

Demystifying donee status

Donee status. Most people will have heard of this concept in relation to charities. But scratch the surface a bit deeper and one commonly finds a lack of any further knowledge, and some common misunderstandings. Hence we thought it would be helpful to provide a summary of some key features of donee status.

What is it?

Essentially donee status is the ability to enable donors to claim a rebate on their donations. Such a status can be very valuable as a means to attract financial support to charities and not-for-profit organisations as the donor of a cash donation of \$5 or more receives a tax credit of a third of their donation. The donor can receive this tax credit up to the amount of their taxable income. Donee status is granted by Inland Revenue.

Charities and donee status

Most people equate donee status with charitable status. This is not strictly correct as they are two separate concepts. However, registered Charities will generally receive donee status from Inland Revenue. As part of the application process to become a Registered Charity, organisations are asked if they intend to receive funds from donation/koha. If charitable status is approved by the Charities Services (run by the Department of Internal Affairs), the applying charity's details will then be supplied to Inland Revenue and donee status is usually granted.

Note: If charities spend money delivering their charitable purpose overseas (providing disaster relief, delivering aid and so on) Inland Revenue will assess their eligibility for donee status differently. Refer to Inland Revenue's website (www.ird.govt.nz) for more details about overseas donee status. How does one qualify for donee status?

Where an entity would like to register as a donee, but does not wish to become registered as a charity, or where its purposes are benevolent, philanthropic or cultural rather than charitable, then it will need to apply to Inland Revenue for approval as a donee organisation. The Inland Revenue Department has issued a booklet IR 255 Charitable and donee organisations which contains guidance on the status and applying.

In order to determine whether a rebate can properly be claimed by a donor, Inland Revenue needs to consider whether the entity to whom the money was donated meets the donee criteria specified in the Income Tax Act 2007.

There are four general categories of donee organisations defined in the Income Tax Legislation and the Commissioner of Inland Revenue is required to be satisfied that an entity complies with the relevant requirements before giving approval. In summary, the organisations which may be entitled to receive donee status must be established for charitable, benevolent, philanthropic or cultural purpose. In addition to this, the organisation's funds must be wholly or principally applied within New Zealand; and the entity must not be carried on for the private pecuniary profit of any individual.

The Commissioner will normally review the applying organisation's rules, assess its purposes and consider whether the funds are applied within New Zealand. The Commissioner will grant the donee status when she is satisfied that all required conditions are satisfied

If the entity wishes to register for donee status, they need to apply to Inland Revenue in writing and provide the following:

- an up-to-date, signed copy of your rules, constitution, trust deed or other founding document
- a copy of its certificate of incorporation (if incorporated)
- letter requesting donee status
- details of how the organisation has been (or will be) operating.

In addition to this, Inland Revenue may request a copy of audited financial statements to verify how the funds are applied.

Not-for-profits that are not charities

Where an entity has had its application for registration as a charity declined, it is unlikely that it will qualify for donee status on the ground that its purposes are charitable. However approval will be granted where its purposes, although not meeting the standard of being charitable, are nevertheless benevolent, philanthropic or cultural.

This makes equitable sense as there are many worthy not-for-profit organisations that deserve support but would not be able to successfully achieve registered charity status. For example many clubs and societies or sporting bodies will not meet the charitable definition. Nevertheless majority of these organisations are clearly benevolent, philanthropic or cultural in their key purpose and what they do. They also seek funding support in the same manner and market as charities. As long as these organisations are not established in such a way as to pass private pecuniary profit to any individual, then they are probably worthy of taxpayer's financial support via donee status.

Any other conditions?

In order to qualify for a donation tax credit the donations must be:

- A gift of money of \$5 or more. Please note that non-monetary gifts do not qualify for a tax credit.
- An unconditional gift - not only a voluntary gift, the donor or their family must be not receive an identifiable benefit as a result of this donation.
- Gifts made under the will of a deceased person do not qualify for a tax credit.

Hence, if someone wanted to donate art to a charity, or a boat to a non-charity donee organisation (like Greenpeace), then they are unable to claim a tax credit. This is because tax credits only exist for donations of cash to donee organisations and not property.

How can I tell if our organisation has donee status?

Inland Revenue's website contains the [database](#) of all registered donee organisations. The other option is to search the list of charitable organisations on the Charities Services [website](#).

Need help? Contact the authors.



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