers with certificates of hours worked, might find it difficult to recruit and retain volunteers when other organisations were enabling their volunteers to claim the rebate.

- It would create unfairness within the volunteer community because large numbers of people who volunteer would not be eligible to receive the rebate because
 1. The volunteers in situations not covered by the Charities Commission eg sport, emergency services and environment. Many volunteers are involved in services managed by national and local government agencies.
 2. The volunteers who do not have any current taxable income and therefore pay no tax to claim a rebate on.
- If, as suggested by the Discussion Document, the dollar rate used to calculate the rebate was less than the minimum wage, it would give the impression that volunteer work is less valuable than paid employment.
- Many volunteers would be very reluctant to give accurate measures of the time spent on their volunteer work. They see it as a downgrading of the spirit of generosity.

Alternative proposal for grant to support volunteer services.

This proposal has attraction and Volunteering NZ supports further work being done on how it might be developed. While it is a key principle that volunteers are not paid for their services, equally they should not be expected to pay, from their own pockets, expenses associated with their volunteering. There is also a cost to the organisations who involve volunteers in providing the support needed to ensure the volunteers are trained and able to carry out their duties well. Funding support which aided the payment of expenses reimbursements and the support costs for volunteer programmes would be beneficial. Such grants might be administered through an existing programme such as COGS.

It would be important to keep the supporting information for grant applications as simple as possible. For instance, it would be likely that organisations would find it easier to provide information on their volunteer numbers, the duties the volunteers carry out and the support required for the volunteer service compared with detail of the hours each volunteer contributes.

Volunteering NZ would welcome the opportunity to be involved in further consideration of this proposal.

Reimbursement of expenses

Volunteering NZ welcomes the inclusion of this issue in the Discussion Document and that the Government is considering action to provide an appropriate regime for expenses reimbursements. It is a matter which needs to be treated with urgency, especially now that the legal situation regarding reimbursement payments has been made clear.

It has certainly has come as a surprise to many to learn that if volunteers were to follow the letter of the law, if they receive reimbursement payments they should be declaring these payments as income but then claim the offsetting expenses. If all volunteers were to actually do this, the administrative costs for Inland Revenue would be greatly increased, especially given that the majority of volunteers are unlikely to be make any return at present, either because they only receive wages or salaries on which income tax has been paid through PAYE or they receive no other taxable income.

The current law also does not acknowledge that the expenses being reimbursed have been paid from the volunteers' income gained from some other source which would have already

been subject to income tax. This is an underlying principle in allowing reimbursement payments to be made to paid workers – they are being reimbursed for expenses paid out of taxed income. It should equally apply to volunteers. The law should be changed so that the expenses reimbursements paid to volunteers are not considered income, but a non-taxable reimbursement payment.

To implement this, it is recognised that a distinction would be required between reimbursements for expenses which can be reasonably documented and more open type payments such as honoraria. The latter may be paid to reflect costs which might not be easily documented and/or income foregone by the volunteer. For instance, volunteers who work as professionals or consultants may give up time that they would be charging to clients to carry out their voluntary work.

Expenses paid where there is supporting documentation should be able to be paid on an actual and reasonable basis without any dollar limit. Payment by way of honoraria or some similar payment (eg petrol vouchers for using a car for volunteering activities) might require an upper limit but that should be set at a realistic level.

It will also be important to determine what expenses may be reimbursed but that is detail which should be discussed with Inland Revenue after the legislation has been corrected to allow that the reimbursement of expenses is not declarable income. Volunteering NZ submits that the necessary legislative changes be made at the earliest opportunity.

Volunteering NZ would welcome the opportunity to be involved in the further work to be done on the reimbursement of expenses issue.

Chapter 4 – Overseas examples

Volunteering New Zealand is supportive of further work being done on the suggestions put forward in this chapter.

A benefit which may arise from payroll giving is that it would have the effect of “normalizing” the practice of giving among people who have not seen it as their responsibility up till now.

However if the dollar cap on donations which can be claimed for a tax rebate is not removed, it will prove a challenge for employers to implement. How will individual employers know when an individual employee has reached the donations limit if that employee is also donating through other means?

Chapter 5 Other ways of promoting charitable giving

Volunteering New Zealand recognises that changes to the tax regime will not on their own achieve significant increases in charitable giving to community services.

Promotion of the need for giving will require a collaborative approach involving the Government, philanthropic bodies and the community organisations who require the funding. It might include promoting giving by through an advertising campaign that highlights the rebate as a reason “give more because the government will give x% back to you.”

Volunteering NZ is prepared to join this collaborative work and assist in ways within its means. The key message from Volunteering NZ will be to promote giving which can be made in kind and time – ie giving by volunteering.