FISCAL COST OR CATALYST FOR IMPACT?

REVISITING THE ROLE OF DONATION TAX CREDITS

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August 2026

Abstract

New Zealand's donation tax credit appears to be seen as a cost to be managed rather than a catalyst to allow charities to have greater impact. Based on that view and a desire to address a perceived integrity problem around how the wealthy donate, New Zealand's Budget 2026 capped donation tax credits for gifts over $100,000 in aggregate; a permanent change to the tax treatment of the country's largest donors. This was legislated without knowing how their giving will respond.

This paper reviews the policy's rationale, evidence base, and process and asks if it needs to be revisited rather than rushed. The cap does not achieve its stated integrity purpose, because the company deduction remains and trusts can continue to allocate income to charities. The value-for-money analysis it rests on was narrow and not fit for a policy decision.

Our research shows that a mapping of the accounts of 2,702 charities receiving government funding indicates that donations complement rather than compete with public services: for example, each $1 of government funding is matched by $1.96 of other resources.

There is no direct New Zealand evidence on whether the tax credit creates giving or merely records it: the only local study covers the wrong population, and Inland Revenue has not tested the question on records it holds. Overseas estimates suggest a dollar of credit buys about a dollar of giving at higher incomes, or more. On those numbers the saving from the cap is simply a transfer from charities and associated activities, not found money that can go towards other Government needs in health, law and education.

Inland Revenue holds the data to test these questions; it should do so before the change takes effect, or better yet the government should pause this policy and design a better one in collaboration with the sector.

Charities do amazing work and deserve to have policy settings that will allow them to thrive and catalyse their impact. We suggest four practical changes at the end of this that would let the question be answered and hope this paper encourages a revisit of the decision.

Keywords: charitable giving; donation tax credits; tax policy; regulatory impact analysis; New Zealand; philanthropy

I. WHAT THE CREDIT DOES

New Zealand has a good system in place to encourage charitable giving. It does this by allowing a refund of a third of what an individual gives to an approved charity. Give $100, get $33.33 back. In the year to March 2024 that was $332 million and 345,600 people received this which reduced their cost of giving, and often they on gift what they receive back.[1]

The total amount we are talking about is small against the overall charitable sector. Registered charities took in an estimated $31.3 billion in FY2025 from contracts and other sources that are not donations, and employ 6.6% of the paid workforce; the wider non-profit sector contributes around 3.1% of GDP.[2]

We all know people who work in a charity and most likely we ourselves are each directly impacted by the good work charities do as members of clubs and community groups.

The value created by giving is not quantified in the analysis that supported the policy decision to cap the rebate. The potential benefit-side of the ledger matters too. That is why the decision needs to be revisited. Let's look at the numbers.

II. FEWER CLAIMANTS, MORE MONEY

Fewer people claim the credit each year. In 2019, 378,900 did; the 2024 count stands at 345,600 so far. Claims per 1,000 people peaked near 96 back in 2008 and have drifted down ever since.[3] Some of the recent decline is just late filings, as donors have four years to claim.

But the credit paid increased from $289 million in 2019 to $332 million in 2024, and donations claimed rose from $866 million to $997 million. So, there are fewer claimants and each claims more. But that has not kept up with inflation or population: real donations claimed fell about 6% while the population grew 6%.

At the top the concentration is extreme. The 0.1% of donors who will be affected by the cap give an average of $288,000, the other 99.9% average $2,598.[4]

The individuals who would be affected by the changed donation setting are few: around 350 people. However, IRD noted in their regulatory impact statement that those individuals made around 10% of the donations claimed for the credit, which is why this matters. If there is a fall in giving then it is not just 0.1% of claimants it impacts, it could affect 10% of claimed donations, around $100 million a year, and that will have a major impact on a sector which is struggling and relies on encouraging generosity rather than creating a disincentive to giving.

The concerns about the integrity of the tax system seem to relate to a desire to stop situations where a wealthy donor starts a charity, then the charity loans money back to the business of the donor and does not actually do much to advance its charitable purposes. However, that could be dealt with by enforcing the rules around fiduciary duties and requiring such charities to comply with the existing law. Trying to deal with what is probably a very small number of situations by changes that will have a chilling effect for all 29,000 charities is like using a sledgehammer to crack a nut and a more focussed approach with a nutcracker would be better.

III. DOES IT CREATE GIVING?

We don't know for sure if the tax incentive encourages more giving, because no work has been done on that in New Zealand.

The IRD's own regulatory impact statement includes this statement: "The extent to which the increased cost of donations above that amount results in a reduction in overall charitable giving is not known. The wider (and indirect) impact on the charitable and voluntary sector from the preferred option is also not known."[5]

The only local study is on bunching around the old $1,890 cap.[6] Those are not the people giving $100,000.

That paper's most useful finding is that when the old cap came off in 2009, reported donations jumped about 25%, but receipts at major charities kept trending as before. It

1 Inland Revenue, donation tax credit statistics, September 2025 release, March years 2004–2024. Claims, credits paid and donations claimed.

2 Charities Register, Simplicity Research Hub analysis. FY2025 is provisional: about 94% of returns had been filed at the time of analysis, and dollar figures are same-store scaled estimates for the returns still to come; income reported to date is $29.1 billion. The GDP share is the wider non-profit sector's value added, anchored to Stats NZ's Non-Profit Institutions Satellite Account, with GDP and employment denominators from Stats NZ. Figures cover individual charities plus group returns, the single combined return a registered charitable group files for members that do not file separately. Volunteer time is imputed at the average hourly wage and is illustrative.

3 Inland Revenue donation tax credit statistics, note 1 above. Donors have four years to claim, so recent-year counts are first estimates that Inland Revenue revises up with each release; 2019 is final. Payroll giving, credited at source without a claim, does not explain the fall; employees using it also fell, from 14,880 (2019) to 11,970 (2024).

4 Inland Revenue, "Taxation and the not-for-profit sector: Changing donation tax credit policy settings", Regulatory Impact Statement, May 2026: about 350 donors (0.1% of claimants) account for roughly 10% of donations claimed. Averages derived from those shares and the totals at note 1.

5 Inland Revenue, "Taxation and the not-for-profit sector: Changing donation tax credit policy settings", Regulatory Impact Statement, May 2026

6 Cruickshank, A. (2022), "Elasticity of reported donations: Bunching evidence from New Zealand", Working Papers in Public Finance WP21/2022, Victoria University of Wellington Chair in Public Finance. https://www.wgtn.ac.nz/business/research/centres-institutes/previous-chairs/chair-in-public-finance/publications/working-papers/2022-working-papers/WP21-2022-Elasticity-of-reported-donations-Bunching-evidence-from-New-Zealand.pdf. Refreshed in 2025: https://www.wgtn.ac.nz/news/2025/05/charity-donation-tax-incentives-not-as-generous-as-we-think.

suggested each dollar of credit bought less than a dollar of extra reported giving.

Overseas there has been work done and the estimates are firmer. The main United States panel study, built largely on high-income donors, puts the price elasticity above one, and finds no strong sign it differs by income. Canadian work finds responsiveness closer to one-for-one at higher incomes.[7] That is, their giving falls by more relative to the incentive reduction.

Consider a stylised case. A donor gives $300,000 and the credit refunds $100,000. If the credit changes nothing, scrapping it saves the Crown $100,000 and the charity still gets $300,000. The credit was a windfall to the donor. If instead the donor holds their own sacrifice constant, the gift falls to $200,000. The Crown saves the same $100,000 and the charity loses $100,000. The saving is a transfer from the charity, not newly found money that can go towards other Government expenses. Anecdotally we hear that the donation tax credit is seen as a way to partner with the government as there is an acknowledgment of the value of such giving, provided through the donation tax credit.

The above are all reference points, not limits. The American evidence suggests giving behaviour may change and that giving could fall by more.

The number Inland Revenue itself relies on implies charities lose 40 to 70 cents of every dollar the Crown saves, although we do not think it can be relied on for this group, because it uses small-donation behaviour and applies it to someone giving around 150 times the old cap.

Bizarrely, this has not been quantified on New Zealand data. Inland Revenue should look at the claims it holds rather than basing decisions on an unsuitable assumption.

IV. UNINTENDED CONSEQUENCES

It is worth noting that the change may have other impacts than those intended, such as:

- This change affects the aggregate giving (not just one off donations of $100,000+ amounts) so some charities will be impacted who do not expect it where a wealthy person gives say $10,000 each to 25 different charities and next year reconsiders that giving and reduces what they donate.
- Larger initiatives such as building projects that require capital often are kick started by a large "cornerstone" gift above $100,000 and then smaller gifts flow in after that initial generosity. This means the ability to raise large amounts and the dynamic of how campaigns run could be adversely impacted.
- New charities which have yet to be set up often begin with generosity from a wealthy donor. We have spoken with people who were planning to create charities that would do good and now are reconsidering that (and have none of the integrity issues that are seen as problems such as charities loaning money back to the business of the founder).
- The new policy doesn't match another recent policy shift announced the same month, which allows "Active Investor Plus" migrants to give $1 million to charity and have it count towards getting their visa.[8] That encourages generosity, but those migrants are getting a surprise when they arrive and find that they are encouraged to be generous, but not too generous. The cap is likely to have the same dampening impact on them, especially if arriving from a place with donation tax benefits that do not have a cap.

V. THE POLICY CHANGE PROCESS

Rushed policy making creates bad policy. A permanent change to the tax treatment of the country's largest donors was legislated without knowing who it affects, what they fund, or what happens if their giving changes. They did not use data the government holds, against standards the government publishes, because they made a political decision that needed to be justified on a timetable set by a Budget.

Other Budget 2026 provisions were positive: increasing the NFP tax-free threshold from $1,000 to $10,000, in-year credit refunds, and the ability to transfer the credit straight to the charity.

The policy does not achieve its primary purpose: stopping aggressive planning through donor-controlled charities. This is still possible and will continue uninterrupted, because the company deduction remains and trusts can keep allocating income to charities. So in our view it's not even a solution to the problem posed.

The Regulatory Impact Statement (RIS)[9] generously says the cap is "not a complete integrity solution". In fact, the work to establish that it is any solution at all has not

[7] Bakija, J. and Heim, B.T. (2011), "How Does Charitable Giving Respond to Incentives and Income? New Estimates from Panel Data", National Tax Journal 64(2.2), 615–650. https://doi.org/10.17310/ntj.2011.2s.08. Their preferred estimates, identified from cross-state differences in tax incentives, put the persistent price elasticity in excess of one in absolute value, with no strong evidence it differs by income; the panel substantially oversamples high incomes. Hickey, R., Payne, A.A. and Smith, J. (2024), "Policy Forum: Understanding the Efficacy of Tax Credits for Charitable Donations in Canada", Canadian Tax Journal 72(2), 317–327; the underlying estimates are in Hickey, Minaker, Payne, Roberts and Smith (2023), National Tax Journal 76(2).

[8] Beehive, AIP Visa Growth Category expands to philanthropy, May 2026. https://www.beehive.govt.nz/release/aip-visa-growth-category-expands-philanthropy

[9] Inland Revenue, "Taxation and the not-for-profit sector: Changing donation tax credit policy settings", finalised 12 May 2026. https://www.taxpolicy.ird.govt.nz/-/media/project/ir/tp/publications/2026/ris-changing-donation-tax-credit.pdf. Quotations in this piece are from that document: the cap as "not a complete integrity solution" (p.79); the "absence of New Zealand specific literature"; conclusions "at best indicative"; and overseas findings "indicative, and far from conclusive". Inland Revenue's own quality assurance panel rated the statement "partially meets" the quality assurance criteria (p.5).

been done, nor presented for scrutiny. If anything, the carveouts for business and trusts means that the most egregious tax integrity issues of well known abusers of the system aren't solved.

A 2023-24 review had already looked at this issue of aggressive planning through donor-controlled charities and the rules already exist; the issue is with enforcement. Officials looked at rules to deal with that directly, found them complex, and this has been implemented instead.

The issue with this runs much wider. It could be a warning sign of political capture, bad (rushed) policy making, and flawed processes that may do more harm than good. This is all in spite of having really good policy making processes on paper.

The impact of the proposed change has also been analysed by Dr Juliet Chevalier-Watts from the School of Law at the University of Waikato and Steven Moe in the context of recent legal decisions and they argue that there is a missing policy analysis from that legal perspective as well.[10]

Unanswered questions in the evidence base, and who could close them

Question	Status	Who could close it
1. How much do $100k+ gifts fall when their price rises ~50%?	No NZ estimates for this population	IR, from its claim records
2. Which charities receive the affected gifts?	Need to consult with IR to check if their data covers this, or could	IR, the sector could feedback on input as well
3. What would those charities stop doing?	Unknown. No consultation (Budget convention) [RIS]	The sector, if asked
4. What are those services worth to users?	Unknown. The core valuation question [TSY]	Sector + Treasury methods
5. Would government or another funder backfill?	Unknown. Never examined	IR / Treasury

VI. MOTIVATIONS OF DONORS

There is genuine uncertainty on how large donors behave around tax incentives. As noted above, the Cruickshank data that formed the basis of the analysis simply cannot be used for this group: it says the credit is poor value at $1,890. But the top 0.1% give an average of $288,000.

It is hard to believe these people would have the same preferences or give to the same causes.[11] What if the big gifts fund things the state doesn't fund at all (or supplements the funding there is): hospices and hospitals, University buildings and facilities, medical research, the arts and environmental work? We have no way of knowing, because the analysis never asked.

The international evidence reviewed above puts the elasticity at about one or above. That is, giving would fall, on those numbers, by more than the cap recovers.

The analysis was not designed to carry the policy decision here: it did not stratify by donation amount and cannot answer how sensitive large donors are to tax incentives.

None of this tells us how New Zealand's largest donors would respond. Only IRD's own records can. Or if that cannot, at the very least consultation with the charitable sector and talking with the 350 interested donors would.

The numbers involved are also worth considering in the context of running a country. The savings of $19 million (before costs to administer) which is the key statistic given means a recovery of under 6% of a $332 million scheme, and amounts to just half a percent of the $4.2 billion the Crown already pays charities to deliver services.

VII. WHY IT MATTERS

Charities are not an optional extra beside the state. They are how a lot of public service actually gets delivered, as well as wider services to community that the state does not have to deliver, but are important for community and democracy.

We (to be clear, Shamubeel) mapped the accounts of the 2,702 charities reporting identified government funding in FY2025. For every $1 of government money, they bring in $1.96 of other resources, including volunteer time. Wages are 43% of what goes out the other side.[12]

We are not claiming causation of the policy, but that giving is an essential part of delivery of government services. Donations and public contracts pay for the same organisations, often the same services.

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[10] See Chevalier-Watts and Moe, "Charities, Donation Caps and the Missing Policy Analysis", New Zealand Law Journal, June 2026. Also available as a pdf here: https://www.parryfield.com/wp-content/uploads/2026/06/Charities-Donation-Caps-and-the-missing-analysis-Juliet-Chevalier-Watts-Steven-Moe.pdf

[11] For more research on gifting and claiming of donation tax credits in Aotearoa from Community Foundations of New Zealand see this report which indicates that claiming of donation tax credits appears to rise and be higher among those earning more. https://communityfoundations.org.nz/latest-news/new-zealands-tax-credit-problem

[12] Charities Register analysis, note 2 above. The $1.96 counts $1.2 billion of service contracts the reporting form does not split between government and private payers as non-government money; treating them as government instead gives $1.30. Philanthropic income specifically is $0.25 of the $1.96.

VIII. FOUR THINGS THAT WOULD HELP

New Zealanders are generous and the machinery for giving is mostly sound. There are four things that would help us make it better.

First, do the homework and publish the evidence. Inland Revenue should do the work or share the data to analyse this, as well as consulting charities who will be affected. Consultation with the sector should happen and be robust, as a good public service should discuss proposed changes with affected parties.

Second, fix charitable tax credit claiming, which is falling, by increasing education and awareness of the system. Budget 2026's in-year refunds and the option to send the credit straight to the charity are good ideas, especially for ordinary donors who make up nearly all claimants. Another paper will be released soon (from Steven) on the proposed ability for donors to specify that their donation tax credits go direct to the charity they support and how that system could be improved.

Third, if you must cap, then index the thresholds. The $100,000 cap is fixed in nominal dollars, the same sin as the old cap set at $1,890 in 2003, which didn't increase until abolition in 2009. Nominal thresholds are non-sensical and should not be used.

Fourth, report what the money does. Charities file detailed returns. Donors already name the recipient organisation when they claim. Inland Revenue should be able to link the two to show what those donations fund. If the credit turns out to buy little, cut it and explain why but with evidence.

IX. CONCLUSION

Our message is simple: the cap on donation tax credits should be revisited before it takes effect.

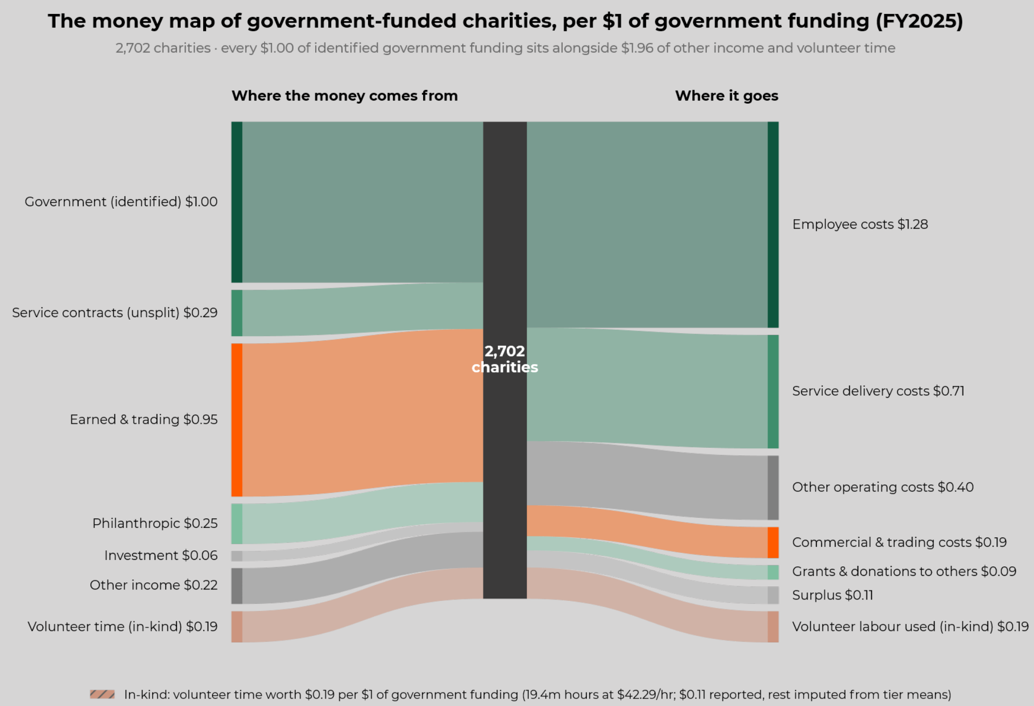
The research can be done now, and consultation with the sector could inform a proactive policy framework that encourages more giving to charities and addresses any integrity concerns.

Inland Revenue should estimate the response of large donors from its own records, publish it as scenarios, and say which charities the affected gifts go to.

New Zealand is about to run a live experiment on the small group of people still giving at scale, to a sector reporting intense need and funding constraints, and we haven't looked at the data first.

Charities do amazing work in our communities and often fill needs where Government does not go. The policy settings should treat giving not as a fiscal cost to be managed, but as a catalyst for impact.

Figure 1: Organisations that government procures from, amplify their spending with other income sources and volunteers



Source: Charities register, Simplicity Research Hub analysis

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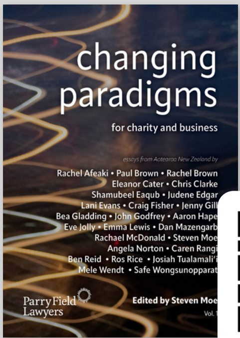

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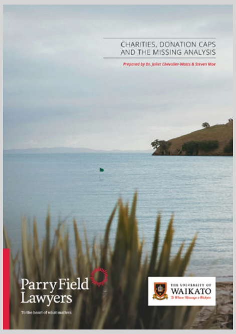

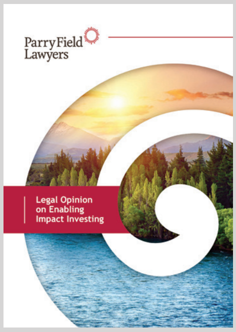

August 2026