

Tax Working Group Public Submissions Information Release

Release Document

September 2018

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SUBMISSION TO THE TAX WORKING GROUP

By Susan Short

Thank you for the opportunity to share my views about the current tax system. I have commented on other issues using your online facility, but in this submission I am confining my comments to the taxation of businesses which operate under registered charity status.

I believe it is time the fiscal issue of favourable tax treatment of for-profit commercial charities is addressed. Incomes derived from activities of a commercial nature should be included in the tax base.

Is the tax system fair, you ask? Regarding the matter of commercial arms of charities able to claim income tax exemptions, the answer is no, it is most definitely not fair at all. I offer the following reasons:

- My own family of small business operators work very hard, year in year out, to keep their businesses afloat – all the while paying their taxes. Such tax payers are among those who are, in effect, subsidising tax-free commercial enterprises operating as charities. These organisations use the facilities and services the state provides, yet do not contribute to the tax take which funds these services. Instead they are getting a free ride on the backs of tax paying companies and citizens.
- By not paying tax on their businesses ventures, commercial operators that have obtained charitable status gain a competitive advantage over other businesses that do contribute to the wider society by paying income tax. This is very unfair.

Therefore, I am recommending amendments to the legislation relating to charities.

There is an urgent need for fundamental reform relating to the trading activities of charitable operations - this to include the definition of 'charities'.

Several commercial charitable operations are experiencing phenomenal growth, in no small way assisted by their tax-free status. Other businesses are finding it very difficult to compete with such an economic advantage, and are in danger of either going out of business, or selling to these 'charitable' corporations. After all, what for-profit business could possibly compete against an entity with such a privileged fiscal status?

I am asking you to look to the future - 10, 20, 30 years and more. Unless this anomalous situation is rectified, it is inevitable these 'tax-free' organisations will make up a bigger share of the country's economy. This will have a negative effect on the government coffers, a situation which will become more pronounced over time. The question we will be forced to face as a country is, 'who is going to make up the resultant short-fall in the tax take created by this situation'? Does the government expect other businesses and citizens to pay more tax? Or will the country be forced to borrow more, (most certainly not a long-term solution)? And/or will government spending need to be curbed?

Recommendations

I endorse Sir Michael Cullen's recommendation to tax the trading operations of charities, as made in 2001 while the Minister of Finance. The most sensible way forward would be to enact the suggestion to tax for-profit businesses owned by charities in the same way that other businesses are taxed, while allowing deductions on distributions made to their relevant charities. This policy change would remove any unfair tax advantage that charity-owned businesses have over other commercial entities.

A recommended course of action could be to require businesses to file their accounts independently of their related charitable purpose entities, with funds being supplied from the commercial entities in the form of donations that are treated as deductible items of expenditure by the commercial entities to the extent of their taxable income.

In addition, Charities Services needs a stronger monitoring regime to reassure the public that distributed funds are being used in a genuine way.

In making such changes, the Government would be doing the right thing by ensuring that anyone who is using charities for tax avoidance pay their 'fair share'.

28 April 2018

Susan Short
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