



NEW ZEALAND FEDERATION OF
FAMILY BUDGETING SERVICES (INC.)
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Deputy Commissioner
Policy Advice Division
Inland Revenue Department

SUBMISSION: Payroll Giving

Background

The Federation is a collective of community organisations that share a common code of ethics, philosophy, and commitment to delivering quality, free budgeting advice to families/whanau and individuals. The current membership comprises 142 budget services throughout New Zealand that employ over 1200 predominantly volunteer staff and represent more than 30,000 clients annually.

Snapshot

The Federation comprises a total of 142 members in various categories nation-wide. Member services provide budget advice from Kaitia to Invercargill and, including the West Coast, Great Barrier, and Waiheke Islands, provide coverage to most towns and cities in New Zealand. In the year to 30 July 2006, the Federation personnel included 706 certificated budget advisers, 173 service coordinators and staff, 307 other volunteers, 36 Federation tutors, and 104 community educators. Over that 12 month period, Federation services fielded 244,825 enquiries, worked with 30,748 client families, and delivered almost 700 education programmes to the community.

It is from this depth of community knowledge and experience in the consumer finance sector that the Federation makes the following submission.

Introduction

1. Thank you for providing the community with the opportunity of providing feedback on the Payroll Giving discussion document. The Federation applauds the Inland Revenue Department on this very bold move to increase the incentives for making donations to not-for-profit organisations in this country.
2. That said, the Federation by and large supports Option 1 and is concerned that the Government is in favour of Option 2 in the document. The discussion appears to be based on IRD costs and tax reductions and the community benefit argument does not seem to be given any weight under that discussion. Option 1 offers the simplest and least compliance-creating system and is, therefore, the most preferred option.
3. This submission is based on the views that we have actively canvassed from our membership through the use of surveys.

Submission

- Our members firmly believe that New Zealand should implement a payroll giving scheme with 100% of the respondents in our survey agreeing with this statement. As most of our member services are both charitable organisations and employers of paid workers this gives further credence to their opinions. The following quote was representative of that opinion: "Certainly would make it easier for the giver who wants to be selective to whom they give to elect a chosen charity for a specific time period and have money paid directly to the charity. Would make it easier to get the tax rebate on giving, not having to

- keep receipts and fill out tax rebate forms each year which most people don't bother with when it is a small amount".
- Compliance costs were seen as a potential concern and a number of options were suggested to help minimize those costs, including:
 - Establishing limits on the number of changes an employee can make in a given year to encourage regular payments as opposed to constantly changing amounts and organisations being supported.
 - Using the Charities Commission as an intermediary.
 - IRD support and communication to the same levels as that offered under the KiwiSaver scheme.
 - Flow chart type communications showing both employees and employers how the system will work.
 - The members acknowledged that allowing only employees whose employers file monthly schedules electronically access to payroll giving will preclude some employees. This is deemed as unfair and not appropriate. The Federation also notes that this concern only arises under Option 2, which creates compliance costs for both the employer and IRD and is, therefore, not the most appropriate option.
 - Again, the Charities Commission was recognised as an ideal organisation to promote payroll giving. The IRD, Office for the Community and Voluntary Sector and umbrella organisations such as the Community Sector Taskforce, NZCOSS, NZFVWO, etc. were also recognised. It was certainly suggested that a national campaign highlighting payroll giving was appropriate.

Option 1 – Tax Deduction Mechanism

- The responses relating to tax relief being based on the donor's marginal tax rate were mixed. Our members thought that it was not fair for donors on the lowest tax rate to receive less of an incentive for giving as those on higher rates. It was also acknowledged that this was fair as a flat rate would offer a disincentive to those on a higher tax rate.
- Our members note that there is no compliance obligation under this option. Payroll deductions are part of the current compliance costs and movements in employee pay rates happen every year with new calculations being made. One extra form summarising the deductions made was not considered excessive.
- Further, the Federation is very concerned that this is the least-favoured option by IRD. The social policy entitlements argument is a poor one for not considering this option. There is the potential for some benefits to increase (family support, rates rebate threshold, etc.) and some payments (student loan, child support, etc.) to decrease. However, in reality employees are unlikely to deduct anymore than \$100 a week and most likely to deduct less than \$50 a week to give to charity. The movements in social policy entitlements are likely to be much less than what would occur through an annual wage increase.
- Where the IRD sees this is a tax-relief benefit accruing to the employee it is missing the point that the entire donation is removed from the employee's net pay. The employee receives only a marginal benefit and incentive with the main benefit accruing to the donee organisation, which is the entire point of the scheme.
- In reality, any small loss in revenue for the IRD would be more than offset by the reduced compliance costs in calculating and processing rebate claims every year.

Option 2 – PAYE Credit Mechanism

- The merits of this system were, by and large, seen to be the benefit of lower income earners receiving a greater incentive for giving due to the flat-rate of tax credit. Again it was acknowledged, however, that those on the higher tax rate are given a direct disincentive under this system.

- It was also acknowledged that there would be greater compliance costs under this option than those under Option 1 and that this could create a situation whereby some employers openly do not support the system.
- Further, the Federation is very concerned with this option for a number of reasons, including:
 - The increased compliance costs and flat-rate tax credit mean that the status quo is actually a preferred option as that has no compliance cost. Simply increasing the rebate threshold would have the same effect.
 - The requirement for e-filing for this system to work should absolutely preclude this option from consideration. The fact that 29 percent of employees and 81 percent of employers would currently not be able to be included is simply far too high.
 - The Federation is also concerned that the IRD may see this as a way of moving employers to its e-filing system when some of its members do not have access to a private computer and many of its members do not have access to the internet.
 - Again the social entitlements argument is being used to support this option that, on the balance, is the least effective.

Support for Employers

- Some form of technical assistance was acknowledged as being necessary under either option. It was also noted that a positive campaign to promote the scheme would be necessary to increase take up.
- An intermediary organisation was seen as potentially a good idea, although caution was suggested in term of the costs and fees associated with this.
- The current KiwiSaver system where the deductions are paid to IRD for distribution to a particular fund was also noted. This system would ensure the entire donation would still accrue to the donee organisation and the interest gained while sitting in the IRD account could be used to offset the administration costs.

Call to Action

The New Zealand Federation of Family Budgeting Services Inc thanks the Inland Revenue Department for offering it the opportunity to make this submission on the Payroll Giving discussion document.

The Federation asks the IRD to carefully consider all of the points raised in this submission and incorporate the changes offered, where appropriate, into its plans. The IRD is most welcome to contact the Federation for further advice on any of these recommendations.

Yours sincerely

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