s 9(2)(a)

From: Joanna Saywell s 9(2)(a)
Sent: Tuesday, 25 February 2025 8:17 pm
To: Policy Webmaster
Subject: Taxation and the not-for-profit sector
Attachments: Taxation and the not.docx

External Email CAUTION: Please take CARE when opening any links or attachments.

I enclose my submission on the taxation of the not for profit sector.

I believe that the threshold for tax liability for Incorporated Societies should be raised, with member contributions treated as capital. I believe that honoraria be treated as normal taxed income at normal rates with the tax collected from the recipient of the honoraria to save the NFP from having to deduct tax.

I would like an option for the tax refund associated with donations to be passed to the respective charities if the donor wishes.

Regards

Joanna Saywell

s 9(2)(a)

Taxation and the not-for-profit sector – Submission by Joanna Saywell

I am making this submission in regard to the NFP sector relating to Incorporated Societies rather than the charity sector.

Chapter 4: Integrity and Simplification

Q10 What policy changes, if any, should be considered to reduce the impact of the Commissioner's updated view on NFP's particularly smaller NFP's? For example:

- increasing and/or redesigning the current $1,000 deduction to remove small scale NFPs from the tax system,
- modifying the income tax return filing requirements for NFPs, and
- modifying the resident withholding tax exemption rules for NFPs.

I think that the $1,000 deduction should be increased to $5,000 or even more.
The income tax filing requirements were modified by the Incorporated Societies Act so are more onerous once the assets exceed $100,000 but it would be great if the requirements were based on turnover rather than assets. Even so the limit for filings should be $200,000 of assets or $100,000 of turnover.
I agree that member contributions to the society should be treated as capital in nature and are not part of profit.

Income tax exemptions

- Q12. What are the likely implications if the following exemptions are removed or significantly reduced:
- local and regional promotional body income tax exemption,
- herd improvement bodies income tax exemption,
- veterinary service body income tax exemption,
- bodies promoting scientific or industrial research income tax exemption, and
- non-resident charity tax exemption?

I think all these exemptions should be removed they seem arbitrary and illogical.

Tax simplification

- Q14. What are your views on extending the FENZ simplification as an option for all NFPs? Do you have any other suggestions on how to reduce tax compliance costs for volunteers?

I find the current treatment of honoraria ridiculously complicated and very confusing for clubs and societies. It would be much easier for honoraria to

be given directly intact to whoever is deserving of it and leave it for the recipient to include it in their tax return. Clubs could still be required to obtain the tax number of the individual and include their details in their returns.

Q15. What are your views on the DTC regulatory stewardship review findings and policy initiatives proposed? Do you have any other suggestions on how to improve the current donation tax concession rules?

I find the current DTC process cumbersome and annoying. There is no ability to include donations when completing your individual tax returns, you have to make a separate application for DTC and include a load of detail around each charity etc. If you don't have an official receipt, it can be easily denied by the assessor (e.g. when I donated directly through my bank account to save on processing fees).

In the UK there used to be an option, when making a donation, of also donating the tax credit. This made it much easier for all concerned.

My suggestions in order of preference are that:

1. donors be given the option to donate their tax credit to the charity at time of donation OR
2. that the tax credit can be claimed immediately once the receipt has been issued OR
3. that there be space within the individual tax returns to include charitable donations so that they are not forgotten or subject to different processing

s 9(2)(a)

From: Joanna Saywell s 9(2)(a)
Sent: Thursday, 6 March 2025 3:52 pm
To: Policy Webmaster
Subject: Fwd: Taxation and the not-for-profit sector addendum to submission
Attachments: Taxation and the not.docx

External Email CAUTION: Please take **CARE** when opening any links or attachments.

Hi

I would like to add a comment to my submission with respect to honorariums.

Honorariums are usually a small amount paid to key office holders to reimburse them for their time and the numerous expenses they incur that are difficult to quantify and document such as the portion of any home office expenses, purchase of lap-top, phone calls, internet subscription, software licenses, printing, stationery, postage, mileage to visit members/the bank/meetings and attendance at the AGM. Itemising and invoicing for all of these just adds to their workload. Maybe it is worth considering that the first $500-$1,000 of any honorarium to key office holders (Secretary and Treasurer) be tax-free in recognition of the fact that this amount barely covers any out of pocket expenses they incur. The IRD could re-set this tax free allowance every year.

Under the new rules for Incorporated Societies, all members of the committee need to have email addresses and office holders need to up-load and up-date information on line. Some members may need to get subscriptions for the first time in their lives. It is up to each society to determine how much to compensate members for office expenses but i think this may make life easier for all.

Regards Joanna Saywell

-------- Forwarded Message --------
Subject: Taxation and the not-for-profit sector
Date: Tue, 25 Feb 2025 20:16:38 +1300
From: Joanna Saywell s 9(2)(a)
To:policy.webmaster@ird.govt.nz

I enclose my submission on the taxation of the not for profit sector.

I believe that the threshold for tax liability for Incorporated Societies should be raised, with member contributions treated as capital. I believe that honoraria be treated as normal taxed income at normal rates with the tax collected from the recipient of the honoraria to save the NFP from having to deduct tax.

I would like an option for the tax refund associated with donations to be passed to the respective charities if the donor wishes.

Regards

Joanna Saywell

s 9(2)(a)

s 9(2)(a)

From: kumararepublic <kumararepublic@gmail.com>
Sent: Monday, 24 February 2025 10:08 pm
To: Policy Webmaster
Subject: Taxation and the not-for profit sector

External Email CAUTION: Please take **CARE** when opening any links or attachments.

Hi,

I am making a submission on the "Taxation and the not-for-profit sector" discussion document. I wish to withhold my real name for privacy reasons, and will correspond only via e-mail.

Charities law in New Zealand is basically robust. However a number of organisations have taken advantage of loopholes in the law to:

a) avoid paying their fair share of taxes

b) engage in subversive political activity

A prime example of a) is Sanitarium, which is operated by the Seventh-Day Adventist Church. The Church itself is a registered charitable organisation, but Sanitarium has effectively been run as a commercial operation for many years. This has put Sanitarium at an unfair advantage against fully commercial rivals.

A prime example of b) is the Destiny Church and its associated branches. While some of these branches have had their charitable status revoked, they have since been reinstated on suspect grounds, and the head branch remains a charity. Destiny has used its revenues to enrich the wealth and personality cult of its founder Brian Tamaki, while spreading harmful ideas about women and LGBT folk, among others. The recent storming of a library reading is just the latest in this, and the Church's Man Up programmes continue to recruit prospective members while masquerading as rehab schemes. Numerous other "megachurches" have engaged in similar activity with a lower profile, including but not limited to Arise Church and City Impact Church.

The Wright Family Foundation, which operates the BestStart childcare chain, is an example of both a) and b). It has been known to avoid taxes by registering as a non-profit, and has financed the conspiracy theory media outlet The Platform. In the US, such "dark money" practices have been made on a bigger scale and effectively purchased elections in recent years, to the detriment of the American public.

While the Charities Commission has rightly revoked charitable status for Family First NZ and Greenpeace, more needs to be done. The United States is a cautionary example of what happens

when vested interests, pretending to be non-profits, skew the rules to pervert the course of democracy.

Kind regards,

Virus-free.www.avast.com

s 9(2)(a)

From: Dave Brooker s 9(2)(a)
Sent: Wednesday, 26 February 2025 2:59 pm
To: Policy Webmaster
Subject: Taxation and the not-for profit sector

External Email CAUTION: Please take **CARE** when opening any links or attachments.

Why Businesses Should Not Receive Tax Credits on Charitable Donations

Charitable donations are a vital source of funding for nonprofit organizations and social causes. Many businesses contribute to charities as a way to support communities and enhance their corporate social responsibility (CSR) image. However, allowing businesses to receive tax concessions for these donations raises ethical and economic concerns that undermine the fundamental purpose of charitable giving. Here are some key reasons why businesses should not receive tax concessions on charitable donations:

1. Undermining the Spirit of Charity

Charitable giving should be driven by altruism and a genuine desire to support a cause, rather than by financial incentives. When businesses receive tax concessions, their donations become a strategic financial move rather than a selfless act of goodwill. This shift dilutes the true essence of charity, turning it into a transactional benefit rather than a voluntary contribution to social welfare.

2. Loss of Public Revenue

Tax credits on charitable donations reduce government tax revenues, which can lead to budget shortfalls in essential public services such as education, healthcare, and infrastructure. These tax incentives create a loophole where businesses can deduct large portions of their taxable income, potentially decreasing the funds available for broader public benefits. Governments must prioritize tax policies that ensure all entities contribute fairly to public funds rather than allowing businesses to minimize their tax obligations under the guise of charity.

3. Unfair Competitive Advantage

Providing tax concessions on charitable donations disproportionately benefits large corporations with greater financial capacity to donate. Small businesses, which may not have the same resources to contribute at high levels, are at a disadvantage. This disparity creates an uneven playing field where larger companies can improve their public image and gain financial benefits through tax

concessions, while smaller enterprises struggle to match their contributions without the same incentives.

4. Potential for Manipulation and Misuse

Businesses may exploit tax concessions by donating to affiliated nonprofit organizations or foundations that serve their own interests rather than addressing pressing societal needs. This loophole allows corporations to redirect funds in ways that indirectly benefit them, such as supporting organizations that promote their industry, brand, or political influence. Without stringent oversight, tax concessions can be misused to advance corporate agendas rather than public welfare.

5. Charitable Giving Should Come After Fulfilling Tax Responsibilities

Businesses should prioritize fulfilling their tax obligations before engaging in charitable giving. Taxes contribute to essential public services and infrastructure that benefit society as a whole. Allowing businesses to claim tax concessions on donations before fully meeting their tax responsibilities undermines the fundamental principle of contributing equitably to the public good. Charitable donations should be a voluntary act that follows, rather than replaces, a company's duty to pay its fair share of taxes.

6. Alternative Methods to Encourage Corporate Giving

Instead of tax concessions, businesses can be encouraged to engage in charitable activities through non-financial incentives such as public recognition, partnerships with government initiatives, or industry awards for social responsibility. These approaches maintain the integrity of corporate giving while ensuring that businesses contribute to social causes without expecting direct financial benefits.

Conclusion

Businesses play an important role in supporting charitable causes, but granting them tax concessions for their donations raises ethical concerns and fiscal challenges. Eliminating these tax benefits ensures that corporate donations remain genuine, prevents revenue loss, promotes fair competition, and reduces the risk of manipulation. Instead of incentivizing charity through tax breaks, governments should focus on policies that encourage responsible corporate behavior while maintaining a fair and equitable tax system for all.

Taxation and the not-for-profit sector
Private Concerned Citizen – I do not wish to be contacted by Inland Revenue

My summary of major points and recommendations:
The government is using tax policy to consolidate power, favoring large institutions while burdening smaller charities and grassroots movements. Charities also help the most vulnerable in our society so this is a sneaky way of perpetuating government abuse by limiting the effectiveness of charities. I have recommended maintaining tax exemptions for legitimate charitable activities while preventing abuses by corporate-backed "charities" and foreign influence. Compliance costs should be reduced through automation, clear definitions, and exemptions for small-scale operations to avoid crushing volunteer-driven efforts. Any policy changes must prioritize transparency, fairness, and the protection of independent organizations from state overreach.

Q1. What are the most compelling reasons to tax, or not to tax, charity business income? Do the factors described in 2.13 and 2.14 warrant taxing charity business income?
You want to tax charities under the guise of "fairness," but what's really going on here is a systematic attempt to consolidate financial power into the hands of the global elite while crushing independent organizations that aren't under government control. The so-called "imbalances" you point to in 2.13 and 2.14 are nothing more than a manufactured excuse to tighten the noose around charitable groups that aren't playing ball with your overseas puppet masters. Taxing charity business income isn't about fairness—it's about slowing down their growth so that only state-approved entities remain standing. I've seen this before: cripple the independent sector, make everyone dependent on government funding, then pull the plug when they step out of line.

Q2. If the tax exemption is removed for charity business income that is unrelated to charitable purposes, what would be the most significant practical implications?
Removing the tax exemption on unrelated charity business income is just another step in your broader agenda of economic control. The most significant implications? Independent charities will struggle to fund themselves, forcing them to either shut down or become dependent on government handouts, which you can then weaponize to control their actions. This isn't about fairness—it's about suffocating financial independence and ensuring that only globalist-backed organizations survive.

Q3. If the tax exemption is removed for charity business income that is unrelated to charitable purposes, what criteria should be used to define an unrelated business?
So now you want the power to decide what is and isn't a "real" charity business? The moment you create a bureaucratic definition, you open the door for political interference, where charities that align with your agenda get special treatment, while independent and dissenting organizations are buried under red tape and taxation. If you must define it, the only fair approach would be a clear, objective standard that doesn't allow for government manipulation however this just looks like another move to tighten control, pick winners and losers, and funnel power into the hands of a select few

Q4. If the tax exemption is removed for charity business income that is unrelated to charitable purposes, what would be an appropriate threshold to continue to provide an exemption for small-scale business activities?
Any threshold you set will likely be arbitrary and subject to manipulation, allowing you to crack down on independent charities while letting your favoured organizations slip through loopholes. Today it might be a "small-scale exemption"—tomorrow, it's so restrictive that only government-approved charities survive. The only real solution is to leave the tax exemption alone and stop interfering with charitable work

Q5. If the tax exemption is removed for charity business income that is unrelated to charitable purposes, do you agree that charity business income distributed for charitable purposes should remain tax exempt? If so, what is the most effective way to achieve this? If not, why not?
I do not trust the government to fairly determine what income is “for charitable purposes” and what isn’t. Once the exemption is removed, there will be endless bureaucratic hurdles, audits, and shifting goalposts designed to control where charity money flows. The most effective way to ensure that charitable work continues is to keep the tax exemption intact across the board, rather than creating a tangled web of regulations that will be exploited to benefit Inland Revenue aligned organizations. Any system that allows wellington to selectively grant or deny exemptions is just another tool for control.

Q6. If the tax exemption is removed for charity business income that is unrelated to charitable purposes, what policy settings or issues not already mentioned in this paper do you think should be considered?
I expect a wave of compliance costs and bureaucratic interference that will crush smaller charities while the big, well-connected ones thrive.

Q7. Should New Zealand make a distinction between donor-controlled charities and other charitable organisations for tax purposes? If so, what criteria should define a donor-controlled charity? If not, why not?
I do not support creating a distinction between donor-controlled charities and other charitable organizations for tax purposes. This would only serve as another bureaucratic tool to divide and conquer the sector, allowing you to dictate which charities deserve benefits and which ones don’t. If a charity is fulfilling its purpose, why should it matter where the funds come from? The real danger here is centralised oversight creeping in to control donations, eventually leading to restrictions on who can give, how much they can give, and what causes are deemed “acceptable” under your approved standards and agenda.

Q8. Should investment restrictions be introduced for donor-controlled charities for tax purposes, to address the risk of tax abuse? If so, what restrictions would be appropriate? If not, why not?
No. The real tax abuse is coming from corporate loopholes, dodgy cash businesses, and offshore accounts, not from charities trying to sustain themselves. If you truly cared about fairness, you would crack down on multinational tax dodgers instead of targeting charities that are often more efficient at helping people than the state itself.

Q9. Should donor-controlled charities be required to make a minimum distribution each year? If so, what should the minimum distribution rate be and what exceptions, if any, should there be for the annual minimum distribution? If not, why not?
I do not support a mandatory minimum distribution for donor-controlled charities. This is just another attempt to micromanage private generosity and force charities into short-term spending instead of sustainable growth and hamper their ability for larger long-term commitments

Q10. What policy changes, if any, should be considered to reduce the impact of the Commissioner’s updated view on NFPs, particularly smaller NFPs? For example:
• increasing and/or redesigning the current $1,000 deduction to remove small scale NFPs from the tax system,
• modifying the income tax return filing requirements for NFPs, and
• modifying the resident withholding tax exemption rules for NFPs.

The best policy change would be to stop meddling in small-scale not for profits entirely. Any changes should prioritize deregulation, not more red tape disguised as "reform."

Q11. What are the implications of removing the current tax concessions for friendly societies and credit unions?
This would cripple community-driven financial alternatives while strengthening the big banks and globalist financial institutions that already exploit hardworking kiwis.

Q12. What are the likely implications if the following exemptions are removed or significantly reduced:
• local and regional promotional body income tax exemption,
Guts small business growth
• herd improvement bodies income tax exemption,
• veterinary service body income tax exemption,
Both of the above would devastate farming communities
• bodies promoting scientific or industrial research income tax exemption, and
Taxing scientific research would stifle educational pursuits. Anti-Intellectualism has historically been associated with government abuse. How would this encourage aspirational Māori youth wanting to go into science?
• non-resident charity tax exemption?
Another step towards global financial control

Q13. If the compliance costs are reduced following the current review of FBT settings, what are the likely implications of removing or reducing the exemption for charities?
Removing the FBT exemption for charities would cripple their ability to focus on their mission, forcing them to divert resources away from actual charitable work just to cover tax burdens.

Q14. What are your views on extending the FENZ simplification as an option for all NFPs? Do you have any other suggestions on how to reduce tax compliance costs for volunteers?
A full exemption for volunteer-related reimbursements and allowances—without the need for excessive reporting—would prevent charitable work from being bogged down in government oversight and reduce their compliance costs.

Q15. What are your views on the DTC regulatory stewardship review findings and policy initiatives proposed? Do you have any other suggestions on how to improve the current donation tax concession rules?
The Donations Tax Credits regulatory review exposes a system that favors large, well-connected organizations while burdening ordinary citizens with needless complexity. Instead of forcing donors to jump through hoops, the process should be automated, with tax credits applied instantly at the point of donation—no paperwork, no waiting.

s 9(2)(a)

From: Tauranga Classic Motorcycle Club <taurangaclassicmcc@gmail.com>
Sent: Thursday, 27 February 2025 5:06 pm
To: Policy Webmaster
Subject: Taxation and the not-for- profit sector

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Submission on the Proposed Taxation of Charitable Businesses

Introduction

This submission addresses the government's proposal to tax businesses operated by charities. While there is merit in ensuring fairness in the tax system, it is crucial that the government treads carefully to avoid unintended consequences for small community organizations that provide essential services on minimal budgets. At the same time, large, commercially-oriented charities should contribute fairly, as many operate similarly to standard businesses.

The Role of Small Community Charities and Special Interest Clubs

Many small clubs, volunteer organizations, and local charities operate on a shoestring budget while delivering essential services, including food banks, sports programs, shelters, and support networks. These organizations often rely on a mix of donations, grants, and minimal trading activity to sustain their operations. Taxing them could lead to closures, severely impacting community support services.

Additionally, special interest clubs provide invaluable social, educational, and recreational services, often fostering community engagement and knowledge sharing. Examples include:

Educational Groups: Organizations like the University of the Third Age (U3A) offer study groups for seniors, fostering lifelong learning and social connections.

Cultural and Hobby Clubs: Entities such as the Auckland Shell Club and the New Zealand Model Railway Guild help preserve cultural heritage and encourage community participation.

Recreational Organizations: Groups like Pony Clubs and Sea Scouts offer youth development programs through equestrian activities and maritime skills.

These clubs frequently receive funding from larger charitable organizations. If these organizations face taxation, their ability to support small clubs and local initiatives may be significantly reduced, impacting thousands of New Zealanders who benefit from their activities.

The Need for a Balanced Approach

The government must differentiate between:

Genuinely charitable organizations that use business income to support their mission and rely on volunteers and minimal resources.

Large-scale commercial operations that, despite being structured as charities, function similarly to businesses and take advantage of tax exemptions.

Modern Churches as Businesses

Some large church organizations operate as de facto businesses, generating significant revenue from tithes, property holdings, and commercial ventures. Unlike traditional charities that focus on direct community aid, these organizations often accumulate wealth while benefiting from tax exemptions that standard businesses do not receive. A fair tax policy should ensure that such entities pay their share, aligning them with other commercial enterprises.

Additional Considerations

The Role of Volunteers: Many small charities and clubs rely heavily on volunteers rather than paid staff. If these organizations are taxed, they may struggle to maintain volunteer-led initiatives due to increased financial pressures.

Indirect Economic Benefits: Many local charities and clubs contribute to the economy by reducing demand on government services (e.g., social welfare, mental health, youth development programs). Taxing them could have unintended costs elsewhere.

Impact on Regional and Rural Communities: Small charities and clubs play a critical role in rural areas where government services are less accessible. Taxation changes could disproportionately affect these communities.

Potential for Unintended Loopholes: If taxation is introduced, large charities with legal and financial resources may find ways to minimize their tax liability, while smaller groups may bear the brunt of compliance costs.

Government's De Minimis Approach: The government is considering tax exemptions for charities with expenses below $5 million. Small charities and clubs should be fully exempt, with taxation efforts focused on large commercial charities.

Definition of Unrelated Business Income: Clear guidelines are needed to ensure that business activities essential to a charity's mission remain tax-exempt, while purely commercial operations are taxed appropriately.

Alternative International Models: Many OECD countries apply tiered taxation or require reinvestment into charitable programs. New Zealand should examine these models to develop a fair system.

Redistribution of Tax Revenue: The government should clarify how tax revenue from charities would be allocated and whether it would directly support community initiatives that may lose funding under new taxation rules.

Compliance Costs and Administrative Burdens: Additional compliance costs could be prohibitive for smaller charities, increasing their operational challenges and potentially discouraging new charitable initiatives.

Donor-Controlled Charities: While donor-controlled charities provide funding flexibility, mechanisms should be in place to prevent abuse, such as ensuring funds are distributed within a set timeframe.

Minimum Distribution Rules: The introduction of minimum distribution rules for accumulated funds should be carefully assessed to balance financial sustainability with ensuring timely community benefit.

Potential Solutions

To ensure fairness while protecting small charities and special interest clubs, the government could:

Implement a tiered tax structure, exempting small charities and clubs under a certain revenue threshold.

Require large charities to demonstrate that at least a set percentage of revenue directly funds charitable programs, rather than administrative costs or asset accumulation.

Introduce greater transparency and auditing to ensure only legitimate charitable activities receive tax exemptions.

Develop clear guidelines to distinguish between mission-aligned activities and unrelated business income.

Establish a reinvestment mandate, ensuring profits from charity businesses support their charitable purposes within a reasonable timeframe.

Implement appropriate restrictions on donor-controlled charities to prevent tax abuse while maintaining their ability to support charitable causes.

Assess the feasibility of minimum distribution rules, ensuring that funds are effectively utilized while allowing charities flexibility in long-term planning.

Conclusion

While reform is necessary to close tax loopholes exploited by large, business-like charities, the government must not harm small, community-driven organizations and special interest clubs. A nuanced approach that distinguishes between commercial enterprises and genuine charities will protect vital community services while ensuring fairness in the tax system.

Thank you for considering this submission. I welcome further discussion on how best to implement a balanced and effective taxation approach for charitable businesses.

Bruce Partridge
President
Tauranga Classic Motorcycle Club
s 9(2)(a)

s 9(2)(a)

From: Stephen Veale s 9(2)(a)
Sent: Wednesday, 26 February 2025 10:09 am
To: Policy Webmaster
Subject: Taxation and the not-for profit sector

Follow Up Flag: Follow up
Flag Status: Flagged

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This is only a brief comment on the above document

I have nothing to do with this sector

My initial thoughts on reading the intro' was that well, a company can donate to a registered charity so
that is not so different from a charity-run business

However, when I reached the part that described the latter being able to accumulate profits over numerous years without
distribution to the intended beneficiaries, that just seemed obviously "wrong" and an abuse of what was intended with the exemption

Surely it should be by year, as donations are, as taxable profits are measured, etc

Better still, unrelated businesses should not have an outright exemption. Allow a deduction for actual donations paid by the business to separate approved charities in the year

Donor controlled (private) charities - why ? too open to abuse. As above, allow relief for donations as made each year to approved charities and not some other pet cause

Just my two-penneth. No reply expected

Steve Veale

Steve Veale Ltd

28/02/2025
Nathaniel Burbery

s 9(2)(a)

Re: Taxation and the not-for-profit sector

To whomever it may concern,

I am a member of St Paul's Presbyterian Church, in Kaikōura. I know that St Paul's and the other churches in Kaikōura provide many vital services in our community, from after-school children's programmes, friendship support groups for elderly, drug and alcohol rehabilitation and much, much more. Furthermore, the spiritual component of a church's community work is invaluable – even if you are not spiritual, I would strongly encourage you to consider the benefits for church members. Church attendance is a much-needed source of community, and evidence shows it aids mental health, such as: "reduced risk of depression and anxiety, reduced feelings of loneliness and isolation, improved resilience and ability to cope with stress and greater life satisfaction and overall well-being." Evidence even shows that "individuals who attended services at least once per week had a lower risk of all-cause mortality by 26%." (evidence from : https://pmc.ncbi.nlm.nih.gov/articles/PMC7825951/).

Here are my responses to selected questions in the 'taxation-and-the-not-for-profit-sector.pdf':

2.1 What are the most compelling reasons to tax, or not to tax, charity business income? Do the factors described in 2.13 and 2.14 warrant taxing charity business income?

If a charity or church is producing and selling products with a profit, and these products are not related to the primary goals of the charity/church (ie, healthy, spiritual/emotional well-being, etc), then I believe that they should be taxed as per any other form of income. However, the income generated should be allowed to support the other goals of the church. If such income is donated to the ends of meeting the needs of the community, it should be liable to full tax-refund (ie. 33% tax refund), as per any other private tax donation refund.

However, if the goods or services are performed with the goal of supporting meeting the primary goals of the charity in question (for example, a conference is held to inform public about cancer health, or about spiritual well-being), and a fee is charged, this is not income that I believe should be taxed, so long as 100% of profits are invested into expanding the goals and aims of the charity in question. My concerns are that the oversight of such things may interfere with small charities or churches capacity to, for example, have a community meal (food costs being prohibitive), or to be able to provide important conferences or such.

Q2. If the tax exemption is removed for charity business income that is unrelated to charitable purposes, what would be the most significant practical implications?

Clearly, the funding for the services rendered by charities and churches needs to come from somewhere. If churches require external sources of funding, outside of donations from parishioners,

then this introduced tax policy MAY actually cause several vital services to no longer be financially sustainable. This could cause church closures or vital services to end, or require public sources of funding.

Q3. If the tax exemption is removed for charity business income that is unrelated to charitable purposes, what criteria should be used to define an unrelated business?

This must be case-specific. However, if a product or service is being sold that does not directly align with the stated goals of the charity (for example, benefit of spiritual, social, physical and emotional well-being for churches), the criteria must show this. For example, cereal is a product that is a commodity. It is not something that a church can state is "a product that is entirely intended to benefit the spiritual/physical needs of the consumer", as it is just a food product. (Mant non-charities produce food, and there is nothing to differentiate the product from competitors). If the product is sold at cost, or heavily subsidised to support accessibility to the poor, this may justify the charitable status, as this is easily differentiated from for-profit food producing competitors.

Q4. If the tax exemption is removed for charity business income that is unrelated to charitable purposes, what would be an appropriate threshold to continue to provide an exemption for small-scale business activities?

The profit that is required to maintain the level of staffing and services of an originally donor-funded organisation (see answers to Q7-Q9).

Q5. If the tax exemption is removed for charity business income that is unrelated to charitable purposes, do you agree that charity business income distributed for charitable purposes should remain tax exempt? If so, what is the most effective way to achieve this? If not, why not?

Yes, but in the same way that private income is able to receive a tax refund... They receive 33% of the tax back, after a submission at the end of the financial year.

Q6. If the tax exemption is removed for charity business income that is unrelated to charitable purposes, what policy settings or issues not already mentioned in this paper do you think should be considered?

Special exemptions for expanding the charitable services. For example, if a church intends to expand their services, to reach a new city where there is a growing need, then they should be able to apply to request excess capital accumulation (perhaps tied to **Q9**?).

Q7. Should New Zealand make a distinction between donor-controlled charities and other charitable organisations for tax purposes? If so, what criteria should define a donor-controlled charity? If not, why not?

Yes, donor-controlled charities (aka, churches!) should be considered separate from income generating charities. The criteria for a donor-controlled charity should be either:

1) Threshold percentage of income must come from donations (e.g. 75% or more income)
2) OR: the charity must have initially been funded from donations, and the current non-donation income's capital must have been 100% funded from donations. The utilisation of the non-donation income, must be fully invested into services that align with donor-intent.

Q8. Should investment restrictions be introduced for donor-controlled charities for tax purposes, to address the risk of tax abuse? If so, what restrictions would be appropriate? If not, why not?

Yes. If a charitable organisation uses it's tax-free status to provide a competitive advantage in an industry that is not aligned with their stated goals and intentions as a charitable organization… If they are investing profit from non-donor income into expanding their business income, not into supporting their charitable goals, then this is no longer donor-controlled investing.

Q9. Should donor-controlled charities be required to make a minimum distribution each year? If so, what should the minimum distribution rate be and what exceptions, if any, should there be for the annual minimum distribution? If not, why not?

No, OR: There should be exemptions for churches and charities that are unable to finance their ongoing operations (ie. Employment of a pastor, maintenance of church, etc). Ideally, such uses of finance should be considered 'distribution', since these things are required in order to dispense the essential services of the church/ charity. However, incomes of staff need to be kept consistent (within inflation), and no bonuses awarded. Furthermore, excess income should not be accumulated – this is not the intended purpose of the people who are making donations! Hence, if capital is being accumulated, I would support a minimum distribution of 50% of that income, to disincentivise the accumulation.

Kind regards,
Nathaniel Burbery

s 9(2)(a)

From: Anthony Hopkins s 9(2)(a)
Sent: Friday, 28 February 2025 6:35 pm
To: Policy Webmaster
Subject: Submission on "Taxation and the not-for-profit sector"

Follow Up Flag: Follow up
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My credentials

I submit on behalf of the Auckland Bridge Club Inc., founded in 1929. I am currently on the Board of the club, have served as President in the past and on the national Board, and am a member of another bridge club.

Summary

We limit our submission to matters which concern bridge card playing clubs. We do not support removing IRD tax exemptions for sports and recreational societies that exist for the public good.

Although the intent of the consultation can't possibly be to tax the local amateur rugby club, since bridge is not classified as a sport in NZ --- but is in many other regimes --- there is the chance that bridge's unique community position is accidentally overlooked and would likely result in club closures given the extra IRD compliance.

Discussion

There are 150 bridge card playing clubs around NZ with 20,000 active members. Most run hand-to-mouth and any rare windfalls are quickly consumed by maintenance and equipment replacement.

It would be an error to tax such clubs, mostly incorporated societies operating from council premises. Typically such clubs run two or three bridge sessions a week and charge an annual subscription plus participation fees at each session.

The first impact on bridge clubs would be a loss of revenue due to taxation of their interest income from the annual subscription balances which are gradually whittled away over 12 months and usually collected at the start of the calendar year. The gain to IRD would be minimal but would stretch club finances. Typically half of a club's revenue is from subscriptions, the other half from participation fees.

Clubs are run by volunteers making tea and coffee, dealing cards in advance of sessions, cleaning up and make sure even the most elderly are given car rides to and from bridge. This is of enormous value to communities as it keeps the less able engaged, active and social, without which some may experience extreme loneliness. Bridge clubs are a glue in many communities keeping people involved.

Given that there isn't any money in bridge, and tax would impact on the finances, one of the most important roles would become even harder to fill: the club Treasurer.

The extra requirement to complete and comply with IRD returns would scare many away from the voluntary role as very few clubs have access to up-to-date tax expertise and could not afford professional accountancy services. It is a requirement to appoint a Treasurer under the Incorporated Societies Act. Most clubs run very simple bookkeeping centred on their current bank account.

Another problem is that many clubs benefit from gifts, usually $100 to $500, to keep a club ticking. Rarely do these go through tax-advantageous routes: the donor has already paid tax and I guess the club would also have to pay tax on the gift. So a gift to replace the club fridge of $1000 could attract 28% corporate tax.

Most clubs run raffles with prizes gifted by members: typical offerings are eggs, hams over Christmas and homemade jams. Would that raffle revenue become taxable? These little raffles are important to finances.

Ant Hopkins
s 9(2)(a)

s 9(2)(a)

From: Brian E Carpenter s 9(2)(a)
Sent: Sunday, 2 March 2025 8:53 am
To: Policy Webmaster
Subject: Taxation and the not-for-profit sector

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Here are my very brief comments on this matter, in a personal capacity.

> Q3. If the tax exemption is removed for charity business income that is unrelated to charitable purposes, what criteria should be used to define an unrelated business?

The international practice described in the issues paper seems appropriate, but some sort of objective test is necessary to avoid depending on individual judgment or case law. For example, a business activity that involves wholesale distribution of a consumer product to retail businesses should clearly be treated as unrelated. Selling greetings cards or biscuits to individuals, not so much.

> Q7. Should New Zealand make a distinction between donor-controlled charities and other charitable organisations for tax purposes?

Yes, clearly, because donor-controlled charities can obviously be used as a tax rort. I am not competent to define criteria.

> Q8. Should investment restrictions be introduced for donor-controlled charities for tax purposes, to address the risk of tax abuse?

Yes, clearly, but I am not competent to define criteria.

> Q9. Should donor-controlled charities be required to make a minimum distribution each year?

Probably not. For example, imagine a charity whose purpose is to disburse aid during the next pandemic. They might have nothing to do for the next 20 years. In any case, this seems like an issue for the Charities Registration Board, not the IRD.

--
Regards
Brian Carpenter
Auckland

Ākau Tangi Sports Centre
72 Kemp Street
Wellington 6023

3 March 2025

Sent via email
policy.webmaster@ird.govt.nz

Taxation and the not-for-profit sector: Submission

dsport (previously known as Parafed Wellington) is a **charity** managed by a board of elected volunteers, which was established in 1969.

Our vision is for Wellington to be a diverse and inclusive region.

dsport is underpinned by the principles of
inspire, enable, achieve

1 in 6 people in New Zealand identify as disabled

98,000
young people (0-14 years)

We inspire disabled people to believe in themselves. To aspire to being involved in sport and active recreation. To dream.

We enable disabled people to get into sport and active recreation. We don't believe in can't. Rather how can we. How can we make this fun and make this work? We persevere and we build strength collectively.

But more importantly, our members achieve. They overcome adversity, find work-arounds and creative solutions to achieve. And for some, they will achieve their dreams.

In the latest disability census information published last week, 17 percent of New Zealanders identify as disabled (Statistics New Zealand, 2025).

Every tax concession has a "cost"

Firstly, we would like to challenge the Inland Revenue assertion that, for "*Every tax concession has a "cost", that is, it reduces government revenue and therefore shifts the tax burden to other taxpayers"*. This assumption assumes that there is no taxpayer benefit from the work that charities and not-for-profits provide which deserve wider consideration.

dsport would like to bring to Inland Revenue's attention the contribution sport and active recreation makes to the New Zealand economy. Sport New Zealand (2018) in their *Value of Sport* report stated, "sport and active recreation creates a happier, healthier people, better connected communities and a stronger New Zealand" and that sport is 'in our DNA'. The report also found that sport and active recreation contributed $4.9 billion or 2.3% to our annual GDP, and the sector employed more than 53,000 New Zealanders.

In a more recent report from Sport New Zealand (2022), *Social Return on Investment (SROI) or Recreational Physical Activity in Aotearoa New Zealand*, the report found for every $1 invested in recreational physical activity, $2.12 worth of social impacts were generated.

Sport New Zealand (2022), *Social Return on Investment (SROI) or Recreational Physical Activity in Aotearoa New Zealand, p4.*

Charity business income tax exemption

dsport recognises that many charities operate businesses to fund the provision of their charitable programmes and services. Currently, dsport does not operate a business but has interacted with charities which do so, such as Seventh-day Adventist Church in New Zealand under their Sanitarium business through their Weet-bix Tri youth event.

Our concern with this proposal is the lack of differentiation between a charity such as the size of the Seventh-day Adventist Church in New Zealand (approximately s 18(c)(i)) and that of smaller charities, especially around what will be defined as business income. The proposal related to charity business income appears to be focused on the larger charities and higher incomes without any discernible indication of the implication for smaller charities. One of the reasons for review was the potential for income accumulation. As a small charity, dsport has taken over a decade to accumulate sufficient reserves to now be in a position to effectively manage these to as a legacy fund. The accumulation of income should not in and of itself be considered a sound reason to tax charities.

dsport would prefer to see Inland Revenue consider a more nuanced approach related to the size and scale of the charity, i.e., not implement a one-size-fits-all approach. Any changes for small charities would have a significant impact on the practical implications of compliance and increase the compliance burden on these organisations to the detriment of funding their charitable purpose.

Government support for charities

The supposition in this paper is that Government supports charities and not-for-profits from tax income.

It is worth noting, the gaming sector was an intentional strategy by Government in the 1960s (originally Golden Kiwi and more latterly Class 4 gaming) to fund social and community sectors which the Government could not fund from taxes, recognising there was little appetite for increasing taxes to pay for these programmes and services which are now provided by the plethora of charities and not-for-profits.

In the sport and recreation sector, most of the funding is from non-Government tax sources, so to tax small charities and not-for-profits would have a fiscally negative impact on most.

To illustrate this, in the 2024 Budget the Government approved $3.9 billion. The 2024/25 Vote Sport and Recreation appropriation was a mere 3% or $110 million for Sport New Zealand and High-Performance Sport New Zealand operations. In the past Sport New Zealand has received $55 million from the Lottery Grants Board to fund community initiatives to supplement Vote funding. These initiatives for community delivery are delivered by sports clubs and organisations which are charities and not-for-profits. In contrast, the funding distribution from Class 4 gaming is approximately $300 million to charities and not-for-profits (half of which is received by sport). This is post $200 million in taxes and levies paid to the Government.

Definition of unrelated business activity

Many charities, small charities, are managed by employed staff, albeit governed by volunteer boards. Te Tari Taiwhenua, Department of Internal Affairs' overview on charities states that the 28,000 registered charities in New Zealand are *supported by more than 217,000 volunteers and more than 145,000 full-time staff*. This would indicate that any tax exemption based on "*charitable businesses that are substantially run by unpaid volunteers"*, negates a full understanding of how many charities operate

currently. Greater consideration of management structures would be desirable if exemptions were to be implemented.

De minimis for small-scale trading activities

dsport agrees that establishing a threshold for tax exemption would be a better solution than a one-size-fits-all. While aligning with the External Reporting Board (XRB) tiers would be convenient, we believe the Tier 2 threshold of $5 million may be too low for some sport and recreation organisations. Our preference would be establishing an independent threshold figure, such as $10-15 million turnover.

Relief for distributed business income

While it is admirable that Inland Revenue wish to align with other countries in adopting a broad policy principle, it should be recognised that the nature of charities and not-for-profit organisations in New Zealand do not replicate those elsewhere. Not for Profit Resource notes the challenges for New Zealand charities include securing sufficient funding (a perennial challenge), New Zealand's varied landscapes can pose challenges in reaching remote or under-served communities, attracting and retaining dedicated volunteers and staying ahead of regulatory changes. Adding an increased financial burden to charities and not-for-profits through an imposition of tax on business income and its accompanied compliance costs, again, does not correlate to the value these organisations deliver to the New Zealand economy, especially those smaller locally-focused organisations. A New Zealand solution which acknowledges and recognises these nuances without unnecessary additional bureaucracy must be found if the tax exemption is removed. However, we do wish to note that dsport does not support the removal of such an exemption unless, as noted above, a high threshold for turnover is utilised.

Donor-controlled charities

dsport has no comment to make on Donor-controlled charities.

Integrity and simplification

dsport believes the threshold for exemption is far too low for income tax under the broad-base, low-rate policy framework. For dsport, if we were to be covered by this policy, the "*net income of no more than $1,000"* would equate to 25 members.

Furthermore, many sports organisations require higher membership levies to not only cover facility hire costs, but also fees and levies for regional and national association obligations. If implemented, the potential exists for one subscription payment to be taxed two or three times and membership levies are transferred from club to region to national organisation. The implication of this would be a reduction of income at each level of transaction which would be countered by an increase in levies to the participant. Increasing costs of participation are recognised as one of the catalysts to a participation dropping. The health and wellbeing benefits, as noted in the SRIO above, would be reduced and redirected costs would be incurred on our health system through declining population health. It is dsport's belief that the cost to the health system would outweigh the benefits to the tax system.

FBT exemption

The rationale that the provision of FBT exemptions create an incentive for non-cash remuneration does not reflect the tight financial environment charities and not-for-profits operate in.

For example, dsport is a membership-based organisation with 200 disabled people (aged 5 years and older), their family and whanau as members. Many of our members are not in a position to pay for our services. Our annual membership fees account for only 2% of our income. We rely predominantly upon contestable funding from gaming trusts, government and local community funding to deliver our services and programmes. Most of our funding comes from gaming trusts. Because we are based in Wellington, the employment market, i.e., salary benchmarks, is based on Government salaries. These salaries are often over-inflated and disproportionate to the roles and responsibilities of non-Government roles.

To recruit and retain good staff, charities and not-for-profits often rely upon the good will of staff to accept lower than market salaries because they believe in the cause. This burden of recruitment and renumeration should not be characterised as incentivising but rather recognised as a true barrier to doing business as a charity and not-for-profit when income is limited, insecure or contestable.

As such, dsport does not support the review and potential removal of FTB exemptions.

Donation tax concessions

dsport supports the proposed change to delink Donation tax concessions from income tax if the process was simple and effective and did not impact directly on donee organisations through increased compliance obligations and workload requirements, especially for small charities.

dsport **does not** support allowing *"Inland Revenue to collect data from donee organisations to pre-fill DTC claims and streamline the DTC claiming process"* because we believe this will increase the compliance obligations and workload requirements, especially for small charities.

Abuse of taxation system problem acknowledged

Finally, dsport would like to acknowledge there is a no doubt that there is some abuse of the taxation system by some charities and not-for-profits. However, in general, we see these proposed policies of Inland Revenue as blunt instruments, the efficacy of which is questionable.

The challenge dsport leaves Inland Revenue with is … are you prepared to tell recipients of charity and not-for-profit services they are not worthy of their support because it is perceived the Government is missing out on tax income, especially when most of these services are not being funding by Government Vote appropriations?

To quote Inland Revenue itself, charities and not-for-profit organisations exist for the public good. In dsport's case this public good was not provided by Government creating the catalyst for our establishment. There was an identifiable need then and 55 years on, this still a need.

Yours sincerely

s 9(2)(a)

Dr Catriona McBean
Manager

Submission to the New Zealand Tax Commission Regarding Charitable Tax Exemptions and Accumulated Reserves

To: The New Zealand Tax Commission
Subject: Review of Tax Exemptions and Accumulated Reserves in the Not-for-Profit Sector
Date: 5 March 2025
Submitted by: Ra Puriri

Introduction

This submission is made in response to the Inland Revenue's consultation on taxation and the not-for-profit sector, as outlined in the official issues paper and Q&A document provided by Inland Revenue. The focus of this submission is on the accumulation of significant financial reserves by charities, specifically the reported $520 million "secret rainy day fund," and the implications of tax exemptions on business income unrelated to charitable purposes.
s 18(c)(i) [redacted]

Background

New Zealand’s charitable sector benefits from extensive tax exemptions to support their public benefit work. However, concerns have been raised about charities accumulating vast financial reserves without sufficient public benefit justification. This raises concerns about compliance, governance, and the equitable distribution of tax burdens across all sectors.

The issues paper *Taxation and the Not-for-Profit Sector* (February 2025) identifies several key areas requiring policy review, including:

- The accumulation of undistributed business income by charities.
- The potential competitive advantage charities may have over tax-paying businesses.
- The necessity of tax reforms for donor-controlled charities and non-resident charities operating in New Zealand.

s 18(c)(i) [redacted]

s 18(c)(i)

- **Insufficient Transparency:** There seems to be no requirement for detailed annual disclosure of how these excess funds are spent. Given the substantial amounts involved, it is concerning that there is no obligation for the Trust to transparently report on the specific allocation of these funds. This lack of transparency raises questions about how these funds are being managed and whether they are truly being used for charitable purposes.

s 18(c)(i)

s 18(

4. Clarification on Future Compliance and Monitoring

- **Ensuring Accountability:** With new regulations coming into effect, I seek assurance that Charities Services will enforce strict compliance, requiring detailed explanations for the accumulation of funds and ensuring these funds are used in ways that genuinely serve the public interest. s 18(c)(i)

5. Request for a Comprehensive Review

- **Independent Audit and Investigation:** Given the significant concerns about the use of retained earnings, I request that Charities Services conduct a thorough investigation, including an independent audit of the Trust's financial activities. This should particularly focus on ensuring that the funds are not being diverted to non-charitable projects and that all activities align with the Trust's charitable purpose.
- s 18(c)(i)

Conclusion

The *Taxation and the Not-for-Profit Sector* issues paper acknowledges that New Zealand's current tax exemptions for charities are ripe for reform, particularly concerning the accumulation of reserves and commercial activities unrelated to charity. s 18(c)(i) urge the Tax Commission to take immediate action to address the market distortion caused by tax-exempt entities competing in commercial ventures and to implement policy changes that ensure all charities meet public benefit requirements.

Submitted by:
Ra Puriri
Raglan
s 9(2)(a)

s 9(2)(a)

From: Scott Kennedy <principal@manukauchristian.school.nz>
Sent: Thursday, 6 March 2025 4:29 pm
To: Policy Webmaster
Subject: Taxation and the not-for profit sector

External Email CAUTION: Please take **CARE** when opening any links or attachments.

Dear Sir/Madam,

I am writing on behalf of Manukau Christian School, an independent school with charitable status, to express our concerns regarding the proposed changes to fringe benefit tax (FBT) exemptions for charities outlined in the "Taxation and the Not-for-Profit Sector" consultation paper.

As an independent school, we do not receive direct government funding for teacher salaries. Unlike public schools, where teacher salaries are fully covered by the government, independent schools must fund their own staffing costs through tuition fees and private contributions. The FBT exemption for charitable organisations is one of the few mechanisms that allow independent schools to remain competitive in attracting and retaining high-quality teachers.

Key Concerns About Removing the FBT Exemption for Charities

1. Independent Schools Already Operate at a Disadvantage

Public schools receive full government funding, whereas independent schools must cover teacher salaries through private tuition fees, placing them at a structural disadvantage. The FBT exemption helps level the playing field by allowing independent schools to offer non-cash benefits, such as tuition discounts for teachers' children, to attract and retain staff.

2. This Change Will Increase Costs for Independent Schools

If FBT is applied to staff tuition fee discounts, independent schools will face a tax burden that public schools do not. They will be forced to either absorb the cost, straining their finances, or pass it on to parents, making tuition less affordable. Meanwhile, public schools remain unaffected, further widening the financial disparity.

3. Teacher Retention in Independent Schools Will Become More Difficult

Attracting and retaining high-quality teachers is already difficult for independent schools, which compete with government-funded public school salaries. Many offer tuition discounts for teachers' children as part of their compensation, but if these benefits become subject to FBT, schools will have to restructure pay, reducing their competitiveness. This could result in higher staff turnover, weaker recruitment, and negative effects on student learning.

4. Independent Schools Save the Government Money

Every child in an independent school saves the government thousands in taxpayer-funded education costs. Imposing new tax burdens on these schools could drive more students into the public system, increasing government spending. The FBT exemption is a small but essential measure to help independent schools maintain high-quality education without adding financial strain to the state.

Our Recommendation

We strongly recommend that the FBT exemption for charitable organisations remains in place for independent schools. Removing this exemption would unfairly disadvantage independent schools, increase costs for parents, and make it harder to attract quality teachers—all while public schools remain unaffected. We urge the government to recognize the important role independent schools play in New Zealand's education landscape and to ensure that any tax policy changes do not further tilt the playing field in favour of the state system.

Thank you for the opportunity to provide feedback on this important issue. We welcome any opportunity to further discuss the implications of this proposed change.

Sincerely,

Scott Kennedy
Principal

Manukau Christian School

77 Rogers Road | P O Box 75-623, Manurewa, 2243
www.manukauchristian.school.nz
Phone: +64 9 269-1050

Submission to the New Zealand Government Inquiry Taxation and the Not-for-profit Sector

Author: Emeritus Professor Fiona Martin, University of New South Wales
Date: 6 March 2025
I am an Emeritus Professor from UNSW, Sydney Australia and am internationally recognised as an expert in taxation law as it relates to charities.

Answer to Submission Question 1:

I make this submission to the Inquiry and state that I am *totally opposed to any form of income tax on charities and their income, whether it is from commercial activities or any other source.*

I refer you to my reasons in the following paragraphs.

The Australian history and current situation

In 2008 the common law of Australia confirmed that a charity that engaged in carrying on a business could still maintain its charitable status. This confirmation is found in the High Court decision of *Word Investments*.[1] Word Investments Ltd was established as a company limited by guarantee in 1975 by members of the Wycliffe Bible Translators Australia. Wycliffe engaged in Christian evangelical purposes and was recognised by the Australian Taxation Office (ATO) as a charity for the advancement of religion. The memorandum of association of Word Investments allowed it to carry on business activities in connection with its other purposes (which were all clearly charitable as being for the advancement of religion). Any funds from these activities were to go directly to Wycliffe and other entities to support the evangelical work and therefore the religious charitable purpose. Word engaged in the business activity of running a funeral business along commercial lines and distributed all surpluses towards its charitable purposes.

The crucial issue was whether an entity could still be considered charitable when it had the capacity to carry on a business, the funds from which would go towards its purposes, which

[1] *Commissioner of Taxation v Word Investments Ltd* [2008] HCA 55.

were all charitable. The funeral business was conducted along commercial lines and was open to the general public. The majority in the High Court emphasised that Word's powers to carry on business activities were a means to Word achieving its religious charitable purposes and therefore did not preclude its charitable status.[2] The rationale of the court was:

> Word endeavoured to make a profit, but only in aid of its charitable purposes. To point to the goal of profit and isolate it as the relevant purpose is to create a false dichotomy between characterisation of an institution as commercial and characterisation of it as charitable.[3]

The United States of America and its Unrelated Business Income Tax

The US has, since the 1950s, had an unrelated business income tax (UBIT) that taxes the business income of charities. It was proposed in 1950 by President Truman, who said that the income tax exemption of charities and other NFPs was giving them an unfair competitive advantage over the private sector, where these charities were carrying on businesses that were completely unrelated to their philanthropic purposes.[4]

The rationale for this tax was threefold:

(1) Real and perceived abuses by charities;

(2) Unfair competition by charities with for-profit businesses that have the additional expense of income tax; and

(3) To raise revenue.[5]

There are many arguments for and against imposing income tax on the unrelated business income of charities. Apart from the arguments listed above another argument of great significance to the federal government is that charities generating business income may be eroding the tax base.[6] While US research demonstrates that the UBIT is not a source of

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[2] Ibid [24].
[3] Ibid [24].
[4] US, HR Rep No. 81-451, 5 (1950).
[5] US, HR Rep No. 81-451, 5 (1950); Also refer Fiona Martin and Timothy M Todd 'The income tax exemption of charities and the tax deductibility of charitable donations: the United States and Australia compared' (2018) 33 *Australian Tax Forum* 1.
[6] J Chia and M Stewart, 'Doing Business to do Good: Should We Tax the Business Profits of Not-for-Profits?' (2012) 33(3) *Adelaide Law Review* 335; Kerrie Sadiq and Catherine Richardson, 'Tax concessions for charities: competitive neutrality, the tax base and "public goods" choice' (2010) *Australian Tax Forum* 401.

significant government revenue, it is arguable that one motivation for the tax is to counter tax avoidance by preventing commercial entities obtaining charitable tax benefits.[7]

The arguments against a UBIT are that there are few recorded abuses by charities, and certainly there have not been any cases in Australia, that there is no unfair competition and that the tax raises insignificant amounts of revenue compared to the high compliance costs associated with calculation and collection.

The Australian Productivity Commission Report

The 2010 Australian Productivity Commission Report into the NFP sector examined the issue of unfair competition between the NFP sector and the for-profit sector due to the income tax exemption.[8] The Report states that the income tax exemption does not give NFPs that carry on businesses an unfair competitive advantage over their for profit competitors. NFPs that carry on a business will decide how to maximise their surplus in the same way as for-profit businesses, so the income tax exemption does not distort decisions such as how many people to employ, what price to charge and so forth. The objective of a for-profit business is to maximise profit by either (or both) increasing revenue or cutting expenditure. This applies similarly to income tax exempt NFPs, which seek to maximise their output for a given cost.[9] In fact, in the *Word Investments Case*, the funeral services were offered at commercial rates, so competitors were not under-cut and did not face any competitive disadvantage.[10]

A further argument against such a tax is the high compliance costs that it imposes. The UBIT has been the cause of concern amongst the US NFP sector, due in part to the increase in compliance costs that it causes.[11] For example, charities that run shops must make regular and detailed analysis of their stock to determine which items are related to their charitable mission and which aren't. They then allocate costs such as labour and overheads to the different stock types. The US Internal Revenue Service has gone so far as to involve itself in advising a museum's gift shop that sales of home furnishings resembling those on display at

[7] J Chia and M Stewart, 'Doing Business to do Good: Should We Tax the Business Profits of Not-for-Profits?' (2012) 33(3) *Adelaide Law Review* 335, 342.
[8] Productivity Commission, Australian Government, *Contribution of the Not-for-profit Sector* (2010) 203.
[9] Productivity Commission, Australian Government, *Contribution of the Not-for-profit Sector* (2010) 203.
[10] *Commissioner of Taxation v Word Investments Ltd* [2008] HCA 55 [85].
[11] Micah Burch, 'Australia's Proposed Unrelated Commercial Activities Tax: Lessons from the U.S. UBIT' (2012) 7 (1) *Journal of Australasian Tax Teachers Association* 21; Fiona Martin and Timothy M Todd 'The income tax exemption of charities and the tax deductibility of charitable donations: the United States and Australia compared' (2018) 33 *Australian Tax Forum* 1.

the museum generated related income which was not taxable, while its sales of soap and perfumes were not substantially related to the museum's exempt educational purpose and therefore taxable.[12] The imposition of the UBIT and the necessity to make decisions about what is related and what is unrelated means that this time consuming and unproductive type of activity must be replicated by all organisations that engage in some form of commercial activity.[13]

Furthermore, modern charities take an active role in society, they are not as dependent on government grants and donations as they were in the past, and they need more sources of revenue in order to survive. Undertaking commercial activities is one way that they can fund their charitable purposes and still keep contributing to society. If this income is subject to income tax, then this tax and the compliance costs that are necessary to collect it arguably reduce the contribution that a charity can make to its beneficiaries and the wider community.

[12] Internal Revenue Service, Private Letter Ruling 8605002, 4 September 1985; Micah Burch, 'Australia's Proposed Unrelated Commercial Activities Tax: Lessons from the U.S. UBIT' (2012) 7 (1) *Journal of Australasian Tax Teachers Association* 21, 29.

[13] Micah Burch, 'Australia's Proposed Unrelated Commercial Activities Tax: Lessons from the U.S. UBIT' (2012) 7 (1) *Journal of Australasian Tax Teachers Association* 21; J Chia and M Stewart, 'Doing Business to do Good: Should We Tax the Business Profits of Not-for-Profits?' (2012) 33(3) *Adelaide Law Review* 335; Fiona Martin and Timothy M Todd 'The income tax exemption of charities and the tax deductibility of charitable donations: the United States and Australia compared' (2018) 33 *Australian Tax Forum* 1.

s 9(2)(a)

From: Duane Fernandes s 9(2)(a)
Sent: Monday, 10 March 2025 12:54 pm
To: Policy Webmaster
Subject: Taxation and the not-forprofit sector

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Introductory Submission: Principles and Context for Proposed Changes to Charities' Tax Exemptions

Before addressing the specific questions posed in the consultation paper, we wish to highlight several fundamental principles that should guide any reform to the taxation of charities' business income. These principles ensure that regulatory changes are proportionate, effective, and aligned with the broader objectives of maintaining a robust and trusted charitable sector in New Zealand.

First, any policy response must ensure that the medicine fits the illness. If the primary concern driving these proposed changes is the abuse of tax concessions by a minority of entities, then the solution lies not in broad tax reforms but in strengthening the regulatory framework. The Charities Services, as the sector's regulator, should be adequately resourced to investigate potential abuses and take appropriate enforcement action. For example, high-profile cases like the deregistration of the National Party-linked Exclusive Brethren charities in 2012 demonstrate that the existing system can address misuse when properly supported. Blanket tax changes risk penalising the vast majority of compliant charities to address the actions of a few.

Second, the correct tool must be used for the job. The Charities Act 2005, and its associated amendments, provides the most appropriate mechanism to maintain the social licence and public confidence in the charitable sector. Changes to tax rules should not serve as a proxy for determining whether an entity qualifies as charitable—a role properly reserved for Charities Law. Imposing tax-based criteria risks overburdening the 29,000 registered charities in New Zealand, many of which operate with limited resources, to tackle a small number of bad actors. We would welcome a comprehensive review of the Charities Act to strengthen the sector's integrity and accountability. However, we note that the last review, concluded in 2019, was both protracted and narrow in scope, failing to address deeper structural issues. Any future review must be timely, inclusive, and bold in its ambition to support a thriving sector.

Third, a balanced evaluation must consider both sides of the equation. The consultation paper appears to focus solely on the cost to the government of charities' tax exemptions, framing the issue as a one-sided tax revenue problem. This approach lacks balance and evidence, neglecting the significant social, economic, and cultural benefits that charities deliver—benefits that often reduce the burden on public services. For instance, the 2018 "Charities in New Zealand" report by Charities Services estimated that the sector contributes over $21 billion annually to the economy, a figure that

far exceeds the tax foregone. This narrow focus is inconsistent with the Government's Statement on Regulation, which requires that the benefits of a preferred option outweigh its costs and deliver the highest net benefit among practical options. A rigorous cost-benefit analysis, incorporating the sector's contributions, is essential to ensure evidence-based policymaking.

With these principles in mind, we offer the following responses to the specific questions posed in the consultation paper. Our submission seeks to underscore the importance of preserving a tax environment that supports charities' sustainability while addressing legitimate concerns through targeted, rather than blunt, regulatory measures.

Response to Question 1: What are the most compelling reasons to tax, or not to tax, charity business income?

Charities in New Zealand play a vital role in addressing social, environmental, and cultural needs, often stepping in where government or private sector resources fall short. The tax exemption on charity business income is a cornerstone of their financial sustainability, enabling them to generate reliable and controllable revenue streams that reduce dependence on unpredictable funding sources such as donations, public programme grants, and philanthropy. For example, organisations like the Auckland City Mission operate social enterprises, such as their café and retail operations, to fund services for vulnerable populations. Taxing this income could undermine their ability to deliver consistent support, particularly during economic downturns when donations often decline.

Moreover, charity business income allows organisations to diversify their funding base, fostering resilience and long-term planning. The Salvation Army in New Zealand, for instance, relies on income from its Family Stores—second-hand retail outlets—to support its extensive social services, including emergency housing and food assistance. Without the tax exemption, such charities might face reduced capacity to meet growing community demand, as seen during the COVID-19 pandemic when charitable services were stretched thin.

On the other hand, the argument for taxing charity business income often hinges on the perception of an uneven playing field for tax-paying businesses. Critics suggest that charities with commercial operations, such as those running cafes or retail stores, enjoy an unfair competitive advantage. However, there is no robust evidence from New Zealand studies to substantiate this claim. Research conducted by Charities Services and the Department of Internal Affairs (DIA) into the charitable sector's economic contributions—such as the 2018 "Charities in New Zealand" report—does not identify significant market distortion caused by charity-run businesses. In fact, many of these enterprises operate in niche or socially driven markets (e.g., second-hand goods or community-focused services) that do not directly compete with mainstream commercial entities.

An additional reason to retain the exemption is the broader public benefit derived from charity business income. Unlike private businesses, charities reinvest all profits into their charitable purposes rather than distributing them to shareholders. For example, Habitat for Humanity New Zealand uses proceeds from its ReStore shops to fund affordable housing projects, directly addressing the country's housing crisis. Taxing this income would effectively reduce the resources available for such public goods, shifting the burden back onto taxpayers or leaving critical needs unmet.

In summary, the most compelling reasons to retain the tax exemption for charity business income are its role in ensuring financial sustainability, its lack of proven competitive distortion, and its contribution to public benefit. Taxing this income risks destabilising a sector that is already under-resourced while delivering negligible benefits to the wider tax base.

Response to Question 2: If the tax exemption is removed for charity business income that is unrelated to charitable purposes, what would be the most significant practical implications?

Removing the tax exemption for charity business income deemed "unrelated" to charitable purposes would introduce significant practical challenges, particularly in defining and applying the distinction between "related" and "unrelated" activities. The charitable sector in New Zealand encompasses a diverse range of self-defined purposes—from poverty relief to environmental conservation—making it difficult to create a clear, consistent, and fair framework for such a classification. This ambiguity could lead to administrative complexity, legal disputes, and unintended consequences for charities striving to fulfill their missions.

One major practical implication is the potential disruption to innovative organisational structures that charities use to achieve their purposes. For instance, consider a community land trust, such as the Queenstown Lakes Community Housing Trust, which operates a subsidiary property development company to build affordable housing. The trust's charitable purpose—addressing housing inequity—is directly enacted through the company's activities, yet the IRD might classify this as "unrelated" business income due to its commercial nature. If taxed, the trust could lose the financial capacity to deliver on its mission, despite the clear alignment between its purpose and operations. Similarly, my own experience as a trustee of a community land trust with a wholly owned property development company illustrates this risk. Our charity regeneratively develops land for community use, protected by the limited liability structure of the company. Ruling this activity "unrelated" would render our model unviable, effectively halting our ability to provide sustainable community benefits.

Another implication is the administrative burden and cost of compliance. Charities, many of which operate with limited resources, would need to undertake complex accounting and legal analyses to segregate "related" and "unrelated" income. Smaller organisations, such as rural community trusts or iwi-based charities, may lack the capacity to manage this, diverting funds from their core purposes to professional fees. For example, Ngāi Tahu's charitable entities, which often blend cultural preservation with commercial ventures like tourism or property, could face significant challenges in disentangling their income streams, potentially reducing their ability to support tribal development.

Furthermore, the removal of the exemption could discourage charities from pursuing entrepreneurial approaches to funding. The Wellington-based Sustainability Trust, which runs a curtain bank and eco-shop to fund environmental initiatives, might scale back these operations if profits were taxed as "unrelated," despite their alignment with sustainability goals. This chilling effect could stifle innovation in a sector that is increasingly encouraged to adopt self-sustaining models, as outlined in the DIA's 2020 review of the Charities Act.

Finally, the loss of tax-exempt income could exacerbate inequities within the sector. Larger charities with diverse revenue streams might absorb the tax burden, while smaller or regional organisations—such as the West Coast's Buller REAP, which relies on small-scale social enterprises to fund adult education—could collapse under the pressure. This would disproportionately harm rural and underserved communities, undermining the government's own social cohesion objectives.

In conclusion, the most significant practical implications of removing the tax exemption for "unrelated" charity business income include the difficulty of defining relatedness, the disruption of purpose-driven operations, increased compliance costs, reduced innovation, and heightened sector

inequity. These challenges would weaken the charitable sector's ability to serve New Zealand communities effectively.

Regards,
Duane Fernandes
Trustee Te Hapori Hauora Community Land Trust

--
s 9(2)(a)

10 March 2024

To the Commissioner of Inland Revenue

Submission on Taxation and the not-for-profit sector

This is a simple submission that is intended to support more detailed submissions that the Department will no doubt receive from the charitable sector.

We would reframe clause **1.4** as a point that tax concessions are a **benefit** and not a cost to the government as the concessions allow the work of government to be done more cheaply via the charitable sector than it would if the government was to fully fund and do the work itself. Most, if not all, government contracts are partial or contributory funded and the balance of the actual cost of service delivery is borne by the philanthropic sector or more importantly the charity itself, via its business activities if it has any.

Disincentivising business activities of charities may well make charities more reliant on grants and contracts. Charity should be allowed to operate to further its charitable purpose as any other business does to make a profit. The focus should be on where the profits go rather than where they are generated. If they clearly go towards the charitable purpose what does it matter from where the profits were generated?
The government should be focussed on giving charities every opportunity to grow sustainably and encouraged to be innovative. This will reduce the overall cost of funding charities generally and save the taxpayer significant money.

The Department should tax charity business income if that income is from a source that does not have an expressed and obvious link to the charitable purpose of the parent charity. Where it is clear and obvious that the business income is supporting the charitable purpose then that income should be treated as it is now.

It has been proved by researchers in Australia and some other countries that charities do not have a commercial advantage over for-profit businesses in New Zealand. I agree with the assertion that charities cannot raise equity capital and are therefore reliant on other forms of fundraising activities.

Noncompliance with the tax rules by the few offending charities are better dealt with via Charities Services. The Department should take a targeted approach and not lump all charities in together as the bulk of those charities are compliant with the rules. If they are to

be expected to incur more cost that is money that is not going towards the charitable purpose thereby putting more of a burden on the tax payer.

Exemption from paying fringe benefit tax acts as an incentive to attract the very talented people needed to be employed into otherwise poorly paid roles within the for-purpose sector. Please leave it as it is.

Mark Ambler
General Manager

Submission on Taxation and the not for profit sector

Veterinary practice as not for profit [Veterinary clubs]

I am a small farmer and retired Veterinarian living between Warkworth and Wellsford, north of Auckland. There are three Veterinary practices nearby whom I can call to attend my animals, both farm and pet.

They all appear similar. As a client walking in the door or calling a Veterinarian to the farm there is no discernible difference to the service offered. Except two of them pay tax on profits and one of them is a Veterinary Club and does not.

After the second world war when our Veterinary industry was in it's infancy and there was an urgent need to support our growing agricultural base the Veterinary Club system was set up. NZ agriculture needed Vets, and they had to be imported, mostly from the UK. Now we train our own at Massey [since the 1960's]. Most of the Veterinary clubs set up at that time have morphed into regular taxpaying private or contract practices however a few remain as a minority of NZ's Veterinary practices, but with tax free status.

The original need for the Veterinary club system has long gone.

The issue is equity. A regular business masquerading as a charity and paying no income tax, competing head to head with businesses that do pay tax.

This allows for a competitive advantage, not a level playing field.

There is nothing charitable about Veterinary clubs.

There is no good reason for the NZ taxpayer to subsidise these commercial businesses.

Questions to submitters [where relevant]

Q1 Reasons to tax Veterinary Cubs.

Government revenue, equity, fairness. Closing a tax loophole.

Q2 Practical implications.

Reduced accumulated funds. Internal pressure to improve efficiency to compete against conventional practices. Minimal effect on fees as they already operate in a competitive environment, albeit with an advantage.

Q4 Tax exemption threshold.

Veterinary clubs are working businesses mostly [all?] with turnover in the millions.

Annual accounts are prepared by accountants in the same way as with conventional businesses.

In my opinion a $5 million dollar threshold is far too high. $500,000 is more appropriate.

Q5 Veterinary clubs are not charities.

I have in the past worked for two Veterinary clubs and one private practice.

I am happy for IRD to contact me.

Roger Dunn

s 9(2)(a)

Charities business income tax exemption

Q1. What are the most compelling reasons to tax, or not to tax, charity business income?

Justification for Taxing Charity Business Income:

Many charities, especially large religious organizations, have transitioned into substantial commercial operations but continue to receive tax exemptions.

This trend creates an uneven playing field for for-profit businesses, as entities like churches or charities may exploit tax statuses while failing to reinvest significant returns into their communities.

Examples of Concern:

s 18(c)(i)

The tax loss on these entities would be worth millions of dollars.

s 18(c)(i)

s 18(c)(i)

I cannot see how these business interests owned by a religious group were able to compete in the commercial environment tax exempted especially an aircraft maintenance company.

How could this tax exemption exist within the tax-free status of a church group when this religious group only seeks to finance and enrich itself to the benefit of its members and not the community.

s 18(c)(i)

Q12 What are the likely implications if the following exemptions are removed or significantly reduced from veterinary service body income tax exemption?

Tax Exemption Implications in Veterinary Services:

I argue for the removal or reduction of income tax exemptions for veterinary service bodies, which would level the playing field for veterinary businesses.

Eliminating these exemptions would enable better salary structures for veterinarians and encourage inefficient veterinary practices to either improve or cease operations, benefiting the overall economy.

An interesting comment from economist Tony Alexander applies here where he stated *"What we need in our country is a reallocation of people to higher-paying, higher profit jobs. That requires that the inefficient firms unable to pay decent wages to go out of business,"*

- The "club" veterinary practices, originally designed to serve local farmers, have evolved into larger competitive entities, encroaching on the markets of private veterinary practices.
- These club practices often sustain low pricing through their tax-exempt status, which adversely affects the pricing and salary structures of private practices.

- Overall, the reconsideration of tax exemptions to ensure that charitable organizations truly serve their intended community purposes rather than operate as large commercial entities.
- It will recover the tax income from entities which are given tax exemptions as they are supposed to return any proceeds to their community, but which have now become large scale commercial entities competing within commercial environments.
- It will make for a level playing field around veterinary commercial businesses.

Historical Context:

I am veterinarian who owns and operates a private companion animal veterinary practice. We deal with companion animals principally dogs and cats. I have worked as a veterinarian in both 'club' farm practices operated under a veterinary service body income tax exemption as well as private practices which are not exempted.

I have issues with the tax exception of veterinary service bodies such as these 'club' practices due to the uneven commercial environment they now present.

The "club vet practice" system, a network of veterinary practices in New Zealand, began in the 1940s after the government established the Veterinary Services Council (VSC) in 1946 to promote a nationwide veterinary service for livestock owners, encouraging overseas trained veterinarians to set up practices, offering grants and subsidies. At that time New Zealand had no veterinary college and needed veterinary professionals.

Veterinary club practices were farmer-owned and operated, providing animal health services and advocating for their member farmer needs, often offering on-farm delivery, reduced fees, and other benefits to their members. They are supposed to serve the needs of pastoral farming industries, providing services for production animals and lifestyle block owners. They also offer farm account payment terms with flexible payment options for farmers.

In 1963 Massey University started training our own veterinary graduates so the club program should have moved to a private practice predominance, but club practices persisted. Also, in the 1980's and 1990s specialised small animal practices started to develop in urban centres.

In Hamilton we have two large scale club practices that now compete with us servicing companion animals within our area.

Vetora: A large, farmer-owned vet club with a long history in New Zealand. Has 10 locations including one within the city limits of Hamilton.

Anexa's Farmer Vet Club: A club with 12 locations several very close to our business.

The club movement is a significant employer of veterinarians in New Zealand, with member clubs now employing over 170 veterinarians.

These once small isolated 'club' practices serving their member farmers have now grown into large scale veterinary businesses that not only service farm animals but also compete with companion animal veterinarians.

This is less of a problem in urban Auckland locations with no urban/rural fringe but being based in the Waikato we are surrounded by these large 'club' practices as are most other smaller New Zealand city veterinarians.

Initially formed to service their local memberships these clubs have consolidated and now seek to enter urban areas to compete with non-tax exempt companion animal private practices.

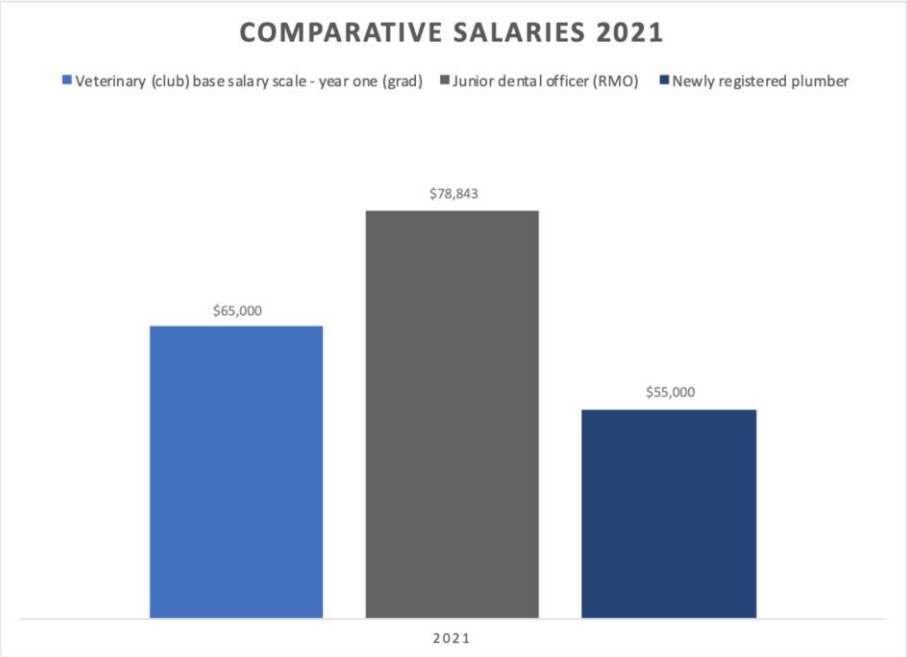
Locally they have entered new urban environments where private companion animal veterinary businesses already existed such as Hamilton, Cambridge and Taupo. Elsewhere they have also purchased private practices to increase their commercial footprint.

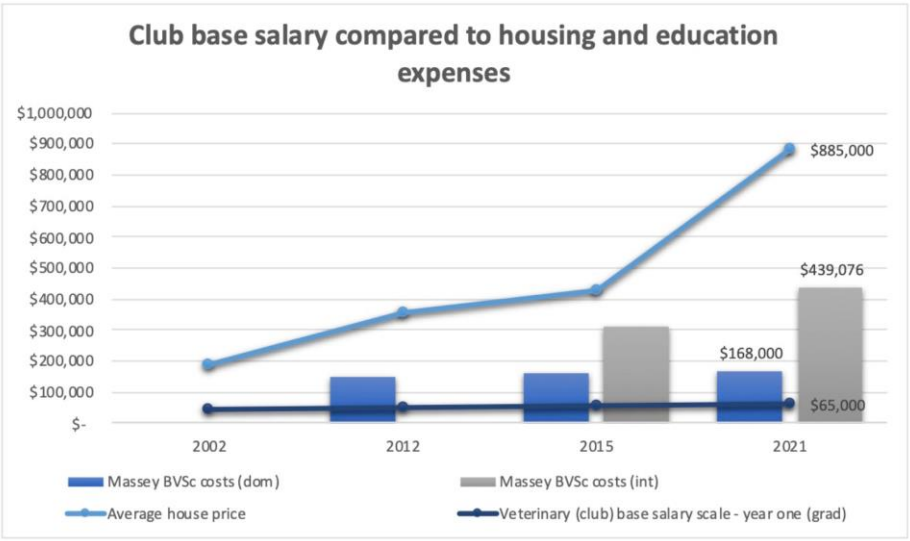
As a private practice we seek to employ our staff on good incomes while also offering a return to shareholders. However, club practices market heavily into our urban commercial space and offer services with low margins which force our prices down and hold our staff salaries low.

We find their business practices tend to be to offer low price structures not only to their farming clients but also in the companion animal area, directly competing with us while not having the same cost structures to meet and returns on investment.

The tax exception of these 'club' practices just supports these inefficient entities to persist in dragging the rest of the veterinary profession down with them.

Below diagrams published on 16 June 2021 by Veterinary Council of New Zealand.





Yours respectfully

s 9(2)(a)

Dr Craig Brighouse BVSc

Clinical Veterinarian and CEO

Companion Vets Ltd

46 Church Road

Pukete

Hamilton

s 9(2)(a)

From: s 9(2)(a)
Sent: Tuesday, 11 March 2025 11:31 am
To: Policy Webmaster
Subject: Taxation and the not-for-profit sector

External Email CAUTION: Please take **CARE** when opening any links or attachments.

Dear Sir / Madam,

We operate in a market dominated by the Brethren companies, please therefore, withhold our company name, my name and sections in Blue from the publicly available record.

s 9(2)(b)(ii) Our company is in favour of taxing industrial charity business income. We operate in a market dominated by Brethren run companies. it is our understanding that the following competitors enjoy beneficial tax concessions.

- s 18(c)(i)
  - s 18(c)(i)
- s 18(c)(i)
  - s 18(c)(i)
- s 18(c)(i)

- s 18(c)(i)
- s 18(c)(i)
  - s 18(c)(i)

In addition to the 4 large brethren pump companies above there are numerous smaller regional pump companies whom we understand are enjoying beneficial tax concessions. The fact that we cannot be sure of their tax status, and the lack of transparency also leads to a competitive advantage for these companies.

These 4 companies are all long established, well run, professional organisations, with no obvious charitable connection or work. In fact, their charitable beneficial tax status is actively suppressed and hidden. Their market dominant position has led to intense competition with ourselves s 9(2)(b)(ii) All 4 companies have been growing aggressively, and they have been enjoying sales and market share growth at the expense of companies paying their full tax obligation. One of the companies above has used predatory pricing strategies against us to win customers off us, we believe that this is possible for them because of their beneficial tax status.

In a competitive industrial marketplace, it is obviously grossly unbalanced to have companies, such as ourselves, fulfilling our full tax obligations whilst our direct competitors enjoy significant tax concessions. Whilst there are many charitable organisations doing great community work, who should continue to enjoy beneficial tax status, commercial organisations, such as those shown above, should be obliged to pay tax, as their competitors do. The previous government promised to review taxation of the NFP sector, they did not fulfil their promise. We are pleased that the current government has decided to review these unfair trading conditions and hopefully the national finances will benefit.

As a criteria to define tax payable business income of charity business we suggest:
Any charitable business with sales of goods exceeding $1 million, where there are direct competitors selling similar products to the same market, must pay tax in full.

We believe that this definition would allow the RSA to continue to sell poppies (as there are no competitors) but the Girl Guide's would be taxed in full on the sale of their biscuits.

If you need any further information, please do not hesitate to make contact.

Thanks

s 9(2)(a)

s 9(2)(a)

s 9(2)(a)

s 9(2)(a)

From: Michael Toothill s 9(2)(a)
Sent: Tuesday, 11 March 2025 4:57 pm
To: Policy Webmaster
Subject: Taxation and the not-forprofit sector SUBMISSION

External Email CAUTION: Please take **CARE** when opening any links or attachments.

To whom it may concern

In response to **Q1. What are the most compelling reasons not to tax charity business income?**

Kilmarnock Enterprises is a disability enterprise committed to providing meaningful employment opportunities for individuals with intellectual disabilities and neurodivergent young adults. Our ability to fulfil this purpose is entirely dependent on financial sustainability, which is supported by various stakeholders, including the Ministry of Social Development (MSD) and the Inland Revenue Department (IRD), through tax exemptions granted due to our charitable status. However, it is important to note that despite these exemptions, we contributed $532,000 in PAYE and $344,000 in GST payments in the last financial year alone.

All profits generated by our enterprise are reinvested to strengthen our mission, particularly by developing vocational skills and expanding participation in our employment pathway programme. This initiative actively recruits students with disabilities from schools and supports their transition into open employment. Additionally, investments in capital equipment provide employees with disabilities the opportunity to gain hands-on experience operating machinery and tools commonly used in the workforce, significantly enhancing their employability.

Any additional tax burden would directly impact our ability to sustain these critical investments, putting at risk our ability to fulfil our core purpose: **unlocking the potential of people with disabilities and empowering them to lead purposeful lives**.

Other factors to consider are:

- maintaining an acceptable level of 'reserve' to assist in covering overheads and wages in times of economic challenge
- income to pay down debt, as per our debt repayment plan.

Thank you for considering our submission.

I am happy for all information in this email, including my contact details, to be publicly available.

Ngā mihi,
Michael

Michael Toothill
CEO
Kilmarnock Enterprises

s 9(2)(a)
s 9(2)(a)
+64 3 348 5162
21 Lodestar Ave, Christchurch, 8042

kilmarnock.co.nz

Aotearoa Disability Enterprises

Please do not enter our premises if you have any cold, flu or Covid-19 symptoms.
Please ensure that you wear enclosed shoes (no sandals, exposed toes, or open heels) when visiting our premises.

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s 9(2)(a)

From: Megan Mace s 9(2)(a)
Sent: Tuesday, 11 March 2025 7:08 pm
To: Policy Webmaster
Subject: Taxation and the Not-For-Profit Sector

External Email CAUTION: Please take CARE when opening any links or attachments.

Hi
I believe organizations such as SPCA and St John's, for example, shouldn't have to pay tax, as the money is used back in the community and funds people in need.
However, churches, if you look at it neutrally, are groups of people worshipping by choice, something that theoretically doesn't necessarily need a facility or benefit the wider community. Also, "churches" like the Brian Tamaki set-up, are basically using the name of church to further business-related activities - its well known and yet no one does anything about it. They drive around in flash cars and it is easy to write things off to tax when it comes to these things.
I feel too many too many situations like this are occurring and it's time to tax churches.
Warm regards,
Megan Mace

s 9(2)(a)

From: Admin Mt Olympus <admin@mtolympus.co.nz>
Sent: Wednesday, 12 March 2025 8:52 am
To: Policy Webmaster
Subject: Taxation and the not-for profit sector

External Email CAUTION: Please take **CARE** when opening any links or attachments.

Good Morning,

I am writing to express my concern about Inland Revenue's proposal to impose a tax on membership fees for not-for-profit clubs and societies. This change would have serious consequences for many community organisations.

Through my experience working with various not-for-profit clubs, I've seen how vital these organisations are to local communities. They are already struggling with rising costs and adding a tax on their membership fees would place an even greater financial strain on them, potentially forcing many to shut down.

These clubs provide essential social, recreational, and sporting opportunities, often run by dedicated volunteers. Taxing their subscriptions at a time when expenses are already at a high would make it even harder for them to survive.

I strongly urge you to reconsider this proposal. Instead of placing more obstacles in their way, we should be supporting these organisations so they can continue to enrich our communities.

Thank you for your time, and I hope to see this tax proposal withdrawn.

Penny Coleman
Administrator

Mt Olympus // W.W.S.C.
s 9(2) **admin@mtolympus.co.nz**
| **www.mtolympus.co.nz**

s 9(2)(a)

From: Peter Cowley s 9(2)(a)
Sent: Wednesday, 12 March 2025 9:22 am
To: Policy Webmaster
Subject: taxation and the not for profit sector

External Email CAUTION: Please take **CARE** when opening any links or attachments.

I fully support charities paying tax.

s 18(c)(i)

s 18(c)(i)

s 18(c)(i)

If a religious group gives money to charity, then it can be exempt from paying tax on that donation as ordinary people do.

Dr Michael Gousmett, a charities expert says:
"Ngai Tahu have taken advantage of the income tax legislation and charity law to grow the settlement to the point which must raise questions about the privilege of the exemption from income tax being granted to limited liability companies.

During the long summer evenings, you may have enjoyed a glass or two of Cabernet Sauvignon from New Zealand's oldest winery, Mission Estate. Down in the South Island, during the day tourists will have had the thrill of a jet-boat ride on the Shotover River, courtesy of Shotover Jet. What you probably did not realise is that these apparently commercial organisations, operated by the Seventh-day Adventist Church, Marist Holdings (Greenmeadows) Limited, and the Ngai Tahu Charitable Group, have charitable therefore income tax exempt status."

He also writes: "Charities Services need to up their game and start requiring our charities to tell us why they are accumulating and not applying their funds to the purposes for which they were established in the first place."

He claims that proving that profits are being used for charitable purposes is becoming increasingly tricky.

These failings raise the risk of funds going missing, and in several cases, investigators found evidence that charities were being run for personal gain, not for charitable purposes. Furthering religion (which is the reason given for not taxing religious businesses) is not a charitable activity.

Ngāi Tahu is another commercial operator that doesn't pay income tax because the sole shareholder for all its charitable operations is Ngāi Tahu Charitable Trust.

s 18(c)(i)

Regards

Annette Perjanik

Submission on the Proposed Changes to Taxation in the Not-for-Profit Sector

To: The Finance and Expenditure Select Committee

From: Gavin Gunston, CEO - Connected Neighbourhoods Trust

Submitted: 10 March 2025

Introduction

Connected Neighbourhoods Trust is a Charitable Trust that provides essential services and support to the community through a range of community development initiatives and managing community venues.

We would like to take the opportunity to submit our feedback on the proposed taxation changes affecting the not-for-profit (NFP) sector, as outlined in the IRD issues paper *Taxation and the Not-for-Profit Sector (February 2025).*

We recognise the Government's aim to ensure tax fairness while maintaining support for charitable activities however we would like to outline below the negative impact that some of the proposed changes will have on us specifically and no doubt many other community-based organisations like ours.

1 Business Income Tax Exemption Changes

It is proposed that 'taxation of business income unrelated to charitable purposes' be introduced, including potentially thresholds for small-scale trading activities and/or mandatory distribution requirements for income retention.

We are concerned that our community development initiatives rely significantly on the venue hire income stream that managing community facilities provides. We also run a variety of community events that help mitigate the costs of our community operations. Imposing taxes on these income streams would significantly reduce our funds for providing essential community services and support, directly negatively impacting the well-being of our wider community.

We also try and invest in the future of our communities while also seeking to manage both the risks of increases in costs/need and the potential for loss of revenue. Living day-by-day or year-by-year is not a constructive option for genuinely serving our communities as the retention of staff who provide trusted relationships is key and projects need to be consistently delivered and maintained to obtain the best results for all.

Without capital reserves, we cannot meet unexpected costs or downturns, nor invest in new opportunities which may improve how we serve the new communities that are constantly being built or the new needs that continue to emerge.

To genuinely meet and also invest in the needs of our communities, we need more ways to grow our income streams, including social enterprises, initiative income, venue hire and more. Being taxed on such streams will prevent us from being able to invest in addressing needs both now, and in the future. For example, we are currently considering in building a new community facility in a new community that will otherwise have none. This will likely be unaffordable if the proposed tax changes are implemented due to the impact on taxing its revenue streams.

2. Increase in Compliance Costs

We are very concerned about the likely significant increase in compliance costs that will further divert resources away from service delivery. Thousands of charities across NZ will be paying more to the accountants to implement and assess such changes, taking critical financial resources from the charitable sector which is already financially struggling in the current climate.

We believe that defining ‘unrelated’ and ‘related’ income will be very problematic, resulting in unintended negative consequences and costs to society as a whole.

3. Reassessment of Fringe Benefit Tax (FBT) exemptions

Charities can rarely afford to match what businesses pay their employees and FBT exemptions have been one of the few tools available to charities to help acknowledge the work that their staff invest into the sector. Removing this exemption will add further increases in compliance costs due to adding in FBT reporting and charities will either be unable to afford the cost of replacing these benefits for their staff or will become even less competitive in retaining staff.

4. Wrong tool being used to address Charities abusing their privileges and responsibilities

There is no mention of the cost/value of charities currently abusing their privileges and responsibilities, however the compliance cost alone of the proposed changes and the cost already on charities needing to take time to evaluate and speak to these is very significant.

Addressing the abuse of specific charities should be the responsibility of the Charities Services as the Regulator of this sector. The Charities Act already ensures that income/profit cannot be used for private gain. We do not believe that using this ‘blanket’ approach to change tax regulations that will impact all charities is the right tool for addressing the few that are abusing their charitable status.

We also believe that these changes will make charities even more reliant on traditional funding sources, providing a financial disincentive from finding innovative ways to finance the growing needs of the community sector. Will the Government then pick up this financial shortfall or meet the gaps that will emerge when charities can no longer afford to do this work? We don’t believe it will.

Recommendations

We urge the Government to:

1. **Retain tax exemptions for all Charity income streams** that fund charitable activities within the Charity’s purposes.
2. **Allow flexibility in distribution requirements** to accommodate long-term financial planning, future investment, risk mitigation and meeting unforeseen community needs.
3. **Refine the definition of ‘donor-controlled charities’** to distinguish between legitimate philanthropy and undue influence.
4. **Retain the FBT benefit to all registered charities** to ensure that charities can attract and retain the staff they need against the competitiveness of the business sector
5. **Ensure tax changes do not impose excessive compliance costs** on small and medium-sized charities that already operate with limited resources.
6. **Consult extensively with the NFP sector** before implementing changes, ensuring policies align with real-world charitable operations.

Thank you for considering our submission.

s 9(2)(a)

Gavin Gunston, CEO - Connected Neighbourhoods Trust
s 9(2)(a)

s 9(2)(a)

From: Brian Johnston s 9(2)(a)
Sent: Wednesday, 12 March 2025 11:14 am
To: Policy Webmaster
Subject: Taxation and the not-for-profit sector

External Email CAUTION: Please take **CARE** when opening any links or attachments.

Thank you for the opportunity to make this submission.

By way of background, Nelson Tasman Region Hospice Trust NTRHT) is a registered (Tier 2) charity providing specialist palliative care both in the community and in our purpose-built palliative care unit. Our funding requirements to cover approx. $9 million pa in annual operating costs are provided by Te Whatu Ora (TWO) (50%), charity 'op-shop' sales (25%) and donations, bequests, grants and other community-based fundraising activities (25%). Our palliative care services are provided free of charge.

With considerable uncertainty surrounding the level of future funding support from TWO for the hospice sector, it is likely that we will become even more reliant on other fund raising activities, including from businesses, to ensure that our free of charge service can continue.

The narrative under 'Policy Framework' in Chapter 2 of your paper appears to focus on a charity's ability to accumulate untaxed profits on business income, providing competitive advantage through predatory pricing, lower compliance costs and the ability to raise cheaper external capital. The definition of what constitutes business income that is unrelated to the organisations charitable purpose therefore becomes fundamental to the 'tax or not to tax' debate.

Question 1 - the charitable purpose of the organisation, how it delivers that 'purpose' and the timeframe over which it is delivered are key considerations in the tax/no tax argument. A charity delivering an ongoing service that has relatively fixed costs, such as NTRHT, requires funding on a day-to-day basis to maintain its operational capability. This is not necessarily the case for a charity that can accumulate profit, generating a cash surplus, and make distributions as and when those 'accumulations' are deemed sufficient to do so. In my opinion, non-related business income for a charity providing an ongoing service (particularly if it is not being charged for) should be viewed quite differently from a charity that is making periodic distributions of cash and/or goods.

Question 2 - the most significant practical implication for the removal of the tax exemption would be a reduction in the availability of cash as a result of tax (either provisional or final) being paid. Most hospices do not currently operate profitably and are therefore very 'cash poor'. With the likelihood of a reduction in TWO funding in the near future, we will become even more reliant on other business sources of income to replace this. Taxing these sources will reduce cash, placing even more demand on our community fundraising efforts.

Question 3 - definitions of an unrelated business should include its size and the sector it operates in (does it have sector influence or an unfair competitive advantage), the level of funding it contributes to the charity (how many other sources of income does the charity have), what are the funds used for (do the funds enable the charity to deliver its service or are they 'banked' for future use) and the timeframe over which those funds are used (are they required to meet the daily costs of the charity's operations).

Question 4 - a de minimis exemption is a sensible idea for Tier 3 and 4 charities - up to 100% for Tier 4 charities, with a phased % reduction for Tier 3 charities (eg. less than $1million 100% exempt; $2-3 million 75% exempt; $3-5 million 50% exempt) where it can be clearly identified that they receive income from businesses not related to the charity's purpose.

Question 5 - If the tax exemption is removed for charity business income, then I agree that charity business income distributed for charitable purposes should remain exempt.

Question 6 - I cant think of any other policy considerations

As I have little knowledge of the issues raised in Chapters 3 and 4, **I have not responded to questions 7-12.**

Question 13 - removing/reducing the FBT exemption for charities will potentially add further cost to their operations. As noted in my response to Q2 above, most hospices already struggle to meet their daily operational cash needs, so any additional taxation related costs would be unwelcome. The paper also notes that the FBT exemption creates distortion in the employment market, however my experience of the hospice sector is that we are invariably playing 'catch-up' with the wage rates being offered to nursing staff by District Health Boards. The removal of the FBT exemption will reduce our charity's flexibility to compete in the labour market for nurses, allied health and support staff, resulting in either lost employment opportunities or a higher cost of operating.

Questions 14: As an organisation we do not make any type of payment, including honoraria, to our volunteers. However, I would hope that any discussion given to simplifying tax compliance costs for volunteers recognises the invaluable contribution they make to the charity sector, and any compliance measures being considered do not disincentivise volunteers from providing their services. Could consideration be given to a 'tax-free' threshold for payments to individual volunteers, or as an overall threshold for total payments made by a charity.

Question 15: My view would be to retain the current method of claiming donation tax credits against income earned as part of an individuals or organisation's annual tax return.

Kind regards

Brian Johnston
Head of Finance & Operations
NELSON TASMAN HOSPICE

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s 9(2)(a)

From: Susan Basterfield s 9(2)(a)
Sent: Wednesday, 12 March 2025 2:29 pm
To: Policy Webmaster
Cc: s 9(2)(a)
Subject: Taxation and the not-forprofit sector

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The paper raises the issue of abuse within the tax system, a concern we all share. However, the extent of the problem has not been clearly defined. Is this a widespread issue or limited to a small number of outliers? Before proposing any solutions, it is essential to establish the problem's scale and nature. Without clear evidence that the issue is pervasive, immediate action should focus on supporting and resourcing Charities Services. This organisation already has the experience and regulatory mandate to identify and adjudicate breaches effectively.

Defining "Unrelated Business Activity"

The practical complexities will be difficult and costly to address and pose significant challenges, as well as the potential for significant compliance costs for the charities sector or the businesses themselves.

Defining, auditing and enforcing 'unrelated business activity' will be complex, costly and open to public, political, and legal challenges. A comprehensive audit would be critical to understand the spectrum of current business activity to define 'unrelated business activity', the criteria and enforcement mechanisms. This will be a substantial task and may reveal that such a tax change will result in more costs than actual benefits.

Furthermore, what would the cost to businesses in New Zealand be if these changes were implemented? How many businesses currently depend on the charitable sector for their operations, and what would be the economic consequences of hindering their existence or preventing the establishment of new charitable enterprises?

Impacts on Charities That Own Businesses

Our charitable entity, Generous Ventures, works to enable business owners to transition their businesses into foundation or charitable ownership. This model offers a viable alternative to the status quo in Aotearoa New Zealand, where business owners often sell overseas or retain ownership among a small group of shareholders. Businesses can generate long-term philanthropic, social, and environmental benefits for local communities by becoming foundation-owned.

This approach directly addresses two pressing issues in New Zealand's economy: an under-resourced yet essential charitable sector and the loss of income and jobs when businesses are sold offshore. By keeping businesses locally owned under charitable structures, we can ensure workforce stability and community benefits. This model is well-established in many European countries. For example, research from Denmark highlights that foundation-owned companies demonstrate:

- Ownership stability and long-term decision-making;
- Greater financial resilience and stability;
- Positive economic impacts for employees, consumers, business partners, and the general public;
- Consistent tax contributions that support broader economic stability.

These findings suggest that similar models could benefit New Zealand's economy while fostering innovation in how we approach philanthropy.

Focus on Charitable Purpose Over Income Source

New Zealand's tax system is designed to tax income when it results in private or individual benefit. The focus should remain on ensuring that income generated by charities contributes directly to their charitable purposes—rather than scrutinising how that income is earned.

Any changes to the current system must avoid unintended consequences that could harm the charitable sector. Specifically, reforms must not:

3. Disincentivise innovation within the sector;
7. Discourage creative approaches to non-traditional philanthropy;
11. Force businesses to cease operating, resulting in job loss
12. *and*
13. a charity's income

15.
16.
17. Undermine current solutions and future efforts toward financial sustainability; or
18.
19.
20.
21. Force greater reliance on government grants or traditional philanthropic funding sources.
22.

The Role of Sustainability in the Charitable Sector

The coalition government has recognised the importance of sustainability within the charitable sector as integral to Aotearoa New Zealand's social fabric and economy. Where will replacement funding come from if charities are restricted from generating consistent income through innovative models?

It is also important to note that no local or international evidence shows that charitably owned businesses have an unfair competitive advantage in their markets. They often face disadvantages due to heightened public transparency requirements. These challenges provide valuable lessons that could inspire positive change in corporate governance across other sectors.

--
Susan Basterfield
Executive Director
s 9(2)(a)

s 9(2)(a)

From: s 9(2)(a)
Sent: Wednesday, 12 March 2025 3:31 pm
To: Policy Webmaster
Subject: Kiwifruit Industry

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After 50 years of growing kiwifruit, supplying the NZ economy with substantial taxable income I have quietly observed the unlevel playing field the Local Te Puke Industry has had to endure where Church groups working as Charitable Trusts with privately owned orchards in tow (but covered by some form of paperwork) have been able to afford Zespri fruit licenses while the tax paying genuine orchard people were at a huge disadvantage. How do i know this because the father of a neighboring orchardist working under that scheme told me so some 10 years ago. A particular Church Orchard Company many years ago went on to expand at a rapid rate buying dairy/sheep farms flattening vast areas east of Te Puke, planting kiwifruit and then selling at very good profits as gold licensed orchards. Not only have hundreds of ha. been developed and either sold or kept by them i consider when the real production hits Zespri all genuine orchardists stand to be unable to sell their Export Kiwifruit covering costs. An interesting point is how many of those were Zespri Directors and involved in the Kiwifruit licensing scheme by buying shares up to six months before the Industry/growers were officially advised and who are now reaping large share dividends.
Warner Bowyer (Grower)

s 9(2)(a)

From: Melanie Wester s 9(2)(a)
Sent: Wednesday, 12 March 2025 5:14 pm
To: Policy Webmaster
Subject: "Taxation and the not-for-profit sector" in the subject line

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To whom it may concern,

Submission to IRD Regarding Changes in Tax Liability for Not-for-Profit Entities

Shine Montessori Educare
Established in 2007, Shine Montessori Educare is a not-for-profit early childhood education center. Our charitable mission is to promote education through the Montessori method and foster a faith-based philosophy. We are committed to providing a nurturing, child-centered environment that aligns with our values and the values of the families we serve.

Background: Our Purpose and Mission

From the outset, we envisioned our center as an affordable, accessible option for families seeking an alternative to traditional childcare services. Our approach integrates the Montessori method, a proven educational philosophy that emphasizes hands-on learning, independence, and respect for the individual child. We also embrace a faith-based framework that further differentiates our services and aligns with the needs of a specific community segment.

However, as we have continued to grow, we've come to realize that running a service-based childcare business is costly. The staff, training, resources, and compliance required to meet the standards of care imposed by regulatory authorities have all become substantial burdens. Additionally, we face increasing competition from larger childcare providers, including well-funded conglomerates, which have more financial flexibility and economies of scale. Despite these challenges, our commitment to offering an alternative that aligns with the values of the families we serve remains steadfast.

Concerns Regarding 'Unrelated Business Income'

We are particularly concerned about the potential implications of changes to the tax treatment of unrelated business income. Specifically, we seek clarity on how income generated from activities that are not directly linked to our core educational and charitable purpose might be classified as "related" or "unrelated."

Currently, Shine Montessori Educare's charitable activities are primarily centered around early childhood education. However, we acknowledge that as a not-for-profit entity, we may generate income from activities that, while beneficial to the organization, may not always fit neatly within the traditional framework of charitable activity. For example, income from fundraising activities, rental income from facilities, or other business-related ventures may be considered "unrelated business income" under the proposed changes.

We recognize that the classification of income as "related" or "unrelated" to our charitable purpose is crucial in determining our ongoing tax obligations. As a not-for-profit, charitable organization, we rely heavily on our charitable status to ensure that we can continue offering an affordable, values-based educational choice in the community. The prospect of incurring additional tax liabilities on income that supports our mission but may not be strictly considered "related" under the revised guidelines could severely impact our ability to continue serving our community.

Impact of Changes on Our Ability to Offer Affordable Care

As an organization that strives to be affordable, our charitable status has been vital in helping us keep fees at a level that is accessible to families. Any changes to the tax rules that affect our ability to generate income from "unrelated" activities, or that impose tax liabilities on income currently exempt, could hinder our ability to continue offering services. This would be particularly damaging in light of the already substantial financial challenges we face in maintaining compliance with government standards, compensating staff fairly, and competing with large corporate entities that have much greater financial resources.

Conclusion

In summary, Shine Montessori Educare remains fully committed to its charitable mission to promote education through the Montessori method and to offer a community-based, faith-driven alternative to corporate childcare services. Our concerns regarding the classification of income as "related" or "unrelated" under the proposed changes to tax liability are significant, as these could impact our ability to continue offering affordable childcare to the families who depend on us.

We ask that the IRD carefully consider the unique challenges faced by small, charitable not-for-profit organizations like ours and provide greater clarity on how income will be classified under the revised guidelines. Additionally, we urge the IRD to consider the broader impact of tax changes on the ability of not-for-profits to continue delivering essential services to communities, especially in fields like early childhood education where the needs are great and the margins are thin.

Thank you for your time and consideration of our submission.

Sincerely,

Melanie Wester
General Manager
Shine Montessori Educare

Taxation and the not-for-profit sector submissions 12 March 2025

To whom it may concern.

My submission is of a general nature around the issue of tax avoidance via Income Tax Exemptions under the guise of the specific Charity those persons may be avoiding tax under.

The moral issue is that 1,000's of individuals benefit personally by hiding under the Charitable Trust structure. As has been highlighted already via the media, businesses like Sanitarium , Trinity Farms, some/all Maori Trusts and the list goes on, take advantage of the Charitable tax loopholes. That does not sit well with me when I as an individual, pay my fair share of tax as a business person over the years and yet a fellow NZ'er on a greater income pays very little or none at all.

It has been reported that Trinity Farms was formed 15 or so years ago but in fact the Brethren church established the concept of Tax Avoidance under Mr David Bay some 60 yrs ago. He and fellow like minded farmers created opportunities in farm purchase under the Charitable body operating at the time. I sold one property to one of those persons 50 yrs ago – at the time he (that person) was not a church goer but the tax break he got made it very attractive to him.

The question must be asked of each of these businesses where does the assets of the Charitable Trust go if it was wound up? To the individuals behind the smoke screen of the Trust?

Please do not be influenced by the donors of these bodies to political organisations.

Chapter 2 :

Q1. I have no problem giving a tax relief where specific monies were donated to a good cause, ranging from Education, health, fire service and that list can go on. BUT only on the monies given – **I do not support giving a 100% tax relief if the Charitable body is a business, making monies/profits like those mentioned in the paragraph above**. I can be very specific about Trinity Farms as they operate within the South Waikato farming catchment where I have farmed continuously for the last 55 yrs.

Q2; I as stated above I would not support removing the tax exemption for charitable purposes as many a recipient would miss out on much needed assistance but remove it for the part of the business that does not give its 90- 100% profits to a good cause. Growing a capital nest egg is not sufficient cause to not pay out the above.

Q3; An unrelated business is one that hides behind the charity and does not give or distribute that 90-100% of profits.

Q4; Only allow exemptions based on percentage of profit donated.

Q5; Unrelated businesses should be taxed 100% - Full stop.

Chapter 3;

Q7; I believe there should be a clear distinction between doner controlled and other charitable organization's - definitely but wiser hears would give a clearer direction than mine.

Q8; Definitely – where it is clear and may I use Trinity Farms as an example their growth pattern is very clear as to who the beneficiaries are in the South Waikato – it is farmer knowledge that Trinities growth has far exceeded its giving criteria. I am aware that in recent years the directors had felt they were not giving out enough to beneficiaries' and upped their donations – It was an ambulance in that particular instance. **They were using Trinity as a Capital investor under the guise of a Charitable body.**

Q9; Not too sure depending on size of each body. Better having it based on a say 90% of their investment or whatever?

Chapter 4;

Q10; I am not a tax person but today $1,000 is small change – at least double it would be a start.

Q12; Herd Imp, today Herd Imp is big enough to not need to hide behind tax exemptions albeit they with a vested interest would argue to the contrary – they have a vested interest to avoid tax if at all possible – as a farmer I would need some convincing they still need it.

Most Vet Assn's play such a very small role today so they should lose their exemption ASAP. No need for them there at all now – 30-40 yrs ago they were moving from a farmer co-op vet practice to what in most cases now is a very open competitive environment.

Research..... like any Trust tax exemption only on the monies specific for research – Maybe, I have no opinion!

Q13 – 15 Matter of Tax – leave it to greater minds...

In summery – Where charities are in the business of making money and there are no inflated salaries and where a minimum of around that 90% of profit is not paid out to beneficiaries' or worthy causes, those businesses should not be able to have an unfair advantage in competing with third parties in the market place.

Morally, we all have a responsibility to pay our fair share of tax under NZ law. The Charity business has been abused by some and to a degree the "horse has bolted". In the farming world, Trinity is now unstoppable, within Trinities 20,00 cows and almost 200 ha's of Kiwifruit, when we have leaders in agriculture hiding behind the tax benefits of Trinity involvement it does not sit well.

Tighten up the taxable component of any donations and minimize the capital retentions allowed for growth. It gives them all a grossly unfair advantage over others.

Do not be influenced by strong arguments of the status quo – that to me proves my argument of a vest interest.

Geoff Mathis

s 9(2)(a)

Q1. What are the most compelling reasons to tax, or not to tax, charity business income? Do the factors described in 2.13 and 2.14 warrant taxing charity business income?

Agree with 2.3 that the business activities undertaken by charities ought to be the focus of review. Manufacturing or producing goods for sale (/exchange/disposition) or investing in property (real or intangible) should be seen as a business activity regardless of the intention to make pecuniary profit.

In respect of 2.5, my suggestion would be that income from donations from tax paid sources (ie eg individual's after-tax income, or a donation from a business which is non-deductible for tax purposes for that business) are exempt income.

This is not just about competitive advantage as suggested in 2.13 and 2.14, but also the erosion of the tax base and allowing what is essentially a business to avoid its share of the tax burden which supports the very place they benefit from. (Refer 2.15).

These are factors that warrant taxing charity income from non-tax paid donations.

Q2. If the tax exemption is removed for charity business income that is unrelated to charitable purposes, what would be the most significant practical implications?

The additional compliance costs on charities required to file a return, unless a de minimis or percentage of income from donations exemption might apply in order to exempt a charity from filing.

The transparency and therefore potential exposure of charities workings could be a double-edged sword depending on viewpoint of the charity viz-a viz supporters or opponents.

Impact on cash flow should cash settlement of tax be required. This is normal for taxpayers but would be new to a charity to have to manage their working capital to allow for the tax obligations. This might mean that they have less funds to distribute. However, these are funds that ought to be remitted to the tax authority being proceeds from non-taxed operations.

Q3. If the tax exemption is removed for charity business income that is unrelated to charitable purposes, what criteria should be used to define an unrelated business?

It will be hard to define an unrelated business due to the nexus of the purpose to the activities. Further, if to be prescribed, then this is something that will have to be absolutely clear, so as not to become subject to jurisprudence other than in the most complex of determinations.

I suggest, subject to a de minimis rule for income, it is easier to capture all income other than that derived from tax-paid donations; and allow deductions for expenditure excluding donations, high-yield interest and dividends.

Q4. If the tax exemption is removed for charity business income that is unrelated to charitable purposes, what would be an appropriate threshold to continue to provide an exemption for small-scale business activities?

Zero – ie none. Just as it is for all other businesses.

Otherwise consider a single de minimis level based on expenditure (eg $1m).

Q5. If the tax exemption is removed for charity business income that is unrelated to charitable purposes, do you agree that charity business income distributed for charitable purposes should remain tax exempt? If so, what is the most effective way to achieve this? If not, why not?

No. Charities receiving income should receive it from tax paid sources. Charities earning business income (ie excluding donations from tax-paid sources) ought to pay tax on it.

Q6. If the tax exemption is removed for charity business income that is unrelated to charitable purposes, what policy settings or issues not already mentioned in this paper do you think should be considered?

Business should be limited to the amount of tax deduction they can avail of in respect of donations they make to/for charities. Ie eg maximum of 5% of assessable income.

Regarding charities operating as limited partnership, the income ought to be income to the respective partners. If they are NZ tax resident, then this should be captured in each partner's tax return. If they are non-resident, then the income should be subject to NRWT upon remittance.

Q7. Should New Zealand make a distinction between donor-controlled charities and other charitable organisations for tax purposes? If so, what criteria should define a donor-controlled charity? If not, why not?

No. This is a governance matter. The donor has significant influence over the funds and decisions of the organisation.

Should it be considered, sports clubs or some religious groups might be a good example as they benefit from their contributions to the work of the charity/club; all financial members can freely and regularly elect the governing body; and the club/church is not returning material profits (unlike many co-operatives which seek to save costs and competition in order to profit financially). They also beneficially provide employment and societal benefits.

Q8. Should investment restrictions be introduced for donor-controlled charities for tax purposes, to address the risk of tax abuse? If so, what restrictions would be appropriate? If not, why not?

Noting response to Q7: If so, then Yes. Donor and related parties exempted from voting, decision making and transactions as an interested party. Transactions ought to be arms-length.

Q9. Should donor-controlled charities be required to make a minimum distribution each year? If so, what should the minimum distribution rate be and what exceptions, if any, should there be for the annual minimum distribution? If not, why not?

Noting response to Q7: If so, then ordinarily Yes and a minimum of the OCR% of assets. However, consider:

1. a foundation might accumulate funds as a capital project might require more than one year and forced distribution would impinge on the organisations ability to undertake a multi-period project;
2. An organisation's assets might be illiquid and forced distribution could compromise the asset and/or the working capital of the organisation to pay tax when no cash income has been derived and therefore no source available with which to settle the imposed tax.

Q10. What policy changes, if any, should be considered to reduce the impact of the Commissioner's updated view on NFPs, particularly smaller NFPs? For example:

- increasing and/or redesigning the current $1,000 deduction to remove small scale NFPs from the tax system,

- modifying the income tax return filing requirements for NFPs, and
- modifying the resident withholding tax exemption rules for NFPs.

I will defer this to those more expert in the area of mutual associations etc.

In general:

- I would agree with increasing the $1k deduction to remove small organisations;
- Ordinarily I would prefer standardisation of filing for reasons of efficiency and equality;
- Ordinarily I would prefer standardisation of tax treatment for reasons of efficiency and equality. Also, RWT exemptions can be granted to organisations if tax expected to be loss, and the exemption criteria could be widened, but should also be applicable to all tax-payers equally.

Q11. What are the implications of removing the current tax concessions for friendly societies and credit unions?

Defer to those in the industry sector.

Q12. What are the likely implications if the following exemptions are removed or significantly reduced:

- local and regional promotional body income tax exemption,
- herd improvement bodies income tax exemption,
- veterinary service body income tax exemption,
- bodies promoting scientific or industrial research income tax exemption, and
- non-resident charity tax exemption?

Agree generally with tax standardisation, simplification and widespread applicability, including to industries a government might wish to favour. If tax is to be used, then perhaps through treatment of deductibility of investment in those areas and possible rebate of the tax portion in lieu of tax loss carry-forward or offset (for early-stage entities often pre-income).

Q13. If the compliance costs are reduced following the current review of FBT settings, what are the likely implications of removing or reducing the exemption for charities?

More charities putting signage on their vehicles so as to not incur FBT on vehicles, and compliance costs incurred.

People working for charities are likely to be doing it for altruistic or other convenience reasons, so any fringe benefits as supplementary to salary are only likely to be fringe as the name suggests.

Q14. What are your views on extending the FENZ simplification as an option for all NFPs? Do you have any other suggestions on how to reduce tax compliance costs for volunteers?

If not salary or wages, then a with-holding tax arrangement (eg RWT on director fees) or simply the charity can contract with the volunteer who invoices for services.

Q15. What are your views on the DTC regulatory stewardship review findings and policy initiatives proposed? Do you have any other suggestions on how to improve the current donation tax concession rules?

I am ok with the current system for donors. Should some such change be implemented I would consider a way of not refunding the donor, but (re)funding the organisation collecting the donations (donee) instead. The charity already has the collection information of the donors if they are able to provide the tax certificate/receipt for them, and could submit that in a file to the IRD periodically. This way the charity gets the extra dose of funds and the donors needn't follow up the receipts every year. This might cause a cash timing issue for the charity if donors reduce their giving/donations in order to accommodate not receiving the rebate themselves. IRD would also just have to work directly with the number of charities (as they would in a taxable situation) and not also with thousands of individual donors.

SWEET Louise | SUPPORT FOR INCURABLE BREAST CANCER

13 March 2025

Taxation and the not-for profit sector response to consultation

Whilst the stated objectives of "simplifying tax rules, reducing compliance costs, and addressing integrity risks" are great objectives we do not believe the objectives in their current form and entirety will deliver this outcome. It indicates an overall reduction in support for the sector. Tax exemption for charities offers numerous benefits to both society and the government, making it a valuable policy for fostering a thriving, community-oriented environment. These should not be overlooked and should be costed as part of the change, it is likely the proposed changes would not deliver enhanced tax revenue to the government as the scale of abuse is small.

From a societal perspective, tax exemptions for charities help promote social equity and community development. Charities often work in areas where government resources are limited, such as in rural or underserved urban regions. By ensuring that charitable organisations are not burdened by taxes, the government indirectly supports efforts to reduce inequality and improve the quality of life for disadvantaged groups. Charities contribute significantly to social welfare, enhancing community cohesion, reducing crime, and fostering overall well-being.

For the government, tax exemptions for charities can also be seen as a long-term investment in the health and prosperity of society. By enabling the not for profit sector to flourish, the government benefits from a more engaged and resilient citizenry.

Charities often act as intermediaries, connecting individuals with resources and services that they might not otherwise access. In the long run, this can reduce the demand for direct government intervention, as many of the services charities provide help mitigate societal problems before they escalate.

In essence, tax exemptions for charities is a smart long term fiscal strategy that benefits both the economy and society, delivering social good at a lower cost to the public sector.

Response to specific Questions:

Q1. What are the most compelling reasons to tax, or not to tax, charity business income?

Business income is the most financially sustainable way a charity can support itself to deliver its mission. Fundraising and philanthropy are far more volatile considerations and cannot be relied upon wholly to deliver charitable benefit. Charites further are already scrutinised and legislated to ensure any funds collected must be distributed to that charities purpose or they don't comply with the strict regulation of maintaining registered charity status. This is reported on annually through fiscal accounting and audit processes and publicly available through charities register.

PO Box 137 343, Parnell 1151
Level One, 96 New North Road, Eden Terrace 1021
Charity No. CC31706

Q2. If the tax exemption is removed for charity business income that is unrelated to charitable purposes, what would be the most significant practical implications?

The presence of tax-exempt charities encourages a culture of giving, as both individuals and corporations are more likely to donate when they know their contributions are maximised for impact. This spirit of philanthropy and community support not only strengthens civil society but also fosters a collaborative relationship between the government and the nonprofit sector. By recognising the vital role of charities, tax exemptions help sustain a positive cycle of giving, innovation, and collective well-being.

Removing this tax exemption makes it harder for charities to achieve financial self-sustainability.

We see this definition and demarcation of what is considered "unrelated" to be highly problematic. It is likely to lead to considerable compliance cost for charities and we suspect for the IRD and DIA Charities Services.

Q7. Should New Zealand make a distinction between donor-controlled charities and other charitable organisations for tax purposes? If so, what criteria should define a donor-controlled charity? If not, why not?

We find it difficult to answer the question should New Zealand make a distinction between donor-controlled charities and other charitable organisations for tax purposes due to a lack of clarity as to the scale of the issue. If Inland Revenue is aware of significant abuse and that this appears to be a growing problem, then we believe a distinction is valid.

We receive a significant proportion of income from the donors that set up and control our charity, who continue to willingly provide funding to enable our charitable purpose. Taxing these group would disincentivise valid charitable activity.

Q9. Should donor-controlled charities be required to make a minimum distribution each year? If so, what should the minimum distribution rate be and what exceptions, if any, should there be for the annual minimum distribution? If not, why not?

Accumulation of funds is covered and regulated / reported annually through the charity services performance and audit process. It is therefore already open to public scrutiny.

Our mission as a charity is not only to support those we serve today, but those who will need us in the future- a growing population. Enabling an accumulation of funds safeguards this and ensures we will be able to deliver on our core purpose in years to come. Having to distribute a significant proportion of funds in year would potentially jeopardise any future innovation to meet the growing demand on our charities services.

Q13. If the compliance costs are reduced following the current review of Fringe Benefit Tax (FBT) settings, what are the likely implications of removing or reducing the exemption for charities?

We appreciate the rationale of introducing and maintaining the FBT exemption to support the charitable sector. This has indeed allowed us to offer more attractive remuneration packages at a lower cost to the charity allowing us to attract and retain appropriate workforce as we can't compete with for profit salary and benefits/ remuneration packages. This is one way we can leverage our funds to secure and retain the best people to work for us. It also increases the funds we have available to spend on our core charitable purposes and reduces compliance costs.

The likely implication for us of removing or reducing the FBT exemption will be significant in our ability to compete for appropriate labour resource with the for-profit sector. It will also increase compliance costs in accounting for any fringe benefits that may still be provided reducing further the funds available for the core charitable purpose

First and foremost, charitable organisations play a critical role in addressing societal needs, especially for vulnerable populations. By offering tax exemptions, government empower charities to allocate more resources towards their purpose, enabling us to provide essential services that would otherwise need to be delivered by government at a significant cost burden.

Without this valuable exemption, charities would be forced to divert a significant portion of their funds to taxes and regulatory reporting, limiting our ability to help those who are most in need.

We would welcome the opportunity to discuss further with inland revenue to ensure any changes do not disincentivise charitable and philanthropic giving and delivery of charitable outcomes.

Yours sincerely

s 9(2)(a)

Catrin Devonald
CEO / Kaiwhakahaere
s 9(2)(a)
Sweet Louise Freephone 0800 793 385
PO Box 137 343, Parnell, Auckland 1151
www.sweetlouise.org.nz

Southern Group Training Trust

55 Gala Street, PO Box 240, Invercargill Ph (03) 218 8532 e-mail s 9(2)(a)

Submission to the Government on Taxation of Charities

Southern Group Training Trust (SGTT), established in 1999, is a registered charitable trust committed to providing high-quality apprenticeship training across vital industries including building and construction, plumbing, drain laying, gas fitting, electrical, and mechanical engineering. SGTT directly addresses skill shortages, significantly reducing employment barriers by managing apprentices' training and employment needs, thus benefiting both local businesses and the wider community. SGTT's charitable status enables it to reinvest surplus income entirely into training initiatives, expanding apprenticeship opportunities and improving community employment outcomes.

The proposed changes to tax charity business income, especially unrelated business income, pose a considerable threat to SGTT and similar community-serving organisations.

Globally, taxation of charities typically distinguishes clearly between income directly related to charitable purposes (tax-exempt) and unrelated commercial activities (often taxable). The United States, Canada, and the United Kingdom exemplify best practices, applying tax only on "unrelated business income." Such a model preserves charities' core missions, while ensuring fairness in commercial markets. The UK further refines this approach by allowing wholly owned trading subsidiaries to gift profits back to parent charities, effectively neutralising potential tax liabilities provided funds directly support charitable purposes.

Additionally, international best practices often include safeguards to prevent indefinite accumulation of untaxed profits. For example, Australia and Canada enforce minimum distribution rules, requiring charitable entities (especially private foundations) to distribute approximately 5% of their accumulated funds annually toward public benefit activities. This ensures transparency, active reinvestment into community benefits, and mitigates concerns of unfair tax advantages.

For New Zealand, adopting international best practices rather than blanket taxation on charities is crucial. Introducing a targeted policy similar to the US Unrelated Business Income Tax (UBIT) or UK subsidiary trading rules would protect entities like SGTT that genuinely serve community needs. Blanket taxation would disproportionately penalise organisations like SGTT, reducing available resources, and directly impacting apprenticeships delivered to industries already facing critical skill shortages.

SGTT's operations uniquely fill a community gap; it does not compete directly with profit-driven entities. Removing or reducing its tax exemption would simply limit the trust's ability to deliver vital services, exacerbating existing trade skills shortages. This negative impact would be felt widely, affecting regional businesses, apprentices' career opportunities, and overall community economic health.

In conclusion, Southern Group Training Trust strongly encourages the government to adopt targeted, globally-proven taxation models that clearly differentiate charities genuinely serving public interests from those benefiting select private groups. Such an approach will protect legitimate community-focused charities from unfair tax burdens, preserving their ability to deliver essential public benefits effectively.

Glenys McKenzie, General Manager 13 March 2025

s 9(2)(a)

From: Chrissi Robinson s 9(2)(a)
Sent: Friday, 14 March 2025 3:14 pm
To: Policy Webmaster
Subject: Taxation and the not-for-profit sector

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The Daily Charitable Trust is a registered charity that has been operating various outworkings of a social enterprise model for 10 years now and would like to share our observations about what is proposed.

We note that charities are accountable through the Charities Commission to achieving their 'charitable purpose - both in their day to day operations and that any 'profits' from business operations are directed to charitable outcomes. We believe, and are proof, that there are times when these charitable outcomes and purposes are most sustainably, effectively and efficiently realised through a model that involves a level of 'business operations'.

We also note that in charities, the "business operations" are often tied into the charitable operations, creating efficiencies that support the overall sustainability and outworking of the charitable purpose of the organisation. It can be very hard to distinguish between the two in both accounting and reporting.

If the onus is on the charity to distinguish between the two, this will add administrative burden, the cost of which will be weighted significantly against the smaller charity.

If the decision is made to tax the business operations of charities, we suggest a threshold in place where 'tax on business operations' becomes effective, perhaps based on turnover. This threshold would mean the charity is of a significant size to support the accounting systems and administrative burden.

We also suggest that taxation on the business operations of charities be directed back to the charitable sector, perhaps through DIA. Many members of the public support the 'business operations' of these charities because they believe in supporting the charitable sector, and we believe their wish to leverage their spending for charitable purpose should be honoured We are also concerned that some of the support that the general public purposefully direct to charities through their business operations may decrease if members of the public perceive 'it's just going to get taxed'. This is particularly problematic for charities that face commercial level operational costs, and having a 'business operations' facet to their charity helps support these in an environment where funding available from philanthropic or government sources is on the decrease.

Ngā mihi,

Chrissi Robinson
General Manager | The Daily Charitable Trust
Strengths: Achiever -Connectedness -Learner -Relator -Strategic

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s 9(2)(a)

From: Margaret Mabbett s 9(2)(a)
Sent: Friday, 14 March 2025 7:59 pm
To: Policy Webmaster
Subject: Taxation and the not-for-profit sector

External Email CAUTION: Please take CARE when opening any links or attachments.

Kia ora, thank you for the opportunity to comment on this paper.
I am writing as a private individual who has been involved in a number of NFPs over the years including musical charities and unit title bodies corporate for apartment buildings.
There are several points in the paper where the implications for such entities seem unclear. My main interest is ensuring that the benefits of tax exemption are not inadvertently lost. I also have some views on how the compliance burden for such organisations and the volunteers who do their work could be reduced.

Q1-6 how 'unrelated to charitable purposes' is defined will be critical. I am assuming that revenue from performances (when delivering performances is part of the purpose of the charity) would not be considered 'unrelated'. Graduate Women branches run academic dress hire operations to raise funds to provide scholarships- an operation I think meets all of the criteria in para 2.24.

Q10 It is not clear in the paper whether you are considering building body corporates in paragraphs 4.4-4.8. As these exist to gather funding contributions in a fair way from multiple owners to pay for the services, repairs and maintenance, building compliance and capital works that an owner of a stand-alone property would pay for by themselves, any surplus other than interest income on cash balances is typically a timing difference, not a profit. I hope there is no intention to tax temporary surpluses arising from levies on their members.

Q14 I was interested by your example of FENZ volunteers firefighters here, as they are at least partly paid for their efforts by a professionally administered organisation.
The musical charities I participate in are typically run entirely by a committee of unpaid volunteers, possibly with a couple of people paid a modest fee (effectively less than minimum wage) as conductor or soloist in a particular show or concert. For such organisations, dealing with amounts paid to individuals as schedular payments involves significant unpaid administrative effort by both payer and recipient.
The withholding rates to be applied to honoraria and entertainer categories are also much higher than the marginal tax rate for many recipients - for example a university student playing a concerto with an orchestra once in the course of a year would potentially have to wait to the end of the tax year to reclaim 45% of their modest fee. A reduced withholding rate through a certificate of exemption is only a useful option for people who regularly receive such payments. A de minimis threshold under which withholding tax would not need to be administered- for total amounts paid by an organisation per annum and/or the amount paid by an organisation per annum to any individual - could greatly reduce compliance effort on both sides for a lot of small charities (say tier 4).

Q15 I am not surprised that few people are claiming donation tax credits. The process is complicated, particularly providing the supporting receipts to IR if you don't have access to a printer/scanner/desktop computer, and we have no prompt from IR to claim unless we are sent the paper claim form. I just looked up the question of donating the tax credit back to the underlying charity (as is common in the UK) and see that the Supergenerous platform for doing so has just shut down. Being able to claim as you go would definitely help, as would being able to tick a box on your donation form enabling the donee organisation to claim the tax instead on your behalf.

Margaret Mabbett
s 9(2)(a)
Sent from my iPad

Submission on the Taxation and the Not-for-Profit Sector Consultation 2025

Submitted to: Inland Revenue Department, New Zealand
Submitted by:Hands For Impact™
Submission Date: 17 March 2025

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1. Introduction

Organisation Name: Hands For Impact™
Legal Status: Charitable Trust
Primary Purpose:We reduce the financial barriers for non profit and charity organisations to measure and maximise their social impact by undertaking a pro-bono Social Return on Investment (SROI) Evaluation for them.
Contact Person:Dawn Hutchesson,Manager
Contact Email:dawn@handsforimpact.com

Our mission is to improve access to social impact measurement for non-profit organisations in Aotearoa through cost-effective, collaborative and sector-wide approaches.

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2. Key Submission Points

A. Charity Business Income Tax Exemption

- We do not support the proposal to tax charity business income unrelated to charitable purposes.
- The impact of this change on our organisation would be: reduced funding for charitable activities, increased compliance costs, reduced financial sustainability.
- If a tax exemption is removed, we recommend:
    - A de minimis exemption for small-scale activities (e.g. Tier 3 and Tier 4 charities).
    - A transition period to allow charities time to adjust.
    - Clear guidelines to define "unrelated business activity" to avoid unintended consequences.

B. Donor-Controlled Charities

- We do not believe that New Zealand should distinguish donor-controlled charities from other charities for tax purposes.
- If additional regulations are introduced, they should:
    - Ensure transparency without unnecessary compliance burdens.
    - Avoid penalising genuine philanthropy.
    - Consider a reasonable minimum distribution requirement for donor-controlled charities.

C. Tax Simplification and Integrity Measures

- Simplification of tax rules for NFPs is essential to reduce compliance costs for small organisations.
- We recommend:
    - Raising the $1,000 tax exemption threshold for NFPs.
    - Simplifying the income tax return filing requirements for small charities.
    - Reviewing the resident withholding tax exemption to ensure charities can retain funds for public benefit.

D. Impact on Volunteers and Donation Tax Credits

- We support reforms to simplify tax compliance for volunteers, particularly the honoraria tax treatment.
- We support changes that make donation tax credits more accessible and real-time to encourage giving.

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3. Conclusion and Recommendations

We appreciate the opportunity to contribute to this consultation. While we acknowledge the need for fair tax policies, we urge the Government to carefully consider the potential unintended consequences on small charities and their ability to serve communities. We are happy to discuss this submission further and provide additional input if needed.

Signed by:
Dawn Hutchesson
Manager
s 9(2)(a)

s 9(2)(a)

From: John Trezise s 9(2)(a)
Sent: Monday, 17 March 2025 4:51 pm
To: Policy Webmaster
Subject: Taxation and the not-for-profit sector: Submission on taxing charities and NFPs, and exempting donations to them

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'Every tax concession has a "cost", that is, it reduces government revenue and therefore shifts the tax burden to other taxpayers.'

This the most important of the six points listed in the introduction to the consultation paper 'Taxation and the not-for-profit-sector.

I argue that there should be no tax rebate or concession on a donation to any so-called charity or other not-for-profit entity. Let everyone pay their taxes to the state, then do as they please with what's left, whether that be to spend on themselves or to give away.

As for giving tax concessions to the enterprises of the charities and not-for-profits, I think the default position ought to be that the entity must pay tax like any other. The test should be 'Why should this enterprise not be taxed?' not "Why should this enterprise be taxed?'.

This requires considering what makes a 'charity' charitable. One presumes it is accomplishing some 'public good' to society that has wide approval and that the state itself could do but chooses not to. One example that springs to mind is Southern Cross Health, a non-profit doing for its members what they state ought to be doing but isn't.

An example of a contestable charity often raised is that of an institution for the 'advancement of religion'. While people who belong to a religious body will argue that propagating their particular beliefs and way of life is for the good of society, there will usually be others who will argue that it is anything but good for society. There is no consensus that the advancement of religion is a public good: it survives simply because it has been inherited from 17th-century England without vigorous context.

It is difficult to believe that many , perhaps any, donor-controlled charities, regardless of their declared purpose, will be seen by the wider community as above suspicion.

I'm not going to answer any of the 15 questions the consultation paper poses. I simply repeat what I said at the beginning:

'Every tax concession has a "cost", that is, it reduces government revenue and therefore shifts the tax burden to other taxpayers.'

John Trezise
s 9(2)(a)

s 9(2)(a)

From: Erwin van Asbeck s 9(2)(a)
Sent: Monday, 17 March 2025 6:16 pm
To: Policy Webmaster
Subject: Taxation and the not for profit sector. Submission by Circability Trust.

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Kia ora I am making this submission on behalf of Circability Trust.

Circability Trust.
Registered Charity status Oct. 2012.
CC. # 48564
HQ Location: 203 Victoria Street West, Auckland Central, Auckland, 1010 PO Box 78414, Grey Lynn, Auckland, 1245.

17th March 2025.

Submission. Taxation and the not for profit sector.

To whom it may concern.

The kaupapa of Circability is to improve lives and inspire social change through innovative and inclusive social circus arts. "All Abilities Ages & Cultures - Better Together "

We have gained award recognition for our work, and like many charitable organisations provide a valued impactful service to people and communities in need. We initiate and are pro active in our development and have a good national reputation. Circability has a long standing association with diverse providers, organisations, and funders and we are part of the Arts Access Aotearoa 'Creative Spaces' Network.

Our inclusive accessible programmes and events remove barriers to participation for all, no matter their circumstances, culture, physical / cognitive abilities, or financial means. We operate over four regions in Aotearoa/New Zealand - Kaitaia, Auckland, Tauranga and Christchurch promoting health/wellbeing, educational and social development outcomes - annually connecting with over 12,000 individuals within marginalised communities, schools, young people, older adults, people with disabilities and whānau through innovative and diverse social circus programmes.

Our annual budget has grown to exceed $900,000 corresponding to the tier 3 size charity status.

From our perspective, and looking at the IRD Consultation Officials' Issues Paper, the majority of 'not for profits' fall under tier 3 and 4, as we are making the following observations and queries for a balanced and positive outcome that enhances the sector we inhabit.

We have a small operational team and a pool of contract tutors; the majority of our revenue sources are largely grants from the philanthropic sector, local government, Councils, and occasional government contracts; we are thus one of thousand's of smaller service charities where any the tax take that is generated would be negligible, but where there would be considerable time consuming compliance costs, and that the administrative burden/stress would be disproportionally large.

+ The need for a de minimus thresholds so that charities are not completing tax returns for comparatively minuscule amounts of income.

+ There is also a need to clearly define what is 'related to charitable purpose' and what is 'unrelated business income'. This is unclear so far in what we have seen.

Where we have 'paid' workshop or class fees, all revenue is absorbed into the operational costs and the revenue from our hall hire fees of $13k a year, I imagine might be less than the de minimus threshold – although this too is unknown, while this comparatively small income is absorbed to help secure our bottom line.

Though it is a constant challenge for many to be sustainable and responsible providers all charities ideally need a sufficient fiscal buffer to maintain operational solvency, especially in these uncertain times. The reality is somewhat different, and the 'review' would need to make sure it doesn't throw the baby out with the bath-water!

An observation that the Charities Act / Commission has already robust compliance systems in place as a safe guard, and possibly more robust and transparent than the commercial sector.

+ That it would however be astute and financially beneficial to ensure the existing structure is indeed adequately resourced to address their capacity to investigate fraudulent reporting and unlawful/practice where ever it occurs.

Thank you for the opportunity to make this submission.

Yours faithfully

Erwin van Asbeck
Chairperson, on behalf of Circability Trust.
s 9(2)(a)

s 9(2)(a)

From: Jon & Lynley Makin s 9(2)(a)
Sent: Monday, 17 March 2025 9:17 pm
To: Policy Webmaster
Subject: Taxation and the not-for-profit sector
Attachments: https-www.localmatters.co.nzopinionanimals-vet-returns.webloc

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To whom it may concern,

I would like to make a submission on the "Taxation and the not for profit sector" review currently being undertaken by the IRD.

I am a veterinary surgeon and partner in a private practice with clinics based in Warkworth and Wellsford. There are 2 other local veterinary clinics in the immediate area, one of which is privately owned and the other being a vet club. Two of the local practices pay income tax and the other pays none.

Vet clubs originated about 80 years ago to encourage the establishment of veterinary services in rural NZ to support the growing agricultural industry and to attract foreign qualified vets to settle in NZ and provide a service staffed with professionals which NZ at that stage was unable to train itself. These vets are now trained at Massey University. The vet club system is an outdated, unnecessary and unfair relic of the past and I'm pleased it has been identified for scrutiny by the IRD.

It is very unfair that our practice has to compete with another local business which has a significant advantage courtesy of a taxation policy. We have lost many of our large animal clients to our vet club neighbours over the years as we are unable to compete with their pricing. We have adapted to this and changed the focus of our practice to a mainly companion animal practice, but it has become apparent to us that the vet club is actively seeking out this work too, again made much easier by the lower overheads they have courtesy of their tax breaks. I'll attach an article recently written by our neighbouring vet club practice promoting their small animal surgical services, published in "Mahurangi Matters".

I understand and accept that in years gone by when NZ had a fledgling agriculture industry that any encouragement to establish a veterinary profession to support the farmers was necessary. Times have moved on though and the subsidising of veterinary service by the government is no longer needed.

I feel that the original intention of the vet club system, to encourage and establish a veterinary support structure to help farmers flourish has passed. It seems that the tax payer and companion animal owner is supplementing the income of the vet club vets and the farmers. This when the 2024/25 milk payout is at a record high! It just doesn't seem fair. s 18(c)(i) shows that the tax breaks afforded to the vet club not only enable a reduction in the service fees to the farm clients, but also reward the vet club staff. The vet club staff are incentivised to turn a profit as it will directly reward them financially. This is more the attitude of a genuine business rather than a charitable organisation.

The farmers don't need charity, the vet club staff don't need charity, and their businesses should not need the NZ taxpayer to subsidise them.

I am pleased that the IRD is looking into this, and hope they can draw the same conclusions that many in my profession did years ago.

I am happy to be contacted to discuss this further if needed.

Jon Makin BVSc
Warkworth Vets
Hudson rd
Warkworth

s 9(2)(a)

ST BEDE'S COLLEGE
FIDE ET OPERE

210 Main North Road, Papanui, Christchurch
PO Box 5380, Christchurch 8542, New Zealand
Phone: 03 375 0647 **Email:** office@stbedes.school.nz

Deputy Commissioner, Policy
Inland Revenue Department
PO Box 2198
Wellington 6140

Dear Deputy Commissioner,

Submission on the Consultation Paper - Taxation and the Not-for-Profit Sector

We appreciate the opportunity to provide feedback on the Inland Revenue Department's issues paper, Taxation and the Not-for-Profit Sector, issued in February 2025. As the governing body responsible for providing and maintaining property and boarding facilities for St Bede's College, as well as supporting the school's Special Character, we wish to highlight two key areas of concern:

1. Taxation of Unrelated Business Activity

   The consultation paper discusses the potential removal of the tax exemption for income derived from "unrelated business activity." While we acknowledge the need for clear tax policy, we are concerned about any ambiguity in defining "unrelated business activity." International definitions vary significantly, and we urge Inland Revenue to consider a precise definition that takes into account the unique operational circumstances of charitable organisations and adopts a broad definition of those activities which are related to charities purposes.

   In our case, we engage in several activities that could potentially be classified as unrelated, yet serve a broader charitable purpose by supporting our educational mission:

   Rental Property Ownership: We own four rental properties as part of a long-term strategic plan for future campus development. In the interim, we generate modest rental income that is fully reinvested into our educational infrastructure and charitable mission.

   Boarding Facilities Hire: During periods when boarding students are not present, we rent out boarding facilities to generate additional revenue. This practice is common among educational institutions and directly offsets the costs of providing student accommodation.

Tuck Shop Operation: The school tuck shop provides a service to our students while also generating a modest surplus, all of which is reinvested in school facilities and student welfare programs.

A narrow definition of related business activities could result in each of these activities being taxed. However, they are incidental to our activities and generate funds which are reinvested towards our charitable purpose. Given the direct reinvestment of these funds into charitable purposes, we strongly recommend that any new definition of unrelated business activity be narrowly defined. Additionally, we propose an exemption for business activities where all surplus income is reinvested into the charity's core purpose.

2. Donation Tax Credit (DTC) Reform

The consultation paper considers simplifying the process for donors to claim donation tax credits by allowing real-time claims rather than requiring end-of-year submissions. We fully support this proposal, as it would:

- Encourage charitable giving by providing immediate financial benefits to donors.
- Reduce administrative burden on both donors and donee organizations.
- Increase transparency and compliance, as digital systems would streamline the claiming process.

We believe this change would be particularly beneficial for school foundations and trusts that rely on community support. Therefore, we encourage the adoption of real-time DTC claims as a means to enhance donor engagement and financial sustainability in the charitable sector.

Responses to each of the discussion questions raised in the paper are attached below.

Conclusion

We urge the Inland Revenue Department to:

- Provide a clear and narrow definition of "unrelated business activity" that excludes activities where all surplus income is used for charitable purposes.
- Maintain the tax exemption for such activities to prevent undue financial strain on educational institutions and other charities.
- Implement real-time donation tax credit claims to promote charitable giving and administrative efficiency.

We appreciate your consideration of our submission and welcome any further discussion on these matters. Please do not hesitate to contact us should you require any additional information.

Yours sincerely,

s 9(2)(a)

General Manager
St Bede's Board of Proprietors

St Bede's College Board of Proprietors
Responses to Discussion Questions

Q1: What are the most compelling reasons to tax, or not to tax, charity business income?
Charity business income should remain tax-exempt when surpluses are used exclusively for charitable purposes. Taxing these funds would reduce the ability of charities to reinvest in their mission and increase reliance on government support.

Q2: If the tax exemption is removed for charity business income that is unrelated to charitable purposes, what would be the most significant practical implications?
Increased compliance costs, reduced funding for charitable activities, and a shift toward passive investments rather than revenue-generating activities that provide public benefits.

Q3: If the tax exemption is removed for charity business income that is unrelated to charitable purposes, what criteria should be used to define an unrelated business?
A business should be considered unrelated only if it has no direct connection to the charity's mission and if its surpluses are not reinvested in charitable purposes.

Q4: If the tax exemption is removed for charity business income that is unrelated to charitable purposes, what would be an appropriate threshold to continue to provide an exemption for small-scale business activities?
A de minimis threshold should be applied, exempting charities with annual surpluses below $100,000, similar to international practices.

Q5: If the tax exemption is removed for charity business income that is unrelated to charitable purposes, do you agree that charity business income distributed for charitable purposes should remain tax-exempt? If so, what is the most effective way to achieve this?
Yes, income reinvested in charitable purposes should remain tax-exempt. A mechanism similar to imputation credits could be used to ensure transparency.

Q6: If the tax exemption is removed for charity business income that is unrelated to charitable purposes, what policy settings or issues not already mentioned in this paper do you think should be considered?
The impact on capital accumulation for long-term charitable projects should be addressed, as charities may need to retain funds for future expansion.

Q7: Should New Zealand make a distinction between donor-controlled charities and other charitable organisations for tax purposes? If so, what criteria should define a donor-controlled charity? If not, why not?
Yes, donor-controlled charities should be defined based on the level of influence the donor has over governance and financial decisions.

Q8: Should investment restrictions be introduced for donor-controlled charities for tax purposes, to address the risk of tax abuse? If so, what restrictions would be appropriate? If not, why not?
Yes, restrictions should ensure that investments are made at arm's length and that charities do not channel funds back to donors.

Q9: Should donor-controlled charities be required to make a minimum distribution each year?
Yes, a minimum distribution rule, similar to Canada's 3.5%-5% requirement, should be implemented to prevent excessive accumulation.

Q10-Q11: What policy changes should be considered for NFP taxation and friendly societies?
Simplified compliance for small NFPs and a review of friendly society tax concessions to ensure fairness.

Q12: What are the implications of removing tax exemptions for certain entities?
It may negatively impact funding for scientific and regional development initiatives and require alternative government support.

Q13: If compliance costs are reduced, what are the likely implications of removing or reducing the FBT exemption for charities?
It may reduce the ability of charities to attract skilled staff, increasing salary demands.

Q14-Q15: How can tax compliance be simplified for volunteers and donors?
Extending FENZ-style simplifications for volunteer payments and implementing real-time donation tax credits would ease administrative burdens.

Submission on the Proposed Changes to Taxation in the Not-for-Profit Sector

To: The Finance and Expenditure Select Committee

From: Kaipātiki Project Incorporated (NZBN: 9429043007554)

Date: 18 March 2025

Introduction:

The Kaipātiki Project is an incorporated society with charitable organisation that provides essential services and support to the community. We welcome the opportunity to submit our feedback on the proposed taxation changes affecting the not-for-profit (NFP) sector, as outlined in the IRD issues paper *Taxation and the Not-for-Profit Sector (February 2025).*

We recognise the Government's aim to ensure tax fairness while maintaining support for charitable activities. However, we believe that some of the proposed changes may have unintended consequences that could negatively impact community-based organisations like ours.

1 Business Income Tax Exemption Changes:

Proposed Change:

- Taxation of business income unrelated to charitable purposes.
- Introduction of a '*de minimis'* threshold for small-scale trading activities.
- Mandatory distribution requirements for income retention.

Our Concerns:

- Many community facilities, including ours, rely on venue hire and fundraising to sustain operations. Imposing taxes on these income streams could reduce available funds for essential community services.
- A rigid distribution requirement may limit our ability to save for future capital projects or respond to unexpected community needs.
- Increased compliance costs could divert resources away from service delivery.

2 Donor-Controlled Charities:

Proposed Change:

- New restrictions on charities with significant donor influence, including potential investment limitations and minimum distribution requirements.

Our Concerns:

- Some donors play a key role in supporting community projects without expecting undue influence. Restricting donor involvement too broadly may discourage philanthropy and impact funding.
- Investment limitations could reduce financial sustainability and hinder long-term planning.

3 Integrity and Simplification Measures:

Proposed Change:

- Review of tax treatment for member transactions.
- Potential reassessment of Fringe Benefit Tax (FBT) exemptions.

Our Concerns:

- Reciprocal arrangements such as discounted room hire for volunteers or member organisations could be unfairly classified as taxable benefits.
- FBT changes could increase operational costs and affect staff retention.

Recommendations:

We urge the Government to:

1. **Retain tax exemptions for community-based income streams** that directly fund charitable activities and essential services.
2. **Allow flexibility in distribution requirements** to accommodate long-term financial planning and unforeseen community needs.
3. **Refine the definition of 'donor-controlled charities'** to distinguish between legitimate philanthropy and undue influence.

4. **Ensure tax changes do not impose excessive compliance costs** on small and medium-sized charities that already operate with limited resources.

5. **Consult extensively with the NFP sector** before implementing changes, ensuring policies align with real-world charitable operations.

Conclusion

We appreciate the opportunity to contribute to this important discussion. Our organisation remains committed to serving our community and ensuring that any tax reforms support—not hinder—our ability to deliver vital services.

Thank you for considering our submission.

Yours sincerely

s 9(2)(a)

Nigel Green
Board Member
Kaipātiki Project
s 9(2)(a)

s 9(2)(a)

From: Dan & Wendy Weinberg s 9(2)(a)
Sent: Tuesday, 18 March 2025 2:26 pm
To: Policy Webmaster
Subject: Taxation and the not-for-profit sector.

External Email CAUTION: Please take **CARE** when opening any links or attachments.

The Piopio Senior Citizens would like the tax exemptions we currently receive to continue.
Our income covers the bills only just and we would not be able to pay a tax bill.
Thank you.
Wendy Weinberg.
Secretary.
s 9(2)(a)

18 March 2025

Taxation and the not-for-profit sector
C/- Deputy Commissioner
Policy, Inland Revenue Department
By email

Tēnā koutou

Taxation and the not-for-profit sector

This submission is made on behalf of Whakarewarewa Village Charitable Trust (Registration number: CC24216; NZBN number: 9429042840282), regarding IRD consultation on Taxation and the not-for-profit sector.

We DO NOT request that information in this submission be withheld on the grounds of privacy or other reasons.

Background

Whakarewarewa Village Charitable Trust (WVCT), based in Whakarewarewa, Rotorua, was established in 2008. The organisation has a focus on kaupapa Māori, marae, affiliation with iwi and/or hapū, and focuses on outcomes for Māori and Māori ownership.

WVCT has a constitution and rules, detailing a range of 26 objects, broadly covering support of people, built heritage and taonga, and the local environment. These objects include: advancement of people; encouraging public interest in Māori people and culture; providing housing; education, training and employment, business skills; care of elderly; management of lands and property; and so forth.

WVCT is the sole shareholder of Whakarewarewa Thermal Village Tours Ltd (WTVT; Company number: 189599; NZBN: 9429033689333), an LTC with a primary purpose of undertaking tourism activities. All profits from the business return to the WVCT. The business (WTVT) is located in the village where the WVCT objects are focused.

The primary purpose of WTVT is to undertake tours for national and international visitors, education groups, social or community groups. The business conducts historical, cultural and environmental tours and education programmes, through guided tours, self-guided walks, digital assets, cultural performances, the sharing of kai, and experience of manaakitanga, and Māori culture.

Close nature of Trust and Business Objectives.

Due to the nature of the WTVT business and operations, the business promotes or undertakes many objectives for WVCT and generates the primary income that enables these objects to take place. The business activities therefore directly relate to the charitable purpose (para 2.3, consultation document).

The people of Tūhourangi Ngāti Wāhiao are the main recipients of benefit from the WVCT (para 2.5, consultation document). The majority of the people intended to benefit from the objectives of WVCT whakapapa to this iwi and Whakarewarewa geothermal village where WTVT operates. Tūhourangi Ngāti Wāhiao are widely acknowledged as the first people to establish tourism in Aotearoa New Zealand, to commercialise and conduct tours, and introduce manuhiri (visitors) from through the world to the culture, environment and geothermal wonders of our country.

The majority of staff employed by WTVT are direct descendants of these trailblazers, so also whakapapa to this iwi. Some will live within the village. Their primary role on a daily basis is directly aligned to WVCT objectives, by holding either direct or supportive roles that uphold the promotion of Māori culture, local stories, culture and history through the operation of tourism.

Most of the built heritage and taonga, recognised in the objects of WVCT, are physically located in the operating area of WTVT. This means that employees are also employed to undertake WVCT objectives, such as caring for and maintaining built heritage, rental properties and built taonga. They also assist renters and village residents (many of whom are elderly) with property maintenance and care, as appropriate.

The local environment, recognised in the objects of WVCT, is also physically located in the operating area of WTVT. Staff of the business undertake management of the village and nearby natural surroundings, including the geothermal environment, in which they have cultural and practical expertise. This also ensures that the environment is monitored and managed safely for residents, extended whanau and manuhiri, including the tourism and education visitors that are a key focus for the WTVT business.

Costs, compliance and returns

The WTVT business is the main source of revenue for WVCT purposes, intended to benefit up to 10,000 descendants who whakapapa to the iwi, and the geothermal lands where the people, their history and business is located. The number of potential recipients over time is considerable and reduces the burden on other forms of state support funded through taxation, for example through employment, health and wellbeing programmes, subsidised housing, land, water and environmental care, and by funding local community infrastructure, events, activities, schooling, tangihanga, training, and so forth (para 2.4, consultation document).

Tūhourangi Ngāti Wāhiao people have been operating tourism businesses for approximately 200 years. Many in the past were small owner-operated or self-employed businesses, and some businesses located in the village remain at this scale.

As WTVT and WVCT structures have developed over time this has provided widespread benefits of longevity, stability and security, for employees, beneficiaries, inbound tourism operators, local and national business partners, local government, plus national tourism and export promoters. The business is a nationally recognised contributor to the local community. The village is recognised as a renowned component of national and international inbound destination tourism promotion, and a cornerstone of international tourists' desire to travel, due to its cultural and geothermal attributes.

However, due to the complexity of integrated WTVT operations and WVCT objectives, costs are significant for the business, and WVCT. This has not led to a financially measurable competitive trading advantage for WTVT; and pricing is aligned to local and sector competitors (para 2.7-2.12, consultation document). It is noted further that several other local tourism experiences also have iwi-owned operating/trust models.

Due to the wellbeing, community and other objects of WVCT, whose principles guide the business operations, the costs of both undertaking the business operations is higher than a more-competitive model. Due to WVCT requiring tier two charitable status compliance, reporting, auditing and measuring of outcomes the costs of managing the trust is also very high. Together these costs make are uniquely high. There is no financial benefit or advantage over non-charitable organisations in terms of compliance costs for tax obligations (para 2.13, consultation document). WVCT does not carry high retained earnings (ibid.).

For this organisation, its purposes and context, there is no notable advantage in terms of an opportunity to expand more rapidly than competitors (para 2.14, consultation document). This is due to the recent impacts such as those upon the tourism sector; the increasing needs of the people that WVCT serve; geothermal risk; population growth, ageing and demographic changes predicted among the Tūhourangi Ngāti Wāhiao iwi and hāpu. It is also due to the increasingly complexity of purposes that WVCT serve, such as environmental changes, geothermal compliance, ageing community infrastructure, heritage buildings, insurance costs, and so forth. The loss of government funding for many purposes (pest control, health and wellbeing, sports, community infrastructure, tourism infrastructure, heritage buildings, cultural activities, and so forth) has meant that WVCT is now called on more than ever to direct funds towards community needs that were previously resourced directly through central or local government. An example is that WVCT has been called upon to fund public toilets outside the village, that would previously have been funded by local government or central government tourism infrastructure or regional development funding (Q1, consultation document).

The tourism sector, which is the legacy and heritage of Tūhourangi Ngāti Wāhiao has been unusually hard-hit over the past years. Ensuring that our people, built environment, taonga and natural environment received benefit remained a priority through Covid-19, and has continued to be the focus since sector recovery. This means that both WVCT and WTVT (through employment and its activities) has consistently prioritised WVCT objects, and does not aim to retain earnings for unclear (future) purposes (para 2.6, consultation document).

Relatedness of business to charity

GST and PAYE are large tax contributors for this business, with GST bringing in overseas income due to the international tourism focus. If WTVT were not regarded as being fully integrated within the purposes of WVCT, and therefore required to pay additional tax, this could close the business, or require complete repositioning or down-sizing of an iconic tourist destination fundamentally linked to Aotearoa New Zealand's cultural and environmental image on the world stage.

The practical implications would be that the business would have to employ fewer locals (whose parents, grandparents and whanau have operated tourism here for generations). Similar businesses locally could increase a share of the market, or could return to the old model of multiple small seasonal owner-operated or self-employed businesses. Our elderly people in the village would have less daily support, less activity around them and could become more isolated, the very nature of Whakarewarewa The Living Māori Village (the trading name of WTVT) would change, so the authenticity and appeal of the visitor experience would reduce. The environment, built heritage and taonga would suffer. It is the integration of WVCT with WTVT that has enabled this business to recover post-Covid-19, to thrive and support WVCT objectives, and to give purpose to the business as integral to a circular economy focused on the charitable intentions our forebears established (Q2, consultation document).

The tax emption criteria proposed (charity hospitals, charity schools, small businesses, businesses run primarily by volunteers, selling donated goods, etc) does not adequately describe the unique circumstances of the WVCT-WTVT operations or relationship, situated at Te Whakarewarewa village (Q3, consultation document). This is a community, where people who work in the tourist operations business are paid a modest wage, who work to further a legacy established by their forebears, and where the returns go through WVCT to iwi and hāpu purposes. However, WVCT is not a tribal authority, or owned by such an authority. It is in many ways unique due to the legacy of tourism established at Te Whakarewarewa. In establishing definitions of unrelated/related businesses, the collectively integrated nature of this Māori endeavour, its purpose and practical operations should be given regard in any future policy or legislative change.

As a tier two charitable organisation, it is less about the charity-business income, and more about the level of integration that should define the appropriate threshold. Here the business is also solely focussed on the same deliverables as the WVCT purpose. At a daily operations level, whether assisting people through employment, training, the sharing of culture, food, heritage, or care and maintenance of environment, heritage or taonga, the relatedness are indistinguishable, irrespective of tier or income level (Q4, consultation document).

WTVT income is at the lower end of tier two, meaning it is a very different type of business to that undertaken by the upper quartiles of tier two. It would be more effective to quantify the proportion of business activity either directly or in support (eg: administration) of the reated WVCT objectives. In this calculation, the WTVT would be wholly recognised as a charity-business (Q4, consultation document).

Reporting standards

As a registered tier two charitable organisation, WVCT is audited and reports annually, both through financial performance and statement of service outcomes.

It is noted that many of the WVCT objects, or the ways in which these are delivered, are qualitative rather than readily measured quantitative outcomes. This has proven challenging for WVCT (and WTVT that undertakes much of this work, alongside or within its daily operations). Examples include: minor maintenance where it is difficult or non-productive to measure time spent; time spent by employees of WTVT assisting elderly people in the village in their daily activities; or the accurate allocation of time to WVCT vs WTVT purposes. This has resulted in non-quantitative measures being including in audited reports, alongside quantitatively reported measures, such as number of subsidised rentals, koha for tangihanga, activities funded, and so forth.

The new XRB Reporting Board model He Tauira is being investigated for its suitability to aid reporting when charitable purpose is so closely aligned to and supported by business purpose and operations. It is therefore likely that the operations of WTVT include a much greater proportion of benefit to WVCT. Using a model such as this, which includes quantitative and qualitative measures (similar to Audit New Zealand measures used for the local government sector) would aid proportionate allocation of exempt/non-exempt charity business income (Q5, consultation document).

Overall, that due consideration be given to the distinct and closely integrated functions of an iwi-hāpu/whānau business, with unique legacy characteristics, and a cultural, social focus, should be given due consideration in any policy development. This business, like its environment, history, cultural and tourism impact should be regarded as being of special character not easily captured in models applicable to other entities this consultation has been designed to review (Q6, consultation document).

Nāku noa nā

s 9(2)(a)

Dr Tanya Robinson

CEO Manahautū

Whakarewarewa Village Charitable Trust

s 9(2)(a)

From: Mark Bennett s 9(2)(a)
Sent: Tuesday, 18 March 2025 4:20 pm
To: Policy Webmaster
Subject: Taxing Charities Submission

External Email CAUTION: Please take **CARE** when opening any links or attachments.

Please find my responses to the questions asked about potentially taxing charities. As an overarching statement it seems to me the charity act already provides significant measures to ensure public good. This is the key to me and many charities provide services that aren't funded by the government to vulnerable, displaced, and disadvantaged people. Care must be given to ensure these services aren't negatively impacted.

q1, if the income generating activity is directly associated to the purpose of the charity or is solely about funding those activities (with financial reporting that proves it) then there is no competitive advantage and simply about providing the charitable service. While there are many varied charities taxing income would have a significant impact negatively on some charities.

q2, if the income generating activity is directly associated to the purpose of the charity then a change in this would negatively impact services they are providing as for many less funds would be available. Many charities use unrelated business ventures (e.g. 2nd hand clothing and furniture stores) to generate funds solely to deliver their charitable services into the community.

q3, if the charity proves (through annual accounts) that the income is funding their charitable purpose then it should remain exempt from tax.

q4, the thresholds proposed seem reasonable. However, these would inflict additional administrative burden on charities that are often already stretched to resources their core purpose and comply with current regulations.

q5, absolutely! The current charities act that requires publishing annual accounts would likely suffice.

q6, proposed scale related to annual income seems reasonable to me.

q7, yes there should be a distinction. Where there is a clear community benefit (as per the charities act) then tax exemption should remain. If criteria to be a charity isn't met then remove the tax exemption.

q8, if investments and the associated returns are being directed to the charitable work then they should not be restricted.

q9, this would be a good tool to ensure public benefit from a charitable organisation. However, the minimum distribution needs to consider the overall financial position of a charity and potentially not include property value as this is typically not income generating and rather used
to deliver charitable services.

q10, consideration should be given to whether there is genuine public good provided which I understand is part of the registration of charities. This provides a public good test and threshold that all registered charities must meet. If there was a change then perhaps it might be to only tax profit that isn't spent on delivering charitable services or put aside to ensure on-going provision of services in challenging economic times. For example, the current coalition government cancelled contracts with charities that resulted in not only a loss of income but also

costs to disestablish personnel and centres. There must be some ability for a charity providing genuine public good to put funds aside for a rainy day without being taxed.

q11, there are many charities that provide services that prevent vulnerable or disadvantaged people from incurring significant social exclusion and suffering. Often this impacts children which has a long tail of negative impact on communities for years to come. Consideration of charities providing services to marginalised peoples should be approached carefully with consideration of the wider community impact and with a long term view of how NZ will look in 5, 10, 50 years time as a result of any change.

q12, any charity registered under the charities act is providing a public benefit. Implications of removing exemptions are vulnerable, displaced, and disadvantaged people will be even more marginalised.

q13, it is important to remember that charities are already struggling for funding and need to pursue funds in an increasingly competitive environment. Salaries paid typically aren't market rates and not always competitive as employees often work for a charity as the purpose of it resonates with their personal beliefs. This means some tools of trade (e.g. a vehicle) can be part of the remuneration package. These would need to be provided but allow the delivery of services that benefit the public at a reduced cost.

q14, in seems appropriate to me that where there is clear public benefit that extending the FENZ simplification is an excellent idea. Most charities are delivering services that the public needs and aren't funded by the government.

q15, DTC are valuable and changes that would allow claiming at time of donation make sense to me. This simplifies the process for donors and would smooth the workload for the IRD.

To: Inland Revenue
Taxation and the not-for-profit sector
policy.webmaster@ird.govt.nz

March 18, 2025

Introduction

I am involved in a voluntary capacity with the administration of three incorporated societies with charitable status and one charitable trust, two of which are Tier 3 and the other two Tier 4. And via this work I assist in the support of other principally tier 4 organisations. All of these are principally volunteer managed organisations.

I am neither an accountant nor a lawyer, so my background in the questions raised in this review is limited.

While I expect that this review is targeted well above the level of operations of these organisations, I have considered it necessary to gain some understanding of the review questions, to ensure that I have some appreciation of the issues involved, and hope that my expectations are not proven incorrect when the review is completed and decisions are taken.

A common theme in my responses is my concern that large commercial operations are taking advantage of concessions that were not originally intended for their purposes. Therefore I would support a tighter definition of what is a valid charitable / NFP operation, with a good indicator criteria being the size of an operation. Specifically indicated by the extent of revenues, the extent of paid employees, and the amount of discretion of management to direct funds beyond the specific charitable objectives.

Responses

1.6 “The Government’s tax and social policy work programme, announced in November 2024, includes reviewing elements of charities and NFPs. The work programme’s objectives include simplifying tax rules, reducing compliance costs, and addressing integrity risks.”

Currently the tax rules are already very simple, and compliance costs are minimal, so the fact that these are now under review implies increased complexity and compliance effort for charities and NFP’s

Q1. What are the most compelling reasons to tax, or not to tax, charity business income? Do the factors described in 2.13 and 2.14 warrant taxing charity business income?

If a charity's business operation competes with non charitable business organisations, then that would be a good case to tax that operation on the basis of having fully comparable operating models, including the need for equivalent financial reporting and tax compliance.

This is especially so when the charitable business operation has paid employees in management roles, and these people are therefore more likely to direct and receive benefit from the additional funds available within the charitable business. There is a distinct difference between a charity / NFP that is principally volunteer managed compared to one where there is a significant paid management that receives benefit from the funds of the charity / NFP.

Q2. If the tax exemption is removed for charity business income that is unrelated to charitable purposes, what would be the most significant practical implications?

The first challenge will be to clearly define "charity business income that is unrelated to charitable purposes". It may be that this is too hard, and a different approach could be to require an income declaration from all charities / NFP's and only tax income over specified medium to high thresholds. This of course brings in the question the difference between revenue and profit, and the extent to which an organisation would be able to represent significant revenue as a non profit making venture.

But noted the detail in the footnote 4 reference – this indicates this is not a new discussion topic.

https://www.taxtechnical.ird.govt.nz/interpretation-statements/2024/is-24-08

Q4. If the tax exemption is removed for charity business income that is unrelated to charitable purposes, what would be an appropriate threshold to continue to provide an exemption for small-scale business activities?

As suggested, given the current allocation of charities / NFP's per reporting tier, the simplest approach would be to exclude Tier 3 and 4 organisations, and then require business returns from tiers 1 and 2. Tier 1 and 2 organisations are likely to be those with the most significant business income and able to resource the increased tax compliance effort

To include tier 3 and/or 4 organisations in tax compliance requirements would place a significant cost on organisations that are least able to manage this – a significant proportion of NFP's / charities of that size are volunteer run

Q5. If the tax exemption is removed for charity business income that is unrelated to charitable purposes, do you agree that charity business income distributed for charitable purposes should remain tax exempt? If so, what is the most effective way to achieve this? If not, why not?

No comment – this is getting into a complex area that I am not able to assess

Q6. If the tax exemption is removed for charity business income that is unrelated to charitable purposes, what policy settings or issues not already mentioned in this paper do you think should be considered?

The more complex a charity's structure is, the more likely that complexity is to achieve a tax benefit. Therefore, it is important that irrespective of the structure involved, the charity's operation as a whole is considered.

Q7. Should New Zealand make a distinction between donor-controlled charities and other charitable organisations for tax purposes? If so, what criteria should define a donor-controlled charity? If not, why not?

Yes. Donor-controlled charities as described look to be primarily a tax avoidance structure with significant monitoring costs for IRD. Where they exist, the rules for them need to be tightly defined, taking note of how other countries have addressed this already.

Q8. Should investment restrictions be introduced for donor-controlled charities for tax purposes, to address the risk of tax abuse? If so, what restrictions would be appropriate? If not, why not?

Yes, as per response to Q7

Q9. Should donor-controlled charities be required to make a minimum distribution each year? If so, what should the minimum distribution rate be and what exceptions, if any, should there be for the annual minimum distribution? If not, why not?

Yes. Use overseas models as a guide ?

Q10. What policy changes, if any, should be considered to reduce the impact of the Commissioner's updated view on NFPs, particularly smaller NFPs? For example:

- increasing and/or redesigning the current $1,000 deduction to remove small scale NFPs from the tax system,
- modifying the income tax return filing requirements for NFPs, and
- modifying the resident withholding tax exemption rules for NFPs.

As per previous responses, small NFP's have limited capability to meet tax reporting / compliance rules. Applying a broad tier approach (EG tiers 3 and 4) to exclude them would be the simplest approach

Q11. What are the implications of removing the current tax concessions for friendly societies and credit unions?

Unknown – I have no experience of these types of organisations

Q12. What are the likely implications if the following exemptions are removed or significantly reduced:

In general, I don't know. However, the statement that some organisations that are of a significant size are using these exemptions indicates they are doing so for a tax avoidance measure. Size thresholds are important ways to distinguish between true charities / NFP's and true business operations

Q13. If the compliance costs are reduced following the current review of FBT settings, what are the likely implications of removing or reducing the exemption for charities?

FBT rules should be the same for all organisations

Q14. What are your views on extending the FENZ simplification as an option for all NFPs? Do you have any other suggestions on how to reduce tax compliance costs for volunteers?

That is a good idea. It is important always to acknowledge that volunteers provide significant value to organisations from their highly valuable own personal spare time. All efforts should be made to minimise the compliance costs related to their work.

Q15. What are your views on the DTC regulatory stewardship review findings and policy initiatives proposed? Do you have any other suggestions on how to improve the current donation tax concession rules?

Delink DTC's from income tax – a good idea, so that all donors receive the same benefit from making a donation

Collect data from donee organisations to pre-fill DTC claims ? – that sounds like far too much work for everyone involved

Three month grace period – no comment

Tony Walton

s 9(2)(a)

s 9(2)(a)

From: Bev Simons s 9(2)(a)
Sent: Tuesday, 18 March 2025 4:46 pm
To: Policy Webmaster
Subject: 'taxationand the not _for_profit sector'

External Email CAUTION: Please take **CARE** when opening any links or attachments.

I wish to comment on the Plymouth Bretheren.
This church is a cult in the opinion of an American expert.
I live in the Kaipara District in Maungaturoto in a small retirement village .

Many of their churches and homes are in this area,and all over the Kaipara and they run large businesses.
Homes are huge, and any available land is being bought for more dwellings.
Cars and utes pound the roads well recognizable ,modern utes and cars .
Children are all ,by way of vans, brought to a central point school in Maungaturoto, from as far away as Dargaville.
They are building a huge warehouse for supplies at this site.
Absolutely they should be paying tax .

Beverley Simons
s 9(2)(a)

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Tax-Free Status Vet Clubs New Zealand

Veterinaryfirst Limited (VFL) 14th March 2025

To: policy.webmaster@ird.govt.nz

Summary

Veterinary Clubs ("clubs") were created through the formation of Veterinary Services Council after the passing of the Veterinary Services Act in 1946. These clubs were afforded a tax-free status through the Land and Income Tax Amendment Act to help train and recruit primary production vets into rural communities, helping service and support farmers and promoting investment back into local communities. The club movement was instrumental in growing agricultural resilience and improving the quality and volume of veterinary service provision to the Primary Industry sector.

Today, many "clubs" still operate, but they are normalised commercial businesses operating within the same environment as their for-profit competitors. There is no visible alignment to the post WWII intent of placing vets into our most distant reaches of New Zealand, and instead, a distorted, entitled view that clubs can operate within any veterinary environment (such as the non-rural companion animal market) while continuing to enjoy their tax-free status and considerable commercial advantage.

This represents a grossly unfair trading environment for those for-profit organisations that are forced to compete with clubs for customers and clinical talent. Today's clubs are renowned for having war-chests of property, new equipment and unchallenged market share as a result of anti-competitive pricing and activity. Their large, modern buildings often operate well outside the original intent of providing "efficient veterinary services to owners of livestock in New Zealand" and iconise the disparity.

Vet Club's tax-free status has outlived its original intent and should be repealed.

Sector

Vet Clubs do not contribute to the qualitative aspects of veterinary services in New Zealand any more or less than their for-profit counterparts (this is an important requirement of their tax-free status). Clubs no longer invest any more time or money than their for-profit counterparts for developing the quality of education, increasing the number of students able to be trained, or any other aspect concerning the professional development of the sector.

IRD - Consultation Considerations for the Veterinary Sector

Exemption for veterinary service bodies

4.19

Veterinary service bodies are associations, clubs, or societies established mainly to promote efficient veterinary services in New Zealand.

(VFL response: All veterinary businesses operate within the same markets. All must be efficient, professional and good employers to survive. There is no need to provide one particular group with additional financial support to "promote" service and access elements that are now ubiquitous in the sector).

4.20

This exemption was introduced to allow veterinary service bodies to invest in better facilities and higher standards of service. These entities are now more established, undertake commercial trading activities outside their immediate services, and compete directly with tax-paying private veterinary practices.

(VFL response: Yes, and as a result, the tax-free status should be repealed)

4.21

This and other industry sector specific exemptions may be difficult to justify under a broad-base, low-rate tax policy framework.

(VFL response: Agreed)

Question 12

What are the likely implications if the following exemptions are removed or significantly reduced (for veterinary service body income tax exemption)?

(VFL response: The farming community might suggest this will negatively affect them, but vet clubs and commercial vet practices have had to compete like for like where they are in market proximity. In many cases however, clubs have kept competition away with reduced pricing (uncompetitive margins). In some cases clubs have closed, leaving a significant shortfall in accessibility of services. If the market were more evenly balanced and attractive, new competition could provide better resilience for farmers.

It is more likely that a level playing field will help drive new competitive services and innovation, better access to services, ultimately improving outcomes and options for farmers.)

s 9(2)(a)

From: Allister Rose s 9(2)(a)
Sent: Tuesday, 18 March 2025 6:25 pm
To: Policy Webmaster
Subject: Subject: Submission on Taxation and the Not-for-Profit Sector

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To: Policy and Regulatory Stewardship, Inland Revenue Department

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Introduction

The Foundation, established on 25 April 2022, is a Wellington-based charity dedicated to supporting the mental health of New Zealand police workers and their families. Our primary initiative, the *Ima Project*, focuses on early intervention and mental health support, aiming for a future with zero suicides within the New Zealand Police.

We welcome the government's review of the taxation framework for charities and not-for-profit (NFP) organisations. Ensuring transparency, fairness, and efficiency in the sector is crucial. However, we urge caution in introducing regulatory changes that may disproportionately burden small charities such as ours.

As highlighted in the *Regulatory Practice Essentials: Regulation in New Zealand* guide, **poor regulatory performance can lead to unnecessary compliance costs, reducing innovation and diverting resources away from core services.** The Ministry for Regulation Te Manatū Waeture emphasises that regulation should be **proportional and not place undue burdens on small organisations.**

Additionally, Minister **David Seymour** has spoken against **unnecessary regulations that create inefficiencies without delivering real benefits**. We believe that small charities should not be subject to increasing administrative and financial burdens that detract from their core missions.

Concerns About the Proposed Taxation Changes

We have identified several areas where the proposed changes could have a detrimental effect on The Foundation and similar small charities:

1. Taxation of Charity Business Income

- The proposal to tax *unrelated business income* risks penalising organisations that engage in small-scale trading activities to sustain their operations.
- The *Q&A on Taxation and the Not-for-Profit Sector* suggests that some relief could be provided through increasing the current $1,000 deduction threshold for small not-for-profits. We strongly support expanding this exemption to prevent unnecessary taxation for charities that rely on small-scale income streams.
- We support clearer definitions and thresholds that ensure small charities are not burdened with disproportionate compliance obligations.

2. Regulatory Complexity and Compliance Burden for Small Charities

- We have deliberately chosen not to employ staff due to the already significant regulatory and financial burdens associated with employment.
- Instead, when we require work to be done, we contract outside companies after receiving quotes and carefully considering costs. This applies to essential services such as legal support, social media management, advertising, and operational support—services we require but do not have the capacity or desire to hire staff for.
- The current regulatory environment discourages small charities from hiring employees. Rather than adding new tax obligations, the government should consider incentives for charities that rely on external service providers, reducing costs for necessary outsourced support.
- The *Q&A on Taxation and the Not-for-Profit Sector* notes that 9,000 not-for-profits could be impacted by new compliance rules. This highlights the need for targeted exemptions for smaller charities to avoid undue administrative burdens.

3. Fringe Benefit Tax (FBT) Exemption for Charities

- The proposal to remove or reduce FBT exemptions will significantly impact our ability to function, even though we do not employ staff. Many charities like ours rely on external contractors who provide essential services in place of staff.
- Instead of removing the FBT exemption, we propose a tax incentive for small charities that rely on third-party service providers, allowing them to offset the cost of essential external services.
- The government's regulatory framework should encourage charitable work, not hinder it. Tax relief for outsourced legal, marketing, and operational services would help small charities sustain their work while avoiding unnecessary regulatory complexity.

Recommendations

We support a regulatory approach that balances integrity with practicality. Specifically, we propose:

1. **Tiered compliance requirements** to ensure small charities are not overburdened.
2. **Exemptions for small-scale business income** to prevent unnecessary taxation.
3. **Retention of the FBT exemption for small charities** or the introduction of **tax incentives for charities that rely on outsourced services.**
4. **Proactive engagement with the sector** to co-design solutions that meet public interest objectives without stifling effectiveness.
5. **Increased tax exemption thresholds** for small charities to reduce unnecessary compliance costs.

6. **New tax relief measures for essential outsourced services**, such as legal fees, digital marketing, and operational support.

Conclusion

While we welcome efforts to ensure transparency and accountability, regulatory changes must not create undue administrative and financial burdens for small charities. The Foundation urges Inland Revenue to adopt a proportionate, risk-based approach that aligns with the principles of good regulatory practice.

We appreciate the opportunity to contribute to this consultation and are available for further discussions if required.

Sincerely,

Allister Rose

Allister Rose NZBS
Founder & Managing Director

Hatikvah: Blue Hope Foundation. Safeguarding the rights, health and safety of the Blue Whanau
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www.bluehope.co.nz

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Submission on Taxation and the not-for-profit sector - Inland Revenue Officials Issues Paper

19 March 2025

Note - this submission does not address all fifteen questions raised in the paper.

Q1. What are the most compelling reasons to tax, or not to tax, charity business income?

Taxing charity business income would discourage innovation and the seeking of diverse sustainable income streams.

Income generated by charitable business (or 'social enterprise) has a 'double bottom line' – there is usually social good as an outcome alongside the income generation. So, taxing business income discourages innovation that not only generates sustainable income, but it would discourage the social good that is also been sought as an outcome.

Taxing will also increase compliance costs and so reduce the amount of funding available for charitable purposes.

Q3. If the tax exemption is removed for charity business income that is unrelated to charitable purposes, what criteria should be used to define an unrelated business?

This question is central to the Issues paper and the most problematic. Businesses operated by charities are often closely connected to the entity's charitable purpose. Any criteria for what is truly unrelated must be clear and workable.

An indication is needed on the future status of the taxation exemption for passive income which includes interest, dividends, and rents.

The issues paper is silent on income from grants, perhaps because grants are always to fund charitable purposes.

Q13. If the compliance costs are reduced following the current review of FBT settings, what are the likely implications of removing or reducing the exemption for charities?

Our charity would not be greatly impacted by removing or reducing the FBT exemption.

Q15. What are your views on the DTC regulatory stewardship review findings and policy initiatives proposed? Do you have any other suggestions on how to improve the current donation tax concession rules?

Changes that simplify the donation tax credit system are welcome. However, enabling real-time payments would increasing compliance costs (due to the frequency of issuing tax receipts to donors), particularly for charities who have significant numbers of regular givers. Donee organisations providing data to Inland Revenue, so claims can be pre-filled, while a simpler approach would also require system changes that add compliance cost.

To: Inland Revenue Department

Subject: Submission on 'Taxation and the Not-for-Profit Sector' Consultation

Dear Sir/Madam,

I am writing to express my support for the proposal to remove tax exemptions for charities on income not directly applied to their charitable purposes. I believe this change will enhance the integrity and effectiveness of the charitable sector in New Zealand. Below are my responses to the specific questions posed in the consultation document.

1. What are the most compelling reasons to tax, or not to tax, charity business income?

Reasons to Tax:

- **Equity and Fair Competition:** Taxing business income unrelated to charitable purposes ensures that charities do not have an unfair advantage over for-profit businesses, promoting a level playing field.

- **Revenue Integrity:** It prevents potential misuse of charitable status for tax avoidance, ensuring that tax concessions are used appropriately.

Reasons Not to Tax:

- **Resource Diversion:** Taxing such income could reduce the funds available for charitable activities, potentially impacting the services provided to communities.

2. If the tax exemption is removed for charity business income that is unrelated to charitable purposes, what would be the most significant practical implications?

- **Increased Compliance Costs:** Charities may face higher administrative burdens to separate and report taxable and non-taxable income.

- **Financial Impact:** Some charities might experience reduced net income, affecting their capacity to deliver services.

3. If the tax exemption is removed for charity business income that is unrelated to charitable purposes, what criteria should be used to define an unrelated business?

- **Alignment with Charitable Objectives:** A business should be considered unrelated if its activities do not directly advance the charity's stated charitable purposes.

- **Nature of Activities:** Businesses that are commercial in nature and not integrated with the charity's mission should be classified as unrelated.

4. If the tax exemption is removed for charity business income that is unrelated to charitable purposes, what would be an appropriate threshold to continue to provide an exemption for small-scale business activities?

- **De Minimis Threshold:** Implementing a threshold based on annual gross revenue or net income (e.g., $50,000) could exempt small-scale activities, minimizing the compliance burden on smaller charities.

5. If the tax exemption is removed for charity business income that is unrelated to charitable purposes, do you agree that charity business income distributed for charitable purposes should remain tax exempt? If so, what is the most effective way to achieve this? If not, why not?

- **Agreement:** Yes, income from unrelated business activities that is promptly and fully distributed to support charitable purposes should remain tax-exempt.

- **Implementation:** This could be achieved by allowing deductions for distributions made to charitable activities within the same fiscal year, aligning with practices in other jurisdictions.

10. What policy changes, if any, should be considered to reduce the impact of the Commissioner's updated view on NFPs?

- **Clear Guidelines:** Providing detailed guidance on what constitutes unrelated business income and acceptable allocation of expenses would help NFPs comply with new regulations.

- **Transitional Support:** Offering transitional relief or support for NFPs adjusting to new tax obligations could mitigate potential negative impacts.

13. If the compliance costs are reduced following the current review of FBT settings, what are the likely implications of removing or reducing the exemption for charities?

- **Neutral Impact:** If compliance costs are lowered, removing or reducing the FBT exemption may have a manageable impact on charities, provided they receive adequate guidance and support during the transition.

In conclusion, removing tax exemptions for income not spent on charitable purposes would promote fairness and ensure that tax concessions are appropriately utilized. It is essential, however, to implement clear guidelines and support mechanisms to assist charities in adapting to these changes without compromising their valuable contributions to society.

Thank you for considering my submission.

Sincerely,

Hamiora Werahiko

Neurological Foundation
A pathway to hope

20th March 2025

Taxation and the not-for-profit sector
C/- Deputy Commissioner, Policy
Inland Revenue Department
PO Box 2198
Wellington 6140

Policy.webmaster@ird.govt.nz

Dear Deputy Commissioner,

We are writing in response to the consultation and Official's Issues Paper entitled "taxation and the not-for-profit sector" as issued on the 24th February 2025

The Neurological Foundation of New Zealand is a Tier 2 charity as defined by current guidelines and has been in operation for 53 years now. While the possible amendments noted in the discussion paper may not directly impact us, we are concerned about several elements as presently tabled.

Overall, we find it difficult to understand the rationale behind these changes and the drivers for improved outcomes for the Charity sector. Some of the points raised lack supporting data. They seem to be targeting a small niche of the overall number of Charities and NFPs rather than addressing widespread issues for the sector. The non-conformity of existing charity taxation rules should be enforced rather than re-legislated, which needs adequate resourcing of Charity Services to fulfil their accountabilities.

Our understanding of the proposed changes indicate the likelihood of increased compliance costs for our organisation and many others in the sector. With internal monitoring and audit costs rising, further compliance only adds to the burden on the staff and its Trustees, along with additional expenses, meaning we have fewer funds available to use for our purpose.

Concerning specific questions raised in the discussion paper, the items of note to us, for which we provide commentary are:

- **Question 1:**
    a. The definition and capture of Related / Unrelated to charity purpose must be better defined.
    b. The implications of capturing income from too wide a net would be concerning.
    c. Will the additional income generated by the Government flow back into the Charity Sector and the communities they serve, to uplift better outcomes for NZ Communities?
- **Question 2:**
    a. Changes to rules around accumulated surpluses are already being reported back to charity services, what more is needed?
    b. The reasons behind fluctuations of surpluses can be many, managing them for trustees can be significant. A blanket rule could become cumbersome to adhere too, any changes need to ensure they take into account the needs of the Charities and the way their business work.
- **Question 3:**
    a. Again, clearer guidance on Related / Unrelated needs to be defined first.

- **Question 4:**
    a. Careful consideration will need to be made to where any line may be made, including whether this is a dollar limit or percentage of turnover.
- **Question 5:**
    a. The implications here could be significant for those non-charity organisations, and the pool of corporate philanthropy funding could be reduced massively if any incentive is removed.
    b. Discussions around accumulation of funds need to be considered with reference to the services being provided over multiple years (e.g. funding research is a 5 – 15 year focus, so funds are needed to ensure continuity for the research community over longer periods).
- **Question 6:**
    a. Increased compliance costs would almost certainly occur here, given the extra complexity being introduced.
    b. The opportunity of pro-bono work between the entities (Charity Business vs NFP) becomes more difficult to manage and record.
    c. The actual disclosures and transparency will become more onerous and higher for NFPs than those in the For-Profit sector, providing a competitive disadvantage for NFPs.
- **Question 7:**
    a. How much of an issue is this, and will the added complexity for a minor number be worth it? What drives the need to do this, and where are the facts supporting it?
- **Question 8:**
    a. How are charities expected to supplement their income to support long-term service delivery without investments? Why would you then tax them on this, given the investments often flow from donations/bequests which are invested to support long-term outcomes?
- **Question 9:**
    a. This needs to be evidence-based, both on NZ data and on similar other tax regimes' actions in this area.
    b. Can a one-size-fits-all approach be applied for minimum distributions without understanding the nature of services delivered and the time spans they cover?
- **Question 10:**
    a. The $1000 limit seems too low and should be higher for the extremely small NFPs.
    b. Does a tax return model need to be aligned to the tiers and the costs to generate them, as this can be a huge burden on charities?
- **Question 13:**
    a. The increased compliance costs for many would make this significant, removing a unique differentiation between the For-Profit sector and attracting labour.
- **Question 15:**
    a. This would seem to be a positive move. Donors having a quicker process for claiming tax credits could lead to improved reinvestment of those credits back to Charities while at the same time making it easier to manage for donors. Need to make sure there is no spill back to overhead costs for the Charities to support IRD in implementing this.
    b. Linking Charities to IRD could have benefits if handled correctly.

It would be interesting to see an additional area for tax and tax rebate considerations included in legislation related to cryptocurrency in the future. These are currently treated as ‘property’ rather than as a financial mechanism, so those donating through a digital currency payment gateway receive no tax refund from their generous donations. As this is a future currency, IRD needs to consider how this is treated in the same way as other forms of donation, cash, bank transfer and credit card payments.

Lastly, the number of charities potentially impacted by this proposed legislative change is significant (over 11,000 in Table 1). Is the Government confident that the sector has been able to respond to this proposed legislation change, given so many are living 'hand to mouth' to deliver their service outcomes and struggle to find time to provide meaningful feedback on these types of issues?

Summary

In summary, we believe these proposed changes only make the tax policy for NFPs / Charities more complex, increasing compliance and making it more challenging to manage the proposed amendments around Related vs Unrelated Income as well as Passive vs Active Income. This will increase exposure to Trustees and workloads for sector staff and potentially have longer-term adverse effects on the outcomes charities are trying to achieve for the services they deliver to NZ's communities.

Yours sincerely

Simon Thorne
Head of Finance, Investment & Support

Rich Easton
CEO

PO Box 110022
Auckland Hospital
Auckland 1148

66 Grafton Road
Grafton
Auckland 1010

Charity Commission No CC10341
neurological.org.nz
+64 9 309 7749

s 9(2)(a)

From: Sue Hay s 9(2)(a)
Sent: Wednesday, 19 March 2025 10:34 am
To: Policy Webmaster
Subject: Taxation and the not-for-profit sector

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Hi there

I write in response to this submission.

As someone who works for The Salvation Army at the coal face, addressing social harm everyday, I am concerned about this proposed Bill. The mahi of this Charity addresses significant social harm, with over 130,000 people supported annually. Our charity work saves the government hundreds and thousands of dollars by providing support, and intervening to reduce harm from substance use, homelessness and food poverty.

Increasingly we are being asked to provide evidence of outcomes, and to be held accountable for our spending of tax payer money. I believe we deliver value for money, and that to reduce the money available as per this Bill will simply perpetuate social harm, and therefore societal costs.

In our case income earned is redirected back into addressing social need. I strongly recommend that consideration be given to how income earned is distributed, and where it is supporting social service delivery that tax status remains unchanged for this money. Otherwise, although tax revenue will increase for the Government, expenditure in other areas will increase as more and more people fall through the cracks of New Zealand's support networks.

Sue Hay
Director, Christchurch & West Coast Salvation Army Bridge addiction recovery services
Registered DAPAANZ clinician.

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s 9(2)(a)

From: Will Ward s 9(2)(a)
Sent: Thursday, 13 March 2025 4:48 pm
To: Policy Webmaster
Subject: Taxation and the not-forprofit sector

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Tēnā Koutou

I am submitting this response as the CEO of WALSH Trust, a mental health support organization based in Auckland, in response to the discussion document by IRD outlining proposed changes to how charities are taxed.

Upon reviewing the document, I have serious concerns regarding some of the proposed changes. While the document highlights potential areas for reform, it fails to address the underlying issues that these changes aim to resolve. The absence of detailed information on the specific organisations and business activities that may be affected, the revenue these businesses generate, and the estimated tax revenue anticipated from these changes is a significant gap in the proposal. There is widespread concern within the NGO sector, including organizations like mine, that these proposals take a broad-brush approach to solving an issue that may involve a very small number of organisations and business activities. Unfortunately, the outcome could negatively impact thousands of For-Purpose organizations, many of which are already under significant financial strain.

New Zealand takes great pride in its vibrant charitable and For-Purpose sector, which plays a crucial role in addressing some of the country's most pressing social issues. In order to protect and nurture this sector, it is essential that we have a well-resourced and dynamic Charities Commission. Such a body would be in a strong position to monitor and assess business activities within the sector, determine the eligibility for charitable status, and establish clear tax expectations for charities. I strongly urge that increasing the capacity of the Charities Commission be considered a priority as part of any tax reform.

Fringe Benefit Tax (FBT) Concerns

The proposal to address the so-called "unfair advantage" provided to charities in relation to Fringe Benefit Tax (FBT) is another area of concern. While the document raises valid points, it overlooks the challenges charities face in recruiting and retaining staff. The mental health sector, for instance, relies heavily on government contracts, which are often rigid and do not allow for salary flexibility. As a result, we are constantly losing skilled staff to the private sector and other government agencies that can offer higher salaries.

In this context, benefits like providing a vehicle for private use form an important part of our remuneration packages. For many organizations, including WALSH Trust, this is one of the few tools

available to us to attract and retain the talent we need to provide essential services to vulnerable New Zealanders. Any changes to how FBT is applied to charities would severely impact our ability to recruit and retain staff, further undermining our ability to deliver critical mental health services to those in need.

The charity sector is already under-resourced and financially strained. Organizations are working at full capacity to meet the growing demand for services, and every dollar counts in ensuring we can continue operating. The proposed changes to FBT would place an additional burden on already stretched organizations, potentially compromising their long-term sustainability and, by extension, the well-being of the individuals and communities they serve.

In conclusion, while I understand the need to ensure fairness and accountability within the charitable sector, I urge the government to reconsider these proposals in light of the significant unintended consequences they may have on charitable organizations. It is essential that any tax reform is carefully crafted to avoid placing undue pressure on the charities that form the backbone of New Zealand's social support system.

Thank you for the opportunity to provide feedback.

Ngā mihi,

Will Ward
CEO, WALSH Trust

Will Ward - **Chief Executive Officer**
s 9(2)(a)

WALSH Trust | 8 Hickory Avenue,
PO Box 21 865, HENDERSON

web: www.walsh.org.nz

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s 9(2)(a)

From: Angela Webb s 9(2)(a)
Sent: Wednesday, 19 March 2025 10:40 am
To: Policy Webmaster
Subject: Taxation and the not-for-profit sector

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I am A staff memeber at salvation army and I work within the addictions field
" In real terms with these cuts this means more people going hungry, more people made homeless, more people struggling with addiction, more people under pressure financially, more sick people, more people struggling to re-enter society after leaving prison and likely to fall back into old ways etc. "

Maybe just Vet places better aropund what they are actually spending there monney on such as destiny church. Instead of those who are genuine suffing for this also.

Angela

Addictions Caseworker

The Salvation Army Bridge - Whangarei
Northland Regional Programme
3-9 Aubrey Street, Regent, Whangarei 0112
P.O. Box 431, Whangarei 0140
Phone: s 9(2)(a)

Caring for people, transforming lives and reforming society by God's power

THE SALVATION ARMY Te Ope Whakaora
Bridge
Reducing Harm from Alcohol and Other Drugs
salvationarmy.org.nz

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s 9(2)(a)

From: Antonio Ferreira de Lima s 9(2)(a)
Sent: Wednesday, 19 March 2025 10:55 am
To: Policy Webmaster
Subject: Taxation and the not-for-profit sector

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Submission on the Inland Revenue Issues Paper: Taxation and the Not-for-Profit Sector

Introduction

I appreciate the opportunity to respond to the Inland Revenue Issues Paper on the taxation of the not-for-profit sector. We are deeply concerned about the potential impact of the proposed changes on our ability to serve the most vulnerable members of our community.

Impact on Services

The removal of tax concessions for charities like TSA would significantly reduce our funding, directly affecting our capacity to provide essential services. TSA operates numerous programmes that address critical social issues, including hunger, homelessness, addiction, financial hardship, health, and reintegration of former prisoners. These services are vital for the well-being of individuals and the broader community.

Consequences for the Community

If the proposed changes are implemented, the reduction in our services would lead to severe consequences:

- Increased Hunger: More people would go hungry as our food assistance programmes would be scaled back.
- Homelessness: The number of homeless individuals would rise due to reduced housing support.
- Addiction: Fewer resources would be available for addiction recovery programmes, leading to higher rates of substance abuse.
- Financial Pressure: More families would struggle financially without our support services.
- Health Issues: Reduced access to health services would result in more untreated illnesses.
- Reintegration Challenges: Individuals leaving prison would face greater difficulties re-entering society, increasing the likelihood of recidivism.

Economic Implications

The services provided by TSA offer a high social return on investment. If we are forced to reduce our services, the government would need to step in to fill the gap, either by directly funding these services or by dealing with the downstream effects in the health, welfare, and justice systems. This would likely result in higher overall costs for the government and taxpayers.

Conclusion

The (social) value for money that TSA delivers to society far exceeds the cost of any tax we might pay. We urge the government to consider the broader social investment values and the long-term benefits of maintaining tax concessions for charities. A study on the social return on investment of our services would clearly demonstrate the significant positive impact we have on the community.

We strongly recommend that the government retain the current tax concessions for charities to ensure that organisations like TSA can continue to provide essential services to those in need.

Thank you for considering my submission.

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Submission on the Officials Issues Paper

Inland Revenue Te Tari Taake

Taxation and the not for profit sector issues 24 February 2025

19 March 2025

This is the submission of the Te Uru Amokura | Springboard Trust

Registration number CC40616

www.springboardtrust.org.nz

1. **Background**

Te Uru Amokura | Springboard Trust is a for-impact organisation focussed on strengthening strategic leadership in schools so all tamariki mokopuna thrive. We do this through a unique cross-sector model, partnering school leaders with expert volunteers from Aotearoa New Zealand's public, private and philanthropic communities.

2. **Operations**

We are a small entity, our annual turnover is less than $3m and we have a staff of approximately 11 people. We have been in operation over the last 18 years. Today we have supported over 850 schools through their leaders across the whole country. Our revenue is mainly derived through philanthropic donations and partial charges to schools and education organisations. Over the last decade we have received a small amount of support from the Crown. Springboard's operations have been limited to New Zealand public schools**.**

3. **Comments on the issues paper**

3.1 We support a fair and just tax system that supports New Zealand prosperity and social cohesion.

3.2 We support the addressing of anomalies in the taxation system, but remain concerned that the proposed approach may impact negatively entities such as ourselves.

3.3 We are concerned that new measures must be cognisant of the huge range of small charitable entities that add so much value to New Zealand.

3.4 All of our revenue is spent on the achievement of our charitable objectives. We do not have large reserves, nor do we invest in other areas beyond our charitable objectives. We do however in good years carry over surpluses that are invested to support outgoing years expenditure and operate as a responsible employer.

3.5 Generating revenue in the charitable sector has become increasingly difficult and this change would be a further brake on our ability to achieve our charitable objectives.

3.6 Taxation on our revenue would reduce our impact significantly due to higher compliance costs and tax.

3.7 We are concerned about how '*unrelated business activities'* might be fairly defined and not unfairly impact on our work.

3.8 We are not in favour of this change being made to Tier 3 or Tier 4 charities, as the costs of implementation would far outweigh the benefits.

3.9 Removing the exemption on fringe benefit tax for charities would make it harder for us to recruit good quality people. As we are not able to pay full market rates to our employees offering benefits is a useful way of creating an attractive employment

3.10 Removing the tax exemption is likely to increase costs for our charity in order to comply with the new approach.

4. Conclusion

Thank you for the opportunity to comment on this issue. We remain concerned that a change to the current tax exemption status will on balance be detrimental to our work.

Dale Bailey

Tumu Whakarae | Chief Executive Officer

Taxation and the not-for-profit sector
C/- Deputy Commissioner, Policy
Inland Revenue Department
PO Box 2198
Wellington 6140

policy.webmaster@ird.govt.nz
Taxation and the not-for-profit sector

Dear Sirs,

We wish to make a submission on the above issues paper.

Submitter	North Haven Hospice Endowment Trust (NHHET)
Contact	Bill Mallett – trustee s 9(2)(a) Available to be contacted by IRD if required.
Entity type	Registered charity formed 31 May 2006 - CC25624
Entity's Purpose	Trust was formed to hold and accumulate assets and to receive donations, gifts, legacies, and bequests on behalf of the North Haven Hospice Society Incorporated (NHHS)
Background	The NHHET owns the premises from which the NHHS conducts its palliative care services. NHHS pays peppercorn rental for the use of those premises. NHHET also has investments built up through bequests, the income and capital of which is available and used annually by the NHHS for operational purposes. The NHHS is the sole beneficiary of the NHHET.

What are the most compelling reasons to tax, or not to tax, charity business income?

- There seems to be a perception that the services provided by charities do not give rise to any taxation. That perception ignores the more than 100,000 people who work full time in the charitable sector and pay PAYE and other employment related taxes, together with those GST registered charities that pay GST on their business activities. (Source-Charities Services)

- The reduction in funds lost to taxation would mean a reduction in services provided by the charity, on the assumption that the funds lost to tax would **not** be used directly by government to replace those services. And even if they were, there would be the inevitable time delay in collection of tax and subsequent expenditure, plus the loss of funds by way of administrative expenses as tax is collected and then re distributed back to service providers. The funds provided from charity business income by being tax exempt saves the government from having to provide the services and but also enables volunteers to take ownership of the service.

- Charities rely greatly on volunteers. Over the 29,000 registered charities and the 121,000 officers who serve on their boards, it is estimated by Charities Services that volunteers provide 1.4 million hours per week to the charitable sector. Charities harness this volunteer mahi because they provide services for the public good and these are aligned with the beliefs of the volunteers. They are passionate about what they do and anything that reduces the benefits they provide (such as the imposing of tax) would impede their passion and enthusiasm and in our opinion lead to a drop off in volunteer commitment.

If the tax exemption is removed for charity business income that is unrelated to charitable purposes, what would be the most significant practical implications?

- Charities frequently own property from which charitable services are provided. With property comes maintenance which by its nature does not occur in equal calendar periods. There needs to be an accumulation of funds in some years to enable larger maintenance to be undertaken in others. The imposition of taxation would delay such maintenance at the eventual costs to the public benefit.
- If Charities become tax paying entities, then they would be required to prepare and file financial statements that comply with tax legislation, meaning increased compliance costs for what would be marginal amounts of tax given that around one third of charities have annual income under $10,000. (Source- Charities Services)
- The financial statements referred to above would also need to distinguish between those costs incurred in the production of business income and those costs incurred in the procurement of donations, fundraising and grants.

If the tax exemption is removed for charity business income that is unrelated to charitable purposes, what criteria should be used to define an unrelated business?

- Investment income from interest and dividends should not be defined as unrelated business income as there is no potential for the undercutting of competitors as the market sets the interest rates and the dividend levels. All players in the market are on the same level regardless of their tax status.
- Dividend income should not be defined as unrelated business income on the basis that charities like all other dividend recipients pay dividend tax by way of imputation credits that are not refundable. There is no competitive advantage by being tax exempt.
- One of the hallmarks of a charity is the degree of reliance on volunteers. Volunteers will only be involved in the unrelated business if they can see sufficient nexus between what they were volunteering for and the entity that ultimately benefited from their volunteering. Hence, we would suggest the level of volunteer involvement in the tax-exempt business would be one of the defining criteria.

If the tax exemption is removed for charity business income that is unrelated to charitable purposes, what would be an appropriate threshold to continue to provide an exemption for small-scale business activities?

- We would advocate that reporting tier levels 3 & 4 remain exempt on the basis that being smaller charities they are less likely to have the administration and accounting systems required to prepare and monitor tax based financial accounts.
- By adopting the tier related basis, it is using an already existing system that the charities sector is familiar with
- By adopting levels 3&4 it is exempting 88% of charities that are shown as having business income (table 1 page 10 of IRD issues paper) and given the level of activity of those charities as evidenced by their levels of expenditure at those tier levels the quantum of business income and therefore the tax forgone is minimal.
- This exemption may require some anti avoidance provisions to prevent donors from forming multiple charities in an effort to remain below the threshold limits.

If the tax exemption is removed for charity business income that is unrelated to charitable purposes, do you agree that charity business income distributed for charitable purposes should remain tax exempt? If so, what is the most effective way to achieve this? If not, why not

- We believe the current tax-exempt regime should remain in the belief that

1- The charitable sector is better able to deliver public benefit services than the government sector as it harnesses the volunteer workforce
2- To expose the charitable sector to taxation will reduce the funds available to those services they provide and put pressure on the government sector to replace the services curtailed.
3- To expose the charitable sector to taxation will require defining what is "unrelated" and what is "business" income with all the usual exemptions, so just adds to the uncertainty and administrative burdens that the imposition of taxation would bring. Financial statements will have to be prepared defining business income from other income, and can be prepared in such a way that maximizes overall costs against the business income so by reducing tax.
4- If the perception is that the tax-exempt benefit is being abused then rather than bringing in rules and regulations that impact on all charities surely Charities Services have the regulatory power to investigate those that they suspect are abusing the privilege. If they do not have the powers then they should get them and be resources to implement them. Table 1 page 10 of the issues paper indicates 1300 charities in tier 1 & 2 report as having business income. Assuming not all 1300 are abusing the system, then the number of charities subject to a more thorough review would be manageable.

Should New Zealand make a distinction between donor-controlled charities and other charitable organisations for tax purposes? If so, what criteria should define a donor-controlled charity? If not, why not?

- The definition of donor - controlled charities (DCC's) needs to be refined to exclude those charities formed by settlements from an existing charity for reasons of asset protection and funding.
- In this scenario the existing or primary charity would be the donor in the sense used in the discussion paper and may well retain a level of control or input into the new "protective" charity by way of protective trustee appointment and/or restricting discretionary distributions to the primary charity.

- The need for these settlements was heightened by the demise of a Northland charity whose assets and charitable activity were conducted under the one charitable entity. That entity was taken over at its annual general meeting by a group of outsiders who voted out the existing committee, and went on to destroy the charity through the sale of all its assets.
- The protective trusts will often do nothing more than accumulate and hold assets for eventual use to help the primary charity. It is not unusual for it to hold buildings and financial reserves. It would be unfair if such arrangements were "donor-controlled charities" in the sense used in the discussion paper.

Should investment restrictions be introduced for donor-controlled charities for tax purposes, to address the risk of tax abuse? If so, what restrictions would be appropriate? If not, why not?

- Rather than seek to define what is an acceptable investment for all DCC's when presumably only a small percentage of DCC's are seen to abuse the exemption, would it not be better to require transactions between donors and their associated persons (as defined by existing Company and Trust tax legislation) and the donor's

charity be at arm's length for the likes of remuneration paid to employees, and subject to the same interest on overdrawn loan accounts as exist for corporate tax.

Should donor-controlled charities be required to make a minimum distribution each year? If so, what should the minimum distribution rate be and what exceptions, if any, should there be for the annual minimum distribution? If not, why not?

- Charities which accumulate funds without immediately using them should not necessarily be treated differently. Almost all charities would benefit from the extra resilience and strength that accumulated reserves give. Charities are not able to raise capital and so rely on accumulations to meet the likes of capital works and substantial maintenance.
- Many charities, for example, try to encourage the public to benefit them by giving bequests in their wills. These amounts come at random times and can be substantial amounts. It would make no sense at all to penalise any amounts which were not, for example, spent in the year they were received, or to require a charity to make a minimum distribution in a year when there is either no need that year or there is a required level of future expenditure planned.

Submission on the officials issues paper- Taxation and the Not for Profit Sector- 24 February 2025

Submission from the Cambridge Community Menzshed Inc.

Incorporated society number:

Registered office:

Location: 296 Lamb Street Cambridge.

Email: cambridge.menzshed@gmail.com

The Cambridge Community Menzshed is a registered charity (CC62000) and an Incorporated Society No: 50197235. It is a member of **MENZSHED NEW ZEALAND Inc**, itself a registered charity (CC49919) that exists primarily for the mutual benefit, success, and support of member sheds and to facilitate public access to those sheds.

Nature and reason of the entity: The Cambridge Menzshed is setup to enable mostly older men in the community to come together to utilise their collective skills and knowledge to provide practical services to the community including to individuals, groups and organisations. These Menzshed services are often related to woodwork and metal work, repair, recycling, restoration and bespoke solutions that are worthwhile. Hobby work is also included. There are no fees or charges for these services. There is no limitation on who might seek support from the Menzshed

The by-product of this is enabling wellbeing for men (who become members) in the community while also connecting to other like-minded organisations across the community.

Membership, working base and Income streams

The Cambridge Menzshed has 81 members (as at 14 March 2025).

Each pays a membership of $50 per annum.

The property that the Cambridge Menzshed works out of a former old local dairy factory which the Menzshed has leased from the Waipa District Council and repurposed as a series of workshops.

Discussion Paper question:

Q1 What are the most compelling reasons to tax, or not tax, charity business income?(also response on described 2.13 and 2.14)

There would be significant compliance costs and obligations if organisations such as the Menz shed were taxed.

Organisations that are wholly comprised of volunteers who receive no pecuniary benefit, such as the Menzhed, should be tax exempt as they have no or very little trading activity.

Also, (re 2.13) If the Menzshed wished to raise external capital (through donations, fund raising and the like for an ancillary building on the site, or for another community project (not of a commercial nature or use) that might require hundreds of thousands of dollars, then that capital raising and its accrual, over consecutive years, for an indeterminant time; should not be liable for tax. If the tax exemption was removed for such activity (referred to under **Q2)**then communities would be deprived of potential projects that are entirely for charitable purposes as funding raising would be further constrained. This would restrict the growth of amenities within a community.

Q3 tax emption criteria should define enabling criteria to "allow such unrelated business activity where a charity is expressly defining a project, in its accounts, where funds are raised to fund a building or facility that is for community benefit; that has no commercial beneficiaries". A valid exception to related commercial activity where it seems appropriate that such a facility has an adjunct incorporated activity that is only ancillary, and for which the income/profits are applied to defray operating costs of the facility/building. e.g. café or related small retail

Organisations, such as the Menzshed, should be tax exempt that have no or very little trading activity, and that are wholly comprised of volunteers who receive no pecuniary benefit.

Other compelling reasons:

Charitable organisations that are adding positively to the wellbeing and community fibre while also repairing, repurposing, restoring while enabling lifelong personal skills to be positively applied for the community's benefit. Such organisations should have every encouragement and be largely divorced from the tax liabilities reasonably attributable to profit orientated and wealth gain entities that are not principally focused on community benefit.

Q4 If the tax exemption is removed for charity business income that is unrelated to charitable purposes, what would be an appropriate threshold to continue to provide exemption for small scale business activities.

Menzshed Cambridge suggests that the tax-exempt threshold be set for the above at $300,000 in the society's annual accounts.

The accumulated funds for a defined charitable project be set at $1million(NZ 2025 dollars adjusted by CPI into successive years). This recognises that funds accumulation for such charitable buildings and facilities can take a number of years to accumulate to achieve the desired and necessary project implementation.

s 9(2)(a)

From: Jesse Willis s 9(2)(a)
Sent: Wednesday, 19 March 2025 2:04 pm
To: Policy Webmaster
Subject: Taxation and the not-for-profit sector

External Email CAUTION: Please take **CARE** when opening any links or attachments.

Kia ora,

I work for the Salvation Army and the removal of tax concessions to charities like us, will mean we have less money to support our communities. The Salvation Army supports many communities through providing food, housing, addiction services and more. If the services we deliver are impacted then more people go hungry, more people are made homeless, and more people struggle with addiction and finances.
If the ideas in the paper were introduced, The Salvation Army would have significantly reduced funds, and we would not be able to provide the services we do meaning the people we engage with would suffer.

Ngā mihi,

Jesse Willis

Corps Planting Officer | Pacific Coast Mission
2/22 Gravatt Road, Papamoa | s 9(2)(a)
The Salvation Army | Te Ope Whakaora | Aotearoa, Fiji, Tonga & Samoa
caring for people | transforming lives | reforming society
through God | in Christ | by the Holy Spirit's power

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s 9(2)(b)(i), s 9(2)(a)

From: Ben Willis s 9(2)(a)
Sent: Wednesday, 19 March 2025 2:09 pm
To: Policy Webmaster
Subject: Taxation and the not-for-profit sector

External Email CAUTION: Please take **CARE** when opening any links or attachments.

Kia ora,

My name is Ben Willis. I am an Officer (ordained minister) in The Salvation Army.
I am writing to share my concern over the proposed changes in Taxation for the not-for-profit sector. I don't have fancy language to use. However I do have 7 years experience working in The Salvation Army, as both a youth worker and now as an Officer. We rely on income generated through family store op shops.

I will share one story from when I was a youth worker in Upper Hutt. Lucas* was a young man who came into The Salvation Army and was directed to me because he was needing to speak to someone. Lucas told me that he was going to commit suicide that evening, but he heard a voice tell him to walk into The Salvation Army. Realising it was his last day on earth, he figured "why not?" I saw and assessed that Lucas was very serious in his determination to kill himself. I was able to work with our Community Ministries team (who are also employed through family store funds) to get him into accommodation, feed him for the day, pray with him, and journey with him over the coming months. Lucas would be dead if it wasn't for our intervention that day. I believe that these potential changes will result in more suicide and social harm. It can't happen.

**Not his real name*

He kororia ki te Karaiti.

Ben Willis
Corps Planting Officer
Pacific Coast Mission - Pāpāmoa

The Salvation Army

Caring for People | Transforming Lives | Reforming Society | by God's power

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s 9(2)(a)

From: Racheal-Lee Kendrick s 9(2)(a)
Sent: Wednesday, 19 March 2025 2:17 pm
To: Policy Webmaster
Subject: Taxation and the not-for-profit sector

External Email CAUTION: Please take **CARE** when opening any links or attachments.

Kia ora

Ko Racheal-lee toku ingua.
I work and have worked with The Salvation Army for over 20 years and I email in response with concerns regarding the removal of tax concessions to not for profit sector.

Removal of tax concessions to charities like The Salvation Army, will mean we have less money to support our communities.

This means more of our community tāngata going hungry, more community tāngata made or remaining homeless, more community tāngata struggling or remaining in addiction, more community tāngata under pressure financially, more sickness within our community tāngata, more community tāngata struggling to re-enter society after leaving prison and likely to fall back into old ways.

The services, support and places of whanaungatanga we deliver and provide make a positive impact for the individual, for community and for societal-community well-being. If we have to reduce our services, this will push the cost onto government, either directly, with government needing to fund and deliver the services we can no longer provide and/or downstream due to increased costs in health, welfare, justice systems.

Ultimately if the ideas in the paper were introduced, The Salvation Army would have significantly reduced funds, and we would not be able to provide the same services or support we do now, meaning our communities and tāngata we serve will suffer.

Ngā Mihi
Racheal-lee

Racheal-lee Kendrick, Major
Corps Officer and Community Ministries Director Kapiti
Te Ope Whakaora / The Salvation Army
41 Bluegum Road, Paraparaumu 5032
O: s 9(2)(a)
W: http://www.salvationarmy.org.nz

"The Thief comes only in order to steal, kill and destroy, but I [Jesus] have come that you may have life and life in all its fullness."

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s 9(2)(a)

From: Natasha Christopher s 9(2)(a)
Sent: Wednesday, 19 March 2025 3:41 pm
To: Policy Webmaster
Subject: Taxation and the not-for-profit sector

External Email CAUTION: Please take **CARE** when opening any links or attachments.

Kia ora,

I wish to contribute to the discussion regarding taxation and the not-for-profit sector.

I am opposed to wide-spread changes to taxation of organisations with charitable status. I am concerned about the individual and societal impact of reduced services offered by organisations such as The Salvation Army, Auckland City Mission, Vision West, and many other services providing our most vulnerable with housing, food, financial advice, addictions treatment, and other life saving services. Where does this lead our society if such organisations, who already have stretched resources, are further affected by taxation? This will ultimately cost the government by either filling the gap with increased funding for social services, or will come at a financial and moral cost due to increasing crime, poverty, illness, and death.

I do feel that a review of *how* organisations get charitable status would be beneficial. For example, Sanitarium receiving tax-free status due to its association with the Seventh-Day Adventist church is questionable to me. When looking at their website, they offer no practical services to the community, and are very focussed on conversion and church attendance - something that does not offer the communities a charitable service.

Destiny Church is another questionable organisation. To me, to be registered as a charity (in addition to providing communities with a service of public good), the organization should treat ALL members of society charitably, which is clearly not a value for this church.

I appreciate your consideration of my thoughts on this matter. Whilst I feel a review is beneficial due to my concerns outlined above, I feel sweeping changes that affect organisations acting as a genuine charity will have significant impact on our society and would be a poor reflection of the government's agenda and priorities.

Kind regards,

Natasha Christopher

s 9(2)(a)

From: Jo Coffey s 9(2)(a)
Sent: Wednesday, 19 March 2025 5:40 pm
To: Policy Webmaster
Subject: Taxation and the not-for-profit sector

External Email CAUTION: Please take **CARE** when opening any links or attachments.

Kia Ora Re Taxation proposal on the not-for-profit sector,

Please do not implement this tax as most of our services are advocacy services supporting hard working Nurses and our members. These types of organisations are set up to support workers and are vital services that thrive on a not for profit basis like most religious organisations. Any profit goes back to ensuring advocacy services and running the organisation.

Ngā mihi

Maranga Mai (Rise Up)

Jo Coffey (she/her), RCpN, BN, MN | Organiser

s 9(2)(a)
www.nzno.org.nz
New Zealand Nurses Organisation
Tōpūtanga Tapuhi Kaitiaki o Aotearoa | PO Box 2128 | Pōneke 6140

*The **Living Wage** concept is very simple, yet such a powerful alternative – it's the hourly **wage** a worker needs to pay for the necessities of life and participate as an active citizen in the community. The Living Wage new hourly rate announced from 1 September 2024, is $27.80. This is an increase of $1.80 on the 2023/24 rate, which is in line with a 6.9% increase in New Zealand's average ordinary time hourly rate.*

A free verse/poem by Maxim Kryvtsov (Dali) 01/01/1990 to 7/1/2024,
a Ukrainian poet and soldier.

He took a cat that looked like a cream cake
and said: Cat, we have to go
with us, like the morning
like life
like disease
just happened

this ice-cold

war

the lesson called "Quiet Life" is over.

Comments on Consultation Paper IRD

Issues Paper on Taxation and the not-for-profit sector

This document has been prepared to provide an overview for the session on 10th March 2025 at noon where we (Craig Fisher, Jenny Gill and Steven Moe) will be discussing the IRD consultation paper and the 15 questions it contains.

This paper is divided this into 5 parts:

- Summary of conceptual key points – positive and negative
- Which Charities are affected by the Consultation Paper?
- Conceptual thoughts
- Run down on specific issues
- Summary of thoughts for each of the 15 questions

To watch the recording of the session, contact stevenmoe@parryfield.com for the direct link (it will likely be loaded up here along with other resources).
Our thanks for their input to: Matthew Wall, Toni Owen, Peter van Hout, Derek Caudwell, and John Godfrey.

For additional background we suggest: This is the link to our earlier briefing paper and the video of our earlier session on it + overall context is here. Also, more info here (including charity health checks) and our earlier Charting the Future paper is here.

Steven Moe
StevenMoe@parryfield.com

Craig Fisher
Craig@kea-nz.co.nz

Part 1: Summary of conceptual key points

Positives:

1. The issues paper is relatively narrow in its focus
2. Well explained – even supportive of the sector in places
3. It's stated objectives of "simplifying tax rules, reducing compliance costs, and addressing integrity risks" are great objectives. They deserve supporting. But the devil is in the detail. Submitters will need to refer back to those objectives and see if they are in fact likely to be met.
4. Provides a fantastic opportunity for charities to positively communicate & reinforce their value, and that of the sector, to NZ society

Negatives:

1. An overall reduction in support for the sector ("thin end of the wedge" inroads argument re Govt support of the sector)
2. A complete absence of costings/estimates of how bad issues are, and/or of the compliance cost impacts of proposed changes. Given this is framed as a stopping abuse/revenue issue we believe cost benefit analysis is essential.
3. Moves us further away from a simple tax system – which has been a strength of our system in NZ.
4. Doesn't address unintended consequences/longer term likely impacts e.g.:
    - Makes it harder for charities to achieve financial self-sustainability if not allowed business income
    - How much revenue will be gained by Govt vs how many additional services will Govt need to fund if charities are less sustainable? Flows on to a political calculation for Govt regarding do positives outweigh negatives?
    - Is Govt likely to fill unmet social need if less ability for charities to?
    - Will proposed changes simply result in other structures or approaches to the issues – e.g. giving funds to charities to reduce profits
5. Still get a sense this is very directed at a few charities that the IRD may believe are clearly 'taking the mickey' on the current settings – concur with action being taken on that - but how is important. Taking a blanket approach via taxation concessions, if in fact the core concern is abuse of charitable status under the Charities Act, is likely to cause more damage than benefit due to flow-on unintended consequences.

Part 2: Which Charities are affected by the Consultation Paper?

It is likely that many different classes or types of charity will be impacted if changes that are hinted at are implemented. Here are some examples:

Charity Type	Why impacted?
All Charities	Underlying this is a conceptual framework that perpetuates an approach to charity that they should be dependent on donations and handouts rather than seeking to diversity and be encouraged to look for diverse sustainable income streams. Also, the door opens here – if changes are implemented which will lead to higher compliance costs for charities and likely minimal revenue for Government, then what is to stop additional future changes to tax passive income or related business income?
Charities that own businesses	The focus is on taxing those entities who may have "unrelated" business income when compared to their purposes e.g. if a charity owns a company or has an interest through another mechanism in a business operating in another area. How would this be defined is a complex big question.
Donor controlled charities	This is where a person or a family sets up a charity and that entity then interacts with other businesses or entities associated with the family's holdings. It is proposed that there are changes for these which might include how they relate with other entities in a group. There are also some references to requirement of minimum distributions (other countries do this) so that assets are not just accumulated and hence not used for the charitable purpose.
Charities that issue donation receipts	There are some questions about how the tax donations regime works and way that it could be improved e.g. allowing for claims to be made sooner than the end of financial year – these are positive ideas and could impact these charities as it may encourage people to give more.
Mutuals and societies, credit unions, vet services, science bodies etc	There is a section of the paper talking about these and similar entities where "…income tax exemptions available to NFPs that appear to have become out-of-date and may not be fit for purpose today." These groups should read and consider the implications for them or removing the exemptions.
Offshore charities	These charities are less likely to even be aware of this consultation, but non-resident charities may have some removal of their ability to have tax exemption for NZ income.
Charities that have employees with FBT exemption	It is proposed to change the position here for charities so they would be aligned with other entities on Fringe Benefit Tax. Though our view is this likely has logical policy merit, it is something that would adversely impact many charities so should be submitted on.

Part 3: Conceptual Thoughts

New Zealand has a relatively simple taxation system. This is a huge benefit in terms of understanding, cost, and efficiency, and hence adherence. One hopes it is a policy stance that is to be protected. As a rule, exceptions often create complication, cost, and unintended consequences.
The consultation contemplates many new definitions, special rules, thresholds etc all of which require debate, detailed guidance, and could still result in misinterpretation and litigation.

Charities are recognised as important in NZ. Aotearoa has more charities (& not-for-profit entities) per head of population than most (all?) of our international peers. This demonstrates the strong level of societal ownership of charities. They have been supported by successive Governments by taxation concessions because all their resources are required towards their charitable purpose and private pecuniary gain is not allowed.
4% of New Zealanders are employed by charities and kiwis also volunteer a staggering 1.4million hours every week.

Charities are recognised for their broad public benefit/impact and absence of private ownership with a 0% marginal tax rate on income received or surpluses generated, similarly to other public benefit entities such as local government.

Charities are usually highly efficient deliverers of services. They are close to their communities and due to constrained resources are commonly forced by necessity to be incredibly efficient. They are generally much more cost-effective service providers than direct Govt service provision.

Absence of charities will fall back on Govt in both cost and political support. If charities are not providing their services and addressing societal needs, the result will generally become increasingly loud calls to Govt to address the issues that charities used to. This has direct cost implications for Govt – likely to be more than their support of the charitable sector via tax concessions. It will also likely eventually equate to an adverse impact on the political support of the Govt of the day if they are then not seen to be addressing the issues effectively themselves.

The broader regulatory settings for charities are supportive but there are "tickets to the game". Our legislation allows establishment of charities with wide variety and relatively low friction. The quid pro quo is mandatory obligations on charities as to their public transparency. This includes financial reporting and now Service Performance reporting (an attempt to assist communicating impact). This level of public transparency comes at a compliance cost. Generally charities have significantly greater transparency requirements than for-profit entities in New Zealand, most of which have no legislated obligation.

The curse of unintended consequences. Due to the very wide variety of type, scale, operating approach of charities and NFP entities in NZ care needs to be taken to carefully consider implications of changes. If the issue is concern over entities abusing their tax concessions, then the first step should always be to:

1. Understand clearly the size of the issue – i.e. How many entities? How much in $?; and
2. Is this an issue that requires a blanket approach over the whole sector, or is it better addressed via very targeted intervention of those entities suspected to be abusing the concessions?

The sector is financially fragile. This statement is a generalisation, but it is fair to say that many in the sector "run on the smell of an oily rag". There are only 5 mains ways that an entity within the sector can raise funds to support its mahi. These are:

1. Donations from individuals
2. Donations from Trusts and Foundations or other philanthropic entities
3. Govt (or private) contracts for charitable service provision
4. Income from passive investment into term deposits, shares, and bonds (assumes the charity has any funds to invest!); and
5. Business operations

1-4 are largely outside the control of the charity. 1-3 are directly reliant on the charity of others. Only the last one provides a charity with a high degree of self-control as an income source - yet also comes with higher risk.

Charity sector statistics under-report true costs. Many charities operate with the benefit of considerable pro-bono or semi pro-bono goods and services. Volunteer labour is common as is some people willing to work for less than standard commercial rates due to the charitable purpose. Donated goods and services are commonly either not reflected in financial statements or not at market values. Many leases are provided at discounted or are peppercorn leases.

Funders want to see financial sustainability of charities they choose to fund. A common irony of the sector is that funders often only want to fund charities that can demonstrate they are financially sustainable. Yet often the funding provided will not be sufficient to cover full costs of providing the funded service.

Ensure the medicine fits the illness. If abuse of tax concessions is the primary issue, then resource the regulator sufficiently to investigate and ensure it can take appropriate action.

Ensure the correct tool is used for the job. Provisions/amendments to Charity Law is the most appropriate approach to maintain the social licence and public confidence of the Charitable sector, provided changes do not over-burden the 29,000 charities to address a few bad actors. An entity should be assessed as charitable or not using the Charities Act/Charities Law – not using tax rule changes as a proxy for whether an entity is a Charity.

We would welcome a review of the Act to strengthen the sector and increase its integrity. Albeit we note the last review was very protracted and also very limited in its scope.

Need to look at both sides of the equation. With respect this appears to be a one-sided evaluation of the Charitable sector's income tax contribution, i.e. only considering the tax take cost to Government. This approach is not balanced nor evidence-based and inconsistent with the Government's Statement On Regulation where *the benefits of the preferred option not only exceed the costs (taking account of all relevant considerations) but will deliver the highest level of net benefit of the practical regulatory options available*

Part 4: Run down on specific issues

Charity business tax exemption

Only unrelated business activities are the focus of this review

1. What is the policy logic of allowing passive unrelated business income e.g. investment in term deposits, shares and bonds etc, but not active unrelated business income?
2. What is the policy logic of allowing related business activity to charitable purpose but not unrelated?
3. How does one define/demark what is considered "unrelated" to charitable purposes? For example, Sanitarium provides heathy food and education around healthy eating and lifestyles. A school provides education as part of its charitable purpose but also has high fee-paying foreign students as an income generation strategy. A charity hospital offers high fee-paying elective surgery operations. A native tree nursery provides trees for ecological restoration but also sells some to the public.

We see this definition and demarcation of what is considered "unrelated" to be highly problematic. It is likely to lead to considerable compliance cost for charities and we suspect for the IRD and DIA Charities Services.

Competitive advantage argument

1. Despite hearing claims from business of competitive advantage of charities we have not seen evidence of predatory pricing examples or independent studies showing this. This has been looked into in Australia with no evidence found.
2. Charities are held to a much higher level of reporting requirements and public transparency which provides a commercial disadvantage compared to any for-profit competitors.
3. Charities reporting requirements in compliance with legislated reporting standards, and often independent audit, depending upon their scale, imposes greater compliance costs.
4. Charities are at a competitive disadvantage due to being restricted in raising finance as they cannot share their profits.
5. Charities are at a competitive disadvantage in investing in shares as they cannot claim the imputation tax credits from tax paid dividends.
6. Charities operating businesses cannot offset losses against future year profits as for-profit businesses can.

Reason given for review:

"The fiscal cost of not taxing charity business income unrelated to charitable purposes, particularly income that is accumulated, is significant and is likely to increase. Tax concessions for unrelated charity businesses reduce government revenue and therefore shift the tax burden to other taxpayers."

"Whether charity business income unrelated to charitable purposes should be subject to tax therefore depends on the level of support that the Government wants to provide to charities."

Response & Implications of proposed change:

1. There is a societal question of should charitable services be provided via charities run by local communities or a Govt?
2. The fiscal cost argument may well be a false economy. It is highly likely that charities are more cost effectively meeting charitable need at present than a Govt could without them. If a Govt doesn't provide services, but has by its support settings reduced charity capacity, then they are exposed to adverse public sentiment and hence political risk.
3. Removing business income of charities impedes their financial sustainability ability.
4. Many charities currently operating businesses are not accounting for their true input costs. If they are required to pay tax they will be entitled to claim all available input expenses, as for-profit businesses do. This is likely to dramatically reduce the business profit and hence any taxation revenue.
5. Reducing the ability for charities to operate businesses is likely to reduce financial sustainability innovation, and by reducing available funding, also reduce innovation in addressing charitable purposes.
6. Reducing the financial capacity of charities is likely to lead to much greater pressure on both Govt and philanthropic entities to fund issues charities are currently addressing.
7. Reducing charities income sources to reliance on the charity of others will lead to more competition between charities for funding, incurring more cost on fundraising which in turn is not available for charitable purposes.

Perhaps an example of the flawed conceptual framework on the issues is shown by the phrasing in paragraph 1.4 of the Issues Paper:

"Every tax concession has a "cost", that is, it reduces government revenue and therefore shifts the tax burden to other taxpayers."

This could be alternatively thought of as:

"Every tax concession has a "benefit", that is, it reduces government expenditure by empowering charities to have more impact at lower cost than the government providing an equivalent service, and therefore reduces the tax burden to other taxpayers."

Policy design issues

We agree that distinguishing between related and unrelated business activities will be difficult in practise. Drawing a line in the sand always results in significant issues as to where the line should be drawn. Experience shows that thresholds often promote activities and structuring specifically to avoid exceeding thresholds. Without question, this will result in increases in compliance costs for both charities and the government. Any increase in compliance costs will translate to less funds for charitable purposes.

The simplicity of the New Zealand tax system is one of its most significant features and translates to efficiency. This proposal appears to lessen that simplicity.

De minimis for small scale trading activities

We agree that removing the tax exemption for unrelated businesses will impose increased compliance costs for charities.

In addition to the cost of charities needing to seek appropriate accounting resource, we note that it has become increasingly difficult for charities to find pro bono or semi pro bono accounting and audit resource. This is especially noticeable for smaller charities who may be unable to pay for this.

If the tax exemption is removed, then we strongly support a de minimis threshold being set. An exemption for Tier 3 and Tier 4 charities is logical to reduce the cost impost on the very small. However, without detailed impact analysis provided in the Issues Paper it is difficult to understand how many charities operating businesses would be affected by any proposed changes.

It would be important to ensure any taxation exemption remains aligned with the statutory financial reporting tiers.

Relief for distributed business income

We agree that if the tax exemption is removed for unrelated charity business income that is subsequently distributed for charitable purposes, then it should remain tax exempt.
Such a relief system would need to be simple and clear. For example, a donation or dividend deduction.

We note that such a system would however increase compliance costs therefore reducing the overall amount able to be applied to charitable purposes.

Other considerations

We concur with the other considerations listed as all being further complications and complexities that would need to be addressed. This will increase compliance cost for both government and charities, reducing funds available for charitable purposes.

We also note the following issues as considerations that were not raised in the issues paper:

1. The valuation of pro bono or semi pro bono services as input expenses. Labour cost is a significant input expense for any business. Currently many in the charitable sector receive some pro bono or semi pro bono labour. Accordingly, it would be important for charities to be able to claim the true cost of their business in any income tax return. This raises the conundrum for the tax department as to what the appropriate fair labour costs should be.
2. The valuation of other advantageous terms such as peppercorn leases may also need to be considered.
3. Currently there is not a level playing field as regards transparency of reporting with for profit businesses, i.e. charities have to currently meet a higher level of public transparency. Failure to address this issue results in charities being at an unfair competitive disadvantage with for-profit businesses.

Donor controlled charities

We are aware that donor-controlled charities appear to be an area of some growth in recent years in New Zealand. Often these are charitable vehicles for very generous businesspeople and families. However, given the heightened potential for related party transactions and control in a donor-controlled charity situation, it probably does make sense for there to be tax rules that specifically relate to donor-controlled charities.

We concur with the potential areas for abuse as outlined in the issues paper. We do note however from experience that sometimes transactions between the donor and their associates are on terms much more generous and advantageous to the charity than open market terms.

Should New Zealand make a donor-controlled charities distinction?

We find it difficult to answer the question should New Zealand make a distinction between donor-controlled charities and other charitable organisations for tax purposes due to a lack of clarity as to the scale of the issue. If Inland Revenue is aware of significant abuse and that this appears to be a growing problem, then we believe a distinction is valid.

Anecdotally, the authors re aware of donor-controlled charities where the donors continue to willingly provide funding to the charity as donations.

Restriction on investments for donor-controlled charities

Again, if the levels of abuse noted by Inland Revenue are significant then it would appear logical to seek to restrict investments by donor-controlled entities to related entities. Given this issue has been addressed by overseas jurisdictions it would make sense to thoroughly review those experiences as to what has proved most successful, and also what unintended consequences arose. We would not want to disincentivize valid charitable activity in New Zealand.

Minimum distribution rule

We agree that accumulation concern is most heightened in relation to donor-controlled charities as this is the area that could be most likely subject to abuse.

We also note that DIA Charity Services has recently introduced additional disclosure requirements on charities to explain their reasons for any significant accumulation. This helps put a spotlight on and strengthens the public transparency around this issue.

We note the wide variety of charities in New Zealand and differing issues which require immediate action as well as medium term and longer-term actions. Accordingly, it is appropriate for many charities to accumulate some reserves. A good example is Iwi organisations which not only have to address current members but also future generations.

Whether donor-controlled charities should be required to make a minimum distribution each year depends again on how big an issue this is and evidence of any current abuse. We are interested to see some broad consistency in other countries experiences and as such would be interested to understand what lessons and consequences have arisen in those jurisdictions.

Integrity and simplification

We are strong supporters of initiatives to improve both integrity and simplification in any system. However, the devil is always in the detail, and it is important that appropriate consideration is also given to unintended consequences, and whether any changes disincentivize and/or weaken our charitable sector.

NFP and friendly society member transactions and related matters

We note that the $1000 deduction seems both small and a very old number. As such if this is designed to remove small scale in NFPs from the tax system it will likely require increasing.

Income tax exemptions

We note there are a range of specific tax exemptions for unique circumstances and suspect these may have been implemented in a different era.

It is difficult to comment without knowing more of the detail of the specific areas.

However, if the scale of the issue warrants it then it would make sense to review these cases and ensure they are as much as possible in line with other policy settings and that any policies in relation to them are appropriate for the current environment.

Fringe Benefit Tax exemption

We appreciate the rationale of introducing and maintaining the FBT exemption to support the charitable sector. This has indeed allowed charities to offer more competitive remuneration packages at a lower cost to the charity allowing them to attract appropriate labour resource. It helps them compete with the for-profit sector. That also increases funds available for charitable purposes and reduces compliance costs.

The most common fringe benefit that is provided in the charitable sector appears to be the private use of a charity owned vehicle to employees.

However, we also appreciate the core policy rationale behind FBT is to ensure that remuneration paid to employees is appropriately taxed on a fair and equitable basis. As such we can see that the FBT exemption in the charitable sector distorts this policy.
The likely implications of removing or reducing the exemption for charities will be significant for some charities in their ability to compete for appropriate labour resource with the for-profit sector. It will also increase compliance costs in accounting for any fringe benefits that may still be provided.

Tax simplification

The simplifications introduced for FENZ volunteers appear logical.
In relation to extending this as an option for all NFPs, our question would be; has this worked appropriately for FENZ? And have there been any unintended consequences?

Donation tax concessions

We are aware of the low numbers of people that claimed their donation tax concessions.
We appreciate this potentially reduces the amount of public donations that can be recycled back into the charitable sector.
We are also cognizant that donation tax concessions reduce the overall tax base.
The policy related recommendations proposed appear to be sensible initiatives to help increase the uptake of donation tax concessions.

Part 5: Summary of thoughts for each of the 15 Questions in Tax Consultation paper

Chapter 2: Charities business income tax exemption	Thoughts to ponder for submissions
Q1. What are the most compelling reasons to tax, or not to tax, charity business income? Do the factors described in 2.13 and 2.14 warrant taxing charity business income?	• Taxing charity business income discourages them from being innovative and seeking sustainable income streams • It will increase compliance costs while not actually increasing revenue by that much • It perpetuates a view of charity that donations are their only domain • Won't this open the door to other changes e.g. why not tax passive income from investments in funds which are unrelated to the charities purposes?
Q2. If the tax exemption is removed for charity business income that is unrelated to charitable purposes, what would be the most significant practical implications?	• How to define what is "unrelated" would be challenging. • Wouldn't a company just find other ways to do the same thing e.g. donating out profits to the charity, so it wasn't taxed – so what is gained? • What are the objective measures and figures on these proposals, how much is even involved?
Q3. If the tax exemption is removed for charity business income that is unrelated to charitable purposes, what criteria should be used to define an unrelated business?	• Make sure it is truly unrelated if this is a criteria that is to be used e.g. a charity that focusses on housing poverty and runs a social housing company would be related. • How will a meaningful definition be made of non-business vs. business income (for example, what about passive investments) and also related and unrelated business?
Q4. If the tax exemption is removed for charity business income that is unrelated to charitable purposes, what would be an appropriate threshold to continue to provide an exemption for small-scale business activities?	• Consider your context and how this line might be drawn. • Monetary limit? • Tier 3 and 4 charities (the smaller ones) being exempt?

Q5. If the tax exemption is removed for charity business income that is unrelated to charitable purposes, do you agree that charity business income distributed for charitable purposes should remain tax exempt? If so, what is the most effective way to achieve this? If not, why not?	• While this seems logical it begs the question as to what is being achieved as wouldn't a business just do this? • If this were not allowed, then would it impact on charitable giving from non-charity businesses as well reducing the amount they give
Q6. If the tax exemption is removed for charity business income that is unrelated to charitable purposes, what policy settings or issues not already mentioned in this paper do you think should be considered?	• This will increase compliance cost for both government and charities, reducing funds available for charitable purposes. • The valuation of pro bono or semi pro bono services as input expenses. Labour cost is a significant input expense for any business. Currently many in the charitable sector receive some pro bono or semi pro bono labour. • Accordingly, it would be important for charities to be able to claim the true cost of their business in any income tax return. This raises the conundrum for the tax department as to what the appropriate fair labour costs should be. • Currently there is not a level playing field as regards transparency of reporting with for-profit businesses, i.e. charities have to currently meet a higher level of public transparency. Failure to address this issue results in charities being at an unfair competitive disadvantage with for-profit businesses.
Chapter 3: Donor-controlled charities	
Q7. Should New Zealand make a distinction between donor-controlled charities and other charitable organisations for tax purposes? If so, what criteria should define a donor-controlled charity? If not, why not?	• Very unclear extent to which this is a major issue, or if there are just a few examples or instances. • Will a distinction be helpful or add additional complexity without much real impact?
Q8. Should investment restrictions be introduced for donor-controlled charities for tax purposes, to address the risk of tax abuse? If so, what restrictions would be appropriate? If not, why not?	As above
Q9. Should donor-controlled charities be required to make a minimum distribution each year? If so, what should the minimum distribution rate be and what exceptions, if any, should there be for the annual minimum distribution? If not, why not?	• Perhaps policy question should be whether this should apply for all charities not just donor-controlled? • To determine the figure perhaps continue with looking at what is done in other places.

Chapter 4: Integrity and simplification	
Q10. What policy changes, if any, should be considered to reduce the impact of the Commissioner's updated view on NFPs, particularly smaller NFPs? For example: • increasing and/or redesigning the current $1,000 deduction to remove small scale NFPs from the tax system; • modifying the income tax return filing requirements for NFPs; and • modifying the resident withholding tax exemption rules for NFPs.	• Many of these points will be specific for small charities and mutuals so consider your context and if it will impact your situation. • As a policy point, these smallest of small charities probably won't be aware of the consultation or have the capacity to review and submit on the points raised. • We note that the $1000 deduction seems both small and a very old number. As such if this is designed to remove small scale in NFPs from the tax system it will likely require increasing.
Q11. What are the implications of removing the current tax concessions for friendly societies and credit unions?	As above
Income tax exemptions	
Q12. What are the likely implications if the following exemptions are removed or significantly reduced: • local and regional promotional body income tax exemption; • herd improvement bodies income tax exemption; • veterinary service body income tax exemption, • bodies promoting scientific or industrial research income tax exemption; and • non-resident charity tax exemption?	These are quite specific provisions - for those mentioned it could have big implications so suggest if you are one of these entity types consider submitting on how it would impact your ability to operate.
FBT exemption	
Q13. If the compliance costs are reduced following the current review of FBT settings, what are the likely implications of removing or reducing the exemption for charities?	• This does make policy sense but if your charity will be impacted greatly then suggest you explain how and why. • The likely implications of removing or reducing the exemption for charities will be significant for some charities in their ability to compete for appropriate labour resource with the for-profit sector. It will also increase compliance costs in accounting for any fringe benefits that may still be provided.

Tax Simplification	
Q14. What are your views on extending the FENZ simplification as an option for all NFPs? Do you have any other suggestions on how to reduce tax compliance costs for volunteers?	This is not an issue we have seen talked about regularly before as an issue.
Q15. What are your views on the DTC regulatory stewardship review findings and policy initiatives proposed? Do you have any other suggestions on how to improve the current donation tax concession rules?	• These seem like sensible suggestions so worth endorsing and adding any other suggestions on improving donation tax credit system. • Perhaps due to so many steps there is a lot unclaimed – there is the lag of giving, getting a donation receipt, then claiming at year end (easy to lose receipts, forget to claim).

Wow, you made it all the way to the end, nice work! :-)

We really hope this helps you understand this issue better and urge you to make a submission as it relates to your circumstances. For democracy to work effectively it requires participation and people's voices being heard. Charities speaking up about the important work they do, and implications that changes in support via taxation will have, is critical for the current Government to hear. And for future Governments.

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31 March 2025

Taxation and the not-for-profit sector
C/- Deputy Commissioner
Policy Inland Revenue Department
PO Box 2198
Wellington 6140

Via: policy.webmaster@ird.govt.nz

Re: Taxation and the not-for-profit sector

Methodist Mission Southern was founded in 1890 to relieve poverty in South Dunedin. Today, we are a $9m a year NFP trading in Otago and Southland and delivering support to other organisations throughout Aotearoa New Zealand, focussed largely on children, youth, and whānau. We own no property but hold just under $4m of reserves in mutual investments through the Methodist Church of New Zealand, our parent body.

Charities have for decades been described with a range of names: NGO (non-governmental organisation), Third Sector (c.f. government and commercial sectors), For Purpose, Public Good, and of course "Not-for-Profit".

It is this last one that has perhaps led to "profit" being thought of by some to be antithetical to the work and purpose of charities.

Yet the Not-for-Profit (NFP) label exists only in the context of the managerial theory of the firm[1], which holds that maximising profit is the central organising principle and purpose of commercial entities.

Historically, the reason charities' incomes have not been taxed is the same reason why the income of government departments like Kāinga Ora aren't taxed: because we are working to a collective responsibility ("the good of all"), rather than for a personal benefit (shareholder return etc).

This is baked into the operations of NFPs: should the CEO of an NFP bear the same risks as a commercial provider (i.e. personal liability for losses) it would breach employment law. Should they accrue the same benefits (i.e. personal accrual of profit) they would be in breach of the conflict of interest / related parties rules NFPs are subject to during annual financial audit (required to be supplied to the Charities Commission).

Profit is not, in and of itself, counter to the definition of a charity.

Profits in NFPs operating "businesses" can give rise to claims of "unfair competition" when a charity is engaged in an activity where there are also commercial providers; these claims are made by the commercial operators who feel they are not making enough profit.

Other than the activities of a few significant and nameable entities (addressed below) competition between NFP and commercial operators is not as black and white as those claims suggest.

[1] Theory of the firm - Wikipedia

Taking housing as an example; so famously a commercial activity that a leading economist[2] described Aotearoa New Zealand in 2022 as a "housing market with an economy attached". The value of rental market in NZ far surpasses the breakfast cereals market and early childhood education sector by both asset value and income.

Both private and NFP landlords build and lease homes.

However, private landlords are individually incentivised to charge what the market will bear, and to reduce expenditure on repairs and maintenance and healthy homes standards to what the market will accept; maximising their profit. To wit, the increase in accommodation supplement in 2017 was taken by private landlords as a straight transfer to their back pockets.[3]

In contrast, NFP providers (and governments of all persuasions) recognise the extreme shortage of housing in Aotearoa New Zealand is a substantial contributor to our rates of poverty.

Community Housing Providers (CHPs) and other NFP housing providers do not charge what the market will bear, do not reduce expenditure on R&M etc to the minimum, frequently provide additional services or higher than required quality of housing, and take tenants that private landlords shun.

And yet the supply of additional housing through NFP provision lowers the overall price of rent, per the law of supply and demand, diminishing the profits of private landlords.

Under these proposals, this essential public good could be subject to taxation that would reduce the ability of NFPs to address probably the single greatest contributor to poverty in Aotearoa New Zealand.

In establishing what is "charitable" what matters is not the activity, but the *intent* of the activity.

There has been commentary reflecting a frequent belief that profit is wholly inappropriate in the NFP setting e.g. AUT Accounting and Taxation senior lecturer Ranjana Gupta who reportedly *said the revenue from business activities by charities should be used for charitable purposes within the same year it is earned, so it should not be allowed to accumulate*.[4]

This belief catastrophically misunderstands the Accounting Standards Framework as set down by the New Zealand Government's External Reporting Board[5] and which act as black letter regulation.

These standards stipulating that the value of a firm's assets is equal to the sum of its liabilities and equity, where equity is made up of contributions by owners and prior profits still held in the business.

So, new assets (another laptop, adding a car to the fleet) are paid for *after* profit is declared. Not having enough profit is one of the reasons a lot of NFPs' assets are such poor quality, or no longer fit for purpose, and too often reducing NFP productivity. Remembering that NFPs are working with many of Aotearoa New Zealand's most vulnerable people, this would seem to be counterproductive. (This is why NFPs are often referred to as operating in a "poverty model".)

Expansions in working capital also rely on prior year profits. If an NFP wants to grow its impact, it will have to increase its working capital. So, for instance, if the Mission managed to secure a new contract which meant hiring 3 additional staff, we would almost certainly have to pay out 2-3 months of wages, find additional office space, pay for electricity and phone plans, purchase laptops and phones and vehicles, and lease additional printers and photocopiers etc before our invoice for those 3 months' of work was paid.

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[2] Aotearoa New Zealand's housing crisis is worsening

[3] Budget boost for tenants - Landlords.co.nz

[4] Charity tax crackdown: Who's affected by proposed status and exemption changes - NZ Herald

[5] Accounting Standards » XRB

That might mean needing to have a hundred thousand dollars to hand to start a new service.

And then there are the bumpy years for which a financial cushion (reserves) is essential.

In 2008/9 the Global Financial Crisis drove significant fiscal tightening *and* rapidly increasing demand for NFP assistance. During the GFC the Mission lost half of the independent income (investment returns) that was underpinning our services.

In 2015, with three months' notice, one of the Mission's major programmes was cut as part of a nationwide realignment of government spending. We lost hundreds of thousands a year in gross surpluses that were, again, supporting other programmes that were running at gross deficits. Notably, this realignment caused the closure of several large NFPs and multiple smaller ones.

In 2020 COVID-19 began. In our financial year 2020-21 the Mission spent several hundred thousand dollars more than the wage subsidies covered to keep our staff whole (in line with our NFP values and commitment to the collective rather than maximising our profits).

It takes time to recover from those kinds of hits, and each time we leant on reserves to survive and retool. Without those prior year profits, the Mission would have been forced to close three times in the last 15 years.

The only three youth transition houses in Otago and Southland would not have opened. Our ENGAGE programme would not have been created or be in half of all NZ ECEs materially improving the self-regulation of thousands of children. Thousands of children, youth, and whānau would not have been helped.

The NFP sector is worth an estimated $10-11bn a year[6], so a bail out with each change of government policy or routine recession will inevitably cost taxpayers more than any revenue that may be generated from taxing NFP "business activity profits".

Without profits, NFPs will require regular bailouts to avoid collapse of the sector.

Government is the dominant funder of much NFP activity in Aotearoa New Zealand. It sets the price, which is generally acknowledged to have resulted – as monopsonies usually do[7] – in wages that are at least 30% under the going rate in the state sector for the same roles[8].

Compared to both state and commercial providers, NFPs are typically undercapitalised, underpaid, and operating with assets and resources that restrict productivity. The signals that this sends to both workforce and whānau / communities is dispiriting: this is what you deserve.

It is only recently that government purchasing stopped deliberately funding only 70-75% of service costs (as determined by government), demanding that providers find the remaining funds from elsewhere. Government has historically not even allowed NFPs to retain the intellectual capital of community-developed initiatives.

These proposals will prevent NFPs from having a long-term strategic focus and actively pursuing the financial resources to deliver long term impact.

A few outliers aside, NFPs likely need to make *more* profit in order to trust that they can reliably invest

[6] Social Sector Commissioning - Sector update
[7] Monopsony - Wikipedia
[8] Social.Service.System-The.Funding.Gap.and.How.to.Bridge.It.pdf

more in their workforce and provision generally.

Diversified income streams protect and enhance NFPs' ability to provide for the collective good.

And all of this before we consider the diminishing returns that can only come from enhanced administration of NFP activity.

Aotearoa New Zealand's BBLR tax framework[9] is admired for the simplicity of its operation and relatively high tax take compared to the low rates set. This is largely due to the few exemptions and concessions offered.

The more exemptions / concessions that are provided for in a tax system, the more time will be spent by both government and entities on the reporting regime required for variations. This time will have substantial costs, particularly for smaller NFPs, which is 80% of us.

Per MSD[10], nearly 80% of the approximately 2,500 entities contracting for social services receive less than $200,000 a year via their government contract. These are almost exclusively NFPs. Additional compliance costs will be consequential for those organisations.

It is not just the reporting regime. For instance, consider the tax relief offered by NFPs to donors, most of which are relatively small amounts across high volumes of givers. These donations are not typically ascribed to a specific activity or service outcome. How will these receipts be calculated if NFP income is to be taxed on a by-purpose basis?

Or multi-year fundraising toward the creation of a substantial asset e.g. a community centre, where year-on-year profits may total in the millions. How will this profit be codified under short-term "business activity" definitions?

With paperwork, that's how.

Yet the more complicated a reporting regime, the greater likelihood there is that loopholes for those with the desire and resources to find them will be exploited.

Simply put, the outlier targets of these proposals are exactly the organisations that will have the will and capacity to avoid them.

Further, we note that the countries that are leading the way in these sorts of regulations[11] already have considerable exemption / concessions bases to their tax arrangements. The Financial Times[12] reports that the UK tax system is "incredibly complicated". The USA tax system is said[13] to be so complicated *individuals* spend an average of 13 hours preparing their annual returns, in contract to Aotearoa New Zealand where most individuals spend no time at all.

Opening the door to exemptions and concessions with NFPs will create the temptation for same across the tax code. We caution you against opening this door.

Some of the targets of these proposals have been named[14] in various media and include Sanitarium, the Wright Family Foundation, and Trinity Lands.

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[9] The Aotearoa New Zealand tax system and how it compares internationally (October 2017)
[10] Social Sector Commissioning - Sector update
[11] With billions in 'profit' exempt from tax, changes to NZ's charity rules are long overdue | RNZ News
[12] 'Flaws in the tax system create real costs for everyone' - FTAdviser
[13] Here's why the US tax system is so complicated
[14] Charity tax crackdown: Who's affected by proposed status and exemption changes - NZ Herald

No doubt there are a few others whose profitability offends against the poverty model of charity ascribed to in these proposals. But even if those named were multiplied by a factor of 100, there are currently 26,000 or so NFPs registered on the Charities Register; 300 out of 26,000 is just on 1% of NFPs behaving contrary to received opinion.

Creating a subjective, complex, bureaucratic regime to catch those few will only punish the many, smaller, already stretched, community organisations doing their damnedest for our collective lives.

Notably, there is already a regulatory framework in place to address the charitableness of NFPs and which is used regularly to deregister non-compliant NFPs[15][16].

This framework already demands of NFPs a compliance regime that most commercial organisations to not face (including the requirement for annual financial audits).

We consider that the existing Charities Commission regime provides the optimal approach, particularly when the deficits of these proposals are properly considered.

These proposals are a sledgehammer attempting crack a (very small) nut.

Yours sincerely

s 9(2)(a)

Laura Black
Director

[15] Charities Services | Debunking deregistration myths with data
[16] Charities Services | View the decisions

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Submission to Inland Revenue on Taxation and the Not-for-Profit Sector

From: Free FM 89.0 [The Waikato Community Broadcasting Charitable Trust]
Date: 14 March 2025

Subject: The value and challenges of Community Access Media in Aotearoa

Introduction

Free FM is a member of CAMA – The Community Access Media in Aotearoa which provides essential public services, ensuring diverse communities can access media platforms that reflect their voices, languages, and cultures. The Community Access Media Alliance (CAMA) represents 12 not-for-profit Community Access Media radio stations operating under the principles of section 36(c) of the Broadcasting Act 1989. These stations are funded primarily by NZ On Air and serve as a critical communication tool for underrepresented communities, including ethnic minorities, youth, persons with disabilities, and local organisations.

The Inland Revenue proposals to revise taxation policies affecting not-for-profit organisations pose potential risks to Free FM and CAMA stations. If business income from unrelated activities were to be taxed, it could compromise our ability to sustain essential services. We strongly urge Inland Revenue to recognise the distinct public value of the sector and to ensure that taxation changes do not undermine it.

The local and international value of Free FM and Community Access Media

Local importance

Free FM ensures that all Waikato residents have access to locally relevant news, information, and cultural content regardless of background. Free FM plays a unique role in our region by:

- Broadcasting in multiple languages, ensuring linguistic diversity.
- Providing **media training and opportunities** for marginalised groups, including youth, persons with disabilities, and ethnic communities.
- Facilitating **critical emergency broadcasting** in times of crisis.
- Offering **civic value** by connecting communities and promoting public discourse on important local issues.

International recognition and United Nations endorsement

The value of community broadcasting is recognised globally, particularly by the United Nations (UN) and its agencies. The **UNESCO Community Media Sustainability Policy Series** highlights the importance of community radio in promoting media pluralism, social inclusion, and participatory democracy. The **UN's Sustainable Development Goals (SDGs)** further align with the mission of Community Access Media:

- **SDG 10: Reduced inequalities** – Community radio provides platforms for minority voices and marginalised groups.
- **SDG 16: Peace, justice, and strong institutions** – Access to free and independent media strengthens democratic participation and social cohesion.
- **SDG 4: Quality education** – Community radio plays an educational role by providing training and skills development, particularly for underserved populations.

The UN has consistently called for public policies that **protect Community Access Media from commercial pressures** and ensure sustainability through supportive regulatory and funding environments.

Resourcing challenges facing Free FM

The **CAMA 2024 Resourcing Snapshot** highlights ongoing financial and operational challenges:

- **Rising operational costs**, including transmission fees, rent and staffing, have placed increasing pressure on station.
- **Declining non-NZ On Air revenue sources**, such as grants, advertising and sponsorships, make Free FM more reliant on public funding.
- **Stagnant and precarious public funding**, with no safeguards to ensure NZ On Air revenue sources continue, let alone decrease due to broader political and economic pressures.

Concerns about proposed taxation changes

If the proposed taxation changes result in new tax obligations for unrelated business income, this could severely impact Free FM which works hard (and already struggle to generate) alternative revenue sources. For example:

- **Airtime cost contributions by content creators, and sponsorships**, which help supplement funding gaps, could become taxable, further limiting financial sustainability.
- **Studio hire and training programmes**, which provide community education, may be categorised as business activities, despite their alignment with sector goals.
- **Administrative burdens** associated with tracking and reporting taxable and non-taxable income would strain already limited staffing resources.

Given the strong public service mandate of Free FM and Community Access Media, we recommend that Inland Revenue:

1. Ensure income generated to support core Community Access Media content distribution and dissemination **remains tax-exempt.**
2. Recognise sponsorships, grants, and alternative funding sources as **integral to charitable activities rather than unrelated business income.**

3. **Provide exemptions or allowances f**or small-scale revenue-generating activities that directly support operational costs.

Specific policy recommendations to reduce the impact on Not-for-Profits

Given the financial constraints on smaller not-for-profits, including Free FM, we propose the following policy changes to mitigate the impact of the Commissioner's updated view:

1. **Increase and/or redesign the current $1,000 deduction** to remove small-scale NFPs from the tax system entirely. This would ensure that organisations primarily engaged in public-good activities, such as Community Access Media organisations, are not burdened with unnecessary tax obligations.
2. **Modify the income tax return filing requirements for NFPs to reduce administrative burdens** on NFPs, Inland Revenue, and associated organisations. Many small NFPs lack the resources to manage complex tax filing processes. Simplified reporting thresholds or exemptions for organisations with income below a set level would significantly ease compliance costs for all parties.
3. **Modify the resident withholding tax (RWT) exemption rules for NFPs** to ensure that investment income or minor revenue streams from sponsorships, grants, and alternative funding sources that directly support operational costs do not become a tax liability.

Conclusion

Community Access Media plays a vital role in Aotearoa's diverse media landscape, ensuring all communities have access to representation, training, and civic engagement. Free FM excels in these ambitions within the greater Waikato region. The taxation changes under consideration should not inadvertently weaken this critical sector. We urge Inland Revenue to carefully consider the unique value and challenges of Community Access Media and to implement policies that safeguard its financial sustainability.

Ngā mihi nui

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Free FM

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