

A hand is holding a metal bucket that is leaking water from several holes. The bucket is silver and has a handle. Water is spraying out from the sides and bottom of the bucket. The background is a bright blue sky with scattered white clouds. The overall image conveys a sense of urgency and the need for a solution to a problem.

THE LEAKY BUCKET: ANALYSING THE PROPOSED CHANGES FOR DONATION TAX CREDITS

*How the new system will boost charities
in Aotearoa New Zealand, how it can
be improved, and the practical steps
every charity should take now.*

PARRY FIELD LAWYERS

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To the heart of what matters.



*Ka whati te tai,
ka pao te tōrea*

*When the tide
recedes, the
tōrea (oyster
catcher) strikes.*



THE LEAKY BUCKET: ANALYSING THE PROPOSED CHANGES FOR DONATION TAX CREDITS

TABLE OF CONTENTS

INTRODUCTION	1
EXECUTIVE SUMMARY	2
THE ROLE OF CHARITIES	3
THE NEW SYSTEM AND PRACTICAL IMPLICATIONS	4
PROVIDING FEEDBACK ON THE PROPOSED CHANGES	6
CHARITY INSIGHT: ROYAL NEW ZEALAND BALLET	8
CONCLUSION	10
ANNEX 1: IRD STATEMENT OUTLINING THE POLICY CHANGE	11
ANNEX 2: LEARNING FROM THE UK	12

About Parry Field Lawyers

We are one of New Zealand's leading law firms supporting purpose-led and mission focused organisations that range from charities to companies, entrepreneurs, and impact investors, as well as those with hybrid structures that combine approaches.

Our Impact Team works across the country providing free training, resources, articles, and videos to empower the 'for purpose' sector and we have almost 100 staff across five offices that can support with legal set ups, charity questions, governance, property, disputes, employment, IP, and more.

Find out more at parryfield.com

Compiled by the Parry Field Lawyers Impact Team

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THE LEAKY BUCKET: ANALYSING THE PROPOSED CHANGES FOR DONATION TAX CREDITS

New Zealand is one of the most generous nations in the world when it comes to giving to our amazing charities. Simplifying and making it easy for charities to maximise the amount they receive could be transformational for them.

However, our current system is like a bucket with a hole at the bottom. It's letting vitally needed funds leak away instead of benefitting charities in the best way possible, and the way donors intend.

While the headline news in the 2026 Budget was related to having a cap on donation receipts above \$100,000 (which we discussed [here](#)), there is another change that models what is already done in the United Kingdom (UK). This change will allow charities to receive the refund amount that is due to be returned to donors.

We think that this is a positive step forward and part of an enhanced tax credit system which will stop the leak and ensure donated funds are fully used, strengthening the charitable sector. However, there are some modifications we would suggest.

In essence, this will mean learning from what they do offshore in the UK and adapting the best aspects of their 'Gift Aid' system to our local systems by tweaking the changes that have been proposed. We have an opportunity to implement a world-class system to our world-class philanthropic commitment.

If you support this change, there is an opportunity to provide feedback and input. We would encourage you to [join us](#) and support the proposed changes.

Our goal in this paper is to help charities in New Zealand thrive, including helping them be more financially sustainable, which is an outcome that benefits everyone. We want all charities to understand and take advantage of the change. This paper will also propose some policy changes, and we hope Inland Revenue Department (IRD) and the Government will consider these changes.

We hope this paper inspires some fresh blue-sky thinking and sparks meaningful discussion. We welcome your views and look forward to hearing your thoughts.

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EXECUTIVE SUMMARY

I know some of you want the short version, so here it is!
But if it interests, do read the whole paper...

Currently, if you give to a charity, you can claim back one-third of the donation which you can then choose to donate again. But many do not claim this credit and so charities often do not receive that one-third, even though the donor would likely be happy that they do.

This is like the metaphor of a leaky bucket, where it would benefit charities to improve the system to plug that leak of generous intent.

A proposed change from April 2027 is still being consulted on with input requested by early November 2026, for the next Government to consider. The change will allow donors who give to a charity to specify, at the time of claiming the tax credit, that the credit they are due (so the one-third of what they gave) be sent to the charity that they donated to. This is positive.

It is a version of what is in the UK where they have a "Gift Aid" system. We can learn from the best parts of their system, while leaving aside the rest.

Specifically, we ask you all to click below to add your names to support a key change. We suggest that a donor be able to specify that the charity receive the one-third donation tax credit at the time of making the donation, by telling the charity that they want to do so. This would allow more to go to charities and be a cleaner and easier system to ensure funds get to them. It would also allow charities to keep up good donor relations and ask for this tax credit at the time of donation.

You can [click here](#) to add your voice in support of this, or write directly to give your feedback (or do both)!

The change proposed is positive, and it could be made even better, so as to really benefit charities and the amazing work they do.



THE ROLE OF CHARITIES

We need to start with a word of thanks to all the charities in our society and the positive role they play.

Every one of us is affected by them — from sport clubs and arts and creative organisations, to community groups, housing providers, faith-based groups, those helping the poor, and education services of all kinds. Their impact is felt daily, both in obvious and less obvious ways. The role these groups play is incredibly important, as often they work with those most in need.

While we can all likely agree on their importance, they are in a precarious position. If you talk to anyone involved in a charity it will quickly become obvious that what they do are on minimal budgets.

Let's consider one way they can be better supported.

According to Charities Services, there are currently around 29,208 registered charities across New Zealand supported by an estimated 170,000 volunteers.

THE NEW SYSTEM AND PRACTICAL IMPLICATIONS

It is useful to start with a philosophical point: why does New Zealand provide tax credits to donors who give to charities? Just as a reminder, registered charities¹ in New Zealand issue a donation receipt to donors who donate over \$5.00 to the charity in a financial year. The donor can then claim back one-third of the amount donated.

For example, if you donated \$15 to a registered charity, you would be entitled to claim back \$5.00.

The benefits are:

- it incentivises donors to donate because it gives them a credit back for one-third of what they donated... if they claim it (and that is a big 'if', as we will see); and
- it benefits charities who can appeal for and receive donations that may not be given without such an incentive for donors.

This tax position exists to incentivise donations to charities.

The problem and the new solution

That is all good and well. But there are proposed changes that will align our system with that in the UK where they have a 'Gift Aid' approach. We think this will help improve the current system because the reality is many donors either lose their receipts or do not claim the one-third of what they gave.

A 2024 IRD review reported that a third of donors do not claim any of their tax credit. Only 57% of those surveyed knew about the existence of tax credits. This undermines the intent of the tax credit system donors want to benefit the charity they support.

Evidence also indicates that donors who are most likely to claim the maximum allowable amount are medium-to-high income earners. In 2023, donation tax credits were claimed by 8% of taxpayers, of whom, 18% earned over \$180,000 per year and 58% earned over \$70,000 per year. Those with less to give benefit the least from the tax credit system, as they receive no tax credit. The charity doesn't benefit from this either.

This system also cannot be easily applied to in-person donations. A receipt may not be issued to the donor, and where one is issued, it creates additional administrative costs for the registered charity, reducing the value of the donation.

Our current Donor Tax Credit (DTC) system has been allowing a 'leak' where a lot of money is not making it back to the donor or the charity. IRD is also aware that the DTC scheme is not well-known or utilised. In 2023, they reviewed the rules relating to the DTC system and posed a series of policy recommendations in order to raise awareness and enhance efficiency of the current system. This is a positive sign that IRD is aware of the need for change and has proposed some alterations which steers us in a positive direction, but it could go further.²

Ways the proposed system could be improved

The system proposed could be improved in our view by the following:

- real-time confirmation of the donation tax rebate, such as an estimate from IRD at the time of donation of the likely available credit;
- donors able to specify that a charity gets the donation tax rebate when they make the donation (not when they claim it) to reduce administrative burden and ensure amounts get to the charity;

¹ To be eligible, charities must be registered with Charities Services, they must have exclusively charitable purposes and must benefit the public rather than private individuals and be listed as a tax donee entity with IRD. Not all registered charities have that status with IRD for various reasons – e.g. if most of their funds go offshore so they are not operating "wholly or mainly" in New Zealand.

² <https://www.taxpolicy.ird.govt.nz/-/media/project/ir/tp/publications/2025/rs-dtc-review/ir-response-to-dtc-review-findings.pdf?modified=20250209202338>

- a flow on would be for charities to receive information about the donors, so they can be in contact with them and develop a relationship with them as part of the donor journey;
- ensure there is proactive education about the way that the system works to enhance its use and benefit for charities.

Practical Implications

From 1 April 2028, it will be possible for individual donors to do things differently. When they apply to the IRD for the one-third back on the amount they gave, they can specify if they want the amount to go back to the charity, rather than to them.

This is a positive change and is the core of what the UK does (see Annex 2).

Practical implications for Charities to consider now:

- **Communications:** All charities should think about their communication with their donors to raise awareness for this as an option that donors can consider.
- **Clarity:** It will be important to be clear about how the system works. This is often something people can be confused about, and as a result, they don't claim the rebate they are entitled to.
- **Storytelling:** Increasingly, donors want to connect with the what the charity is doing. Therefore, the importance of storytelling will increase in order to convince donors why they should agree to transfer their additional one-third to the charity.
- **Forms:** What format of receipt do you have in place to give to donors? It should be obvious and easy for them to claim back their one-third and consider transferring it to your charity.

The potential positive impact is obvious. Imagine if every charity were to convince their donors to pass on the one-third? It would significantly boost the income for charities.



PROVIDING FEEDBACK ON THE PROPOSED CHANGES

The Tax bill proposing changes that will affect charities will lapse as Parliament finishes ahead of the 2026 election.

This means it will be after the new Government is formed that the Bill is picked up again. The current Finance and Expenditure Committee has said "the public is encouraged to share their views by 4 November 2026 [originally 1 December], so that submissions can be processed and ready for the next Parliament as soon as one is formed."

The proposed change will allow donors who give to a charity to specify, at the time of claiming the tax credit, that the credit they are due (one-third of what they gave) be sent to the charity that they donated to. This is positive.

We suggest that a donor also be able to specify that the charity receive the one-third donation tax credit at the time of making the donation, by telling the charity that they want to do so. This would allow more to go to charities and be a cleaner and easier system to ensure funds get to them. It would also allow charities to keep up good donor relations and ask for this tax credit at the time of donation.

Support our proposals? Take action!

If you support the proposals we put forward in 'Ways the Proposed System Could Be Improved' (page 4), including that a donor also be able to specify that the charity receive the one-third donation tax credit at the time of making the donation, you can join us in making a submission.

To have your name included on the submission that Parry Field Lawyers will make on the proposed changes to the Donation Tax Credit system, please complete the below form.

We will use this to make a public submission on the Bill and show there is a movement that agrees.

Complete the form by scanning the QR code or clicking [here](#).



Donation tax credit refunds – Taxation Bill

Public submissions are now being called for Taxation (Annual Rates for 2026-27, FBT Simplification, Foreign Investment Funds, and Remedial Measures) Bill.

The Bill would enable in-year refunds of donation tax credits. Eligible donors would be able to receive donation tax credit refunds during the tax year rather than waiting until after year-end. The Bill would also allow donors to transfer their donation tax credit directly to a charity.

This proposal would apply from 1 April 2028.

For more, visit [here](#).

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CHARITY INSIGHT: ROYAL NEW ZEALAND BALLET

The Royal New Zealand Ballet (RNZB) is a charitable trust. In 2026 it has budgeted to raise just over \$1M in donations. This equates to just over 10% of non-Crown revenue.

The RNZB estimates that between 50% and 60% of donation income received each year (from one-off gifts and annual giving programmes) comes from personal income. Some significant donations are made by family or private trusts and are, therefore, not eligible for personal tax credits. However, once it is possible to claim Gift Aid at the rate outlined in this paper, on just 50% of eligible donations, it would generate an additional \$91,000 in income for 2026.

This is a significant sum, particularly when Crown investment is falling in real terms. Fundraising through grants from community and gaming trusts is becoming more challenging every year and this would go a long way towards replacing income that is no longer available from other sources.

Pictured: The Royal New Zealand Ballet's production of *Macbeth*, premiered in February 2026, received substantial support from private donors. Photograph of Soloist Branden Reiners as Macbeth, with Artists of the RNZB, photograph by Stephen A'Court, © the RNZB.



To the heart of what matters. 



CONCLUSION

We are pleased with the proposed changes but think that New Zealand needs to adopt a version that more closely aligns with the UK Gift Aid system now. Adopting our suggested tweaks to the policy would ensure it is well used and implemented.

With pressure on public funding and rising costs across the charitable sector, the change offers a practical and timely way to unlock private capital and strengthen the financial sustainability of charitable organisations without expanding government spending.

Hundreds of millions of dollars are donated to charities each year. Imagine if one-third of tax rebates were also donated to charities and the good that could be done.

New Zealand has the opportunity to learn from the UK example and their system when introducing its own enhanced approach.

Better donor education is needed alongside system improvements. Donors need to know the importance of the new system to charities.

Charities typically look after people in Aotearoa who may otherwise rely on Government support and intervention, resulting in additional costs to Government. Having a well understood and used system makes economical sense. It would mean charities are even more effective, thereby minimising the need for Government support.

While there may be some costs to enable the systems required for a charity-led approach, evidence suggests that every \$1.00 of Government support for charitable giving can generate far more public value.

It is time for us to continue reforms in this area so that we can better support charities and we look forward to hearing the discussions we hope this paper will inspire.



Annex 1: IRD statement outlining the policy change

The relevant part from page 4 of the “Charities and not-for-profits – Information sheet” issued by the IRD is here:

Transferring donation tax credit refunds to charities

WHAT IS THE PROPOSED CHANGE?

This proposal would allow donors to request IRD to transfer their donation tax credit refund directly to the charity they supported, simplifying the process for donors and encouraging giving to support the charitable, community and voluntary sectors.

The proposal would apply from 1 April 2028.

WHY IS THIS CHANGE NEEDED?

Currently, there is no mechanism allowing a donor to transfer their donation tax credit refund back to the charity they originally donated to. This means that if the donor wants the charity to receive the donation tax credit, they must manually donate it back to the charity.

HOW WOULD A DONOR TRANSFER THEIR DONATION TAX CREDIT REFUND BACK TO THE CHARITY THEY DONATED TO?

This proposal is optional. Donors who choose to transfer their donation tax credit refund to the charity they donated to would make a simple yes/no election at the time a donation receipt is uploaded in myIR.

HOW WOULD TRANSFERRED DONATION TAX CREDIT REFUNDS BE PAID TO CHARITIES?

Transferred donation tax credit refunds would be paid as a single deposit into the charity's nominated Inland Revenue bank account. Transferred donation tax credit refunds would be anonymous.

All charities that would like to receive transferred donation tax credit refunds would be required to provide Inland Revenue with a bank account. If a charity does not have the required bank account set up when the donation tax credit refund becomes payable, the donation tax credit refund would instead be transferred to the donor.

COULD A TRANSFERRED DONATION TAX CREDIT REFUND QUALIFY FOR ANOTHER DONATION TAX CREDIT?

No. A transferred donation tax credit refund to a charity would not qualify for another donation tax credit.

Annex 2: Learning from the UK

The change proposed is positive, but we could go further and make it better.

This could involve adopting something similar to the Gift Aid model which is in use in the UK. Let's have a look at this approach.

Gift Aid has operated in the UK since 1990, accounting for around 90% of tax effective giving and outperforming other incentives such as payroll giving.

It works by allowing charities to claim an extra 25p for every £1 donated, at no extra cost to the donor. Put simply, a £100 donation can become £125 for the charity.

It is similar to our system of one-third being claimed by the donor, but instead of the donor receiving the money, they can specify that they want the funds to go back to the charity. This is similar to the change proposed by IRD here.

However, the difference in how the scheme works is easier with less double handling. Registered charities are able to reclaim the basic rate of income tax that a donor has already paid on their donation with almost no extra effort from the donor.³

What we can learn from the UK system that could change the policy here

The proposed changes are taking us in the right direction, but what we can learn from the UK to tweak here for the proposed new system is:

- **Declaration:** This is the most significant point. The donor must provide a Gift Aid declaration to the charity (we do not have such a system here at present and the proposed changes do not go this far — but we think they should). In other words, rather than requiring the donor to submit a claim to recover the one-third rebate and specify the charity at that point, the donor would instead provide a declaration directly to the charity. The charity could then use that declaration to claim the one-third directly from IRD.
- **Record-keeping:** The charity must keep records on donations received through Gift Aid, such as donor information, donation amounts, and declaration dates. These records must be kept for a minimum of six years.
- **Payment timing:** The payment of the amount to the charity occurs within four to five weeks of being claimed.⁴

What this would mean is if someone gave a charity \$300, the charity would end up receiving \$400, without time delay or the risk that the donor never claims the amount they are due.

Benefits of Gift Aid

For many charities in the UK, Gift Aid has become a vital income stream. In the tax year ending April 2025, £1.7B in Gift Aid was paid to over 67,000 organisations, supporting charities to fund projects and initiatives that support their purposes.

For donors, the scheme serves as an incentive to encourage philanthropic behaviour by providing extended impact.

³ Note: The Gift Aid Small Donations Scheme is a separate and smaller system under the Gift Aid umbrella. The scheme allows charities to claim the equivalent of basic rate Income Tax for small donations (£30 or less) when the donation is made by someone who is physically present (either by cash or contactless payment). No such option exists in New Zealand, which means both donors and charities miss out on any tax credit benefits unless receipts are issued at the time or later, an administrative burden and additional cost.

⁴ <https://www.gov.uk/claim-gift-aid/how-to-claim>

Donors who are subject to a higher tax rate can obtain additional tax relief for Gift Aid donations on their tax returns (the difference between the higher rate and the basic rate of tax on a donation).

Gift Aid serves as a way to encourage donors to give and support charities they choose.

Complexities of Gift Aid

Let's round out this discussion by addressing some complexities, to give a balanced view.

Gift Aid is a critical income stream for charities, however, it is not perfect. Critics say the process to claim Gift Aid is complicated for charities and donors which can lessen its efficiency. According to the Charity Finance Group, a few years ago it was estimated that £560M of Gift Aid relief went unclaimed every year as a result of a mixed understanding among donors on how Gift Aid works.

Donors may be uncertain whether they're eligible to donate through the scheme. The declaration asks donors whether they are a UK taxpayer or if they have paid enough tax to cover the Gift Aid. Not all donors will know the answer without some effort.

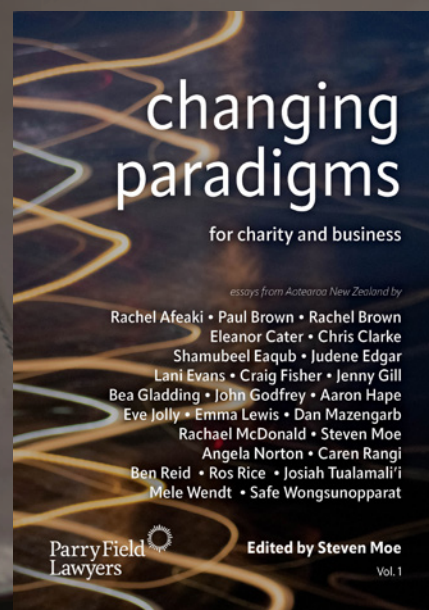
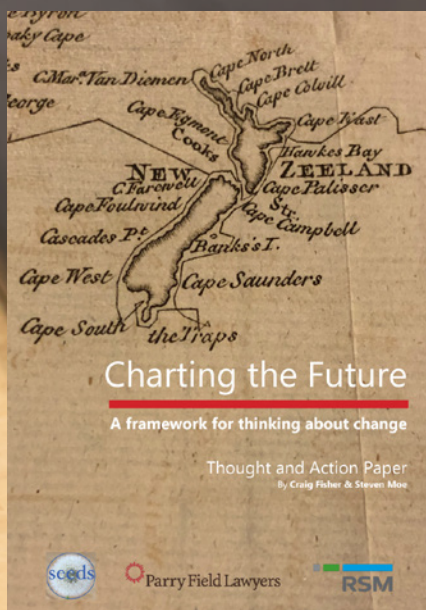
There is also still administration required of charities including obtaining a signed declaration from donors, verification that donors have paid sufficient tax, and submitting a claim. The administrative burden is most challenging for smaller charities, where the overhead can be a barrier. Data shows that majority of the total Gift Aid paid goes to a small group of large charities.

It is probably unsurprising that the system is not perfect given it was designed in the 1990s and no longer reflects modern giving patterns. Fundraising through online platforms, social media and contactless collections are difficult to reconcile with the existing system.

The system adopted in New Zealand should keep pace with technological and societal changes, and updates should be factored into the business context. We could learn from and create a better system here in the ways identified earlier.



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