

Tuesday, 27 November 2007

Questions and Answers

Q: What is payroll giving?

Payroll giving enables employees to make regular charitable donations from their pay. The employer forwards their donations either directly to a charitable organisation or to an intermediary.

Q: What does payroll giving mean for charities, employers and employees?

- For charities, payroll giving is an efficient, low-cost way to raise funds and delivers the regular income they need.
- For employers, payroll giving provides a low-cost and administratively simple way to support employees' involvement in the community. Employers can also raise their business profile and promote themselves to their employees and customers through payroll giving.
- For employees, payroll giving provides a convenient and simple way to give to their favourite charity. All employees need to do is choose their charity, set the amount of their donation and ask their employer to deduct their donation each payday. In return, employees receive an immediate tax benefit on their charitable donations on each payday, without the need to collect receipts or wait until the end of the year to claim a rebate.

Q: How does payroll giving work?

The payroll-giving scheme envisaged for New Zealand would be a voluntary scheme for employers and employees. It would provide an alternative way for people to give to charitable organisations while receiving an immediate (real time) tax benefit on their donations on each payday. People would not have to wait until the end of the tax year to claim their tax relief.

Two options for delivering tax relief through a before-tax payroll-giving scheme are proposed in the discussion document.

Option 1 – tax deduction mechanism

Under this option, donations would be deducted from an employee's before-tax pay, and PAYE would be levied on the remaining pay. The employee receives immediate tax relief by way of a reduction in the amount of PAYE required to be paid. The tax benefit would be at the employee's marginal tax rate – 19.5%, 33% or 39%. However, under this option calculations of child support liabilities, student loan repayments, and Working for Families tax credits would be affected because those calculations are based on the employee's before-tax pay

Option 2 – PAYE credit mechanism

Under this option, employers would calculate a “PAYE credit” of 33 1/3% on the amount of the donation made each payday. The credit would be offset against the PAYE calculated on the employee’s before-tax pay. All employees who make payroll donations would receive the same tax benefit regardless of their marginal tax rate. Under this option, child support liabilities, student loan repayments, and Working for Families tax credits would **not** be affected.

Q: How does payroll giving work in other countries?

Other countries, such as Australia and the United Kingdom, have introduced before-tax payroll-giving schemes. Their experiences suggest that payroll giving is a simple, convenient and effective way of supporting charitable giving. These countries have also found that payroll giving enables businesses to connect with their communities in a way that benefits everyone involved.

In the United Kingdom, charitable donations are deducted from an employee’s pay by employers and forwarded to an intermediary (who then passes the donations on to charitable causes). In Australia, however, payroll donations go directly to the chosen charities. Australia also has the Australian Charities Fund, which helps employers with the initial set-up of payroll-giving schemes and provides on-going support.

Q: How would employers set up a payroll-giving scheme?

Generally, employers would invite their staff to participate in a payroll-giving scheme. Employers and employees would need to decide on the charities and other non-profit organisations they wish to support. Employees would then specify the amount they wish to donate. The donation amount is deducted each payday by their employer and paid directly to the chosen charity or to an intermediary.

Q: What support is available to employers?

The discussion document suggests possible measures to help employers ease the costs associated with a payroll-giving scheme, and make it easier for them to offer the scheme to their employees.

In particular, the discussion document explores the use of intermediaries and information resources to help employers who wish to offer a payroll-giving scheme to their employees.

Q: Who would be responsible for ensuring donations are given to legitimate donee organisations?

Employers would need to ensure that the donations are made to a legitimate charity or non-profit organisation by making sure the organisation is included in the “donee organisations” list on Inland Revenue’s website.