



NEW ZEALAND FEDERATION OF
FAMILY BUDGETING SERVICES (INC.)
TE RŌPŪ PENAPENA PŪTEA
WHĀNAU O AOTEAROA

P O Box 24382
Wellington
Ph:(04) 471-1420
Fax:(04) 471-1490
enquiries@familybudgeting.org.nz
www.familybudgeting.org.nz

14 December 2007

Deputy Commissioner
Policy Advise Division
Inland Revenue Department

SUBMISSION: Taxation of Reimbursement Payments and Honoraria

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 Taxation of Reimbursement Payments and Honoraria discussion document. The Federation applauds the Inland Revenue Department on this very bold move to reduce compliance costs for voluntary organisations and to increase the incentives for volunteering in this country.
2. The Federation and its members strongly endorse the most flexible and least complicated options being presented. Although we recognise that this may create a small risk of tax evasion, the greater good and benefit accruing to the country as a whole is considered to far outweigh any downsides.
3. This submission is based on the views that we have actively canvassed from our membership through the use of surveys.

Submission

Defining the nature of a “volunteer”

- The features described in the definition of ‘volunteers’ is generally accepted as a sufficient definition. However, one member pointed out that the concept of ‘free will’ should also be flexible to encompass religious beliefs/obligations.
- The consensus here was that there quite probably are features in other cultures that need to be considered but that our members do not have the indepth knowledge to provide this and that further consultation with volunteer groups working with other cultures must be conducted.

- There is absolute agreement with the IRD that limiting volunteers to registered charities only would exclude a significant part of the sector and this option is not supported. Formal volunteering, which is unpaid work carried out for, or on behalf, of an organisation as a more-than-sufficient definition.
- A note of caution is offered by our members if trying to define a 'voluntary activity'. In our membership we have both paid and voluntary budget advisers, both paid and voluntary service coordinators, both paid and voluntary community educators and tutors, etc. To complicate this further, people in these paid positions may also carry out voluntary work for their organisation that is essentially the same as in their paid role. It would be wrong to preclude any of these people from claiming tax-free reimbursement payments because of a strict definition of voluntary work. As one of our members states, "The issue in many ways is not one of volunteering verses employment, but rather paid verses unpaid work". Therefore, we do not think that a definition of voluntary activity is necessary in this context. The definition of voluntary work being unpaid work for an organisation offers adequate flexibility.

Treatment of reimbursement payments

- Our members note that a system with too much flexibility may create a risk whereby actual paid work is claimed as 'voluntary' to escape paying tax on this amount. However, our members also note that compliance costs in this area are a risk to the ongoing availability of volunteers.
- The reasonable threshold option was deemed to be the best option whereby all reimbursement payments, based on an estimation of costs incurred, are treated as exempt income.
- Although some members thought that there should be no limit on the threshold, a reasonable threshold of between \$500 and \$1500 was thought appropriate.
- In our own experience where honoraria, reimbursement payments and meeting fees are all paid, each with their own set of rules and compliance costs, we believe that a simple and flexible system set at a realistic threshold is the best solution for all involved. The small risk of tax evasion in this situation is minimal when compared with the benefits accruing to voluntary organisations and volunteers.
- This threshold should certainly be reviewed and increases set to CPI-based increments would be appropriate.

Treatment of honoraria paid to volunteers

- Our members note that any separation or calculation of costs incurred creates compliance costs for the organisation and that this is a disincentive to volunteering.
- We also note that the submission points provided for here only allow us to discuss the different options of compliance.
- We strongly believe that the options under 3.22 – 3.44 whereby all honoraria paid to volunteers up to a threshold should be exempt of tax. Obviously under this option the onus is on the organisation to show that the honoraria is being paid for 'services provided'.
- The work that our volunteers do at the national level of our organisation can be likened to that carried out by company directors. A director of a company turning over \$1,000,000.00 a year plus would expect to be paid in the tens of thousands for their services. We provide honoraria in the small thousands for comparable work and having to then tax our volunteers on that honoraria payment is certainly a disincentive.
- Further, in practice what actually occurs is that we must increase the level of the actual honoraria payment so that the net honoraria comes to a decent payment for services. This is, in effect, simply taxing our not-for-profit organisation and we applaud any effort by IRD to amend this situation.

- We believe that a reasonable upper limit threshold could be as much \$7,500.00. Although we concede that this would not be justified for smaller organisations and suggest that a number of thresholds could be set based on an organisation's turnover.
- Again, this threshold should certainly be reviewed and increases set to CPI-based increments would be appropriate.

Other matters

- There was a resounding response from our members that reimbursement of transport costs should cover any reasonable costs incurred by the volunteer. Our members were very clear that this was not a matter of exemption but rather that taxing a volunteer for any cost incurred would create a direct disincentive for them.
- The members were also clear that creating yet another form of tax code would just create more compliance costs and that the options outlined above should be worked into the current system.
- There was also a strong emphasis on appropriate communication of any changes by IRD and some members went as far as suggesting community workshops by IRD to communicate the changes would be necessary.

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 Taxation of Reimbursement Payments and Honoraria 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.

Yours sincerely

Jarrod Rendle
Information & Policy Officer
NZFFBS Inc.