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The General Manager
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WELLINGTON

Dear Sir

Taxes and Charities

On behalf of the members of the New Zealand Federation of Family Budgeting services Inc. I wish to make the following submissions in relation to the ideas canvassed in the discussion paper released by the Minister of Finance.

The Federation is the collective of community organisations that share a common code of ethics; philosophy and commitment to delivering free budgeting advice to families and individuals. The Federation was formed 42 years ago and was constituted as an Incorporated Society on 21 December 1973. At this moment the Federation comprises 140 full members, eight transitional members, 14 associate members and eighteen satellite budget services.

I wish to address three themes in particular.

1. Charitable Purposes.

The paper suggests that tax relief may only apply to those organisations that help the government to achieve the Government's social objectives. Putting aside the potential threat of covert political interference, this suggestions that Government has sole responsibility for social objectives. Clearly this is not correct as every community, every organisation and every individual has responsibility for the well-being of society. How can it not be charitable for one person to volunteer their time and skills to help another?

Government has more than adequate influence over the priorities and delivery of social policy through its controls of funding managers, such as Child, Youth and Family, Health Funding Authority and even Community Development such as the Community Organisations Grants Scheme. It does not need another elaborate system to limit taxation incentives. The reality is that for the members of this organisation removal of tax relief would be insignificant in relation to the damaging impact of removal of direct Government funding on which the tax relief would apply.

2. Compliance Costs

This organisation has no problems with the necessity of accountability. That accountability should be both to the communities we serve and to the supporters. In fact it is inherent in our values that people should take responsibility for their own actions and affairs. The debate centres on the degree of duplication and the impact that has on the people and resource costs that our member organisations have available.

Already each separate legal entity that makes up the Federation membership is accounting to its own members, a raft of funders and most commonly to the Registrar of Incorporated Societies and supplying key data to this and other umbrella organisations. Each of these reports tend to require their own format, requiring a huge amount of predominantly volunteer effort which could otherwise be expended on actually delivering the public service for which the organisation was constituted to do.

The discussion paper seems to suggest that as part of the establishment process, which sees each body formally register with the appropriate Government registrar of bodies corporate and the appropriate Government fund manager(s), now also an application would be made to a Charities Commission or a specific arm of Inland Revenue. It occurs to me that in this age of advanced technology and data switching there must be some opportunity for better integration of information collection within the government agencies without overly burdening the third sector. Similarly currently organisations are subject to audit by both Inland Revenue GST audits and by funders. Government funders in particular have an elaborate auditing programme which seems to test the issues of governance, viability, quality and fiscal responsibility. The discussion paper suggests that yet another monitoring process be imposed. It seems to me that more pertinent information would be obtained if the Government limited its monitoring to the actions of the funders and leave the funders to manage their own risks as to how their funding is applied. It is further suggested that the registration, reporting and monitoring processes would be fiscally neutral. By this I assume that no additional Government money would be invested to allow the Government to satisfy itself on the appropriateness of its priorities. With all due respect there cannot be neutrality. The fact is that the regiment of bureaucracy needed to operate these processes would create a huge overhead at the top of the funding tree that would be compensated for by reductions at the root of the tree which now supplies the resources for the actual service delivery. Fiscal neutrality actually means that the community would pay, not just once in funding reductions to pay for the increased administration, not just twice in having to divert available people resource from client service to increased administration but three times in the gradual degeneration of the community service groups that will lose, and find increasing difficulty in replacing, willing volunteers frustrated at being unable to perform the client service they offered themselves for.

3. Impact on Taxation of Investment Funds

The discussion paper touches on taxation of investment income. I have heard oral reassurances that tax would not be applied to funds utilised or “set aside for utilisation” for charitable activities. If that is so what is the purpose of raising this issue in the context of this paper? What maximum length of time would be allowed for asset accumulation for capability building before it is regarded as utilised for other than charitable purposes? Once provision is made to differentiate how long before that distinction is removed and what would it cost to police?

This suggestion seems to attack the core of prudent management at a time when there is so much uncertainty of continuity of funding levels and more than ever organisations need to build and hold a reserve as a hedge against funding disruptions.

The even greater risk potential is to the funders. We have been through some lean times and will do so again created by reductions in allocations available for distribution. Many funders are proactively creating annuity and other mechanisms for evening out the annual appropriations made available to charitable causes. This proposal introduces the potential for those savings to be devalued through taxation leaving the communities worse off.

Yours faithfully

Raewyn Nielsen
Executive Officer