

# Donation Tax Credits

Many of us don't think about the tax implications of giving, but there are ways you can have even more impact if you do. Any donation you make over \$5 is eligible for a tax credit of 33.33%. This tax credit is a nice way to say thanks for your generosity and offset the income tax you paid to earn this money in the first place.

## What is a donation tax credit?

A donation tax credit is able to be claimed on any donation made by an individual during a financial year. The tax credit is equal to 33.33% of the total donations made. That can really add up. The credit doesn't come from the charity that you've donated to. This credit comes from the IRD.

## How much can be claimed back?

The donation credit can't exceed 33.33% of your annual income. For most people this isn't an issue as they earn more than they donate. For large donors, this might not be the case and your expected annual income should be considered before any large donation is made.

## How do I go about claiming this back?

To claim an individual donation tax credit, you can use the IRD's online 'My IR' service to submit a donation receipt. IRD will then check the receipt and refund the tax credit.

If all your giving is done through The Gift Trust then we will issue one donation receipt at the end of the financial year for all funds received. So even if you give to multiple charities from your gift account throughout the year, the only receipt you need is the one you get from The Gift Trust.

## What are the requirements for claiming?

- The donation must be for more than \$5.
- A donation receipt must be from an approved donee organisation (The Gift Trust is approved).
- The person claiming the donation tax credit must have earned taxable income during the period being claimed for, and was in New Zealand at some point during the tax year.
- The amount of the donation tax credit must not exceed 33.33% of your taxable income for the tax year.

## **Who can claim a donation tax credit?**

Individual taxpayers may claim donation tax credits. Companies and Māori authorities cannot claim donation tax credits. There are other provisions that apply to their gifts. Unincorporated bodies, partnerships and trustees are excluded from claiming donation tax credits.

## **What can and can't be claimed?**

You can claim tax credits for donations that are unconditional gifts – gifts which don't entitle you to receive anything in return. This can include:

- regular or one-off donations to registered charities
- donations to your church
- voluntary school fees (but not school activity fees).

You can also claim for donations made up to three years ago.

You can't claim for conditional gifts like:

- memberships
- charity event tickets
- charity auction
- purchases of donated goods
- school activity fees e.g school camp fees
- donations to political parties.

## **What can businesses claim for their giving?**

Businesses can also make deductions from donations made to charities. Companies are eligible for a deduction for monetary donations up to the level of their net income.

The amount of a donation from the business to charity is limited to break even. A donation cannot be made that would cause the business to make a loss, but businesses may prefer making a charitable donation to paying more company tax.

Example, a company supported its favourite charity with a \$20,000 donation. The company's net income before taking into account its donations was \$200,000. This company can deduct the full \$20,000 in the company's income tax return (IR4).

## **Can a donation tax credit be shared with partners?**

A donation tax credit can be shared between a spouse, de facto or civil union partner who is eligible to make a claim. They can claim the balance of a donation up to the relevant maximum. This applies whether the receipt is in one person's name or in joint names.

## **Case Study - you want to make a big, one-off gift...**

As a donation tax credit cannot exceed 33% of annual income, you should consider the size of your gift versus your expected annual income for the year.

For example, if you want to make a significant one-off gift of \$1 million, but your income is expected to be \$500,000 this year and next. If you gave a lump-sum in one year, you would be able to claim a \$166,666 donation tax credit (based on your income of \$500,000).

However, if you gave two lots of \$500,000 over two financial years, you could instead claim back \$166,666 in the first year and another \$166,666 in the second year, for a total tax credit of \$333,333.

## **Can I donate my tax credit back to a charity?**

The IRD pay tax credits back to your income tax account and don't let you gift these to others.

However you can of course claim your credit and then donate it back to a charity of your choice or into your Gift Account and let us distribute it for you.