

# **Submission**

By



to the

**Inland Revenue Department**

on the

**Payroll Giving: Providing a Real-Time  
Benefit for Charitable Giving**

**25 January 2008**

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**PAYROLL GIVING: PROVIDING A REAL-TIME BENEFIT FOR CHARITABLE  
GIVING  
SUBMISSION BY BUSINESS NEW ZEALAND<sup>1</sup>  
25 JANUARY 2008**

**1. INTRODUCTION**

1.1 Business New Zealand welcomes the opportunity to comment on the *Payroll Giving: Providing a Real-Time Benefit for Charitable Giving* discussion document (referred to as 'the document'), released by the Inland Revenue Department (IRD). While we believe there is a strong role for business to play in the area of charity and philanthropy, it is important to consider any impediments or compliance issues that may arise from choosing policies to enhance charitable giving via involvement from the business community, and to ensure such policies are truly voluntary for businesses to administer. This submission examines these issues in the light of the possible introduction of a payroll giving scheme in New Zealand.

**2. SUMMARY OF RECOMMENDATIONS**

2.1 Business New Zealand makes the following **recommendations** with regard to the document, namely that:

- (a) ***Any payroll giving scheme introduced into New Zealand is truly voluntary (p. 2);***
- (b) ***IRD have a communications program established around alternative solutions if an employee wishes to give via their payroll, but is unable to with their current employer (p.4);***
- (c) ***The possible introduction of a payroll giving scheme is implemented at the very earliest in April 2009. Also, the date of implementation is predicated on other tax policy changes that may be considered more important (p.4);***
- (d) ***Any payroll giving mechanism introduced into New Zealand is essentially a 'soft launch', whereby the promotional work undertaken for the scheme is careful not to provide unrealistic expectations of ease of take up and any personal financial ramifications are also outlined (p.5);***
- (e) ***The use of any form of intermediary via payroll giving is not made compulsory for businesses who decide to introduce a payroll giving mechanism (p.6);***
- (f) ***Option 1 by way of a tax deduction mechanism is viewed as the best option if a payroll giving scheme is introduced (p.8); and***

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<sup>1</sup> Background information on Business New Zealand is attached in the appendix.

- (g) ***The views of the main submitters in regards to a payroll giving mechanism are fully taken on board concerning the best option going forward (p.8).***

### **3. BACKGROUND & DESIGN**

- 3.1 The introduction of a payroll giving discussion document is part of a wider thrust by the Government towards the issue of charity and giving. Business New Zealand believes there is much that businesses already do in this area that is good, but there are always other opportunities that should at least be examined. We would also like to point out that by their mere existence as the engine room of the economy, businesses have provided the greatest assistance to all charitable and philanthropic needs by way of producing goods or services that create jobs, contribute taxes, and improve the standard of living for all citizens.
- 3.2 We note that the document asks a series of questions relating to the issue of payroll giving. While we do not wish or need to answer each question in such a structured way, we have provided our comments on specific issues below, with this section examining some broader issues relating to payroll giving, and the following section examining the two mechanism options proposed.

#### *Should New Zealand Implement a Before-Tax Payroll Giving System?*

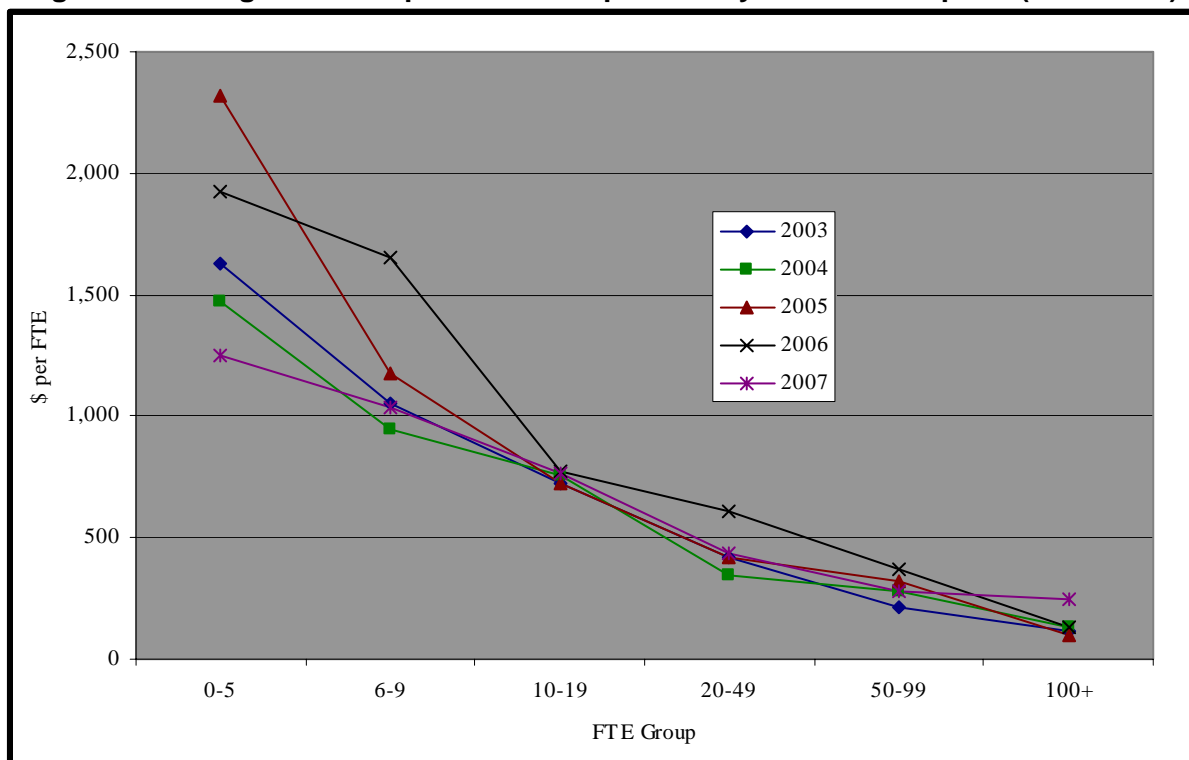
- 3.3 In principle, Business New Zealand does not oppose the introduction of a before-tax payroll giving system. However, we are mindful that there needs to be the correct checks and balances for both the mechanisms for the scheme, and how it is portrayed to both employers and employees. We would certainly want the Government to be mindful of the worst case scenario whereby there is some form of compulsion on employers to radically change their payroll systems to incorporate the needs of a few who wish to give via their payroll. Business New Zealand would completely reject any and all moves down that avenue. Therefore, we strongly agree with the views expressed by the Government that states *“The Government acknowledges the current compliance obligations on employers. To mitigate these costs, any payroll-giving scheme should be voluntary”*. Business New Zealand would argue that even if there were no compliance cost issues involved for businesses, such schemes should be completely voluntary anyway, otherwise it contradicts the notion of charitable and philanthropic activity which is of a voluntary nature in itself.
- 3.4 Overall, Business New Zealand would oppose any form of pressure (no matter how subtle) being placed on employers to take up any introduced payroll scheme, as the owners of the business are in the best position to know whether such a scheme is feasible within the context of their business operations.

***Recommendation: That any payroll giving scheme introduced into New Zealand is truly voluntary.***

### Concerns Regarding Payroll Giving and EMS Filing Electronically

- 3.5 As chapter 2 of the document points out, a payroll giving scheme via the Government's preferred PAYE credit mechanism option would only be viable for those employers who file their employer monthly schedules electronically, as there are space issues with the paper formats. While this means that 81% of employers would not be able to instigate either of the two payroll giving schemes proposed in the document, the 19% of employers who do file electronically represent 71% of all employees and 84% of PAYE forwarded to IRD. From an employee perspective, the majority are covered by electronic filing, but the bulk of SMEs businesses are not.
- 3.6 SME businesses typically experience a disproportionate cost of compliance costs compared with larger businesses, which is typically evident with tax compliance costs as figure 1 below shows. While some may argue that electronic filing is one way in which compliance costs could be reduced for businesses, one could and should not simply apply this reasoning to all businesses as it is they may view their current system via paper filing is better for their own business for various reasons.

**Figure 1: Average Tax Compliance Costs per FTE by Size of Enterprise (2003-2007)**



- 3.7 Therefore, Business New Zealand would be concerned if there is any undue pressure on employers to change their filing system from paper to electronic means so that a payroll giving scheme could be implemented. Instead, we believe that the IRD needs to ensure that there are alternatives that could be discussed with an employee if one wishes to give via payroll-giving, but cannot because of the filing system of their employer.

***Recommendation: That IRD have a communications program established around alternative solutions if an employee wishes to give via their payroll, but is unable to with their current employer.***

#### *Timing of a Payroll Giving Scheme*

- 3.8 The introduction of a payroll giving scheme would ultimately mean a change to the payroll system for any business that wishes to take part. Therefore, the timing of its implementation needs to be taken into account given substantive changes to payroll systems as a result of the recent introduction of KiwiSaver, as well as ongoing changes expected with KiwiSaver Mark II in April 2008. It would be fair to say that these changes have been significant, and have left many employers with a general feeling of frustration with additional compliance costs being imposed upon them. One could argue that there is continuing pressure on the mechanisms by which wages and salaries are being used in other ways to also incorporate additional monetary transfers. A requirement to a payroll system increases not only the time involved with completing payroll, but also the reconciliation and reporting requirements as well.
- 3.9 The introduction of a payroll giving scheme should take place after a substantive period of time has elapsed so as not to further antagonise employers. The document states that if payroll giving is to be implemented, the earliest date for implementation would be 1 April 2009. Business New Zealand sees this as a worthy time period, although it should also be predicated on any other tax changes that may arise during that time (given the heavy tax policy workload outlined recently for 2008), which could result in the proposed implementation date being extended out further.
- 3.10 Overall, Business New Zealand views payroll giving as one of the lesser tax policy initiatives to be introduced, and we would want its possible introduction to be based on the needs of other tax policy changes that would be considered more important. We would not oppose its introduction being revised outwards if other tax matters that businesses have to deal with are introduced in the near future.

***Recommendation: That the possible introduction of a payroll giving scheme is implemented at the very earliest in April 2009. Also, the date of implementation is predicated on other tax policy changes that may be considered more important.***

#### *How a Payroll Giving Scheme should be Introduced*

- 3.11 Whereas other tax initiatives by Government are often done via a significant communications campaign to alert those potentially affected (KiwiSaver being the obvious example recently), there may instead be a need to have a 'soft launch' of any formal payroll giving mechanism. Considering the majority of businesses in New Zealand would not be able to implement the option if the Government's preferred option of a PAYE credit mechanism is introduced, or alternatively a business may make an in-house decision that such giving is a private matter that should not be done via their payroll system, we would not

want a scheme that is heavily promoted with unrealistic expectations that any employee or any business can access the new scheme without any issues or costs involved.

- 3.12 For employees too, any decision to give on a regular basis could end up costing a substantive amount of money over time, which they would need to weigh up against other priorities for themselves and their family. Essentially, any moves towards giving on a regular basis needs to be properly understood and considered. A significant campaign that stresses the ease and helpfulness of giving via payroll may not be weighed up against the financial burden it could put some in (if for instance they have already decided to contribute to KiwiSaver as well).
- 3.13 Having said this, as chapter 5 (support for employers) of the document alludes to, we would obviously expect information by IRD aimed at employers to be available via the standard platforms such as online guides if they wish to explore this option further. We would also want access to information for employees as to what they would need to do to apply, and especially why they may not be able to be involved in the scheme via their current workplace (as discussed in 3.6 above).
- 3.14 Overall, it is important that the scheme is not promoted as the golden answer to charitable giving. The examples discussed with Australia, Canada and the UK in the document show that while such schemes are not completely unused, neither have they provided a significant proportion of charitable giving that some may have expected. The example of the UK shows that after recently celebrating its 20<sup>th</sup> anniversary, strong growth in those taking up the option has only really occurred in recent years. It may be the case that charitable giving via payroll giving may only ever play a minority role in the broader level of monetary giving in New Zealand.

***Recommendation: That any payroll giving mechanism introduced into New Zealand is essentially a 'soft launch', whereby the promotional work undertaken for the scheme is careful not to provide unrealistic expectations of ease of take up and any personal financial ramifications are also outlined.***

#### *Use of Intermediaries*

- 3.15 In addition, chapter 5 discusses the role intermediaries might play in terms of helping to receive and distribute payroll donations to charities (payment intermediaries) and/or to help employers establish payroll-giving schemes (facilitating intermediaries).
- 3.16 While Business New Zealand does not have any strong views on the introduction or use of intermediaries, we would like to reiterate the concerns expressed in the document concerning the additional costs that employers may have to wear, particularly with using a facilitating intermediary. For some businesses this cost may be seen as part of the charitable budget, but for others it may result in simply increased expenses. Therefore, while intermediaries may prove to be an efficient option for some, for others it may just be an unnecessary option.

- 3.17 To ensure the process for payroll giving is as voluntary and complaint light as possible, Business New Zealand recommends that the use of any form of intermediary via payroll giving is not made compulsory for businesses who decide to introduce a payroll giving mechanism.

***Recommendation: That the use of any form of intermediary via payroll giving is not made compulsory for businesses who decide to introduce a payroll giving mechanism.***

#### **4. MECHANISM OPTIONS OUTLINED FOR PAYROLL GIVING**

- 4.1 The document outlines two options for the introduction of payroll giving in New Zealand:

- Tax deduction mechanism (option 1)
- PAYE credit mechanism (option 2)

The document outlines the mechanisms for both options, as well as their advantages and disadvantages. Overall, if a payroll giving scheme was to be introduced, IRD support the PAYE credit mechanism. Business New Zealand disagrees with this stance, as outlined below.

##### *Tax Deduction Vs PAYE Credit Mechanism*

- 4.2 From Business New Zealand's point of view, the primary goal of payroll giving from a charitable organisations point of view should be to maximise the amount of donations going to such organisations. Essentially, this means finding out which scheme will most likely lead to the greatest amount of money being passed through as donations.
- 4.3 Annex 2 in the document shows that at the three personal tax rates, no matter which of the two schemes or tax rates are examined, the charity receives the same amount of money. Therefore, in terms of the tax treatment for the end amount charities receive the schemes are equal.
- 4.4 One of the concerns the Government raises with option 1 is that it would give employees on higher incomes a greater benefit and those on lower incomes less benefit. However, what is missing in this argument is the degree in which those on higher incomes potentially and actually give in comparison with those on low incomes.
- 4.5 Potentially, those on the 39% personal tax rate have a far greater ability to provide a monetary donation because of the higher likelihood of disposable income at hand. They would also probably provide a donation amount that would be higher than for those on a lower income tax rate. This should mean any payroll giving mechanism should be weighted towards higher taxed individuals, so as to provide the ability for a higher percentage of them to give in addition to a higher amount. However, in terms of actual giving, the document does not discuss any potential findings regarding the typical and/or aggregate amount given by say those on the 39% personal tax rate,

compared with those on the 19.5% rate. Therefore, one cannot tell by empirical evidence whether an unequal tax benefit would result in more or less charitable donations being collected depending on the mechanism chosen. Potentially, there is every chance that an unequal tax treatment in terms of payroll giving via option 1 may increase the size of the charity cake in comparison with equal tax treatment under option 2.

- 4.6 The document also states that option 1 would mean social policy entitlements and obligations may be affected once an employee begins donating via a payroll giving mechanism, as their gross pay would reduce, in turn affecting their taxable income. Working for Families (WFF) is cited as one social entitlement that would be affected. Business New Zealand has long advocated that a flat broad based income tax regime is the best way in which to eliminate many of the usual distortions and flow on effects that take place once social entitlement programs such as WFF are introduced. Instead of treating the flow on effects of social policy entitlements as a reason for not choosing option 1 as the preferred mechanism, the Government should instead be concentrating on eliminating or at least scaling back such social entitlements, and instead examining ways in which to flatten personal tax levels.
- 4.7 The document clearly states that option 2 involving the PAYE credit option would result in higher compliance costs for employers compared with option 1 involving the tax deduction mechanism. As outlined in section 3 above, tax compliance costs make up the largest proportion of compliance costs for business. The government should be aiming towards policies that are either compliance cost neutral, or in fact reduce compliance costs, rather than increase them. Option 1 involving a tax deduction meets this objective.
- 4.8 The document also states that the PAYE credit option will increase the administrative burden on IRD via increased costs whereas the tax deduction option would probably not lead to any further costs for IRD (and if it did, it would not be as costly as the PAYE credit option). Again, a proper policy decision should take into account the additional costs on taxpayers as a priority for options going forward, with the tax deduction option again being the best choice.
- 4.9 Lastly, the fact that not all businesses can actually access option 2 due to the electronic filing requirements as discussed in section 3 above should surely provide another clear signal to the Government that option 1 is the preferable option if a payroll giving scheme is introduced in New Zealand.
- 4.10 Table 1 below outlines a summary of the advantages and disadvantages of the two options. Essentially, the decision by the government to favour option 2 comes down to the social entitlements and differential tax benefits based on an individual's tax rate. However, we believe these are lesser issues compared with the increased compliance and administrative costs that both businesses and taxpayers will have to face, in addition to the more limited scope of the PAYE credit mechanism. Also, the concerns expressed with option 1 can be rectified by changes to the personal tax rate regime, such as



replacing WFF payments with flatter tax rates or threshold changes. Therefore, Business New Zealand would prefer the tax deduction mechanism.

**Table 1: Summary of Options: Comparing Tax Deduction & PAYE Credit Mechanism**

Issue	Option 1: Tax Deduction Mechanism	Option 2: PAYE Credit Mechanism
Highest compliance costs for business		X
Highest administrative cost for taxpayers		X
Not available to all employers		X
Highest amount received by charities on a per donation basis	X	X
Differential tax benefit for those donating	X	
Affect on social entitlements	X	

**Recommendation: Option 1 by way of a tax deduction mechanism is viewed as the best option if a payroll giving scheme is introduced.**

*Broad Support for the Tax Deduction Option*

4.11 We also note that other organisations also support the tax deduction mechanism over the PAYE credit mechanism. For instance, Philanthropy New Zealand in their submission on the *Tax and Charitable Giving Project* supported payroll giving from pre-tax pay, and we understand have reiterated their comments in their submission on this document. Also, feedback from our broad membership has clearly told us that the tax deduction option is favoured over the PAYE credit mechanism.

4.12 Furthermore, Business New Zealand would be disappointed if the government choose to simply ignore the wishes of the majority of submitters that favoured the tax credit mechanism, who would likely represent the main players involved in payroll giving. If the government decided in spite of heavy support for one option to run with another, it would make a mockery of proper consultation and the prime reason why discussion documents are established – to obtain a consensus on the best ways forward.

**Recommendation: That the views of the main submitters in regards to a payroll giving mechanism are fully taken on board concerning the best option going forward.**

## **APPENDIX**

### **5. About Business New Zealand**

- 5.1 Encompassing four regional business organisations (Employers' & Manufacturers' Association (Northern), Employers' & Manufacturers' Association (Central), Canterbury Employers' Chamber of Commerce, and the Otago-Southland Employers' Association), Business New Zealand is New Zealand's largest business advocacy body. Together with its 68-member Affiliated Industries Group (AIG), which comprises most of New Zealand's national industry associations, Business New Zealand is able to tap into the views of over 76,000 employers and businesses, ranging from the smallest to the largest and reflecting the make-up of the New Zealand economy.
- 5.2 In addition to advocacy on behalf of enterprise, Business New Zealand contributes to Governmental and tripartite working parties and international bodies including the ILO, the International Organisation of Employers and the Business and Industry Advisory Council to the OECD.
- 5.3 Business New Zealand's key goal is the implementation of policies that would see New Zealand retain a first world national income and regain a place in the top ten of the OECD (a high comparative OECD growth ranking is the most robust indicator of a country's ability to deliver quality health, education, superannuation and other social services). It is widely acknowledged that consistent, sustainable growth well in excess of 4% per capita per year would be required to achieve this goal in the medium term.