

SPEECH TO VUW CENTRE FOR ACCOUNTING, GOVERNANCE AND TAXATION RESEARCH

5 December 2007

Hon Peter Dunne, Minister of Revenue

Thank you for this opportunity to talk about the government's programme to foster a stronger culture of charitable giving in New Zealand.

This programme, which is part of the Confidence and Supply agreement United Future has with Labour, recognises the major contribution of charitable organisations in making our communities better places to live.

Giving to charitable organisations, whether of time or money, makes a huge contribution to our well-being. I believe this contribution should be recognised, rewarded and encouraged – and that some of that can be achieved through the tax system.

Many of the services we take for granted – including those that support our health, educational and recreational needs – are provided by volunteers who give their time, money and skills to the work of charitable organisations.

In fact, according to research conducted by BERL, New Zealanders gave over \$1 billion to charitable causes in 2005. By anyone's reckoning, that is a significant demonstration of the importance New Zealanders place on philanthropic activities. And then there are the many thousands of volunteers who give their time to good causes each year.

It is this generosity that the government wishes to recognise and further encourage, so that individuals and businesses become engaged and excited about the positive difference they can make for their communities.

Part of that encouragement is enabling people to offer their time and money to charitable causes more easily.

With this purpose in mind, the government released the discussion document *Tax incentives for giving to charities and other non-profit organisations* in October last year.

In this document, we canvassed a range of options aimed at encouraging people to give more generously of their time, skills and money, and making it easier for them to do so.

Feedback on the proposals outlined in this document was strongly supportive of the government's efforts and direction in exploring options to support charitable giving.

Budget 2007 started the ball rolling by removing the current caps on the dollar amount of charitable donations that are eligible for tax relief. These changes are in the taxation bill currently before Parliament, and once enacted, they will apply from April 2008.

More recently, last month [November] the government released two further papers for consultation, both aimed at making it easier for people to donate their time and money.

The first paper offers some possible solutions to the long-standing problem of how honoraria and volunteer reimbursements should be taxed.

I know this will be a subject of some interest to you, given the research paper being presented here today, which also looks at some of the problems we are working to resolve.

Submissions following the release of last year's discussion document confirmed concerns about the tax treatment of reimbursements and honoraria paid to volunteers.

As the law now stands, volunteers and charitable organisations are often unclear about their tax obligations relating to reimbursement payments for volunteers.

Ultimately, this adds to the compliance costs faced by non-profit organisations and can act as a deterrent to people offering their time to these organisations.

Specifically, the consultation paper released last month seeks feedback on a number of suggestions for clarifying the law and options for the tax treatment of volunteer reimbursements and honoraria.

Among the ideas explored is how we might define what a volunteer is, so it is clear what activities are taxable and what are exempt.

The opportunity for feedback on these options closes next week [14 December].

Whatever decisions are made will be consistent with the government's aim to make it easier for volunteers and charitable organisations to comply with their tax obligations so they can focus on their charitable work.

In keeping with this same focus of making it easier for people to give generously, the government released a second consultation paper last week, which looks at how we might introduce a voluntary payroll-giving scheme to New Zealand.

This type of scheme would enable employees to make donations directly from their pay each payday and receive an immediate tax benefit.

Payroll-giving schemes have been well-received in a number of other countries, including Australia and the United Kingdom, because they are a simple, convenient and effective way to donate to a favourite charity.

These schemes also have the potential to increase donation levels and establish genuine partnerships between employees, businesses and the community.

The discussion document puts forward a number of suggestions for implementing an appropriate payroll-giving scheme for New Zealand. However, before any changes can be made, detailed consultation is required to ensure that any new approach is easy to administer and does not raise excessive costs for employers.

I would like to emphasise at this point, that consultation with the wider community will continue to play a critical part in the development of tax policies relating to charitable giving.

For example, feedback on the first discussion document, *Tax incentives for giving to charities and other non-profit organisations*, continues to be instrumental in helping to shape the government's response to the whole question of charitable giving.

In addition, research has an important part to play in helping to shape workable policies for all.

Given the quality of feedback on our programme of reforms for strengthening charitable giving so far, I am confident of a similarly constructive response to the current round of proposals on payroll giving and the treatment of reimbursements for volunteers and honoraria.

This brings me to a further area of relevance to our focus on the taxation of the charitable sector, the question of imputation credits, and who should be entitled to use those credits.

A wide review of the use of imputation credits is currently underway.

Among the matters to be explored in that review will be the refunding of imputation credits to charities.

There have been continued calls from the charitable sector to deal with the question of whether imputation credits should be refundable.

Charitable organisations that secure dividends with imputation credits attached cannot use those credits, as they do not have tax liabilities against which they can apply the credits. Because imputation credits are not refundable, the benefit of the credits is effectively lost to the charities.

This whole issue will be explored in a government discussion document to be released early next year.

Taking into account all of these initiatives, feedback and research into the workings of the charitable sector will help us to make the tax laws in this area clear and simple to apply.

That will make a positive difference to non-profit organisations and their volunteers.

In turn, their work will help make a big difference to the quality of life for other New Zealanders.

Thank you for inviting me to share these details of our programme with you and I wish you well for the remainder of your seminar.