

Government Encourages a Culture of Charitable Giving.

The introduction of the new tax rules following the Budget 2007 brought a change that will benefit many individuals, companies and charitable organisations, including churches.

The main objective of the new policy is to encourage more charitable giving by offering more generous tax rebates. This will bring New Zealand onto a similar playing field as countries such as USA, Canada, Australia, Ireland and the UK.

From 1st April 2008 charitable donations eligible for a rebate made by individuals, companies and Maori Authorities are only limited to their taxable income – but a limit none the less. Previously individuals could only claim on a maximum of \$1860 in donations; also companies and Maori authorities were limited to donations amounting to 5% of taxable income.

Of course more could be given to charitable organisations, however the donor previously received no added tax benefit. Now, the bigger the donation - the bigger the rebate, essentially reducing the net tax paid. Now consider how this works in reality.

Individuals

Individuals can claim 33½% rebate on their donations made from 1st April 2008, up to the amount of their taxable income. Previously rebates were limited to \$1890 of donations.

For example:

Jane donates \$9,000 to various charities and other non-profit organisations, including her local church. Her taxable income for the 2009 year (1 April 2008 - 31 March 2009) is \$66,000.

In the past Jane could only claim a maximum of \$630. With the removal of the threshold Jane will now receive \$3,000, a gain of \$2,370!

However, if Jane won Lotto and gave \$120,000 to charitable organisations, she could only claim \$22,000 (33½% of her taxable income), not \$40,000 (33½% of her donation). This needs to be claimed directly from the Inland Revenue Department or through a tax agent like Recapture Refunds.



Companies and Maori Authorities

The 5% limit on deductions that companies and Maori Authorities can claim for cash donations to donee organisations has been removed and they can now claim 33½% on all their donations made from 1st April 2008, up to the amount of their net taxable income. This tax benefit is now extended to unlisted close companies (companies with five or fewer shareholders) also.



For example:

ABC Ltd is a publicly listed company. In the 2009 tax year (1 April 2008 - 31 March 2009) ABC Ltd supported the local community charities, donating \$20,000. The ABC Ltd net income before taking into account its donations was \$200,000.

Under the previous law, ABC Ltd is entitled to a tax deduction of \$10,000 (5% of taxable income). Under the new rules, the full \$20,000 can be deducted. The tax deduction will be included in the company's income tax return (IR4).

Future Changes

Future changes are expected to include making donations deductible for all business types, making reimbursements to volunteers tax-free, and payroll giving whereby the employer pays their employee's donation directly from their pay.

All these changes mean individuals get more of their hard earned tax back and companies can significantly reduce their tax payable by making donations to approved charitable organisations. This is all good news for the non-profit sector that relies on donations to provide much needed services to our local communities. Ultimately everyone involved in donating benefits from 1st April 2008.

Claim it Now or Lose it!

For those individuals who have not yet made a claim on their donations, now is the time to do so as donation rebates can only be claimed back up to four years, making any donations prior to 1st April 2004 lost. Even if someone only has a small amount of donations, a claim is definitely worthwhile.

For example:

Peter's church tithes (donations) were over \$1,890 each year for the past four years. He has not claimed any rebates, so he would now be owed total rebates of \$2,520.

An added bonus for a married individual (or de facto) where one partner has donated more than the maximum amount, their partner can claim the balance (up to their \$630 maximum). That increases the maximum to \$1260 per income earning couple.

Claiming:

To make a claim individuals should contact Recapture Refunds on 0800 4 REFUNDS or visit www.recapturerefunds.co.nz to make a claim on their behalf taking the hassle out of dealing with the IRD.

Individuals can also claim rebates on school fees (not tertiary), housekeeper and childcare costs up to \$940 each. There is now a new rebate on redundancy payments received since 1st December 2006 paying up to \$3,600.

For further information contact Davina Perry at Recapture Refunds on 0800 4 REFUNDS and maximise your tax refund entitlements!