



Presbyterian Church of Aotearoa New Zealand

FINANCE NEWSLETTER 126

TO: Parish and Presbytery Treasurers
FROM: Brendan Sweeney, Manager, Financial Services
DATE: 18 October 2010

1.	2009-10 General Assembly Annual Accounts
2.	Inter Church Working Party On Taxation report on GST
3.	Change in Employer Superannuation Contribution tax (ESCT)

1. 2009-10 General Assembly Annual Accounts

The General Assembly annual accounts for the year to 30 June have been audited and signed off by the Council of Assembly.

Key Points:

1. General Assembly operations recorded an operating loss of \$313,000 for the year to 30 June, compared with a budgeted loss of \$1,033,000, and an adjusted surplus of \$286,000 in the previous year.
2. Revenue decreased by \$215,000 (4%) to \$6,179,000 from the previous year.
 - Assembly Assessment remained about the same at \$2,845,000
 - There was a reduction in investment income of \$341,000 because of the fall in interest rates on Presbyterian Investment Fund deposits.
 - Grants and donations received increased by \$173,000 largely due to donations received from parishes and individuals for Press Go projects, an increase in Global Mission office donations and a Council of Assembly grant for an Auckland youth conference.
 - Miscellaneous income increased by \$62,000 and included sales of Spanz advertising, Financial Services Department administration fees for the Insurance and Beneficiary Funds and income from investment property.
3. Operating expenses decreased by \$627,000 (7%) to \$6,017,000
 - Grants and Donations paid increased by \$167,000, reflecting Press Go grants paid and greater than expected Global Mission donations
 - Student training costs increased by \$221,000 due to a large intake of new students to the Knox Centre for Ministry and Leadership. This was offset by an increase in Parish contributions to training of \$173,000.
 - Administration costs increased by \$167,000 because of unbudgeted expenditure on consultants, a CWM funded conference, and backdated membership fees to international Church groups.
 - \$231,000 had been budgeted for Assembly Assessment provision for doubtful debt but a continuing trend of prompt payment and payment of prior year AA meant this provision was not used.
4. Adjustments to operating expenditure include \$429,000 used to complete the Knox Centre and Presbyterian Archives building development. A change in the scope of the work resulted in the cost \$321,000 under budget. The expense was in addition to \$584,000 incurred in the prior year.

5. The Statement of Financial Position remains largely unchanged.

- Funds Payable recorded donations for Press Go projects of \$318,000 and grants paid of \$394,000, and an increase in Council of World Mission Funds held of \$75,000.
- Property decreased by \$320,000 mainly due to the sale of one house owned by Knox Centre.
- Presbyterian Investment Fund deposits increased by \$276,000. Compounded interest of \$1,022,000 was offset by withdrawals for Knox Centre building work and Global Mission grants.

The Statements of Financial Position and Performance are summarised in appendix 1, and the full report is published on the Presbyterian Church website. Please contact me if you require further detail.

2. Inter Church Working Party on Taxation report on GST

The Inter Church Working Party on Taxation has sent me a report dated September 2010, on GST as applied to Churches, and granted permission to reproduce it in this communication. The report is not intended as a comprehensive guideline to GST but was written in response to reports from some churches (to my knowledge only one Presbyterian Parish) that the IRD have started declining GST refunds on the basis of non-statement of taxable supplies, and that IRD have been encouraging some parishes to deregister for GST.

The full report is attached as appendix 2. Please note section 3. The GST “rules” for Churches reflects and expands on the points in the Treasurers Manual (6.4) with the exception is that GST is not compulsory (although recommended) for parishes with taxable supplies of \$40,000 per annum or more. I will make the change in the update of the manual.

Please also note the guidelines for treatment of returns for the GST rate increase on 1 October. This expands on point 3 from the September newsletter. Please advise if you have any comments on the communication.

3. Change in Employer Superannuation Contribution tax (ESCT)

From 1 October, employer superannuation contribution tax (ESCT) rates on ministers and employees beneficiary and superannuation funds have been reduced. Tax rates are based on the ministers and employers income range (including taxable allowances):

\$0 - \$16,800pa	10.5% of Employer Contribution (formerly 12.5%)
\$16,801 - \$57,600	17.5% (formerly 21%)
\$57,601 - \$84,000	30% (formerly 33%)
\$84,001 and over	(no change)

Please refer to: <http://www.ird.govt.nz/changes/employers/esct/>

ESCT change effect on Ministers beneficiary fund

You will be aware that about 45% of Assembly Assessment is used to pay the Parish contribution to the Minister beneficiary fund, and that the ESCT component (currently 33% of gross BF Parish contributions) is deducted and paid to inland Revenue by this office.

However, in the case of Co-operating and Union Parishes, where the ESCT is deducted by the payroll clerk before the payment of the net amount to AON, the Parish is entitled to calculate the amount of ESCT to be deducted by reference to the Minister's earnings in the previous year to 31 March 2010.

This calculation may well result in a reduction in the amount of ESCT to be deducted. In this event, please advise Ashley Goss, email ashley.goss@aon.co.nz where you are entitled to make a reduced deduction so that the DD can be adjusted.

Appendix 1: Summary General Ledger Finance Report to 30 June

Statement of Financial Performance to 30 June 2010

INCOME	June 2010 (\$000's)	Budget (\$000's)	Prior Year (\$000's)
Contributions from Parishes	3,221	3,293	3,330
Grants and Donations Received	1,256	957	1,083
Investment Income	1,067	896	1,408
Other Income	635	640	573
	6,179	5,786	6,394
EXPENDITURE			
Staff Costs	1,683	1,800	1,647
Beneficiary Fund	1,287	1,219	1,184
Administration	1,164	983	997
Grants and Donations	1,085	848	1,051
AA Provision	0	231	(62)
Student Training	455	472	234
General Assembly	0	1	213
Misc Costs	344	515	342
	6,017	6,069	5,606
	161	(283)	788
ADJUSTMENTS			
Knox Centre Development	(429)	(750)	(584)
Investment Property Revaluation	(45)	0	82
	(474)	(750)	(502)
OPERATING SURPLUS	(313)	(1,033)	286

Statement of Financial Position at 30 June 2010

	June 2010 (\$000's)	June 2009 (\$000's)
Equity	24,229	24,558
Liabilities:		
Accounts Receivable and Accruals	716	670
Funds payable	1,291	1,237
Unsecured Deposits	313	257
	2,320	2,164
Total Equity and Liabilities	26,549	26,722
Assets		
Cash and Bank	173	281
Accounts Receivable	296	390
Unsecured Advances	1,492	1,510
Property	2,254	2,576
Office Furniture and Equipment	171	78
Deposits Presbyterian Investment Fund	22,163	21,887
Total Current Assets	26,549	26,722

Appendix 2: Inter Church Working Party on Taxation communication (September 2010)

GOODS AND SERVICES TAX (GST) AND THE CHURCHES

1. At its meeting on 13 May 2010, The Inter Church Working Party on Taxation (ICWPT) agreed that a paper should be produced concerning GST and its impact on local churches and church organisations (hereafter referred to as "church entities"). A number of papers on this issue have been written and circulated by ICWPT over the

years. However it was felt a single fairly comprehensive paper should be written and circulated to ensure that church entities throughout the country both understand the background and are up to date on the issues.

In particular, members of the ICWPT have reported that the IRD have recently been declining to pay GST refunds unless taxable supplies were included in each Return and that the IRD have also been actively encouraging parishes to deregister for GST, without adequately informing those concerned about the GST consequences of that action.

However please note the following:

- (a) This is not a complete explanation of all the issues that the ICWPT has dealt with over the years, nor is it a comprehensive explanation of all the aspects of the issues which this paper touches on.
- (b) Comprehensive Guides on other aspects of the GST system are available from the IRD.
- (c) Other GST questions should, in the first instance, be directed to your local or national denominational office which will refer the issue to the ICWPT if that is thought appropriate.
- (d) This paper is published in September 2010 and Appendix 1 sets out information relative to the transition to the new, 15% GST rate and GST fraction of 3/23rds, regime which will apply from 1 October 2010.

2. HISTORY

GST was introduced by Government in 1985 as part of a major reform of the tax system in New Zealand. It was the centre piece of that reform and aimed to shift part of the burden of direct taxation (income tax), to indirect (GST) taxation.

In order to “sell” this new form of taxation to the voting public, the Government pledged at the outset that the new GST would be accompanied by a major reduction in income tax rates, so that no tax payer or business would be worse off. They recognised that this could be a complex task, bearing in mind the different circumstances of individual tax payers, businesses, charities, and not-for-profit organisations. Accordingly the Government appointed an Advisory Panel on GST to assist them in designing a system which would deliver to all on their “no worse off” commitment.

The position of the charitable sector was far from straightforward. Charities, including Churches, paid no income tax but, like every other individual or organisation, they would have to pay the new GST, since it applied to virtually all goods and services sold or supplied in New Zealand.

Immediately the Advisory Panel had been appointed, the Churches engaged with it (and through the panel with the Government), to come up with a solution.

In the end, the problems presented by the introduction of GST were resolved for Churches through a series of steps which have stood the test of time, even though the rate of GST, which was introduced at 10%, was subsequently increased to 12.5% and will go up to 15% from 1 October 2010 (as a matter of interest these same principles were also incorporated into the design of the Australian GST system in the late 1990s, following the New Zealand practice).

3. THE GST “RULES” FOR CHURCHES

The following package was agreed with the Government and where necessary, incorporated into the provisions of the GST Act 1985.

- (a) Church entities could voluntarily register for GST. This was not compulsory but was highly recommended since, without registration, church entities, having paid GST on the goods and services purchased, would be unable to claim those amounts back. In other words they would have become tax payers for the first time in breach of the Government’s “no worse off” commitment.

- (b) When a church entity is registered, it would list its principle taxable activity as “the advancement of religion”

NB. It is vitally important that registration is made on that basis since “the advancement of religion” is a catch all for a church entity’s activities. Registration under a more restricted heading e.g. “hall rental” would restrict the scope of the input tax that can be claimed to only those input taxes associated with the hall building.

- (c) GST would not apply to unconditional gifts and donations received by church entities since such gifts are neither “goods” or “services” as those terms are interpreted in the GST Act.
- (d) In order to claim, and continue to claim GST refunds, church entities would however also need to undertake “taxable supplies” and pay GST on a “continuous” or “regular” basis (even though the taxable activity of “the advancement of religion” is continuous).

This test is satisfied if the church entity concerned returns GST on wedding or funeral fees or on goods or services sold on a regular basis even if that supply is infrequent, and even if it is a small amount of money. For example, this test, which is a prerequisite of the continuing ability of a church entity to receive GST refunds on a continuous basis, is satisfied if Christmas cards or calendars are sold just once a year; or the Church hall is hired out on a regular basis, or Christian publications are sold on a weekly or monthly basis.

4. ATTITUDE TO THE PAYMENT OF GST

A counter intuitive mind set is required which looks for output tax to return, rather than the alternative which seeks to interpret receipts as “donations” when in fact a taxable supply has been made.

The church entity’s mindset should always be to ensure that GST is both charged and returned on all goods and services sold or supplied (except for donations and the exempt activities mentioned below). This mindset will insure that GST is regularly returned to the IRD and avoid the risk of audit by IRD which might otherwise arise if no such returns are made for an extended period of time.

5. THE GENERAL APPLICATION OF THESE “RULES”

Provided the church entity has registered for GST in the manner described in 3 (a) and b) above:

- (a) The tax collected by the church entity on taxable supplies should of course be incorporated in the next GST return and paid to the IRD (normally however the amount of GST collected will be offset by the GST paid resulting in a net refund by the IRD to the church entity). Normally the payment of the GST collected does not impose any additional cost on the church entity, since it is merely passing on to the IRD the GST added to the goods or services sold and paid to it by the purchaser of the publications, the hirer of the hall, or similar. In setting prices for hall hire or weddings etc., it is important to understand, that regardless of whether or not the church entity has made it clear whether its supplies are inclusive or exclusive of GST, it will always need to pay, to the IRD, GST at the going rate on the gross amount of all receipts.

Example

A church entity has agreed that its fee for a wedding will be “\$400”. This means it must pay (from 1 October 2010), \$52.17 (3/23rds), to the IRD as GST. It matters not whether the entity’s treasurer thought the \$400 was supposed to include or exclude GST.

Therefore church entities should set a fee and be clear as to whether it is “plus” or “inclusive” of GST. However if the standard charge for a wedding is \$400, but the family give a cheque to the church entity for \$2,000, then GST need only be returned on \$400 since, in those circumstances, the other \$1,600 is a genuine unconditional donation.

- (b) Each church entity, in making its periodic GST returns, can claim back the GST paid on the purchase of goods and services during the applicable period. The refund of that amount by the IRD is not dependent on there being a “taxable supply” in each and every GST return period. For example, if the taxable supply is the sale of Christmas cards and calendars in December of each year and no such supplies are made during the other 11 months of the year, those sales are sufficient to satisfy the “regular” requirement for the entire year.
- (c) In total, this system normally results in GST paid on the purchase of goods and services for religious activity being refunded to the returning church entity, with the result that the “tax exempt” status of that entity is preserved in so far as it relates to GST. If a church entity’s GST registration would be jeopardised because it has no regular taxable supply then, in order to preserve an “exempt GST” status, it should arrange its affairs to satisfy that requirement. If it does not, then it will risk deregistration by the IRD.

6. DEREGISTRATION AND ITS EFFECT

As mentioned above, registration by Churches for GST purposes is voluntary. However, such a registration has consequences for the church entity, should it then, at a future date, be deregistered by the IRD or deregister voluntarily.

Deregistration can incur considerable costs so this must be carefully considered before any move is made to deregister.

This is because assets previously used in a taxable activity (such as the church building or hall), by a GST registered entity are treated as though sold when the entity deregisters. GST will therefore almost always need to be paid on such assets on deregistration. If acquired before 1 October 1986 the value of the asset would be the lesser of cost price and the open market value. If acquired after 1 October 1986 such assets are valued, for the purpose of calculating GST, at their current market value and therefore a recent valuation is required for any real estate or other high dollar value items. The latest QV may be a reasonable way to determine “open” and “current” market values.

These costs could of course be considerable, relative to the financial position of the deregistering entity and are needlessly incurred, if the deregistration is triggered by the IRD, because the church entity concerned neglected, for example, to return GST on wedding and funeral fees since these are unquestionably services provided pursuant to the advancement of religion.

Since, as pointed out above, that regular income can be as little as the proceeds from the annual sale of Christmas cards or calendars then deregistration imposes potentially very large and completely unnecessary costs on the church entity concerned.

NB. Because of the difference between the GST liability upon deregistration and GST liability on a sale, if a church entity wishes to deregister because of imminent closure, it could be most advantageous to deregister first and settle up GST owed, prior to selling the land, buildings and plant.

7. DONATED GOODS AND SERVICES

The GST Act exempts from GST the sale of donated goods or services by a charity. This includes all goods donated to a church entity and subsequently sold. These goods range from the cakes sold in a cake stall to the sale of land provided they were originally donated in kind.

Therefore GST is not payable on the sale of donated land. However if improvements have been made to the land and/or the buildings erected on that land using the church entity’s funds, those assets, because they were not donated, are subject to GST on their sale. An apportionment may therefore be required at sale or deregistration, as between the then market value of the donated assets and their total sales proceeds.

Proceeds from the sale of donated goods and services are not included in GST returns, because they are exempt. This exemption is advantageous, since it means donated goods can be sold at full market value, with all of the proceeds from their sale going to the church entity concerned.

8. OTHER SPECIFIC ISSUES

(a) Exempt supplies

In addition to the sale of donated goods and services, the following supplies are amongst those which are also GST exempt:

- Financial services (including interest).
- Renting a dwelling for use as a private home.
- The sale of a rental dwelling that was rented for 5 years before the sale.

For other exempt supplies refer to the IRD's GST Guide. Note however that GST refunds on expenses related to exempt supplies cannot be claimed.

(b) Clergy Housing

The rule is that no GST is claimable on clergy housing because, like all other homes, it is "private" or regarded as "rented" i.e. householders cannot reclaim GST on their private household expenses and as per (a) above, rented dwellings are exempt. However, an apportionment may be made, in the case of clergy housing, where both private and church entity activities are occurring under the same roof. In that situation, the GST paid on that part of the activity which relates to the church entity (as distinct from the private activity of those living in the house) can be claimed back. Whether or not such an apportionment can be made needs to be considered on a case by case basis, depending upon the facts. Some examples may serve to illustrate the principles involved.

Example 1

A church owns a place of worship, an office for the vicar, meeting rooms for use by parishioners and a hall used by both parishioners and members of the public, on a single site. The church also owns a house occupied by a clergy person and their family which is on a separate site but adjacent to the church. No church meetings are conducted in the house, and the vicar has no study in the house.

No GST (including for rates, insurance, repairs and maintenance, or energy), can be claimed back by the church entity on the house, as no ministry is conducted from those premises.

Example 2

A church has supplied accommodation for the parish minister but it is also regularly used for interviews, spiritual counselling and committee meetings. An office is provided for the minister but most of these parish activities occur in the lounge. Toilet facilities, in addition to that in the minister's bathroom, are also provided.

If it is accommodation, the presumption is that no GST is claimable, but in these dual use circumstances, where areas of a single building are used for both "private" and "parish activities", an apportionment can be made. The GST on expenses relating to minister's bedroom, bathroom, kitchen etc are purely private and no GST can be claimed back. GST on expenses relating to those rooms which are used in part for private purposes and in part for parish purposes can be apportioned between private and parish use, with GST on the latter claimed back.

Church entities, that come into the Example 2 category, can draw up a plan of the "house", or similar and calculate the three categories (namely private, purely parish – if any – and part private/part parish), on a square metre and time related basis. They can then work out the area (including the rooms

used for both), for 'private' and 'parish' purposes, and use the resultant percentages for their apportionment

NB: The apportionment itself will normally to be carried out on single invoices which relate to the whole "dwelling". Rates, electricity and insurance would be examples. However where repairs and maintenance are carried out on rooms in two or more of the three categories, it may be necessary to ask the contractor to break the invoice down by room, so that a reasonable apportionment can be undertaken.

NB. When apportionment or estimation is required, the test is always "reasonableness".

(c) Charges for weddings and funerals

GST must be returned on charges made by church entities since services of this kind constitute a "taxable supply". There must be no pretence that payments of this kind are "donations" whatever the expressed intention of the parties, since the GST Act is clear that donations only fall outside the GST net if they are both freewill and completely unconditional, delivering no direct benefit.

Further, the addition and collection of GST and its subsequent payment to the IRD in the church entity's next return, helps ensure that a taxable activity continues so that GST refunds continue without interruption.

(d) Mileage allowances and ministry related books

GST cannot be claimed back on mileage allowances since they include depreciation which carries no GST, and interest which is an exempt supply. However if a person who does not receive a mileage allowance, produces GST invoices covering the purchase of petrol or repairs on a vehicle used for church work, then the GST can be claimed back. A similar situation applies if the Pastor of a church buys books of a religious nature and seeks reimbursement from the church entity, which is accompanied by a tax invoice.

(e) Church fairs

GST must be returned on all goods and services sold by a church entity unless they were donated and therefore exempt. Accordingly GST must be returned where GST input tax has been claimed in generating the supply (e.g. where an outside contractor has supplied fairground type attractions and charged GST, which the church has claimed back, then the revenue from that attraction will include GST).

(f) Church camps, Conferences, Seminars etc.

GST must be returned on charges for attendance at church camps, church seminars and church training activities etc. The rule is that if you are asking someone to pay for it because they are receiving a service from the church entity, then it is a taxable supply and GST needs to be accounted for and returned to the IRD.

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