

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

A government discussion document

Hon Dr Michael Cullen
Minister of Finance

Hon Peter Dunne
Minister of Revenue



First published in November 2007 by the Policy Advice Division of Inland Revenue, PO Box 2198, Wellington.

Payroll giving: providing a real-time benefit for charitable giving – a government discussion document.
ISBN 978-0-478-27157-7

Foreword

Budget 2007 laid the foundation for building a culture of charitable giving in New Zealand by introducing measures aimed at removing the limits on the current tax relief on charitable donations made by individuals, companies and Māori authorities.

The next step is to make charitable giving easier. Introducing a payroll-giving scheme is one way that this goal might be achieved.

Payroll giving is well accepted in other countries such as Australia and the United Kingdom for its simplicity, convenience and effectiveness in facilitating charitable giving. It also has the potential to increase donation levels and establish genuine partnerships between businesses and the community, while supporting employees' community activities.

The government seeks your views on a possible payroll-giving scheme for New Zealand. We must ensure that such a scheme does not raise undue costs and is easy to administer for employers who choose to offer payroll giving.

This initiative recognises the importance of charitable giving to our social, cultural, environmental and economic well-being in New Zealand and the important role charitable organisations play in delivering the services we need to make a positive difference in our communities.

This discussion document is the direct result of the Confidence and Supply agreement between United Future and Labour and has been issued as part of the government's commitment to fostering a culture of charitable giving in New Zealand.

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CHAPTER 1

Introduction

- 1.1 New Zealanders are generous people, according to a recent study conducted by Business and Economic Research Limited. The study estimated that through trusts and foundations, individuals and businesses, New Zealanders gave \$1.27 billion in 2005, or 0.81 percent of New Zealand's gross domestic product to philanthropic and charitable causes. This result compares favourably with levels of giving in Australia, Canada and the United Kingdom.¹
- 1.2 In Budget 2007, the government announced plans to look at several measures aimed at laying the foundation for a stronger culture of charitable giving in New Zealand. Among those measures was the early release of a discussion document on the implications of introducing payroll giving in New Zealand, for public consultation.
- 1.3 Payroll giving enables employees to make regular charitable donations from their pay. The employer forwards these donations either directly to a charitable or philanthropic cause or an intermediary, who passes on donations to those causes.
- 1.4 Other countries, such as Australia and the United Kingdom, have introduced payroll-giving schemes and their experiences suggest that payroll giving is a simple, convenient and effective way of supporting charitable giving. These countries have also found that payroll giving enables businesses to connect with their communities in ways that achieve tangible and mutual benefits for everyone involved. The payroll-giving systems in Australia, Canada and the United Kingdom are described in Annex 1.
- 1.5 The payroll giving system envisaged for New Zealand would remove the need for employees to retain receipts and file end-of-year rebate claim forms. It would also enable employees to receive the tax benefit of their payroll donations each payday in real time. Donations that are not made through payroll giving can continue to receive tax relief through the existing rebate process.

Context of reforms

- 1.6 In October 2006, the government released the discussion document, *Tax incentives for giving to charities and other non-profit organisations*, for public consultation. The document canvassed a range of options for encouraging greater giving to charitable organisations and for making it easier to give in time, money and skills to these organisations.

¹ Report to Philanthropy New Zealand, *Giving New Zealand: Philanthropic Funding 2006*, March 2007, Business and Economic Research Limited.

- 1.7 Feedback on the discussion document strongly supported the government's efforts to promote greater giving to charities and other non-profit organisations.
- 1.8 Consistent with its Budget Statement, *Fostering a culture of charitable giving*, the government has introduced legislative proposals aimed at:
- *Removing the current caps on the dollar amount of charitable donations that are eligible for tax relief.* Individuals will be able to claim rebates on charitable donations up to the level of their taxable income, and companies and Māori authorities can claim deductions for charitable donations up to the level of their annual net income.
 - *Extending the company deduction to unlisted close companies* (companies with five or fewer shareholders).
- 1.9 Once enacted, the changes will apply from 1 April 2008.
- 1.10 The government recognises, however, that charitable giving is not just about removing the rebate or deduction limits; it is also about making it easier for people to give in both time and money. Along with payroll giving, the government has committed to further policy work, including:
- *Clarifying the tax treatment of reimbursement payments to volunteers and honoraria.* This work includes an officials' issues paper to canvass options for streamlining and clarifying the current tax treatment of reimbursement payments and honoraria paid to volunteers. The government's objective in this review is to clarify the tax obligations for volunteers and the organisations that they serve.
 - *A review of other tax incentives for charitable giving.* This review will look at other mechanisms for delivering tax relief for charitable donations. Among the measures under consideration is the UK's gift aid scheme, making it possible to claim tax deductions for non-monetary donations, such as functional assets, and Australia's prescribed private funds scheme.
- 1.11 A payroll-giving scheme would also complement other government projects being led by the Office for the Community and Voluntary Sector, Voluntary New Zealand and Philanthropy New Zealand, to encourage giving and volunteering. The purpose of this project is to develop a multi-sector work programme to encourage individuals and businesses to participate in their communities and local community organisations by giving time, money and in-kind donations.

The case for payroll giving

- 1.12 As noted in the October 2006 discussion document, research shows that there is no clear consensus about the impact of tax incentives on charitable giving. While some believe that the absence of tax incentives contributes to low levels of charitable giving in many countries, others believe there is little relationship between the two. However, some empirical evidence suggests that tax incentives for donors can and do reinforce existing inclinations to give to charities and other non-profit organisations, and can lead to larger donations being made. Evidence also suggests that high-income people tend to be more responsive to tax incentives.
- 1.13 The October 2006 discussion document noted that a more pluralistic approach to promoting philanthropy and giving would have a greater positive effect on its growth. In particular, people are more likely to give more when giving is made easy and they have a range of incentives to give in money, time and skills.
- 1.14 Payroll giving is one measure that overseas jurisdictions have employed to facilitate greater giving to charities and other non-profit organisations. Their experience shows that a before-tax payroll-giving scheme could have the following benefits:
- For charities, payroll giving is an efficient, low-cost way to raise funds and delivers the regular income support they need.
 - For employers, payroll giving can provide a low-cost and administratively simple way to support employee engagement in the community, while building employee morale and mobilising significant funding and volunteer resources for community benefit. Employers can also use the relationships with charitable organisations established through payroll giving to raise their business profile and promote themselves to their employees and customers.
 - For employees, payroll giving provides a convenient and simple way to give. In particular, a before-tax payroll-giving scheme is tax-effective and eliminates the need to collect receipts or wait until the end of the year to obtain the tax benefit of donations.
- 1.15 Even so, a review of the results from countries that have introduced payroll-giving systems shows that payroll donations are relatively low, compared with overall donations, and employee take-up depends heavily on the level of promotion employers are prepared to undertake.

Summary of key features of a payroll-giving scheme

Participation in payroll giving would be voluntary for employers and employees. It would provide an alternative mechanism for individuals to give to donee organisations while receiving an immediate benefit on their charitable donations at each payday. A donee organisation is an entity or trust whose activities are not carried out for the private pecuniary profit of any individual and whose funds are applied principally for charitable, benevolent, philanthropic or cultural purposes in New Zealand. A donee organisation would include charitable entities registered with the Charities Commission.

Two options for delivering tax relief through payroll giving are proposed. Annex 2 provides examples of how each option would affect donors on different tax rates.

Option 1 – Tax deduction mechanism (Chapter 3)

Donations would be deducted from an employee's gross pay, thereby reducing the employee's taxable income. PAYE would be levied on the net amount. The employee receives an immediate tax benefit by way of a reduction in the amount of PAYE required to be withheld.

The tax value of charitable donations to donors would be determined by the donor's marginal tax rate. An employee's social policy entitlements and obligations that use taxable income as the basis of their calculations would be affected under this option.

This option could be offered to all employers.

Option 2 – PAYE credit mechanism (Chapter 4)

Under the PAYE credit mechanism, employers would be required to calculate a PAYE credit of 33 $\frac{1}{3}$ percent on the amount of the donation made each payday and offset this against the PAYE calculated on the employee's gross pay. This mechanism would deliver an immediate tax benefit.

As the PAYE credit would be calculated at a set rate, all employees who donate through payroll giving would receive the same tax benefit regardless of their marginal tax rate. An employee's social policy entitlements and obligations that use taxable income as the basis of their calculations would not be affected under this option.

Because of the information requirements of this option, payroll giving could be offered only to employers who file employer monthly schedules electronically.

Timing of possible changes

- 1.16 Any legislation resulting from this discussion document is expected to be included in a taxation bill to be introduced in 2008. If payroll giving is to be implemented, the earliest date for implementation would be 1 April 2009.

How to make a submission

1.17 The government invites submissions on the merits of introducing payroll giving in New Zealand and the two options for delivering tax relief through payroll giving.

1.18 Submissions should be made by 25 January 2008 and can be addressed to:

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

Or email: policy.webmaster@ird.govt.nz with “Payroll giving project” in the subject line.

1.19 Submissions should include a brief summary of major points and recommendations. They should also indicate whether it would be acceptable for officials from Inland Revenue and the Treasury to contact those making submissions to discuss their submission, if required.

1.20 Submissions may be the subject of a request under the Official Information Act 1982, which may result in their publication. The withholding of particular submissions on the grounds of privacy, or for any other reason, would be determined in accordance with that Act. Accordingly, those making submissions who feel there is any part of it that should be properly withheld under the Act should indicate this clearly.

Regulatory impact statement

1.21 This discussion document incorporates the substantive regulatory impact analysis elements.

CHAPTER 2

Designing a payroll-giving scheme

- 2.1 In New Zealand, payroll giving is neither well known nor widely practised. Even so, a small number of employers have established payroll-giving relationships with individual donee organisations and with United Way.² Donations are made from the after-tax pay of the employee. As long as they keep records, employees can claim the tax benefit of these donations at the end of the year through the current rebate process, like any other charitable donation. This is an example of an after-tax payroll-giving system.
- 2.2 Many employers that currently offer a post-tax payroll-giving scheme are trans-Tasman employers. Individual donee organisations are also running, investigating or developing payroll-giving programmes. For example, *Workplaces for change* is a programme set up exclusively for the purpose of encouraging workplace giving to Amnesty International, Greenpeace and Oxfam New Zealand.
- 2.3 The government is interested in exploring the merits of a before-tax payroll-giving system. A before-tax payroll-giving system enables employees to make regular financial contributions from their gross pay to philanthropic and charitable causes and receive an immediate tax benefit on their donations at each payday. This form of payroll giving operates in the United Kingdom and Australia.
- 2.4 There are several important design considerations that need to be taken into account in designing a before-tax payroll-giving system in New Zealand. These considerations are discussed later in this chapter.

Current rebate for charitable donations by individuals

- 2.5 Currently, individuals can claim a tax rebate at a set 33½ cents in the dollar, up to a maximum of \$1,890 for cash donations made to charitable organisations. The maximum rebate is therefore \$630. Donations of \$5 or more that are supported by a receipt from the charitable organisation qualify for the rebate. The sum of the donations claimed cannot exceed the taxable income of the individual in the year in which the rebate is claimed. The rebate is claimed through a separate process at the end of the year.
- 2.6 Legislation currently before Parliament will remove the rebate threshold of \$1,890 so that donations will be limited only by the level of the donor's taxable income. This change is due to take effect from 1 April 2008.
- 2.7 Removing the current threshold is an important step, making it easier to implement a before-tax payroll-giving system in New Zealand.

² United Way is an independent, non-religious, non-political, volunteer-based organisation that encourages generosity by brokering resources (money, time and skills) between individuals, businesses and the community.

- 2.8 The government envisages that any before-tax payroll-giving system would operate alongside the current rebate process. Therefore, for employees who do not or are not able to give through payroll giving they can still claim tax relief on their charitable donations through the current rebate claim process. Payroll giving is simply another way of facilitating giving to donee organisations and receiving a tax benefit on charitable donations.

Some important design considerations

Non-filing environment for individuals

- 2.9 Significant changes were made to the tax filing requirements for individuals in 2000, which means that a large number of individuals are no longer required to file personal tax returns. At the same time, it became possible to claim charitable donations through a separate rebate claim process. These changes gave rise to considerable simplification benefits, including lower compliance costs for affected individuals and administrative savings for Inland Revenue.
- 2.10 Implementing payroll giving in New Zealand enables employees to obtain an immediate tax benefit for their charitable donations without them having to retain receipts, and request and file a rebate claim form at the end of the year.

Social policy entitlements and obligations

- 2.11 Social policy entitlements and obligations such as child support liabilities, student loan repayments, Working for Families tax credits and KiwiSaver contributions are calculated based on an individual's taxable income. Any change to an individual's taxable income as a result of payroll giving would affect all of these entitlements and obligations. For example, if an individual's taxable income is decreased then any child support liabilities or student loan repayments would also decrease.
- 2.12 Likewise, the ACC earner premium and the low-income rebate would be altered if an employee's taxable income is changed. Both the ACC earner premium and the low-income rebate are incorporated into the PAYE tax tables. Any alteration to an employee's taxable income because of payroll giving would result in a change to the amount of PAYE deducted each payday which would, in turn, alter the amount of the ACC earner premium and the low-income rebate computed.
- 2.13 For most employees, their gross pay represents their taxable income.

Inland Revenue administration

- 2.14 Inland Revenue currently collects all employee information through the employer monthly schedule, which is completed by the employer. The employer monthly schedule includes information about an employee's gross earnings, PAYE, child support liabilities, student loan repayments, and KiwiSaver employee and employer contributions.

- 2.15 Payroll giving should enable Inland Revenue to collect appropriate information to enable it to effectively administer the tax relief on charitable donations. The logical source of this information would be the employer monthly schedule.
- 2.16 Because of space limitations, it is not possible to collect additional information for payroll-giving purposes on the paper form of the employer monthly schedule without significant redesign of the form itself or Inland Revenue systems and processes. If payroll giving is to be implemented promptly, it would need to be limited to those employers who file their employer monthly schedules electronically.
- 2.17 Inland Revenue data shows that 19 percent of employers file electronically, representing 71 percent of all employees and 84 percent of PAYE forwarded to Inland Revenue. Any employer with access to a computer and the internet can file electronically, using Inland Revenue's secure IR-File system. Inland Revenue provides relevant support and education to employers who choose this option of filing their employer monthly schedules.

Employer compliance obligations

- 2.18 A payroll-giving scheme would entail extra work for employers, which could range from additional payroll actions to establishing and maintaining relationships with particular donee organisations that employees have chosen to give to. However, it is important to note that payroll giving would be voluntary and employers could mitigate their compliance obligations by using either a payment or facilitating intermediary. Chapter 5 discusses the role of intermediaries in helping to support employers with payroll-giving functions.
- 2.19 Overseas evidence suggests that employers with large, computerised payroll systems can incorporate payroll giving easily.
- 2.20 The government acknowledges the current compliance obligations on employers. To mitigate these costs, any payroll-giving scheme should be voluntary.

Special points for submissions

Submissions are sought on the following matters:

- Should New Zealand implement a before-tax payroll giving system?
- What features could be offered to minimise the compliance costs for employers?
- What concerns would there be if payroll giving was available only to employers who file their employer monthly schedules electronically?
- What measures could be undertaken to promote payroll giving, and who should undertake this promotional work?

CHAPTER 3

Option 1 – Tax deduction mechanism

Summary of proposals

- Donations would be deducted from the employee's before-tax pay.
- The tax benefit would be at the employee's marginal tax rate.
- All calculations that use taxable income as a basis would be affected – for example, the ACC earner premium, low-income rebate, child support liabilities, student loan repayments, Working for Families tax credits and KiwiSaver contributions.

- 3.1 Under this option, payroll donations would be deducted from an employee's gross pay each payday before the imposition of PAYE. This would essentially reduce the amount of the employee's taxable income by the amount of the donation, and the employee would receive an immediate tax benefit as no tax would be paid on the donation amount.
- 3.2 This would also mean that the tax value of charitable donations to donors would be determined by the employee's marginal tax rate. For example, if the employee is on a 19.5 percent tax rate, then the tax benefit they would receive from the deduction would be 19.5 percent for every dollar donated to a donee organisation through payroll giving. A person on a 39 percent tax rate would receive a tax benefit of 39 percent for every dollar donated to a donee organisation. This delivers a different tax benefit to the current rebate system which is a flat rate of 33 $\frac{1}{3}$ percent for all donors. Consequently, 19.5 percent donors would be worse off under this option than under the current rebate regime while 39 percent donors would be better off.

Example

- 3.3 The following example illustrates how the tax deduction mechanism would operate in practice. The employee receives \$400 per week and makes regular contributions of \$10 each pay. The employee is on a 19.5 percent tax rate.

Employee's (donor) weekly gross pay	\$400
<i>Less</i> donation	\$10
Employee's (donor) residual weekly pay	\$390
<i>Less</i> PAYE on \$390	\$76
Employee's net pay	\$314
<hr/>	
Charity receives	\$10
Inland Revenue receives	\$76

Implications of this option

Non-filing environment

- 3.4 Employees would be able to access an immediate tax benefit without having to retain receipts and file rebate claim forms.

Social policy entitlements and obligations

- 3.5 An employee's social policy entitlements and obligations that use taxable income as the basis of their calculations would be affected by this option. Deducting the donation amount from the employee's gross pay would, in effect, reduce his or her taxable income. For example, a reduction in an employee's taxable income could result in a decrease in their child support liabilities and student loan repayments, and an increase in their Working for Families tax credit entitlements. In addition, the employee's ACC earner premium would be reduced and the low income rebate would increase.
- 3.6 KiwiSaver employee contributions would also decrease as a result of donations made through payroll giving under this option. KiwiSaver employer contributions would likewise decrease.

Inland Revenue administration

- 3.7 Under option 1, an employer would not need to provide any additional information through the employer monthly schedule, as all entitlements and obligations would be based on the reduced taxable income amount.
- 3.8 However, it might be desirable to collect some information from the employer about the level of donations made through payroll giving for the purposes of reporting on the success of the scheme. This information would also contribute to a better understanding of giving trends in New Zealand, and would apply to employers rather than individual employees. This information could be collected outside of the employer monthly schedule through a separate form.

Employer compliance obligations

- 3.9 In general, the current compliance obligations for employers would increase. In addition to making the required payroll deductions and retaining donation records, employers would be required to file an extra form with Inland Revenue at the end of the year. The extra form would contain information on the total amount of donations collected during the year through payroll giving.
- 3.10 While employers would not need to keep receipts under a payroll-giving scheme, they would have to provide evidence of the payroll donations made on behalf of their employees for audit purposes.

Government's assessment of this option

3.11 On balance, although this option has the advantages of simplicity and reduced costs for employers and Inland Revenue, it has significant drawbacks, such as its affect on employees' social policy entitlements and obligations. When compared with the current rebate, it also gives employees on higher incomes a greater benefit and those on lower incomes less benefit. As a result, donors on a tax rate of 19.5 percent would still have an incentive to claim the tax benefit of their donations through the rebate process, rather than through payroll giving. For these reasons, the government has developed a second option, which is discussed in Chapter 4.

Special points for submissions

Submissions are sought on the following matters:

- Should tax relief on payroll donations be based on the donor's marginal tax rate?
- What are the compliance obligations for employers under this option?

CHAPTER 4

Option 2 – PAYE credit mechanism

Summary of proposals

- A PAYE credit is calculated at a set rate of 33 $\frac{1}{3}$ percent on employee donations. This option essentially delivers the same tax benefit as the current rebate system but on a pay-by-pay basis.
- The PAYE credit reduces the amount of PAYE deducted by the employer from an employee's gross pay.
- This option would only be available for employers who use e-filing with Inland Revenue.
- All calculations that use taxable income as their basis (such as child support liabilities) would not be affected.

- 4.1 Under option 2, employers would calculate a PAYE credit of 33 $\frac{1}{3}$ percent on the amount of the donation and would offset this amount against the PAYE calculated on the employee's gross pay each payday.
- 4.2 All employees would receive a tax benefit of 33 $\frac{1}{3}$ percent for every dollar donated to a donee organisation through payroll giving, irrespective of their marginal tax rate. This option would deliver an immediate tax benefit to the employee consistent with the current charitable rebate, without altering the level of their taxable income.

Example

- 4.3 The following example illustrates how the tax deduction mechanism would operate in practice. The employee receives \$400 per week and makes regular contributions of \$10 each pay. The employee is on a 19.5 percent tax rate.

Employee's (donor) weekly gross pay	\$400.00
<i>Less</i> donation	\$10.00
Employee's (donor) residual weekly pay	\$390.00
<i>Less</i> PAYE on \$400	\$78.23
PAYE credit @ 33.3 percent	\$3.33
Employee's net pay	\$315.10
<hr/>	
Charity receives	\$10.00
Inland Revenue receives	\$74.90

Implications of this option

- 4.4 Under this option it is possible that a donor might not receive the full tax benefit of his or her charitable donations on each payday. This would occur when the PAYE credit exceeds the PAYE liability that is calculated on a donor's gross pay each payday. The result is that there would be a portion of the PAYE credit that cannot be accessed by the donor. For example, a donor earns \$400 each payday and gives more than 58 percent of his or her pay to charity. In this instance, the PAYE credit would exceed the actual PAYE calculated. Similarly, for a donor earning \$1,100 each payday, this problem would occur if the donor gave more than 76 percent of his or her pay to charity each payday.
- 4.5 To address this problem, the donor could be permitted to claim a refund of the difference between the PAYE credit and the PAYE liability at the end of the year. This measure would ensure that donors receive the full tax benefit of their charitable donations.

Non-filing environment

- 4.6 For most donors, this option would allow the delivery of an immediate tax benefit on payroll donations without the need for employees to retain receipts and request and file rebate claim forms.

Social policy entitlements and obligations

- 4.7 This option would have no impact on an employee's current social policy entitlements and obligations that use taxable income as the basis of their calculation. Similarly, as the employee's PAYE is still calculated on their pre-donation gross pay amount there would be no impact on the PAYE calculation, the ACC earner premium, and the low-income rebate would not be affected.

Constraints on Inland Revenue administration

- 4.8 The PAYE credit would need to be reflected in the employee's end-of-year summary of earnings to ensure it has been applied to offset the employee's PAYE liability. To do this, 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.
- 4.9 As noted earlier, there are significant difficulties in collecting additional information on the paper-based employer monthly schedule. Given the information requirements of this option, payroll giving would have to be limited to employers who electronically file their employer monthly schedules.

Employer compliance obligations

- 4.10 Overall, this option would impose greater compliance costs on employers compared with the tax deduction mechanism in option 1. Extra calculations would be needed to calculate the PAYE credit and to offset this against an employee's PAYE obligation. Employers would also need to provide extra information on the donation amounts and supply this information in the employer monthly schedule to Inland Revenue. Anecdotal evidence suggests that this would be relatively easy for employers with computerised payroll systems.
- 4.11 While employers would not need to keep any receipts under a payroll-giving scheme, they would need to provide evidence of the payroll donations made on behalf of their employees for audit purposes.
- 4.12 Under this option, employers would be required to file electronically.

Government's assessment of this option

- 4.13 This option addresses the perceived shortcomings of the tax deduction mechanism outlined in option 1 – that is, social policy entitlements and obligations would not be affected and it would deliver the same tax benefit as the current tax rebate for donations. However, this option would result in higher compliance costs for employers and administrative costs for Inland Revenue, and would require employers to electronically file their employee returns.

Special points for submissions

Submissions are sought on the following matters:

- What are the merits of the PAYE credit mechanism?
- Should tax relief on payroll donations be based on a flat rate of 33 $\frac{1}{3}$ percent?
- What would the level of compliance obligations be for employers under this option?

CHAPTER 5

Support for employers

- 5.1 This chapter discusses possible measures to help employers ease the costs associated with a payroll-giving scheme and make it easier for them to offer the scheme to their employees.
- 5.2 Countries that have established payroll-giving schemes have employed a range of measures to support and promote payroll giving, including setting up payment and facilitating intermediaries and educative resources.

Intermediaries

- 5.3 Intermediaries are used to receive and distribute payroll donations to charities (payment intermediaries) and/or to help employers establish payroll-giving schemes (facilitating intermediaries).
- 5.4 Some overseas experiences have raised concerns about the role of intermediaries, such as intermediaries having control of donor information and the relationship with donors.

Payment intermediaries

- 5.5 Payment intermediaries enable employees to donate to their chosen charity confidentially and help alleviate costs associated with payroll giving for employers. Using a payment intermediary can potentially enable employees to give to a wider group of charitable organisations. The United Kingdom currently uses this type of intermediary in its payroll giving scheme.
- 5.6 However, payment intermediaries add another step between the donor (employee) and the receiving charity, and usually take a portion of the donation to cover their administrative costs. This reduces the amount of the donation that is received by the chosen charities, although it can be argued that this cost is often less than the cost of other forms of fundraising by charities.

Facilitating intermediaries

- 5.7 In overseas jurisdictions, facilitating intermediaries have helped employers with the initial set-up of payroll-giving schemes and on-going support. They can provide support to employers by providing introductory materials on payroll-giving and can help employers to establish and maintain their relationships with charities. An example of this in the Australian context is the Australian Charities Fund.

- 5.8 They can also help employers with modifying their current payroll systems and facilitate communication between employers, employees and charities. Facilitating intermediaries could reduce the initial administrative burden for employers looking to implement a payroll-giving scheme by providing support in the initial implementation period and on an ongoing basis.
- 5.9 Intermediaries are likely to charge a fee for their services, which will add further costs in setting up a payroll-giving scheme.
- 5.10 The government is interested in readers' views on the level of support for using payment and scheme facilitation intermediaries.

Inland Revenue's role in helping employers with payroll giving

- 5.11 Inland Revenue could provide general information to employers to help them start up a payroll-giving scheme and help them comply with any requirements of the scheme.
- 5.12 In providing information and advice, Inland Revenue could also support employers who choose to change to electronic filing so they can offer payroll-giving to their employees.

Special points for submissions

Submissions are sought on the following matters:

- What support should be provided to employers who offer payroll giving to their employees?
- Would a payment or facilitating intermediary be helpful to employers who wish to implement payroll giving?

ANNEX 1

Payroll giving in other countries

Australia

The Australian system of payroll giving, known as “*workplace giving*”, was launched by the Minister of Revenue, the Australian Tax Office and the Australian Charities Fund in 2002. The initiative was largely driven by the corporate community and, in particular, a number of very influential businesspeople.

Workplace giving is a voluntary scheme for both employers and employees. Employers who wish to offer workplace giving invite their employees to enter into a workplace-giving programme. Employees nominate their preferred charity or non-profit organisation (referred to as a “deductible gift recipient” (DGR)) from a selection provided by their employer and specify the amount they wish to donate. The amount is deducted from an employee’s salary or wage before the imposition of tax. As a result, employees receive an immediate tax benefit by way of an automatic reduction in the amount of tax paid on each payday.

The donation is paid directly by the employer to the DGR.

The Australian workplace-giving scheme is an example of a before-tax payroll giving system. The details of the workplace-giving scheme are determined by the employer, usually in consultation with its employees.

Factors they must consider include:

- the nature and number of DGRs to invite to participate in the scheme;
- the arrangements to be made with each DGR, including the payment of donations;
- the minimum donation amount;
- whether to reduce the PAYG (Pay as You Go – similar to New Zealand’s PAYE) amount required to be withheld from the employee’s salary to account for the total amount donated by the employee to DGR(s) each pay period. There is no obligation on the employer to reduce the amount to be withheld from the employee’s salary. If the employer decides not to vary the amount of PAYG to take account of the donation, the employee must claim any tax relief for their donations in their end-of-year tax return;
- possible matching of donations by employers; and
- providing information about workplace giving to employees.

Payment intermediaries are not used in Australia as the donation is paid directly by the employer to the chosen DGR.

The Australian Charities Fund (a non-profit organisation) was established to help employers set up workplace-giving schemes. The Australian Charities Fund charges a fee for its services and the amount of the fee is dependent on the number of employees employed by each employer. The Australian Charities Fund is the main provider of corporate community engagement and workplace-giving programmes in Australia. The Fund has worked with over 60 corporate employers and 25 government departments to implement workplace-giving schemes. It offers a wide range of expertise, including personnel, design and graphics and pre- and post-implementation support. The Fund charges a fee, which depends on the number of employees involved in a scheme.

The role of the Australian Tax Office in administering workplace giving is limited to compliance work, providing information to employers when requested, and administering the end-of-year deduction process which is incorporated into annual income tax returns. The Australian Tax Office does not actively promote the scheme.

Workplace giving was able to be implemented within the pre-existing tax administration and without the need for specific legislation and so there was very little impact on the Australian Tax Office's administrative system. Administrative concessions were made to accommodate workplace giving, such as allowing DGRs to issue only one receipt to the employer rather than to each individual employee.

The Giving Australia research project found that about 0.7 percent of those surveyed had made a donation through a deduction from their pay, which suggests that about 100,000 people participate in such schemes.³

Canada

Workplace giving in Canada is mostly through United Ways-Centraides (United Way) although some companies, particularly large corporations, choose to operate their own internal workplace-giving programmes. Donations made from an employee's pay are deducted from the after-tax amount of the employee's pay. The amount is then forwarded to the employee's choice of charities or to United Way. Employees can claim a tax credit on the amount donated through payroll on their end-of-year tax return in the same way as any other donation.

There are 125 local United Ways-Centraides in Canada. Donations made to United Way will go either to United Way's own programmes or any registered charity in Canada as chosen by United Way.

There appear to be no direct support or incentives for payroll-giving donations other than the general tax incentive provided by the government. A federal tax credit may be claimed for any donation made to a registered charity or a qualified charity. The total amount of the tax credit may differ as the amount of provincial tax credit available varies between provinces.

³ The Giving Australia Project, *Giving Australia: Research on philanthropy in Australia*, December 2005.

Payroll giving in Canada is dominated by United Way. As well as administering most workplace schemes, the majority of donations appear to go to United Way or community foundation-type programmes, although employees typically have the option to select any registered charity.

In 2000, the National Survey of Giving, Volunteering and Participating showed that payroll deductions accounted for about 3 percent of the total number of donations made in Canada. In terms of the total dollar value, payroll deductions made up approximately 6 percent of the total donations, representing C\$294 million.⁴

United Kingdom

This year marks the 20th anniversary of payroll giving in the United Kingdom.

The payroll-giving scheme is administered by HM Revenue and Customs (HMRC). Under this scheme, employees can give to any United Kingdom charity from their before-tax pay and receive an immediate tax benefit on their donations. The value of the tax benefit is determined by the employee's personal tax rate.

Employers can establish payroll-giving schemes by signing with a payroll-giving agency. The payroll-giving agency acts as a payment intermediary and is responsible for passing on payroll donations from the employer to the employee's chosen charity. There are nine HM Revenue and Customs-registered payroll-giving agencies. A small fee is charged by the payroll-giving agency to cover its administration costs. The fee is usually deducted from the donation amount but employers may pay this fee so that the whole of the employee's donation goes to charity.

Employees give the name of the charity they wish to donate to directly to the payroll-giving agency. This process ensures the confidentiality of the employee's chosen charity.

As well as promotion campaigns, two financial incentive schemes have been run to encourage participation:

- a government top-up of donations in 2000–04; and
- a grants scheme for small employers in 2005–07.

The government, as part of a promotional campaign, added a further 10 cents to all donations made through payroll giving in the period 2000 to 2004. In 2005–06, small and medium-sized enterprises with less than 500 employees were made eligible for a grant of up to £500 for setting up payroll giving. The first £10 of each employee's monthly donations was also matched, pound for pound, for a period of six months up to March 2007. The small-medium enterprises grant programme encouraged 3,380 new employers to sign up.

⁴ www.givingandvolunteering.ca/pdf/reports/where_Canadians_Donate.pdf

The government also funds the Payroll Giving Centre – a comprehensive online information centre about payroll giving aimed at businesses, charities and the general public (operated by the Institute of Fundraising). It also supports the Payroll Giving Quality Mark and Awards system for recognising employers with a payroll-giving scheme in place and who achieve specified levels of participation.

During 2006–07, almost £89 million was received from employees donating from their before-tax pay and distributed by Payroll Giving Agencies. More than 640,000 people donated by payroll giving, an increase of 6.5 percent from 2005 to 2006.⁵

⁵ www.payrollgivingcentre.org.uk

ANNEX 2

Examples

Examples showing how the tax deduction mechanism (option 1) would operate

19.5% donor

Employee's (donor) weekly pay	\$400.00
<i>Less</i> donation	\$10.00
Employee's (donor's) weekly pay post-donation	390.00
PAYE (including ACC and LIR*) on \$390	\$76.00
PAYE payable to IRD	\$76.00
<hr/>	
Employee receives (\$400 – \$10 – \$76.00)	\$314.00
Charity receives	\$10.00
IRD receives	\$76.00

33% donor

Employee's (donor) weekly pay	\$800.00
<i>Less</i> donation	\$10.00
Employee's (donor's) weekly pay post-donation	\$790.00
PAYE (including ACC and LIR) on \$790	\$172.31
PAYE payable to IRD	\$172.31
<hr/>	
Employee receives (\$800 – \$10 – \$172.31)	\$617.69
Charity receives	\$10.00
IRD receives	\$172.31

39% donor

Employee's (donor) weekly pay	\$1,500.00
<i>Less</i> donation	\$10.00
Employee's (donor's) weekly pay post-donation	\$1,490.00
PAYE (including ACC and LIR) on \$1,490	\$432.58
PAYE payable to IRD	\$432.58
<hr/>	
Employee receives (\$1,500 – \$10 – \$432.58)	\$1,057.42
Charity receives	\$10.00
IRD receives	\$432.58

* Low-income rebate

Examples showing how the PAYE credit mechanism (option 2) would operate

19.5% donor

Employee's (donor) weekly pay	\$400.00
Donation	\$10.00
PAYE (including ACC and LIR) on \$400	\$78.23
Tax credit @ 33.3%	\$3.33
PAYE payable to IRD	\$74.90
<hr/>	
Employee receives (\$400 – \$10 – \$74.90)	\$315.10
Charity receives	\$10.00
IRD receives	\$74.90

33% donor

Employee's (donor) weekly pay	\$800.00
Donation	\$10.00
PAYE (including ACC and LIR) on \$800	\$175.74
Tax credit @ 33.3%	\$3.33
PAYE payable to IRD	\$172.41
<hr/>	
Employee receives (\$800 – \$10 – \$172.41)	\$617.59
Charity receives	\$10.00
IRD receives	\$172.41

39% donor

Employee's (donor) weekly pay	\$1,500.00
Donation	\$10.00
PAYE (including ACC and LIR) on \$1,500	\$436.61
Tax credit @ 33.3%	\$3.33
PAYE payable to IRD	\$433.28
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Employee receives (\$1,500 – \$10 – \$433.28)	\$1,056.72
Charity receives	\$10.00
IRD receives	\$433.28

Comparison of the tax benefit under option 1, option 2 and the current rebate system

The comparison is based on a donation amount of \$1,000.

	19.5% donor	33% donor	39% donor
Option 1	\$195.00	\$330.00	\$390.00
Option 2	\$333.33	\$333.33	\$333.33
Current rebate	\$333.33	\$333.33	\$333.33