

Tax Working Group Public Submissions Information Release

Release Document

September 2018

taxworkinggroup.govt.nz/key-documents

Key to sections of the Official Information Act 1982 under which information has been withheld.

Certain information in this document has been withheld under one or more of the following sections of the Official Information Act, as applicable:

- [1] 9(2)(a) - to protect the privacy of natural persons, including deceased people;
- [2] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage.

Where information has been withheld, a numbered reference to the applicable section of the Official Information Act has been made, as listed above. For example, a [1] appearing where information has been withheld in a release document refers to section 9(2)(a).

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.



▶ **Submission to Tax Working Group**

Submitted via email, 30/04/18

▶ **Contact Details**

Name of Organisation: Volunteering New Zealand

Contact Person: Jordan Skrzynski, Policy Advisor
Scott Miller, Chief Executive

Postal Address: PO Box 25333
Featherston Street
Wellington 6146

Email: [1]

Phone: +64 4 384 3636

► **Background**

Volunteering New Zealand

Volunteering New Zealand is the “voice of volunteering” in Aotearoa. Our vision is for a New Zealand that promotes, values and supports effective volunteering for the benefit of individuals and communities – and our mission is to promote, support and advocate for volunteering.

We are the only national organisation in New Zealand that focuses purely on volunteering. We hold the ‘big picture’ and are in a position to liaise, work with, and advise volunteers, government and business sectors. This helps ensure that volunteering occurs within a positive environment where it is encouraged and fostered.

Over the past 16 years, VNZ has raised the profile of volunteer groups, activities, and management. We promote volunteering and its value to New Zealand society through advocacy, sharing stories, and producing tools like the Best Practice Guidelines and Competencies for Managers of Volunteers.

We have a membership of 80 national and regional member organisations that involve volunteers in their work programmes. We advocate on behalf of these organisations and for other groups that are not members but are aligned to our mission and values.

New Zealand’s Voluntary Sector

New Zealand has more than 120,000 non-profit organisations, contributing to 4.4% of GDP when taking into account the volunteer labour contribution, and is similar to the contribution of the entire construction industry.

The most up-to-date data on the volunteer sector states that in New Zealand there are more than 1.2 million volunteers who give more than 157 million hours of unpaid labour to the sector. In 2008, 67% of the Community and Voluntary Sector workforce was made up of volunteers; 90% of New Zealand non-profit organisations employ no staff, and rely solely on volunteers.¹

¹ From the *The New Zealand Non-profit Sector in Comparative Perspective*, 2008

1. EXECUTIVE SUMMARY

Volunteering New Zealand (VNZ) appreciates the invitation to make a submission to the new Tax Working Group (TWG). We see the review as an opportunity to make changes to the tax system to benefit volunteers and volunteering in New Zealand.

VNZ's main recommendation to the Tax Working Group is that it give real consideration to the design and implementation of a Volunteer Tax Rebate. Such a rebate would stand as an effective way for the government to signal a real commitment to promoting volunteering in New Zealand.

Whilst a volunteer tax rebate has been considered by previous governments, one has never been implemented, and the current tax review seems like the perfect opportunity to consider this option once again.

Our submission also considers existing tax policies in the charitable and voluntary sector and raises some issues in this area that the TWG may wish to investigate further.

2. EXISTING TAX POLICIES

Volunteering NZ strongly believes in the benefits that the voluntary sector provides to the economy and society at large; investing in volunteering is investing in wellbeing. Volunteering is also a very effective tool for cultivating social and human capital as it helps strengthen community ties and empower individuals. Tax policies that facilitate and promote charitable acts are thus viewed in general by our organisation as likely to provide a net public and private good.

We have identified five existing policies that support the charitable sector in general:

1. *Exemption from Income Tax for Charities:* Charitable organisations registered with Charities Services are exempt from paying income tax on any form of income received by the organisation, so long as the income is used for exclusively charitable purposes, and does not benefit any of its individual members, trustees, or associates.
2. *Exemption from Resident Withholding Tax for Charities:* Charities can be exempted from RWT being deducted on interest they receive.
3. *Exemption from Fringe Benefit Tax for Charities:* Employees of charitable organisations do not have to pay an FBT on benefits received insofar as the benefits are used to promote the charitable work of that organisation.
4. *Tax Rebates for Individual Donors:* Individuals are eligible to claim a tax credit of 33.33% for any donations they make valued \$5 or greater to approved donees.
5. *Tax Deductions for Companies and Māori Authorities:* Companies and Māori authorities can deduct the total amount of donations they have made from their yearly taxable income, as long as this amount does not exceed their net income.

3. ISSUES WITH EXISTING POLICIES

Generally speaking, VNZ does not have strong reason to believe the existing tax policies for charities are ineffective or failing to work as intended. However, we have been made aware of three issues that have raised some public concern, which the Working Group may wish to investigate or address. We would stress that at present our organisation has heard of these issues only anecdotally and only wish to draw them to the Working Group's attention for further potential investigation.

1. **Tax-Exempt Organisations Failing to Use Income for Charitable Purposes:**

There is public concern over real and possible instances where an organisation that receives a charity-related tax exemption arguably might not use income for charitable purposes.² A recent example described in the NZ Herald would be the Trinity Lands dairy farms.³

2. **Eligible Organisations being Denied Tax Exemptions:**

Some organisations which do not wish to or cannot register as charitable organisations are being denied the tax rebate which should be available to them as 'donee' organisations. This may be reducing the amount of donations they receive, as potential individual donors would be unable to claim a rebate.

3. **Issues for Individual Volunteer Reimbursements and Honoraria Payments:**

We have heard reports of individuals receiving tax penalties and/or ACC levies applied to their reimbursements and honoraria paid to them through their volunteer contribution.

These issues involve subject matter that are either too technical or beyond VNZ's capacity to investigate to properly account for in this limited submission. We would thus encourage the Working Group to conduct independent research into these issues to develop a more precise understanding and determine appropriate solutions, if indeed they are required.

(We have also been made aware of concerns about charitable organisations' inability to receive tax refunds of imputation credits attached to dividends from NZ companies. We are told that Philanthropy NZ is making a more detailed submission to the Working Group on this issue, which we would support pending further research.)

On the whole, VNZ approves of existing tax breaks, but is interested in the possibility of the government creating a new one specifically for volunteers, as no such exemption yet exists.

4. PRIMARY RECOMMENDATION

VNZ supports all tax policies that empower or incentivise individuals and organisations to contribute to the general projects of philanthropy. Whilst we support the existing tax policies in this area, we observe that there are no tax policies that specifically support or promote a

² Consider the issues raised in this blog post: <https://letstalkabouttaxnz.com/category/charities/>

³ <http://www.nzherald.co.nz/index.cfm?objectid=11883740>

culture of volunteering in New Zealand. As NZ observed a decrease in volunteering hours of 42% from 2003-2014, perhaps a tax policy response could help moderate this trend.⁴ This is why we are proposing that government consider a volunteer tax rebate for individuals.

Another reason to support a tax rebate for volunteers might be found in the *Government Policy on Volunteering (2002)*, which states the government's vision of a "society with a high level of volunteering," where volunteers' contributions are "actively supported and valued".⁵ A volunteer tax rebate would be a tangible and symbolic instantiation of this vision.

It's worth noting that such a rebate has been proposed to government in the past as part of a report published by Ministers Michael Cullen and Peter Dunne in 2006 on tax incentives for charities.⁶ VNZ is unaware about the deliberations that prevented such a rebate from being implemented following the past review, but would argue that the current review provides a suitable opportunity to explore the issue once again.

Following the advice of the 2006 submission, a volunteer tax rebate could:

- Be offered to volunteers who have given time to a registered charity
- Require an appropriate receipt or certificate which details hours spent volunteering
- Be capped in a similar fashion to the tax rebate for individual donations
- Be based on an equal hourly rate for all volunteer work (i.e. not changing based on factors such as expertise, etc)
- Be offered only after a set minimum of volunteering hours is met (for an individual)
- Recompense only a fraction of the time spent volunteering (so as not to defeat the purpose of volunteering altogether)
- Provide an alternative form of reimbursement for volunteers who currently do not wish to claim expense reimbursements from already resource-limited organisations
- Provide an economically progressive option for individuals from all levels of society to make charitable contributions, as individuals with lower incomes may view volunteering as preferable (in terms of cost) to monetary donations
- Not impact on a volunteer's eligibility to claim a donation rebate

There are many other details that would need to be evaluated in designing such a rebate, such as administrative costs this may impose on charitable organisations, whether or not the rebate should be offered only for specific volunteer services, etc. However, VNZ believes in principle that a rebate could be a useful policy for fostering a healthy culture of volunteering in New Zealand, and would be a strong signal from government to volunteers that it values the cultural and economic contributions volunteering makes to our society.

Of the main issues in implementing such a rebate, the two most salient in VNZ's opinion would be the cost to the taxpayer and the increase in administrative costs it would impose

⁴ Statistics New Zealand, The contribution of non-profit institutions in New Zealand (infographic), at http://www.stats.govt.nz/browse_for_stats/economic_indicators/NationalAccounts/non-profit-satellite-infographic.aspx

⁵ [https://www.dia.govt.nz/diawebsite.nsf/Files/Government-Policy-on-Volunteering/\\$file/Government-Policy-on-Volunteering.pdf](https://www.dia.govt.nz/diawebsite.nsf/Files/Government-Policy-on-Volunteering/$file/Government-Policy-on-Volunteering.pdf)

⁶ <https://taxpolicy.ird.govt.nz/sites/default/files/2006-dd-charitable-giving.doc>

upon organisations through tracking volunteer hours. An example given by the 2006 report states that “the estimated revenue cost of a volunteer’s rebate based on a \$5 hourly rate, a cap of 52 hours a year, and 143,000 volunteers claiming the maximum rebate would be \$37.18 million,” which is far from insignificant.⁷

New administrative costs would likely arise for organisations in the sector as tracking volunteer hours or providing receipts for such contributions are not required by legislation nor even standard practice. Without further research, VNZ would be hesitant to impose such a cost on smaller organisations. Perhaps the government could offer to bear this cost itself in some way. We would not support a volunteer tax rebate at the expense of organisations.

Feedback about the possibility of a rebate that we’ve collected from volunteer organisations has been largely positive, albeit with some reservations. The main concern relates to fear of administrative costs involved in tracking volunteering hours, and the difficulties of designing and implementing systems for accurately reporting on this. But this fear is counterbalanced by another shared opinion that tracking volunteer hours should become standard (if not legally mandatory) practice anyway. Tracking volunteer hours could become useful for the sector and government in other ways as it helps formally recognise volunteer contributions, provides a performance indicator for stakeholders, may assist with internal resource management, and more, as leading research has suggested.⁸

An alternative to a rebate for individual volunteers may be for the government to provide grants to organisations based on their number of volunteers or hours spent volunteering. This may also support an organisation’s capacity to maintain and develop a volunteer pool. However, VNZ would consider that an individual volunteer rebate would be a more direct way of recognising volunteer contributions.

5. CONCLUSION

In general, Volunteering NZ considers that the tax policies for the charitable sector in New Zealand are supportive, functioning effectively, and in alignment with best international practice. However, maintaining and developing the sector should be considered an ongoing project, always with more room for improvement. We appreciate the large potential costs of providing new tax breaks and this is why our main recommendation is to *further investigate* the likely costs and benefits of a new tax rebate for volunteers.

In addition to the changes and proposals suggested above, we would encourage more research be undertaken concerning the relationship between tax policies, charities, volunteer work, and the economic benefits they provide to society. We also recognise that tax policies alone are not enough to promote the charitable sector, and always encourage that a holistic approach be undertaken by government and community organisations towards this end.

⁷This example is based on volunteer numbers from a Philanthropy New Zealand Survey and an expectation that only a percentage of volunteers would claim the rebate, as is the case with the donation rebate.

⁸ Carolyn J. Cordery, Sarah B. Proctor-Thomson & Karen A. Smith (2012) Towards communicating the value of volunteers: lessons from the field, *Public Money & Management*, 33:1, 47-54