

# Tax relief for gifts of money to donee organisations

Previously there were certain limits on the tax relief for donations made to donee organisations that individuals, companies and Māori authorities could claim. Close companies, those with five or fewer natural persons as shareholders who were not listed on a recognised exchange, could not claim any tax relief for their donations.

From the 2008-09 income year (or 1 April 2008 for most donors), some of these limits have been removed.

## Companies

A company may claim a deduction for cash donations it makes to donee organisations. The maximum donation deduction that can be claimed is limited to the company's net income, which is income less expenses but before deducting the donation amount.

Previously, the maximum deduction was 5% of the company's net income. Also, the deduction was not available to close companies (companies with five or fewer natural persons as shareholders).

### Example

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

Previously, Company Ltd was entitled to a tax deduction of \$10,000.

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).

## Māori authorities

Like companies, the maximum they could deduct previously was 5% of their net income.

Māori authorities can now claim a deduction for cash donations they make to donee organisations and Māori associations, up to the level of their net income.

The tax deduction will be included in their Māori authority income tax return (IR8).

## Individuals

Individuals who give cash donations of \$5 or more to donee organisations may claim a tax credit (formerly rebate). This tax credit is calculated as one-third of the total cash donations, up to the level of their taxable income.

To qualify for this tax credit, the individual's gift:

- must be made in money – gift of goods or property do not qualify
- can't be made under the will of a deceased person
- must be of \$5 or more.

Where an individual arranges to make a gift of regular instalments throughout the year of less than \$5 that will add up to more than \$5 at the end of the year, these gifts will be considered as a gift of more than \$5 and so be eligible for the tax credit.

### Example

Ethan gives \$2 a week to his church. By the end of the year, he has donated \$104.

Ethan is eligible for the tax credit on his \$104 donations as they add up to more than \$5.

Previously, no matter how much they donated, the maximum donation amount individuals could claim tax relief on was the lesser of \$1,890 or their taxable income.

This table illustrates how the removal of the \$1890 donation limit can increase the tax credit an individual can claim using the tax credit claim form (IR 526) after the end of the tax year.

### Example

Kath donates \$10,000 to donee organisations during the year ended 31 March 2009. Her taxable income for that year is \$40,000.

Previously, Kath would have only been entitled to a claim of \$630 (one-third of \$1,890).

With the increase in threshold, Kath will be able to claim \$3,333 (one-third of \$10,000).

	Until 31 March 2008	From 1 April 2008
Donation	\$1,890.00	\$1,890.00
Tax credit	\$630.00	\$630.00
<b>Additional tax credit</b>		<b>\$0.00</b>
Donation	\$2,500.00	\$2,500
Tax credit	\$630.00	\$833.33
<b>Additional tax credit</b>		<b>\$203.33</b>
Donation	\$10,000.00	\$10,000.00
Tax credit	\$630.00	\$3,333.33
<b>Additional tax credit</b>		<b>\$2,703.33</b>