

Napier Group Riding For Disabled Association Inc  
Napier RDA  
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25 March 2025

c/- Deputy Commissioner, Policy  
Inland Revenue Department  
policy.webmaster@ird.govt.nz

Subject: Submission on Proposed Tax Changes for the Not-for-Profit Sector – Chapter 4

## Introduction

Napier RDA appreciates the opportunity to submit feedback on the proposed tax changes for the not-for-profit sector, specifically regarding Chapter 4, which addresses the Fringe Benefit Tax (FBT) exemption and tax simplification for volunteers. As a Tier 3/4 charity, we rely heavily on volunteers and limited financial resources to achieve our mission: *“Provide interaction with horses to improve health and wellbeing outcomes for people experiencing disability, or who have specific challenges or needs”*.

Napier RDA is one of 50 affiliated organisations to the New Zealand Riding for Disabled Association (NZRDA), whose vision is to deliver safe and effective programmes in local communities to benefit more riders. Napier RDA is a small charity and the income generated by the generosity of the community goes straight back into supporting riders of all age groups, their families and caring for the horses that serve.

We would like to take the opportunity to voice concern with the tight time frames in which the IRD Consultant paper was released and the submission time. It provided only a short window for not only Napier RDA but all charities across the not-for-profit sector to review a large number of proposed changes, without clearly defining the problem in which the IRD is looking to solve.

After much discussion and review we are in a position to comment on the following:

### Fringe Benefit Tax (FBT) Exemption

1. We support retaining and simplifying the FBT exemption for charities, particularly those operating within Tier 3/4. Our key concerns and recommendations are as follows:
  - Financial and Administrative Burden: Requiring charities to apply FBT for minor benefits provided to volunteers and staff would impose a significant administrative burden, particularly for small charities with limited resources such as ourselves. The additional compliance costs could divert funds away from our charitable purpose and that is giving back to the community.
  - Recognition of Volunteer Contributions: Many smaller charities, like the Napier RDA rely on volunteers who receive small tokens of appreciation (e.g., meal vouchers, transport reimbursements, coffee cards etc). Imposing FBT on these

would discourage such incentives, impact volunteer retention and our ability show gratitude in such small ways.

*Our Recommendation:* We propose that the existing FBT exemption be maintained for Tier 3 & 4 charities or that a de minimis threshold be introduced, allowing small charities to provide minor benefits without triggering FBT obligations.

#### Tax Simplification for Volunteers

1. Volunteers form the backbone of not only our organisation, but charitable organisations across Hawkes Bay and New Zealand as a whole. Simply put we could not do what we do without them. However, current tax regulations can be complex and may deter individuals from volunteering.

#### *Our recommendations:*

- Reimbursement vs. Honorarium Distinction: Clearer guidelines are needed to distinguish between genuine reimbursement of expenses and honorariums, ensuring that volunteers are not inadvertently taxed on funds meant to cover costs incurred while performing charitable work.
- Exemption for Out-of-Pocket Expenses: We support an explicit exemption for reimbursements provided to volunteers, ensuring that these payments do not create unintended tax liabilities.
- Simplified Reporting Requirements: Many small charities such as ourselves, would struggle with compliance obligations due to limited administrative capacity. Simplified reporting mechanisms for volunteer reimbursements would alleviate this burden.

#### Conclusion

We urge the IRD to consider the operational constraints of Tier 3 & 4 charities when finalising these tax changes. Retaining and clarifying FBT exemptions and simplifying tax obligations for volunteers will enhance the ability of small charities to fulfil their missions effectively. We welcome further discussion on these matters and appreciate your consideration of our submission.

Sincerely,

s 9(2)(a)

Karen Busch  
President  
Napier Group Riding For Disabled Association Inc  
napierrda@gmail.com

Cooperative Business NZ

1 Albert Street

Auckland City 1010

28 March 2025

Taxation and the not-for-profit sector

C/- Deputy Commissioner, Policy

Inland Revenue Department

PO Box 2198

Wellington 6140

Email: [policy.webmaster@ird.govt.nz](mailto:policy.webmaster@ird.govt.nz)

Dear Sir/Madam

**Re: Taxation and the not-for-profit sector**

**Introduction**

Cooperative Business NZ is the peak body for cooperatives, mutuals and member-owned businesses in Aotearoa New Zealand. It independently represents them to government, regulators, educators and policymakers to increase awareness of the contributions they make to New Zealand, and ensure they continue to prosper and thrive for generations to come. With over 300 diverse cooperatives, industrial & provident societies, friendly societies, credit unions, building societies and mutuals in New Zealand, all returning profits in various ways solely to benefit members and the community, these entities are critical to the nation's economic success.

For the purposes of this submission, we are focusing on the section most relevant to our members, Chapter 4 **[NFP and friendly society member transactions and related matters]** and specifically Question 11 **[What are the implications of removing the current tax concessions for friendly societies and credit unions?]**.

## **The unique value of friendly societies and credit unions**

Friendly societies and credit unions are member-owned, not-for-profit organisations that exist to support financial and social well-being. They reinvest surpluses to benefit members—whether by keeping costs low, offering affordable loans, or funding community initiatives—reducing financial stress and strengthening social safety nets. Current tax concessions help these organisations remain focused on their core missions.

**Expanding financial access:** Credit unions provide essential banking services, such as transactional banking and affordable credit, to underserved individuals, promoting financial inclusion and literacy.

**Strengthening communities:** By prioritising mutual aid, these entities align with public policy goals of enhancing social welfare and local support networks.

**Enhancing economic stability:** Affordable insurance, encouraging savings and offering low-cost credit reduces reliance on predatory lending and mitigates financial hardship.

**Supporting philanthropy:** Their commitment to ‘people helping people’ drives charitable and community-focused initiatives that improve social outcomes.

Preserving existing tax concessions allows friendly societies and credit unions to continue fostering financial security and community resilience.

## **Question 11: Implications of removing tax concessions for friendly societies and credit unions**

Friendly societies and credit unions have long played this vital role in providing financial and community services, particularly to those who might otherwise lack access. Their tax-exempt status supports financial inclusion by allowing them to reinvest in education, community programmes, and affordable lending and insurance. Removing these concessions could threaten their sustainability, reduce member benefits, and increase costs for the communities they serve, ultimately disadvantaging the very people they were created to support.

If income tax exemptions for membership-based revenue were removed, friendly societies and credit unions would face significant financial and operational challenges.

**Increased operational costs will reduce the funds available for member services and benefits.** Without tax exemptions, and with the requirement to pay tax on membership-based revenue, these organisations would face higher operational costs, not all of which could be absorbed. They may be forced to **reduce the benefits and services** they offer to members (such as low loan rates and financial support services) **and/or hike membership fees or premiums**. This has the effect of making them less accessible to the individuals who benefit most from their services.



**Impact on financial inclusion:** Credit unions, which often serve individuals who are underserved by traditional banks, may find it difficult to maintain their focus on financial inclusion. This could lead to fewer options for affordable financial services for these communities. Individuals with friendly society insurance policies may be unable to afford premium increases and may by necessity move to reduced policies with fewer benefits or become uninsured.

Overall, the removal of tax exemptions could significantly impact the ability of friendly societies and credit unions to fulfill their missions of mutual support and community service.

**Recommendation:**

**That the tax concessions for friendly societies and credit unions remain.** Cooperative Business NZ strongly supports retaining the current tax concessions for friendly societies and credit unions, enabling these organisations to continue their vital role in New Zealand's social and economic landscape. Their ability to operate effectively should not be compromised by tax changes that fail to recognise their unique contributions and their founding principles.

Thank you for the opportunity to submit, and I look forward to any updates in the near future.

Yours sincerely,

s 9(2)(a)

Saya Wahrlich

**Chief Executive Officer**

Cooperative Business NZ

s 9(2)(a)

31 March 2025

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

**Submitted to:** Inland Revenue Department  
**Via email:** [policy.webmaster@ird.govt.nz](mailto:policy.webmaster@ird.govt.nz)  
**Submitted by:** Justine Street – Board Chair  
**Submission date:** 31 March 2025  
**Contact email:** s 9(2)(a)

### 1. Introduction

**Organisation Name:** Horowhenua Learning Centre Trust Board

**Legal Status:** Charitable Trust

**Primary Purpose:** Providing a community managed place of learning to provide primarily for unemployed people in the Horowhenua region, and any other such regions as the Trustees may from time to time determine, which is to be administered in the spirit of partnership implicit in the Treaty of Waitangi.

### 2. Key Submission Points

#### A. Charity Business Income Tax Exemption

We only support the proposal to tax charity business income unrelated to charitable purpose if there was a de minimis threshold. We would support a de minimis threshold of 20% - 25% of a charity's annual turnover for Tier 2 and Tier 1. Tier 3 and Tier 4 remain wholly exempt or a higher de minimis threshold.

There would also need to be a very specific definition of what is "business income unrelated to charitable purpose".

#### B. Donor-Controlled Charities

We make no submission on this point.

### C. Tax Simplification and Integrity Measures

**NFP and friendly society** - we make no submission

**Income tax exemptions** – we make no submission

**FBT exemption** – we support the current exemption as it allows for charities to be more competitive with salary packages whilst keeping costs lower and therefore increasing funds available for charitable purposes.

**Tax Simplification** – we support tax simplification for charities as it is imperative to keep costs lower to allow more funds being available for charitable purposes.

### 3. Conclusion / 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 to medium charities and their ability to serve their local communities.

s 9(2)(a)

Justine Street  
Board Chair

31 Poutūterangi (March) 2025

Inland Revenue Department  
C/- Deputy Commissioner, Policy  
PO Box 2198  
**WELLINGTON 6140**



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Tēnā koe

## **SUBMISSION ON TAXATION AND THE NOT-FOR-PROFIT SECTOR**

### ***This Submission***

This submission is made on behalf of the Rangitāne o Wairau Group (comprising Te Rūnanga a Rangitāne o Wairau Trust, Rangitāne o Wairau Settlement Trust, Rangitāne Holdings Limited and Rangitāne Investments Limited) and relates to the officials' issues paper on taxation and the not-for-profit sector, issued on 24 February 2024. Our submission addresses questions 1 to 9 of the issues paper.

Rangitāne o Wairau welcomes the opportunity to provide a submission on the issues paper. We provide a summary of our submission, an overview of Rangitāne and a response to the specific questions that the consultation proposes.

### ***Summary of our Submission***

We submit that the proposal to remove the tax exemption for unrelated business income of charities should not proceed on the basis that:

- The proposal does not recognise the unique background to the existence and operation of charitable businesses by iwi/Māori organisations;
- The proposal would undermine the Tiriti/treaty settlement process that many iwi have undertaken with the Crown since 1995;
- Iwi-operated businesses are not unrelated to their charitable purpose but are inherently part of the way that the charitable purpose is being delivered in that they provide employment opportunities for whānau and local communities, protect and restore the moana and whenua and enhance the mana of the iwi to contribute to Aotearoa New Zealand.
- The proposal would impose significant compliance costs on iwi organisations that would reduce their ability to deliver economic and social development to their

members and communities resulting in shifting more of that cost to the Government.

We submit that the proposals to impose greater restrictions on donor-controlled charities should not apply to iwi/Māori charities on the basis that those charitable entities deliver charitable purposes to their iwi members and communities and have well established independent governance arrangements and policies governing the distribution to charitable purposes.

### ***About Rangitāne***

Rangitāne have resided in Te Taihū o Te Waka-a-Māui (northern South Island) for many generations since the arrival of our tupuna Te Huataki in the sixteenth century. In addition to Te Huataki, other significant migrating chiefs include Hapairangi, Tūkaue, and Te Whakamana. These leaders played pivotal roles in establishing Rangitāne's presence and influence in the region.

Rangitāne have occupied and used resources within a territory stretching from the Waiau-Toa (Clarence River) in the south to the Wairau (Marlborough), including the Nelson Lakes, and north to Kaituna and the Marlborough Sounds and west into the Whakatū (Nelson) area. Rangitāne customary rights often overlapped and intersected with Kurahaupō and other iwi, especially in the Waiau-Toa, Nelson Lakes, Marlborough Sounds and Whakatū districts.

Rangitāne communities were linked by a well-used system of trails across the interior, which also formed conduits for trade and means of contact with other iwi. Trade goods included pounamu (greenstone) and pakohe (argillite). The Nelson Lakes formed the hub of this extensive network of trails which connected Rangitāne with other tribal communities in Te Hoiere, Te Tai Aorere (Tasman Bay), Mohua (Golden Bay), Te Tai Tapu (the northern West Coast) and Kawatiri (Westport).

Rangitāne Chief Ihaia Kaikōura was one of the signatories of Te Tiriti o Waitangi, signing Te Tiriti at Horahora Kākahu Island in the Port Underwood area on 17 June 1840. This established Rangitāne's enduring relationship with the Crown.

In 2014, our Treaty Settlement was passed into law, with the Ngāti Apa ki te Rā Tō, Ngāti Kuia, and Rangitāne o Wairau Claims Settlement Act gaining royal assent on 22 April 2014. Our rohe/Area of Interest is defined in our Deed of Settlement and the Settlement Act, and is attached as **Appendix 1**.

Within our Treaty Settlement, the Crown made a formal apology to Rangitāne. The Crown apology is included below:

- (1) The Crown makes the following apology to Rangitāne, and to their ancestors and descendants.
- (2) On 17 June 1840 the Rangitāne rangatira Ihaia Kaikōura signed the Treaty of Waitangi at Horahora-kākahu, Port Underwood. The Crown is deeply sorry that it has not fulfilled its obligations to Rangitāne under the Treaty of Waitangi

and unreservedly apologises to Rangitāne for the breaches of the Treaty of Waitangi and its principles acknowledged above.

- (3) The Crown profoundly regrets its long-standing failure to appropriately acknowledge the mana and rangatiratanga of Rangitāne. The Crown did not recognise Rangitāne when it purchased the Wairau district in 1847 and recognition of Rangitāne mana in the Te Waipounamu purchase was belated. The Crown is deeply sorry that its acts and omissions quickly left Rangitāne landless and this has had a devastating impact on the economic, social, and cultural well-being and development of Rangitāne.
- (4) The Crown regrets and apologises for the cumulative effect of its actions and omissions, which have had a damaging impact on the social and traditional structures of Rangitāne, their autonomy and ability to exercise customary rights and responsibilities, and their access to customary resources and significant sites.
- (5) With this apology the Crown seeks to atone for its past wrongs and begin the process of healing. It looks forward to re-establishing its relationship with Rangitāne based on mutual trust, co-operation, and respect for the Treaty of Waitangi and its principles.

The Rangitāne o Wairau Group (Rangitāne) comprises Te Rūnanga a Rangitāne o Wairau Trust (our mandated iwi organisation in terms of the Māori Fisheries Act 2004 and a Charitable Trust), Rangitāne o Wairau Settlement Trust (our Post Settlement Governance Entity (PSGE) and a Māori Authority), Rangitāne Holdings Limited (a Māori Authority) and Rangitāne Investments Limited (a Charitable Company).

### ***Our Strategic Direction***

Our submission is supported and guided by our Strategic Plan, set out in summary below (including our Vision, Strategic Priority Areas and Values).

OUR STRATEGIC PLANNING FRAMEWORK					
VISION	He waka uruuru moana, he waka uruuru whenua, he waka uruuru kapua		A canoe that braves the vast oceans, seeking endless opportunities, whose vision is limitless		
STRATEGIC PRIORITIES	RANGATIRATANGA	MANA MOTUHAKE	MANA TAI AO	MANA AHUREA	MANA TAHUA
	Tangata ora, mana tangata  The health and wellbeing of our people is paramount	Mana mau, mana tū!  Rights upheld, rights entrenched!	Toitū te taiao ki tua o ake tonu atu!  Ensuring the integrity and sustainability of our environment	Taku Rangitānetanga, taku mana, taku oranga!  Our Rangitāne identity is our pride and livelihood	Whakatupu tahua, whakatupu mana  Growing sustainable wealth, status and influence
VALUES	RANGATIRATANGA	KOTAHITANGA	KAITIAKITANGA	MANAAKITANGA	WHANAUNGATANGA
	Kia pono, kia ngākau māhaki, kia mana-ā-kī  Leading with honour, humility and integrity	Kia mahi tahi, kia kaua nuanu tētahi ki tētahi  Working together, respectfully, as one	Tiakina ā tātou taonga kei ngaro  Embracing our responsibility to protect, preserve and enhance our taonga	Kia tangata marae, kia manaaki tētahi i tētahi  Upholding mana with hospitality, generosity and service	Kia renarena te taukaea tangata, tātou, tātou!  Valuing our relationships and ensuring a shared sense of belonging

## ***Specific Responses to Officials' Paper***

### **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?**

It is our view that the tax exemption for charitable business income is fundamental to the ability of iwi organisations, such as Rangitāne o Wairau, to uphold their responsibilities to their people. For Rangitāne o Wairau, this exemption ensures we can sustain and grow the economic foundations secured through our Treaty settlement, via a charitable company (in our case, Rangitāne Investments Limited).

From our perspective, Treaty settlements were never full and final compensation for the losses suffered by our people. Rather, they were a step towards rebuilding what was taken. The ability of iwi organisations to operate tax-exempt charitable businesses is central to that restoration. Any move to tax these businesses risks undermining the intent and integrity of the settlement process and the Crown's obligations under Te Tiriti o Waitangi.

The establishment and operation of charitable entities in iwi organisations was directly enabled by Government policy developed in 2001<sup>1</sup> and enacted in 2003<sup>2</sup>. That policy and associated legislative change was intended to meet the Crown's Te Tiriti/treaty obligations and acknowledge the unique position of Māori in Aotearoa New Zealand. In those changes, the Government extended the public benefit test to ensure that iwi organisations with charitable purposes were eligible for the charitable tax exemptions and also extended the charitable tax exemption to marae. The current proposal to tax the charitable business income of iwi charities would conflict with and change this long-standing Government position that was considered as a Te Tiriti/treaty matter.

We also note that concerns about competitive neutrality and unfair advantages, as outlined in sections 2.13 and 2.14, fail to recognise the unique position of iwi entities. Unlike private businesses, our primary focus is not individual profit. Any revenue generated is reinvested into the long-term social, cultural, and economic prosperity of our iwi, either by direct reinvestment into commercial activity or by way of distribution to our Charitable Trust (Te Rūnanga a Rangitāne o Wairau Trust), where those funds are used for charitable purposes only.

### **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?**

It is our strong view that such a change would have serious and far-reaching consequences, including:

- **Eroding the economic redress provided through Treaty settlements:** our ability to rebuild our economic base would be severely impacted.

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<sup>1</sup> Taxation of Māori Organisations: A Government discussion document 2001

<sup>2</sup> Taxation (Annual Rates, Maori Organisations, Taxpayer Compliance and Miscellaneous Provisions) Bill 2002

- **Limiting our ability to plan for future generations:** our long-term financial strategies are designed to ensure sustainable growth for our people. Taxing business income would restrict our capacity to invest in opportunities that create intergenerational benefits.
- **Reducing our contributions to the wider community:** much of our revenue funds critical initiatives in cultural revitalisation, environmental restoration, and social development. These are areas the Crown has historically underfunded, and taxation would only widen that gap.
- **Imposing significant compliance, administration and efficiency costs:** taxing just the business income of a charity would introduce a new distortion into the structure of an iwi with some activities taxed at 0% and some at 28%. This distortion is likely to increase compliance and administration costs, trigger restructuring and additional operational complexity. It may also create deadweight efficiency costs by incentivising tax-exempt passive investment over taxable productive commercial investment. The Tax Working Group warned of this distortion in relation to the subsidiaries of Māori Authorities and recommended a reduction in the subsidiary tax rate from 28% to the Māori Authority tax rate of 17.5%<sup>3</sup>. The same issues arise with the proposal to tax the unrelated business income of charities.

**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 is our view that any definition must take into account the distinct role of iwi organisations. We are not conventional charities, nor are we purely commercial entities. Our businesses exist to create opportunities and support outcomes for our people. Any criteria should explicitly recognise:

- The unique status of iwi organisations as Treaty partners and post-settlement entities.
- The reinvestment of profits into social, cultural, and environmental initiatives.
- The broader economic and historical context in which iwi operate, including the need to rebuild and sustain what was lost.

A one-size-fits-all approach will not work. If changes are to be made, there must be meaningful engagement with iwi to ensure our interests and obligations are properly accounted for.

Iwi commercial activities are directly related to the delivery of our charitable purpose and cannot be considered an unrelated business. Our charitable businesses provide employment, are reestablishing our mana and kaitiakitanga (guardianship for the benefit of all) over the moana and whenua in Te Taihū o Te Waka-a-Māui (northern South Island), and directly fund social, cultural, educational and health outcomes for our whānau. Our charitable purposes are inextricably woven through our commercial operations.

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<sup>3</sup> Future of Tax: Interim Report, The Tax Working Group, September 2018, at paras 55-58.



**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 must be developed in partnership with iwi to ensure it does not disadvantage Māori economic development. We believe the emphasis should be on the intended use of the income, rather than arbitrary thresholds. Business activities that support charitable purposes, iwi aspirations and reinvest in our people should remain tax-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?**

Yes, we believe it is essential that charity business income distributed for charitable purposes remains tax-exempt. Iwi businesses exist to generate resources that uplift our people, whether through education, cultural revitalisation, housing, or health initiatives. Taxing these activities would not only undermine the purpose of settlements but would also place additional pressure on the Crown and other parties to fill the gaps left behind.

We believe that the most effective way to achieve this is to ensure clear and robust mechanisms that recognise the reinvestment of profits into the iwi's charitable activities. Rather than removing exemptions, we believe there is an opportunity to strengthen the existing framework by ensuring greater transparency and accountability in how profits are applied.

As set out above, an iwi's charitable purpose is woven through the commercial operations and the ultimate charitable trust owner in a unique way. Any requirement to try and define when taxed business income is applied to exempt charitable purposes will be complex to design and administer in the context of iwi, leading to high compliance and administration costs and the likely need to restructure iwi ownership and governance arrangements. For this reason and the reasons set out earlier, we believe that it would be better not to remove the tax exemption for iwi charity business income.

**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?**

From our perspective, the following considerations must be factored in:

- **The Treaty relationship must be at the centre of any policy change:** the unique role of iwi as Treaty partners must be acknowledged, and any changes must be assessed through a Te Tiriti-consistent lens.

- **Iwi Post Settlement Governance Entities and related business structures require special consideration:** iwi entities do not function like standard charities, and their commercial activities directly support the restoration of Māori economic wellbeing.
- **Mechanisms to safeguard the financial stability of iwi entities:** if taxation is introduced, safeguards must be in place to ensure iwi are not disadvantaged.

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

We believe there is merit in distinguishing donor-controlled charities from other charities. However, iwi organisations and PSGEs should not fall into this category. Unlike donor-controlled charities, iwi entities exist to serve our people collectively, and our structures are designed to ensure benefits are shared across generations.

The issue of donor-controlled charities was raised by the Tax Working Group and the problem identified was the lack of arms-length governance and distribution policies. The Tax Working Group's recommendation was to distinguish between donor-controlled charities and other charities and remove the tax exemption for donor-controlled charities that do not have arms-length governance or distribution policies.<sup>4</sup>

Iwi organisations have strong governance arrangements in place as these were a pre-condition of Te Tiriti/treaty breach negotiations and settlements. For Rangitāne, the charitable trust deed requires that there are seven elected trustees who serve a maximum term of three years before needing to be re-elected. Trustees are elected by members of Rangitāne via an election process set out in the trust deed. The trust's policies and practice in distributing toward its charitable purpose are determined by the trustees and communicated to members in detail through the annual report and hui.

The directors of the trading subsidiary, Rangitāne Investments Ltd, are appointed by the trust as shareholder on the basis of their commercial expertise. The current board comprises five directors, only one of whom is also an elected trustee.

It is important that any policy changes do not inadvertently capture iwi PSGEs in a way that undermines our ability to operate effectively.

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

We acknowledge the concerns around tax abuse in some areas, but we do not support blanket investment restrictions that could impact iwi organisations and PSGEs. Our investment strategies are designed to create long-term financial security for our people, and any restrictions must take this into account.

We submit that rather than a significant legislative change that will likely have unintended consequences and costs, that in the first instance Inland Revenue should

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<sup>4</sup> Future of Tax, Final Report Vol.1, The Tax Working Group, February 2019, pg 104, paras 42 and 43.

pursue instances of perceived abuse of the charitable income tax exemption using its powerful general anti-avoidance powers and working in conjunction with the investigative powers of the Charities Service.<sup>5</sup>

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

For iwi organisations, imposing a fixed annual distribution requirement would be problematic. Our investment approach is intergenerational, meaning some years we opt to reinvest a greater proportion of our profits, to grow our assets, while in others we distribute more directly for the benefit of our people. Flexibility is key to ensuring our economic sustainability and the wellbeing of our people.


If distribution requirements are introduced, it is our view that iwi organisations and PSGEs should be exempt, as our structures are already designed to serve our people in a fair, equitable and accountable way.

***Closing Remarks***

Thank you for considering our submission on this issues paper. We would be happy to be contacted to discuss this further with you.

Ngā mihi nui, nā

s 9(2)(a)



Corey Hebbard

**Kaiwhakahaere Matua (General Manager)**

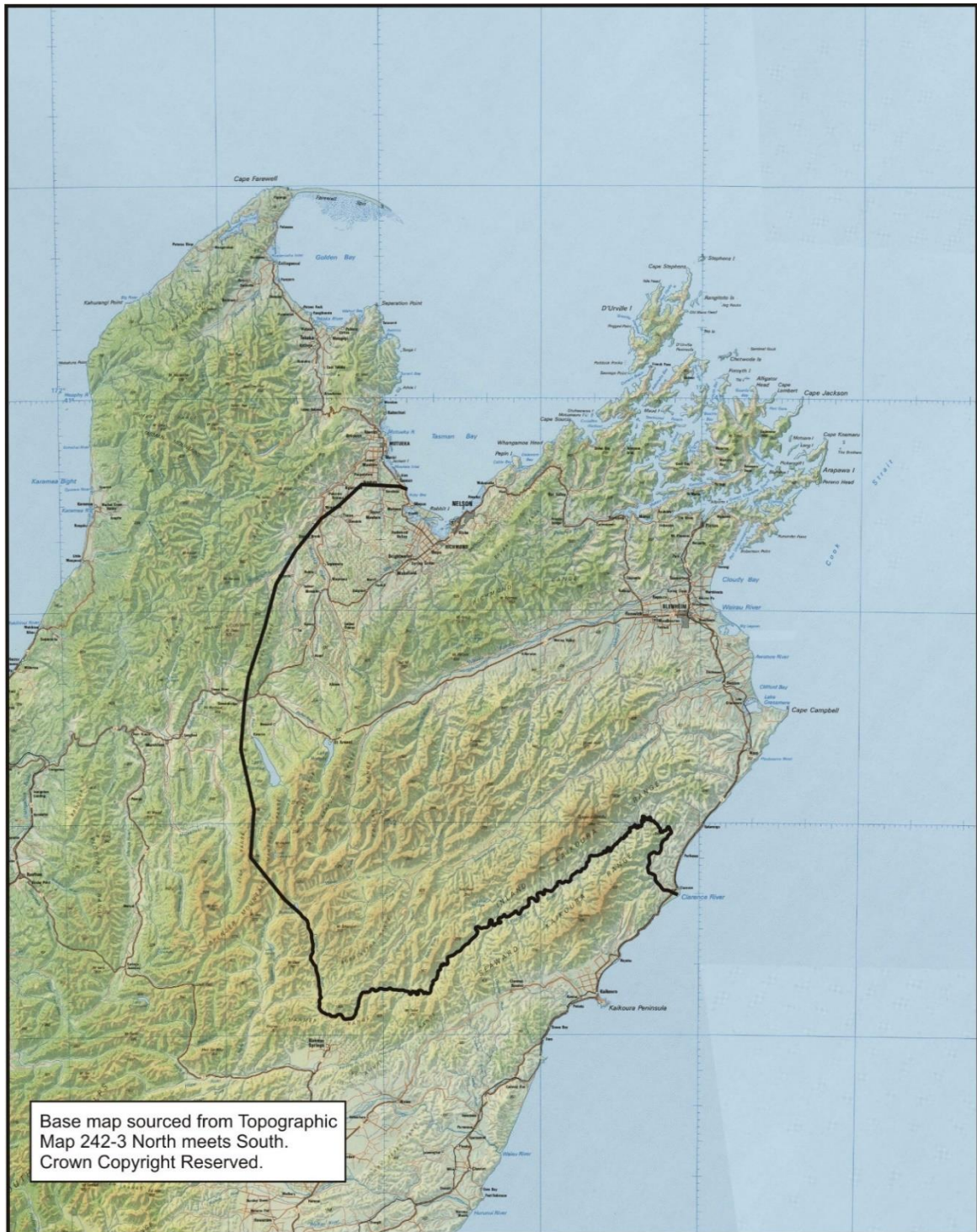
**Rangitāne o Wairau Group**

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<sup>5</sup> As set out in section 50 of the Charities Act 2005.

## Appendix 1: Rangitāne o Wairau Area of Interest (Our Tribal Rohe)

Source: Deed of Settlement



**Feedback on Officials Issues Paper consultation - Taxation and the not-for-profit sector – February 2025**

Submission from Jon Horne s 9(2)(a)

By email to: [policy.webmaster@ird.govt.nz](mailto:policy.webmaster@ird.govt.nz)

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I am writing in response to the Inland Revenue Department's discussion on the taxation of business income within the not-for-profit sector.

As a board member of several charitable organisations, I voluntarily dedicate my time and effort without remuneration because I strongly believe in and support their charitable purposes. These include faith-based organisations that advance religion and community-based organisations that provide direct benefits to the community.

I strongly oppose any changes that would introduce taxation on charitable business income.

The discussion paper appears to suggest that charities receive a "concession" and impose an unfair cost burden on taxpayers. However, charities provide substantial benefits to the community. They exist to serve the public good, often stepping in where government services are limited or unavailable. Many rely on a combination of donations, grants (including government), investment and business income to sustain their activities. Among these sources of funds, only business income provides charities with a high degree of self-driven financial sustainability. Taxing charity business income would significantly reduce the funds available for charitable purposes, ultimately diminishing the impact these organisations have on communities.

The tax system has many areas where fairness has not been fully addressed. For example, there is no rebate for private medical insurance or private school fees paid by individuals, meaning these taxpayers effectively subsidise services they do not use. There appears to be no current discussions on making these areas more equitable.

Unlike commercial businesses, charities reinvest all surplus funds into their core mission or into assets or capital that support that mission. Any taxation on business income would divert resources away from essential services, reducing their ability to support vulnerable people and addressing critical social needs. Additionally, many charities operate with substantial volunteer support, making them highly cost-effective in delivering public benefits.

The paper references several overseas jurisdictions but does so in a limited manner, failing to consider any benefits that legislation in other countries offers to charities—such as the UK's Gift Aid programme or Australia's salary sacrifice scheme. As a small nation, New Zealand has historically been a leader in social innovation. Introducing



taxation on charities could undermine this reputation and discourage further social enterprise. Instead, we should prioritise innovation and agility in our tax policy to achieve better outcomes for our New Zealanders.

### **In Response to the Specific Questions Raised**

**If the tax exemption is removed for charity income that is unrelated to charitable purposes....**

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

- Taxing charities will increase costs, both directly and through compliance, reducing the financial and operational resources available to provide essential community services.
- Taxing charities could render some financially unsustainable, forcing them to close. This raises the critical question—who will then provide these services to the community and at what cost?

#### **Q2. What would be the most significant implications?**

- Defining what constitutes “unrelated” income is complex. New Zealand’s tax system is relatively simple (e.g., GST) with minimal room for interpretation. Introducing such a distinction might create confusion and unintended errors for organisations.
- Charities would need to make subjective judgments on expenses related to generating “unrelated” income. Since many charities integrate their resources, general allocations and assumptions would be necessary, adding to compliance complexity.
- These factors could place an additional burden on Inland Revenue to oversee classification, leading to increased administrative costs for both the government and taxpayers.

#### **Q3. What criteria should be used to define an unrelated business?**

- Business income must be clearly unrelated to the charity’s purpose, with well-defined and practical framework for classifications, to avoid complex and subjective. For example, is the tuckshop or uniform shop income in an independent school unrelated business income or an ancillary activity necessary for the school to function well offering educational services?
- The distinction between business and non-business income—such as passive investments—must also be carefully considered to avoid excessive complexity and ambiguity.

**Q4. What would be an appropriate the threshold to continue to provide an exemption for small-scale business activities?**

- Applying thresholds based on charity size would be counterproductive and inequitable, as it would penalise organisations solely for their size and success. Larger charities, such as Presbyterian Support Services and the Salvation Army, provide critical services. Rather than focusing on their purpose and the effective use of funds, such measures could inadvertently incentivise restructuring, potentially reducing their impact.

**Q5. Do you agree that the 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**

- Charities can have many reasons for retaining income. Some require significant assets—such as buildings, land, and equipment—that are integral to their purpose.
- In some cases, a charity may not be able to allocate funds effectively within a specific period. Would they be compelled to spend on less impactful programmes, expenses, or activities just to avoid taxation on surpluses?
- A better approach would be to strengthen and resource regulatory oversight to prosecute entities that misuse funds while allowing legitimate charities to fulfil their purpose unimpeded.
- New Zealand has a very transparent charitable sector with financial and service performance readily accessible to the public., If charities remain accountable, public trust and confidence will determine which organisations receive ongoing support through donations and business activity.
- Business income is solely used to further the organisation's charitable purposes, with no untaxed income benefiting any owner. All income received by individuals—whether through employment or services provided to the charity—is taxed.
- Are you opening door to complex relationships and transactions between business and charities with for-profit organisations making a tax-deductible donation to charities. In both cases, a portion of the for-profit organisation's profits remains untaxed.

**Q6. What policy setting or issues not already mentioned in this paper do you think should be considered?**

- Eliminating tax exemptions removes one of the main incentives for structuring organisations as charities therefore organisations may be discouraged by forming and registering as charities, thereby reducing transparency and accountability in the sector.
- The estimated tax benefit from this proposal is likely overstated, as it does not account for volunteer contributions, pro bono work, and the true costs of operating a charity.
- Volunteer contributions are a significant factor that distinguishes charitable operations from for-profit businesses. Would taxation alter charity structures, shifting the tax burden onto volunteers? Would charities be forced to pay volunteers, deducting tax at their marginal rates, just to claim the cost as a deduction against taxable income? What tax rate would apply to charities? Would this create new employment complexities, making the operation and management of charities more difficult and costly?
- For-profit businesses, which are not required to publicly disclose financial records, may gain an unfair competitive advantage over charities subject to transparency and disclosure requirements.
- Many charities provide employment, paying PAYE, and providing training, and social enterprise opportunities. Increased costs could lead to job losses reducing these benefits to the government and the community.
- Charities often support local businesses by contracting services (e.g., catering, maintenance, and transport). Reduced charity income could negatively affect these businesses.
- Charitable business income is fundamentally different from for-profit income—one is used solely for charitable purposes, while the other benefits private owners. The claim that charities have an unfair advantage assumes that individuals receive untaxed charitable business income for personal gain, which is currently legally impossible. Instead of imposing unnecessary restrictions, efforts should focus on enforcing existing regulations and prosecuting misuse of funds. Charities should be allowed to continue contributing to society without undermining volunteer generosity through the false assumption that there is a tax victim.
- New Zealand has a strong history of social policy that enables non-government organisations to meet community needs at a grassroots level—often in ways that government agencies cannot replicate. Charities already operate under strict legislative criteria, ensuring appropriate oversight and accountability.



- Government policy supports charitable purposes through tax exemptions, recognising that this is more than just a mechanism for funding. It carries social, cultural, and psychological benefits, with thousands of New Zealanders engaged in charitable activities that enhance both their own lives and those of the people they support.

## **Conclusion**

This change is likely to cost the government more than any income derived by taxing charity non-related business income.

*“Simply put, without charities, our taxes go up, and disproportionately. This is especially the case with churches, because churches help people in far greater ways than the Government could for a lot less money.*

*They’re driven by more than 65,000 passionate volunteers who are deeply connected to their communities—the average church has six active volunteers for every one staff member, a far more generous ratio than the charity sector average of two volunteer hours for every three hours of paid staff time.”*

*- Dr Juliet Chevalier-Watts <https://www.waikatotimes.co.nz/nz-news/360623004/why-atheist-academic-changed-her-mind-churches-tax-status>*

The current tax settings support a thriving and effective charitable sector that contributes significantly to New Zealand’s social fabric. Any changes that reduce resources for charities risk weakening this vital contribution and it is unrealistic to expect government services to match their efficiency or community reach.

I urge the government to maintain the existing legislation, ensuring charities can continue their essential work without unnecessary financial and compliance burdens.

**TAXATION AND THE NOT-FOR-PROFIT SECTOR**  
**C/- Deputy Commissioner, Policy**  
**Inland Revenue Department**

31 March 2025

Dear Sir/Madam

**INTRODUCTION**

Thank you for the opportunity to make a submission on the Taxation and the not for profit sector issues paper that was released on 24 February 2025. This submission is made on behalf of The Elim Church of New Zealand which has 34 churches across New Zealand.

**SUMMARY**

Through the work of our church, we believe that we uphold all four pillars of charitable purpose in New Zealand. Our main charitable purpose would be advancing religion, however more often than not, our work also crosses into each of the other purposes of relieving poverty, advancing education and other acts beneficial to the community.

Overall, the Elim Church is opposed to the idea that registered charities should have their business income taxed, provided of course that the income is utilised for one of the charitable purposes set out by law. If changes were introduced consistent with the Issues Paper, the unintended impact on vulnerable sectors of society could be significant.

Recent research in New Zealand, which is still ongoing, has found religious charities—the vast majority of which are churches and/or Christian organisations, contributed an enormous \$6.1 billion to New Zealand in 2018 alone. It is likely more now. That's worth more to GDP than entire industries such as commercial fishing and forestry combined and this excludes numerous indirect benefits and flow-on effects across health and wellbeing, life-expectancy, employment, finances, education, social cohesion and pro-social behaviour. This is a huge cost saving to

the government so it really does not make sense to be considering taxing charities business income, or other income like passive income or accumulated funds.

In fact it could well be an own goal for the government to impose taxing parts of charities business income, as the tax and compliance costs, would take funds away from the charitable work performed by the charities. Who will pick up the short fall in services, the government and the tax payer?

If the focus of the proposals is fundamentally on “unrelated” business activity, defining this term will be important.

Charities also receive concessions under fringe benefit tax rules. The Elim Church would oppose the removal of the current FBT exemptions applied to charities. These exemptions have been given to provide support the charity sector so any removal of them would signal a shift in that support at a time the government should be encouraging more support of charities.

## **COMMENTS ON SPECIFIC QUESTIONS RAISED IN THE ISSUES PAPER**

Not all the questions asked in the paper are relevant to the Elim church, so we will provide our thoughts on those that could have an impact on the work of the church. However we support the wider charitable sector by again stating that we would oppose any moves to remove tax exemptions on business income.

### ***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?***

This question is a little confusing as your proposal of taxing business income unrelated to the charitable purpose of the registered charity, is missing and we assume this is a simple typo in the wording of this question. Removing the “unrelated” wording would be a major shift in the outcomes of any future Tax Bill amendments and signal a massive change for charities and tax.

We see no reason at all to tax a charities business income if any surplus being derived by the entity is being used for one or more of the main charitable 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?***

The Elim Church is opposed to the view that registered charities should have their business income taxed if it is being used for one of the charitable purposes.

The most obvious practical implication that comes to mind, is the compliance work and cost involved to determine and calculate if any tax is to be paid.

***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 suggestion provided in the issues paper of exempting both Tier 3 and 4 financial reporting entities who are registered charities is something we would support however this exemption may not be effective as the application to certain charities may be determined based on whether the charities report as a group or not.

***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, it should. The most effective way is to leave things as they are.

***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?***

The removal of the current FBT exemption would have a negative impact for charities. For example, our church provides some staff with medical & life insurance, in some cases use of a motor vehicle and other non-cash benefits. Paying FBT rates on these items alone would take away significantly our ability to attract good skilled people to work for the church. People already make a sacrifice with what they will earn when they decide to work for the

church, so removing this exemption will make the churches remuneration offer even less attractive.

This would also take crucial funds away from our charitable purposes. Without doing all the sums and knowing exactly the FBT rates that would apply, we could be looking at a few thousand dollars a month no longer going into the work of the church. Filing FBT returns is a complex exercise and as such the added compliance costs would also just add to less funds being spent on the work of the church.

***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?***

The Elim Church believes that the taxation of honorarium should be reviewed. The giving of an honorarium is that of an ex-gratia payment that has no legal or other liability attached to it from the church's perspective. Payments are made to recipients for their volunteered services to the church. We would like to see that there is an exemption of taxing honorarium to a certain value for an individual. For example, school Board of Trustee members receive "meeting fees" that are not taxed, so why not set a level of say \$1000 - \$1500 per annum that an individual could receive nontaxed as an honorarium.

We know from experience that having honorarium payments part of the schedular payments process for tax purposes has caused issues people receiving them. Individuals do not understand why they receive an invoice from ACC which is difficult to explain to those who receive the honorarium and then receive invoices from ACC for the employee levies.

We would support this process being made simpler for all.

***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 concession rules?***

We would not be in favour of making changes to the current system. Some of the proposals suggested would create administration problems and cost for both the IR and the charities. The current donation concessions work

well, however perhaps the IR needs to consider a small marketing campaign to make the New Zealand public aware of these concessions that are available to those that make donations to charities.

One suggestion is to make it easier for an individual who does not wish to claim back the donation tax credit for themselves, to give their donation tax credit back to a chosen charity.

We would be happy to have a more detailed discussion with you on any matters raised in our submission. Please contact me by email at s 9(2)(a) in the first instance.

Yours faithfully

Chris Bethwaite  
Executive Officer  
The Elim Church of New Zealand

**From:** s 9(2)(a)  
**Sent:** Monday, 31 March 2025 1:33 pm  
**To:** Policy Webmaster  
**Subject:** Taxation and the not-for-profit sector

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

Submission RE Taxation and the not-for-profit sector.

Summary of points:

- \* Churches and religious charities should be taxed based on the exact same rules as non-religiously affiliated charities.
- \* Churches should not be automatically granted tax exempt status.

Detail:

New Zealand presently has a two-tier charity system. The top tier is extended solely to religious groups, which receive an automatic tax exemption from the government regardless of whether they provide any services which could be considered charitable. The second tier is extended to charities which follow strict rules to qualify for charitable status and must prove the charitable nature of their work in order to claim tax exempt status. This two tier system is open to abuse by anyone who can disguise their efforts for personal gain behind a religious facade.

Harmful doctrines contrary to charitable aims:

Churches and religious charities currently enjoy a tax exemption which applies no scrutiny to their actions or whether any of their actions could be considered charitable. This lack of scrutiny opens the door to scams and makes starting a church appealing as a tax evasion method. Applying even the most basic scrutiny over whether a church's actions are charitable in nature would likely close the door to those participants.

I would like to highlight one particular ideology called "prosperity doctrine" which has come from the US evangelical Christian movement. The doctrine centres around the idea that actions like donating to the church will be rewarded by financial success. The actions of church leaders pushing this doctrine suggest a primary motivation of enriching the church leaders, generally this is achieved through aggressive recruitment tactics and impoverishing the members of their own church. The aggressive recruitment tactics needed to enrich church leaders strips the membership of other more moderate churches in order to attend "mega churches" with a large enough donations base to sustain the leaders' ambitions of wealth. Mega churches run large outreach programs to recruit new members, these outreach programs often have little to no social value other than as a front to get people to join the church. I have heard of mega churches employing underhanded tactics to enforce donations from their members, including but not limited to public shaming of members even when they have no income. Leaders of mega churches often foster a cult of personality around themselves, this tactic has no charitable value but is effective at garnering donations and shielding the leader from external criticism. Brian Tamaki's Destiny Church is one clear example of prosperity doctrine in action. Participants of their "Man Up" recruitment front were recently recorded storming a library in order to intimidate toddlers and parents with hate speech, and experts have derided the program as actively harmful to the participants they purport to help. Eliminating the automatic tax exempt status of churches would likely make it less desirable for those with ambitions of exceptional personal wealth to start or continue running mega churches. Mega churches have already decimated the membership of other churches in my area, leading to the collapse of a significant number of congregations already and threatening the congregations which remain. In my work as an accountant I have been repeatedly approached for help to claim government subsidies for church donations. In more than one case related to the same mega church, members were convinced to donate much more than they could afford, with church leaders advising them to claim the 33% cash back to force the taxpayer to subsidise their

donations to the church. The average NZ taxpayer is treated like a chump by these mega churches, both through tax exempt status and donation subsidies, all primarily used to enrich the church's leaders. I believe it is imperative to characterise recruitment outreach activities as explicitly excluded from the definition of charitable work.

#### Members only clubs:

Churches which provide services only to their members do not provide a charitable public service. When only members are eligible for services provided by a church, the organisation should not be eligible for a tax exemption for their private members' club. A non-religious group which provides services only to their members would not qualify for charitable status, regardless of the objective charitable value of their actions. I strongly support a model which applies the exact same rules to all charities regardless of their religious affiliation. Members-only services use their funds only to benefit their members and do not provide value to the wider community, there is no justification for extending tax exemptions to these groups because there is no public charitable service provided. Exclusive churches and religious cult groups use the secrecy of their organisations and the influence they hold over their members to conceal criminal behaviour. Gloriavale is a poignant and well documented example of an exclusive religious group which has used its influence over members to conceal child sexual abuse and modern slavery. As an exclusive religious group they do not provide any services to outsiders which could be characterised as charitable, their activities within the wider community are commercial in nature. To protect against modern slavery and other crimes being concealed behind the front of religion, it seems imperative to close the loophole which allows exclusive members' groups to claim charitable status.

I strongly support ending the two-tiered charity tax system which invites so much abuse from people who only use religion as a front for their personal enrichment. I believe the best strategy to achieving this is to end automatic charitable status for religious organisations and subjecting them to the same rules used to determine charitable status for non-religious organisations. I believe that the vast majority of neighbourhood churches should have no difficulty obtaining charitable status based on their activities alone. I expect that harmful organisations such as mega churches and exclusive religious groups would have much more difficulty proving that their activities are charitable. I expect that ending the automatic tax exemption for churches would make NZ less attractive as a place to run a cult, saving people from the scourge of these organisations as well as saving the taxpayer money.

I am not interested in presenting this submission in person. I had difficulty locating the issues paper about this invitation to submit and hence am concerned that the process has not been conducted in a way which would elicit helpful responses. I couldn't even find the basic instructions on what is being asked and I wasn't aware of this process until an article from RNZ stating today as the last day for submissions.

Kind regards,  
Angela Rose  
Dunedin



**Subject:** IRD Consultation - Taxation and the not-for-profit sector

**Submitted By:** Bryan Corfield – CFO  
New Zealand National Fieldays Society Inc

**Date:** 31 March 2025

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## **Background**

The New Zealand National Fieldays Society Inc (the Society) is a not-for-profit organization dedicated to promoting the growth and development of agriculture in New Zealand. Established on 9 July 1968, the Society has been a registered charity since 12 September 2007. The Society's mission is to advance agriculture through innovation, education, and global connections, contributing significantly to the agricultural sector's economic and social well-being.

Fieldays®, the Society's flagship event, is the Southern Hemisphere's largest agricultural event. Held annually at the Mystery Creek Events Centre in Hamilton, New Zealand, Fieldays attracts over 100,000 visitors and exhibitors from around the world. The event features a wide range of activities, including the Fieldays Innovation Awards, which highlight cutting-edge technology and innovation in the agricultural sector. Fieldays serves as a platform for showcasing agricultural advancements, fostering innovation, and supporting New Zealand's rural sector.

The Society's contributions to the community are manifold. Through its events and initiatives, the Society promotes agricultural education, supports local businesses, and fosters global connections. The Society's activities have a significant positive impact on the community, enhancing the economic and social well-being of the agricultural sector and the wider community. We see this as primary charitable activity very much related to the reason why we are a registered charitable organisation.

One can however ignore what could be referred to as secondary charitable income i.e that income which is created in order to maintain and make viable the primary activity. In Fieldays case it would be totally impossible to create enough income in 4 days to maintain the extensive facilities, staff and related knowhow the organisation has and needs to host the Fieldays event. For that to sit idle for the remainder 361 days of the year would make no sense and be a total waste to society as a whole. Taxing this activity just means the organisation needs to host even more events and activities to make it all work.

Secondary charitable income, generated to support the primary activity, can be disregarded. For Fieldays, it's impractical to generate enough income in four days to maintain the necessary facilities, staff, and expertise. Keeping these resources idle for the rest of the year would be wasteful. Taxing this activity would force the organisation to host more events to remain viable.

### **Reasons Not to Tax Charity Business Income:**

Taxing charity business income would reduce the funds available for charitable purposes, which could negatively impact the community services provided by charities like the Society. This shortfall in services would likely need to be met by government. The Society's activities,

such as the Fieldays event, significantly contribute to the local economy and community well-being by promoting agricultural education and innovation

The current tax exemption allows charities to accumulate funds for future projects and initiatives that benefit the community. Removing this exemption could hinder the Society's ability to plan and execute long-term projects that advance agriculture and support the rural sector.

**Practical Implications of Removing the Tax Exemption:**

Increased compliance costs for charities, particularly those with small-scale trading activities, could divert resources away from their core charitable activities. This would be especially burdensome for smaller charities that rely on volunteers and lack professional in-house reporting expertise.

**Criteria for Defining Unrelated Business:**

Comprehensive legislation and clear guidance are necessary to differentiate between related and unrelated business activities. This would help prevent disputes and ensure that only genuinely unrelated business income is subject to taxation. Such determinations can be complex and costly for some organizations, adding further intricacy to an already complicated operational environment. For example, many charitable organizations generate additional revenue by renting out surplus meeting rooms or spaces when not in use. Excessive prescriptiveness could have unintended consequences, such as underutilized functional spaces, which could negatively impact the organization's income.

**Threshold for Small-Scale Business Activities:**

A de minimis threshold should be established to exempt small-scale trading activities from taxation. This would reduce the compliance burden on smaller charities and allow them to continue their valuable community work without additional financial strain.

**Tax Exemption for Distributed Business Income:**

Charity business income that is distributed for charitable purposes should remain tax-exempt. This would ensure that funds used for charitable activities continue to benefit the community without being subject to taxation. However, it is important that charitable organisations are allowed to retain and reinvest some portion of surplus funds in order to strengthen their balance sheet to handle economic shocks such as covid or recession.

**Chapter 3: Donor-Controlled Charities**

**Distinction Between Donor-Controlled Charities and Other Charitable Organizations:**

New Zealand should consider introducing specific rules for donor-controlled charities to address potential tax abuse and ensure that tax concessions are used appropriately.

**Investment Restrictions:**

Restrictions on non-arm's length transactions and circular arrangements should be introduced to prevent tax abuse and ensure that donor-controlled charities operate transparently and in the public interest

**Minimum Distribution Rule:**

Donor-controlled charities should be required to make a minimum distribution each year to ensure that accumulated funds are used for charitable purposes in a timely manner. However, it is important that charitable organisations are allowed to retain, and reinvest some portion of surplus funds in order to strengthen their balance sheet to handle economic shocks such as covid or recession.

**Chapter 4: Integrity and Simplification****Policy Changes to Reduce Impact on NFPs:**

Increasing the current \$1,000 deduction to remove small-scale NFPs from the tax system and modifying income tax return filing requirements for NFPs could help reduce the compliance burden on smaller organizations

**Implications of Removing Specific Income Tax Exemptions:**

Removing exemptions for local and regional promotional bodies, herd improvement bodies, veterinary service bodies, and bodies promoting scientific or industrial research could negatively impact these organizations' ability to carry out their activities and contribute to the community

**FBT Exemption:**

If compliance costs are reduced, removing the FBT exemption for charities may create a more level playing field and reduce distortions in the labour market. However, allowing the FBT exemption can provide charitable organizations with a means to attract qualified staff.

**Tax Simplification for Volunteers:**

Extending the FENZ simplification to all NFPs and exploring other ways to reduce tax compliance costs for volunteers could encourage more people to volunteer and support charitable activities

**Donation Tax Concessions:**

Implementing the recommendations from the DTC regulatory stewardship review, such as delinking DTCs from income tax and allowing Inland Revenue to collect data from donee organisations, could improve the efficiency and uptake of donation tax concessions

**Summary**

The New Zealand National Fieldays Society Inc does not support the majority of proposed changes to the taxation of charities and not-for-profit organisations. Taxing charity business income and removing existing tax concessions would significantly hinder the ability of charities to operate effectively and provide essential services to the community. The Society urges the government to consider the negative impact these changes would have on the charitable sector and the wider community.

Many charitable organisations fulfil a social role within the wider society and in effect saving the taxpayer that cost (additionally a lot of volunteer time is also contributed). Taxing the activity may on paper look favourable, but the unintended consequence may be a significant reduction of volunteer time and funds that results in "social gaps" that will need to be filled by the tax payer, with a potential end result of a net loss to society overall.



## SUBMISSION ON TAXING CHARITIES AND NOT-FOR-PROFITS

31 March 2025

[policy.webmaster@ird.govt.nz](mailto:policy.webmaster@ird.govt.nz)

### Regarding: Consultation Paper on Taxing Charities and Not-for-Profits - Question 12

Dear IRD Policy Team,

This submission addresses Question 12 of the consultation paper regarding the potential removal or significant reduction of income tax exemptions, specifically concerning the local and regional promotional body income tax exemption (CW40 in the Income Tax Act).

We strongly believe that the income tax exemption for Business Associations should remain. Our reasons are as follows:

- **Community and economic development:** Business Associations play a crucial role in fostering local economic development. They invest significantly in activities that benefit the wider community, such as:
  - Promoting local businesses and attracting investment.
  - Enhancing the attractiveness of the area through beautification projects.
  - Improving public amenities.
  - Enhancing security and safety through initiatives like CCTV and security patrols.
- **Reinvestment in community safety:** It is very important to note that for the past many years, Business Associations such as ours have had to invest significantly in security in order to close the gap between limited police resources and growing crime in our business communities. Losing our tax exemption status would seriously affect this funding, and funds that would otherwise be directed towards community safety measures, including CCTV systems and security personnel would have to be directed to tax. These investments create a safer environment for both businesses and residents and are a vital service that would be significantly reduced if the exemption was removed.
- **Maintaining local services:** Removal of the exemption would severely limit the ability of Business Associations to provide essential services to their members and the community. This would negatively impact local economies and reduce the overall quality of life.



- **Distinct role from charities:** While some entities may apply for this exemption when unable to register as charities, Business Associations serve a distinct purpose focused on local economic development and business support, which is different from the core functions of charities.
- **Impact on small businesses:** Many small businesses rely on the activities of Business Associations. The proposed change would place a greater burden on these small businesses, negatively impacting their financial stability and growth potential.
- **Disbursement of funds:** Most Business Associations utilise all (or a major percent) of their funding every year on member activities and seldom accumulate large reserves.

In conclusion, the removal of the income tax exemption for Business Associations would have detrimental effects on local economies and community safety. We urge the IRD to maintain this exemption to ensure the continued support of these vital organisations.

Thank you for considering our submission. I can be contacted in this regard.

Sincerely,  
s 9(2)(a)

Cheryl Adamson  
General Manager  
Parnell Business Association  
s 9(2)(a)

31 March 2025

Via email: [policy.webmaster@ird.govt.nz](mailto:policy.webmaster@ird.govt.nz)

## **Re: Taxation and the Not-For-Profit sector**

This submission is from Universities New Zealand – Te Pōkai Tara, the operating name of the New Zealand Vice-Chancellors’ Committee, a statutory body established under Part 19 of the Education Act 1989, which has statutory responsibilities and represents the interests of New Zealand’s eight universities on a wide range of matters.

For further information, please contact Chris Whelan, Universities New Zealand—Te Pōkai Tara ([chris.whelan@universitiesnz.ac.nz](mailto:chris.whelan@universitiesnz.ac.nz)).

## **Context**

New Zealand Universities are autonomous, publicly funded Tertiary Education Institutions (TEIs) under the Crown Entities Act 2004, and as such, are public authorities. In the Income Tax Act 2007 (ITA), they meet the definition of a Tertiary Education Institution. For income tax purposes, this means that:

- NZ Universities are exempt from income tax; and
- Any company either wholly-owned, or together with other tertiary education institutions that is wholly-owned, is exempt from income tax.

As such, the New Zealand Universities are generally not *directly* impacted by many of the proposed changes discussed within the Issues Paper.

However, there is a collective concern over the unintended consequences of some of the proposals within the Issues Paper adversely impacting the Universities of New Zealand. Aside from some of the proposals potentially resulting in inhibiting philanthropy<sup>1</sup>, manifesting in a reduction in funding for Universities, there are particular concerns in relation to the Charitable Foundations, Endowment Funds, and the Research Trusts, that many of the Universities are closely associated with. Again, for context:

- All New Zealand Universities have one or more closely associated Charitable Foundations with the overarching charitable purpose of the advancement of education. These typically:
  - Receive one-off and regular donations from a range of sources, including Alumni, other non-related charitable foundations, and both New Zealand and non-New Zealand resident individuals, businesses and other entities etc.
  - Receive bequests from estates of the deceased.

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<sup>1</sup> A reduction in third-party funding support for Universities and associated entities could see a decline in the ability to support students, research programmes, investment in educational facilities etc.

- Have accumulated from careful investment management over many years, Endowment Funds which are invested in diversified investment portfolios that generate investment returns to fund scholarships, grants, bursary payments etc.
- To a lesser extent, own land and other physical assets (again, usually from bequests) which may be used directly for the advancement of education or that are operated on a commercial basis to generate returns for furthering the Foundations' charitable purpose.
- Similarly, the majority of New Zealand Universities have a separate Research Trust for the advancement of education. These tend to be focussed on funding and managing the advancement of research projects. The income of the Research Trust can come from a range of sources, including government agencies (usually by way of grants and research contracts), philanthropic supporters, or individuals/organisations that are wanting to fund research into a specific area in the interests of sharing the outcomes for the wider-benefit of advancements in that academic field.
- Typically, where a donor approaches a University<sup>2</sup>, there is a Policy and practice requiring the donation to be directed to the Charitable Foundation or Research Trust.

The rationale for having a University Foundation, Endowment Fund and Research Trust, is to ensure that the funds held are applied for the intended purposes of the advancement of education, and that through the combination of University staff (usually academics) and independent trustees, applications for scholarships, research grants etc. are assessed on their merits, with funding allocations made in accordance with the objects of the Trust deeds, terms of the endowment etc. It is important to recognise that these funds are not intended to be used for the general operating costs of the University, but rather, are targeted to the charitable purposes of the advancement of education.

Accordingly, whilst the New Zealand Universities understand and acknowledge the importance of Inland Revenue raising the matters in the Issues Paper, there are two specific areas that collectively they consider it is important to comment on; namely:

- The potential withdrawal or changes to the "Business Income" income tax exemption; and
- The proposals relating to "Accumulation".

### **The business income exemption - What constitutes Business Income?**

It is acknowledged that there is a fiscal cost to permitting charities an exemption from tax on business income, and the range of concerns raised over the distortionary impacts such as potentially creating a competitive advantage etc. However, the Issues Paper largely dismisses those concerns. It appears that the real concern is the application of the income tax exemption to those charities undertaking large scale commercial / business activities that are unrelated to the charitable purposes of the charity, and the surpluses generated being accumulated such that there is significant elapse in time before the surpluses are applied to the charitable purpose.

We consider that for the Foundations, Endowment Funds and Research Trusts associated with the Universities, identifying what, if any of their activities, generate "business income", even if the focus was on "business income unrelated to charitable purposes", could be practically very challenging and result in additional compliance costs.

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<sup>2</sup> Or faculty, department or academic.

For example, would running a farm/landholding with the intention of generating a surplus, at the same time as involving students in the operations as part of their course studies, be subject to income tax? Running a farm as a business is not core to the Foundation/Endowment Funds charitable purpose, but it is being used to advance education and the surpluses generated are used by the Foundation / Endowment Funds to apply scholarships etc. for other students to advance their studies.

In the Research Trust context, seeking research contracts from government and non-government organisations is critical to NZ Inc. The level of research NZ Universities undertake impacts their academic status both on a domestic and international stage and helps secure the best and brightest talent (both academics and students) to New Zealand. Further, the Tertiary Education Commission determines the level of Public Benefit Research Funding that it allocates based on performance, the latest quality evaluation, number of eligible research degree completions, and the value of external research income.

Whilst the research undertaken can positively and directly impact New Zealanders, it can equally advance developments on an international scale. Depending on how any changes to the business income exemption are introduced, there is a real risk that the Research Trusts associated with the Universities could be considered to be generating taxable business income, which would negatively impact both the Research Trusts, the Universities and ultimately NZ Inc.<sup>3</sup>

We acknowledge that in the Issues Paper, there is consideration of:

- A de minimis threshold that could be applied, either based on annual turnover or a percentage of total annual turnover; and
- Relief for distributed business income.

Whilst these could potentially mitigate, in whole or in part, any tax arising in the event of the removal of the business exemption in section CW41 of the ITA, we note that:

- They would not remove the challenge of determining what constitutes business income<sup>4</sup>; and
- The level of additional compliance would be substantial compared to the current settings, particularly if it resulted in the need to apportion between business income or business income unrelated to the charitable activities, and passive income, and the related expenditure to the different activities.

Further, the Issues Paper appears to only contemplate relief for distributed business income to another charity. It is important that this also extends to charities that apply their own business income to charitable purposes.

Finally, we note that by virtue of the provisions of section CW55BA of the ITA, the Universities and their associated Foundations, Endowment Funds and Research Trusts could potentially reorganise activities to ensure they would not be negatively impacted by the removal of, or changes to, section CW42 of the ITA. However, this would require significant work and potentially impinge on the level of independent decision<sup>5</sup> making currently applied to decisions over the destination of funds from the Foundations, Endowment Funds and Research Trusts. It would be preferable if section CW42 of the ITA is changed or withdrawn, for Officials to work with the NZ Universities to evolve Section CW55BA

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<sup>3</sup> The concern is exacerbated by the proposal to also remove the income tax exemption in Section CW49, for bodies promoting scientific or industrial research.

<sup>4</sup> Whilst Interpretation Statement IS24/08 is a useful discussion document, applying those principles in practice still creates challenges.

<sup>5</sup> Or at least create a risk of the perception that decision making is not as independent as it was.



to encompass tertiary institutions, tertiary education subsidiaries and other entities associated with Universities that have the overarching charitable purpose of the advancement of education.

## **Accumulation**

Closely linked to the question of taxing business income, is the issue of accumulation. The Issues Paper notes that New Zealand takes a “destination of income” approach i.e. the income is destined for a charitable purpose so it can be tax exempt. This concern is that this permits tax-free accumulation over an infinite number of years. In the discussion on Donor-Controlled Charities this is further discussed in the Minimum Distribution Rule.

It is evident from the narrative in the Issues Paper that Officials are primarily concerned:

- That tax concessions can be obtained ‘today’ without restriction, without any definitive timeframe for realisation of applying to, or realising a charitable outcome; and
- There are questionable and non-arm’s length transactions occurring in some instances.

The NZ Universities have a couple of specific concerns:

- That they may, arguably inadvertently, be impacted by any changes depending on whether those changes on accumulation are limited to donor-controlled charities, and how this is defined in the NZ context.
- That a minimum distribution rule would result in inhibiting the growth, or potentially a steady decline in the capital funds of the Foundation and Endowment Funds and the Research Trusts. Further, it could create legal issues, as historically many of the bequests have required that the corpus of the bequest be maintained and only for the investment returns arising thereon to be applied to the advancement of education, so that there are sustained benefits provided in perpetuity.

We submit that a fund closely linked to a University, which has Trustee representatives from the University and a Constitution that stipulates that the purpose of the Fund/Trust is to support the advancement of education through initiatives of a Tertiary Education Institution should be excluded from the definition of a donor-controlled organisation and excluded from the minimum distribution rules or rules that restrict the types of investments/transactions it makes.

All NZ Universities have Policies, a SIPO<sup>6</sup> etc. that expressly reflect the intention, through careful investment management, for growth of the capital value of the fund. The continued focus on growth of the corpus of the funds is to ensure:

- A sustainable programme of securing and supporting the future pipeline of students and enabling a donor’s gift to provide benefits in perpetuity. This funding, often in the form of scholarships, bursaries and similar awards, has never been more essential than over the last few years with the rising costs of living, as through the work of the Foundations and Endowment Funds they have continued to enable students from all demographics to pursue education.
- Without careful management and focus on the growth of the corpus of the funds, the Universities would not be able to adequately cope with fluctuations in both donations, bequests etc. In recent years, attracting donations, bequests etc. has been increasingly challenging. There should be no restrictions on how these entities invest those funds.

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<sup>6</sup> Statement of Investment Policy and Objectives

- World markets are volatile, and without pursuing a policy of growth in the corpus, there is a risk that either the distributions/scholarship/grant etc. funding must be reduced if investment returns are low, or the capital fund is diminished with a longer-term impact of reducing available distributions.
- The growth in value of a Fund provides an ability for long-term sustained investment in areas of research, being that through the ability to commit levels of funding over multiple-years, or through the ability to make capital investment into new facilities, equipment etc.

The Issues Paper provides illustrations of what happens in other international jurisdictions, but these all reference to a percentage of the market value of the fund being distributed and are aimed at truly donor-controlled charities. Even if something akin to the Australian model of obtaining concessionary treatment of the accumulation for a special project were introduced, this would just add another layer of compliance burden and create uncertainty as to when a concession may be viable. We further note that cash-flow issues can arise if the minimum distribution requirement is based on a percentage of asset values as entities may need to consider disposal of assets in order to meet the distribution requirements.

We therefore submit that if amendments are to be made to the existing tax settings, these are applied to a very narrow definition of donor-controlled entity. Further, if the Officials current concerns of abuse of the available charitable tax exemptions, these should be addressed in the same manner as any other taxpayer, through targeted action and applying specific tax anti-avoidance rules, as opposed to introducing minimum distribution rules or some other ‘lever’ that negatively impacts the wider charitable sector that is fulfilling their stated charitable objectives.

#### **Other matters – Proposed Repeal of Section CW49**

The Issues Paper refers to the proposed repeal of the income tax exemption that applies to bodies that promote scientific and industrial research. Whilst not directly impacting the Universities or their associated entities, there is a genuine concern within the academic community that the removal of this exemption could impact the level of research undertaken within New Zealand, with a number of negative consequences for NZ Inc., including but not limited to:

- Lowering New Zealand’s standing amongst the international research and technology community;
- Making it more difficult to attract the best and brightest international academics and students; and
- Reducing the opportunities for research advances to then be commercialised within New Zealand by other taxpaying entities, thereby having a detrimental impact on the tax base, economic growth, employment opportunities etc.

The Issues Paper provides little comment on the rationale for the proposed repeal of this income tax exemption. We submit that it would be appropriate for Officials to provide greater detail of their concerns with the use (and presumably misuse) of this exemption, and the extent to which it is actually claimed by qualifying bodies. This would provide increased insight on the cost-benefit equation of repealing this section of the ITA and enabling a more informed decision to be made.

**General comment**

Whilst there is an appreciation of some of the issues raised by Officials in the Issues Paper, there is a very real concern that some of the proposals may have unintended consequences, and create unnecessary compliance burdens and constraints on charitable entities established and actively pursuing their charitable objectives. Furthermore, any changes to current tax settings that would discourage philanthropy and support for the tertiary sector could have a detrimental impact not merely for the tertiary sector, but for NZ Inc.

Date: 31 March 2025  
To: Inland Revenue  
Name of submitter: New Zealand Agrichemical Education Trust (NZAET)  
Contact: Jane Lamb (General Manager)  
Email: s 9(2)(a)

## Submission on the proposed changes to taxation in the not-for-profit sector

### Background

The New Zealand Agrichemical Education Trust is a charitable organisation formed in 1992 by the primary producer groups and aims to develop and maintain good practice standards of agrichemical use. The Trust's mission statement is "To facilitate the approved and safe use of agrichemicals in New Zealand consistent with effective sustainable land management and environmental protection through advocacy and education". We promote the safe, responsible and effective use of agrichemicals in New Zealand.

A key aspect of this is training and certifying agrichemical users in managing risks to themselves, others, the environment and the food supply chain – for which we charge a certification fee. NZAET provides training in the safe and responsible use of agrichemicals through its Growsafe programme.

We are a Tier 3 charity with expenses being c\$500,00 per annum and net assets of c\$1 million.

### General feedback

NZAET welcomes the opportunity to submit to Inland Revenue on the review of taxation in the not-for-profit sector.

Whilst we note that under the proposed thresholds, NZAET would continue to receive a tax exemption, we have taken the opportunity to submit on this proposal to ensure that a wide range of views are expressed.

### Specific points

#### **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 of business income earned by charities will reduce revenue and will reduce the ability of charities to be self-funding. A greater reliance on donation and direct fundraising revenue will lead to much greater volatility in income and potentially some loss of self-determination of priorities.

There will also be increasing competition for a limited pool of donor funding putting greater demand on existing funding and grant organisations. From an operational perspective, seeking grant funding can be a slow, resource-hungry process with unpredictable results.

**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?**

Due to the reduction in net income, either a reduction in the provision of charitable services would occur, or prices for related business services would need to increase which would also lead to a reduction in services provided but via a decrease in demand.

**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 key element that should determine the degree to which business activities are related would be the extent to which the business supports, promotes or contributes to the stated purpose and objectives of the charitable organisation. Other considerations might include the extent to which the customer base is the same.

The percent of income derived from the unrelated business activity is another factor. Is the activity core business or a complementary activity?

Specifying particular types of business activity as tax exempt (for example op shops) seems prescriptive and potentially reduces the options for innovation in the sector. Similarly, using unpaid volunteers as a criterion will punish charities working in sectors where recruiting volunteers is challenging, for example, those whose members are largely of working age and/or raising families.

**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?**

We do agree that business income distributed should remain tax exempt. However, the ability to retain reserves is key for charities. It enables us to generate income through interest received but also to survive challenging times. Putting any time limit on the use of income would lead to sub-optimal investment decisions, where a project is pursued for the purposes of avoiding tax rather than because it is the best use of those funds.

**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?**

As a small charity, we rarely take advantage of the FBT exemption. Though the compliance costs would potentially increase if this exemption did not exist, we use Xero for our accounting so the impact would be minimal.

*End*



27th March 2025

David Carrigan  
Deputy Commissioner, Policy  
Inland Revenue  
C/- [policy.webmaster@ird.govt.nz](mailto:policy.webmaster@ird.govt.nz)

## **Feedback on the taxation and the not-for-profit sector officials' issues paper**

Dear Mr Carrigan,

Thank you for providing the opportunity to provide feedback on the proposals for changes to the taxation of not-for-profit and charitable entities.

Counties Māori Rugby has been a cornerstone of our local community for more than 30 years, delivering not only rugby but also social and community development. Our mission extends beyond the rugby field. We enrich lives, promote well-being, and drive positive societal change.

While the "Q and As" published by IRD mention that it is not expected that bodies promoting amateur games and sport will be affected by the proposals we would still like to take the opportunity to make a submission that this income tax exemption should remain as is.

### **The Economic and Social Value of Grassroots Rugby Clubs**

Rugby is not just a sport in New Zealand – it is part of our national identity and contributes significantly to the economy and society. As one of the more than 470 grassroots rugby clubs in New Zealand, we play a crucial role in fostering community engagement, social connection, and personal development.

Our club, like many others across the country, provides a space where individuals of all ages and backgrounds can come together, engage in physical activity, contribute to their local community and form lifelong friendships and support networks.

Beyond playing rugby, we hold fundraising opportunities, host Māori rugby carnivals with team travelling all over the north island and we also hold events where local health providers and local businesses come to showcase their services and provide their health resources etc to our whanau in attendance. These activities bring communities together and generate economic activity for local businesses throughout the year, not just on game day.

Rugby clubs are also at the forefront of addressing important societal issues in our communities such as Mental Health awareness, Suicide awareness, we provide vaccination and immunisation opportunities via health providers and promote a Male Role Model space for rangatahi.

### **The Importance of Retaining the Income Tax Exemption for Amateur Sport**

The current income tax exemption for bodies promoting amateur games and sport ensures that we can remain financially viable. Removing this exemption or imposing income tax on our membership fees would:


- significantly reduce the funding available for clubs to provide community programs, purchase equipment, maintain facilities, and support player development.
- create an administrative burden for us as a volunteer-run organisation, diverting time and resources away from our core activities; and
- lead to increased costs for participants, which could disproportionately impact those from lower-income backgrounds and reduce youth participation in rugby especially in the current cost of living crisis.

Preserving the current income tax exemptions is essential for sustaining the economic and social benefits they provide. Counties Maori Rugby remains committed to enriching our community, and we urge the Government to consider the profound implications that changes to tax exemptions would have on grassroots organisations like ours.

Grassroots rugby is a cornerstone of New Zealand's social and economic fabric, and its contribution must be recognised and protected in any tax policy changes.

Yours sincerely,

s 9(2)(a)



Robert Clark  
Club President  
Counties Maori Rugby

David Carrigan  
Deputy Commissioner, Policy  
Inland Revenue Department  
P O Box 2198  
WELLINGTON 6140

31 March 2025

Sent via email to: [policy.webmaster@ird.govt.nz](mailto:policy.webmaster@ird.govt.nz)

Dear David

## **Submission on taxation and the non-for-profit sector Habitat for Humanity New Zealand**

We refer to *Taxation and the not-for-profit sector*, an Officials' Issues Paper ("the Paper"). We appreciate the opportunity to make a submission and set out our comments below.

### **Overall comments**

The proposal to tax income from "unrelated business activities" generated by charities has raised considerable concerns for Habitat for Humanity New Zealand Limited and its affiliates (together "HFH"). This proposed change marks a shift from established principles that acknowledge the unique contributions of charities to public welfare. HFH's submission aims to highlight its role in providing housing solutions and supporting government objectives; and advocating that these proposals are given a significant amount of further thought and consideration before being further progressed.

For over three decades, as a leading housing provider, HFH has played a vital role in delivering safe and decent housing for New Zealanders by facilitating the construction and renovation of many homes. These efforts not only alleviate the pressure on public housing but also create pathways for families to achieve stability and self-sufficiency. HFH has successfully transitioned thousands of people into permanent homes, significantly reducing reliance on government-funded public housing and alleviating pressure on public resources.

HFH receives government funding to support its housing initiatives, but this funding only covers a portion of the total resources required to fulfil its mission. To bridge the gap, HFH actively engages in fundraising through various channels, including donations, grants, and revenue generated from their ReStores. HFH's ReStores are second-hand goods stores operating nationwide with the help of volunteers, generating profits which are reinvested back into housing.

In addition to providing housing, HFH offers educational programs, such as tenant readiness training, which equip individuals with essential skills to become responsible tenants and succeed in the private rental market. These initiatives not only improve the quality of life for participants but also contribute to the overall stability of the rental market, benefiting both the government and society.



Volunteers support the construction and renovation of homes, help operate ReStores and assist in a wide variety of administrative tasks and various programmes. This significant contribution represents an uncaptured cost that, if quantified, would result in substantial losses for HFH. Recognising the value of volunteer efforts would be essential, as their contributions enable HFH to maximise resources and focus on its mission, not doing so would misrepresent its financial viability.

The New Zealand public housing system faces significant challenges, including long waitlists and limited resources. By providing affordable housing solutions, HFH helps ease this strain, ensuring that families have access to safe homes without further burdening public services. The revenue gained from imposing income tax or fringe benefit tax on HFH would likely be minimal compared to the increased costs it would create for it and the public housing system.

HFH urges that any proposed changes be given substantially more time, thought, and consultation before being progressed to allow for impacted organisations to fully understand any changes and implement any necessary systems and processes to adopt these, and so that any change does not negatively impact the benefits provided by charities.

We set out our further comments on the Paper below.

## **1. Charity business income tax exemption**

1.1. The Paper does specifically define the problem that it is trying to resolve in proposing removal of the charity business income tax exemption, and its concept of “unrelated business” income is also not clearly defined. The significant concern for HFH relates to what a charity needs to do to demonstrate it is applying its business income to a charitable purpose, and where the line is drawn in what is “unrelated business” income given the unique nature of HFH.

1.2. Several considerations should be thought through before proceeding with any proposed changes to the charity income tax exemption:

- **Clear definition of “unrelated business” income**

“Unrelated business” income needs to be clearly defined and should use specific criteria rather than a single test to remove ambiguity. Clear guidance should be provided by Inland Revenue to provide certainty on how the criteria would apply, and comprehensive examples should be given with respect to the wide range of charities and types of income.

- **Carve out of certain activities**

The Paper notes that in countries where unrelated business income is taxed, certain activities remain tax exempt (e.g. businesses primarily engaged in selling donated goods or services). We agree that activities such as these should be carved out to ensure any reforms are appropriately targeted. As HFH is significantly funded through its ReStores, this is an important consideration. The ReStores also divert landfill and provides affordable goods to lower income households.

Other types of activities such as HFH’s educational programs should also be factored into this. These programs are aimed at educating people transitioning out of public housing and into the rental market and improving financial wellbeing. Activities such as these do generate a small profit, which like all HFH’s activities, is reinvested back into providing more homes and more programs, directly providing public benefits which should be recognised differently from other types of charitable activities.

- **Carve out of activities funded by government**

Government funded activities should be viewed differently from other commercial activities and should not be captured within “unrelated business” income. HFH is partially government funded for a specific reason, it is filling gaps in government services and providing essential support to the community. HFH highlights the return on social investment that it provides to New Zealand and emphasises that the benefits of its programs outweigh any forgone tax revenue.

- **Recognition of the value provided by volunteers**

As discussed in our overall summary, the contributions of volunteers who work throughout HFH represent an uncaptured cost that, if quantified, would result in substantial losses for HFH. Without volunteers HFH would face severe operational challenges. Recognising the value of volunteer efforts is essential, and a provision for the value of unpaid volunteer work should be factored into calculating the total profit of any potential “unrelated business” activities.

- **Accumulation of funds for a purpose**

We agree that additional rules should be considered to enable charities to accumulate funds for charitable use in later years. The Paper recognises that accumulation of funds can occur for many valid reasons. Given the nature of HFH, there will always be an accumulation of funds over several years where houses are built, renovated, sold, and rent-to-own schemes are operated etc. While these funds are always held for a specific purpose and are ultimately applied to HFH’s charitable purpose, tracking the use of the funds would be a significant administrative burden.

## **2. Removal or reduction of FBT exemption for charities**

- 2.1. Removal or reduction of the FBT exemption could result in an extensive compliance and administrative burden for HFH. It is difficult to comment on the actual impact this would have given the uncertainty on how compliance costs may be reduced as part of the current FBT review. As such we suggest that any proposed changes to the FBT exemption be put on hold until after consultation on the current review of the FBT regime.

## **3. Other comments**

- 3.1. As noted in our overall comments, HFH supports work being undertaken to provide clarity and integrity to the New Zealand tax system. HFH requests that additional time and consideration be given to any proposed changes in respect of tax exemptions for charities to ensure that organisations such as HFH are recognised for its societal benefits and are not unduly impacted by changes resulting in increased costs and directing funds away from charitable purposes.

Thank you for the opportunity for HFH to make a submission on the Paper.

Yours sincerely

Habitat for Humanity New Zealand

# Taxation and the Not for Profit Sector

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## Contents

Purpose.....	1
Background .....	1
Summary of Submission.....	2
Questions and Responses .....	3
Question 1:.....	3
What are the most compelling reasons to tax, or not to tax, charity business income? .....	3
Do the factors described in 2.13 and 2.14 warrant taxing charity business income? .....	3
Question 2:.....	4
If the tax exemption is removed for charity business income that is unrelated to charitable purposes, what would be the most significant practical implications? .....	4
Question 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? .....	5
Question 4:.....	5
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? .....	5
Question 5:.....	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? .....	5
Question 6:.....	6
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? .....	6
Question 13: .....	7
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? .....	7
Further Discussion .....	7

## Purpose

CHT Healthcare Trust's response to the Taxation and the not-for-profit sector consultation paper, issued 24 February 2025.

## Background

Founded in 1962, CHT Healthcare Trust (CHT) is a leading charitable provider of residential aged care with values of care, comfort and compassion, our rest home, hospital, dementia care and specialist dementia/ psychogeriatric level of care homes are part of the community.

Our charitable purpose is to provide access to affordable, quality care for older people and our not for profit status enables us to reinvest in our facilities, services, residents, staff to deliver on this purpose, as well the wider sector through our Aged Care Fund.

CHT owns and operates 21 care home throughout the Auckland, Waikato and Bay of Plenty regions operating 1,480 beds at all levels of care and being represented in diverse communities, often with socio-economic challenges.

Having bought our care homes, we use these to advance our charitable purpose. Any cash surpluses generated are used to buy or build additional capacity. The surpluses invested in our care homes sits as accumulated funds on our balance sheet.

With an ageing population, often with living with complex health needs, the need for aged residential care services is growing. Alongside this, less individuals are reaching older age with financial security and need the access to services which do not require them to make additional payments.

Enabled through our not-for-profit status and through judicious management of our assets, CHT has managed to create access to care both through acquisition and refurbishment as well as some new builds. Although our care homes are good quality and we could charge more, to meet our charitable purpose, 60% of our bed days in the last year were at Standard rate (no additional daily charge paid directly by the older person, called an Accommodation Supplement Charge) and where we did charge an Accommodation Supplement Charge, this was significantly lower than the sector average.

We have also commenced the build of new care home, despite an anticipated \$11 million write down in value due to the difference between the cost to build and the resulting valuation as a freehold going concern care home. A for-profit would be unlikely to make this decision. The 'return' on our charitable purpose (i.e. that this is a sustainable way to create access to affordable, quality care) has given us the mandate to do this and being a charity is an enabler.

### Summary of Submission

The tax exemption for charitable business income is essential for our operational integrity and sustainability. Changes proposed in the Consultation Document could significantly hinder our ability to finance the programs that directly contribute to delivering our purpose. Therefore, we submit that the exemption should remain.

The proposed changes:

- ▶ **Take a sweeping approach** to address potential issues that appear to be confined to a small number of organisations, which appear to be known. Instead the Charities Act could be better utilised to deal with those not meeting the already extensive range of requirements placed on charities.
- ▶ Increase the **risk of unintended consequences and destabilising** organisations who are inherently less able to withstand shocks, because they have less access to subject matter expertise and for many, little reserves or access to working capital.
- ▶ **Fail to consider the cost to government**, as the cost of delivery increases, or there is a reduction in the funds available for the charitable purposes and therefore charitable services.
- ▶ Increase **compliance costs** and cashflow management risk.
- ▶ Could drive charities to **deregister** as the requirements of being a charity are no longer balanced by the tax exemptions.

## Questions and Responses

### Question 1:

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

It depends on the problem the government is trying to solve:

- ▶ If it is to increase competition, then there is no compelling reason, as highlighted in the paper
- ▶ If it is to address concerns around charitable status being used inappropriately, there are existing regulatory powers available already through the Charities Act and DIA which allows for action to be taken against individual organisations, or the option of further refinement of the Charities Act
- ▶ If it is to increase tax take, then the full impact and consequential costs to government must be considered:
  - making up the funding shortfall resulting from compliance costs and/or reduction in revenue as charities stop 'unrelated' business to avoid these
  - potentially having to deliver the services themselves, if charities cannot continue
  - managing the longer term consequential societal impact (e.g. stopping the op shop to avoid compliance costs, reduces the reach of charitable outreach services, thereby increasing loneliness and potential incidence of dementia and increases healthcare costs)
  - the direct cost of recovering tax, particularly where it is then given back again.

Many charities seek to minimise overheads to maximise charitable funds. Introducing tax on the business income of charities places a substantial financial and administrative load on charitable organisations. This includes not only the cost of the tax itself, but also increased operational costs and time that would have otherwise been dedicated to achieving charitable objectives.

This redirection of our resources, if the exemption is removed, will reduce our provision of charitable services and could prevent us from increasing those services at the necessary rate to cater for the aging population.

Charities are regulated and have a number of requirements placed on them. If they are taxed as private providers, beyond doing good things, there are few other benefits to being a charity and significantly increased regulation and restrictions placed on them compared to private providers. This effectively places charities at a disadvantage and charities may choose to deregister as a result, which may cause them to lose their charitable focus over time.

#### Do the factors described in 2.13 and 2.14 warrant taxing charity business income?

2.13 and 2.14 do not take into account the other factors driving charities, such as the requirements under the Charities Act and the need to undertake our charitable purpose. For many charitable aged care organisations, these also limit accumulation of capital.

In CHT's case, our care homes could attract more and higher Accommodation Supplement Charges, but we keep them low in accordance with our purpose, limiting capital accumulation.

Despite our charitable status, without the capital offered by private equity, we (and the wider aged care charity sector) are demonstrably not expanding more rapidly than our for-profit competitors, with the majority of the much needed new care beds being provided by the for-profit sector, often for older people who are able to contribute a significant capital contribution

in the hundreds of thousands of dollars, or pay an additional daily supplement (Accommodation Supplement Charge).

There is concern that this is creating a divide between those who can afford care and those who cannot. Additional costs of taxation and compliance will only make this issue worse.

## 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?**

On our interpretation, we do not expect the removal of the tax exemption for unrelated business income to capture our organisation, as we believe our business income is directly related to our charitable purpose. However, there would still be significant practical implications for us directly and for aged care / New Zealand:

- ▶ With the **definition of 'unrelated income'** critical to how this impacts organisations, there is the risk of:
  - additional costs in defining income for all charitable providers, with the potential that those who cannot afford quality advice being unfairly impacted;
  - under/overpayment of tax due to misinterpretation and potential for costly dispute procedures around interpretation.
- ▶ **Minimises options** to keep our business sustainable, reducing potential alternative sources of revenue in the future. For example, if we wanted to generate an alternative income stream from owned but undeveloped land to support delivering our purpose, as well as diversify our risk.
- ▶ **Cost to the business**, not only related to the cost of the tax itself. There is significant administrative and financial cost to maintain financial records, keeping streams of income (between related and unrelated business income) separate, preparing for tax reports, audits and filing tax. Any costs incurred in doing business is money no longer able to be utilised to deliver on the charitable purpose.
- ▶ Many charitable aged care providers' residents are fully subsidised and are effectively government funded. It is known that the aged care sector is underfunded<sup>1</sup> and consequently some providers need to raise other revenue to cross subsidise their business. Providers may decide to stop unrelated income to avoid compliance costs, or incur the additional costs, in both cases reducing funds available.
 

If providers are unable to get increased funding from government to bridge the gap and go out of business, the older person in need may end up in the public system, at a greater cost to the public, as aged care capacity is oversubscribed.

In any event, **the impact on the bottom line will have to be met by the government.**
- ▶ **Impact on the charity eco-system**, as those who use other sources of income to subsidise their essential services (including charitable aged care providers and charities which support us) are affected.

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<sup>1</sup> A review of aged care funding and service models [https://www.tewhatauora.govt.nz/assets/For-the-health-sector/Specific-life-stage/Health-of-older-people/FINAL\\_A-review-of-aged-care-funding-and-service-models\\_strategic-assessment.pdf](https://www.tewhatauora.govt.nz/assets/For-the-health-sector/Specific-life-stage/Health-of-older-people/FINAL_A-review-of-aged-care-funding-and-service-models_strategic-assessment.pdf)

- ▶ If other **charitable aged care providers are unable to continue due to the extra costs**, this will put pressure on the remaining providers and of course, have a devastating impact on older people and their families too.
- ▶ It could also **impact for profit providers**, where charitable providers who are able to, seek to recover costs through charging Accommodation Supplement Charges, thereby competing with the for-profit providers.
- ▶ When viewed across the whole charitable sector, this reduction in disposable funds could lead to **scaling back essential services**, or services that the government is unable to fund that have become essential to groups in society, which will compound the effect on the communities we serve.

**Question 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?**

We consider that the definition of 'unrelated business' should mean a business whose surpluses are not returned or intended to be returned to the provision of charitable services.

In addressing the definition of unrelated business income, there exists significant risk if the legislation is not carefully framed. Any ambiguity in defining the term 'unrelated business' could inadvertently capture activities that do have a direct relationship with the entity's charitable purpose and that are crucial for its funding model.

If careful framing does not happen, the result would be that charities may face substantial compliance costs. They would need to allocate additional resources – both time and money – to determining the classification of their income sources, seeking legal advice, and potentially challenging tax assessments.

The misclassification could lead to inappropriate taxation. This would reduce the overall funds available to commit to charitable activities, thereby impeding a charity's ability to deliver on its community objectives and impacting its sustainability.

**Question 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?**

CHT is Tier 1 and therefore not captured in this. However, this further highlights the points of:

- **Compliance costs**: knowing the threshold exemption, maintaining records and monitoring them to ensure they don't breach the threshold etc
- **Unintended consequences**: organisations making decisions to ensure they don't breach the threshold, with the consequential impact on services

**Question 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?**

For the reasons we have outlined above, we submit that income ultimately used for a charitable purchase should remain tax exempt.

The proposition is that the exemption could no longer apply to accumulated funds, on the basis that they have not yet been used for the charitable purpose:

- ▶ Consideration would need to be given to how this applies to a charitable organisation such as ours, where the accumulated funds represent surpluses invested in our care home assets, built up over more than 60 years and the means through which we deliver our charitable purpose. This is believed to provide a more sustainable delivery on our purpose than realising the cash value of these assets and spending it.
- ▶ It would take many years to accumulate sufficient income to build or purchase a care home (in practice we generally debt fund these initially). However, the approaches outlined (special memorandum account, credits for tax paid to be refundable etc) increase compliance costs and beyond the government effectively borrowing tax from us for a period of time, would not result in a net gain for government, but costs us the compliance cost and loss of return on capital which further reduces our ability to provide services and the government the cost of administering it.
- ▶ Risk that charitable organisations make decisions that are detrimental to their purpose and wider communities. For example, we made the decision to hold on building whilst construction costs were high, in future we would also have to consider the tax implications of this.

If the IRD has concerns about specific organisations accumulating cash reserves and not deploying them for their charitable purposes in a timely fashion, there are already mechanisms to address this, including through the Charities Act and DIA.

#### **Question 6:**

**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?**

We have already mentioned, clearly setting out what constitutes 'unrelated' versus 'related' business income, compliance costs and unintended consequences. In addition:

- ▶ The **amendments required in the Charities Act**, to maintain the balance of regulation and ensure a level playing field with for-profit businesses. If not, there is a risk of creating barriers to entry or driving charities to deregister as they will have the majority of the tax consequences a for-profit has and the constraints placed on them by the Charities Act, reducing charitable organisations and the work they do.
- ▶ Determining the **true cost** and the valuation of pro bono, or voluntary services.
- ▶ The challenges of **cashflow management** particularly for smaller entities with less flexibility.
- ▶ The policy should consider **thresholds on unrelated business income** a charity can generate before it impacts their tax-exempt status, regardless of Tier. This would recognise that small-scale unrelated activities might be incidental to, but not a primary focus of, a charity's operations. Setting reasonable thresholds ensures that charities are not disproportionately penalised for minimal levels of unrelated income generation.
- ▶ **Transitional provisions** to allow charities to have time to adjust their financial planning and business operations and for financial services organisations to build their resources.



- ▶ Additional **support or resources** to help charities understand their new tax obligations and provide advice on the appropriate methods to manage the enhanced reporting requirements.
- ▶ Charities should also be **directly and fully consulted** on any changes ahead of them being included in any draft legislation to help ensure that any new rules are fit for purpose.

**Question 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?**

The proposed removal of the FBT exemption for charities would have similar impacts as the removal of the business income tax exemption – namely an increased financial burden in terms of compliance and administrative costs. For charities, the meticulous tracking and reporting of any fringe benefits provided—such as company vehicles, employee subsidies, or other non-cash benefits would demand significant administrative resources.

In addition, even if the FBT rules are simplified, easier administration is still additional administration for charities. Also, there is the additional cashflow management impact of FBT, which smaller charities may struggle to manage.

Some charities also use the benefits of being exempt from FBT as a way to provide other benefits to staff in a cost-effective way, which is a good recruitment and retention tool.

**Further Discussion**

We invite the opportunity to discuss our submission further, please contact [info@cht.co.nz](mailto:info@cht.co.nz) or call 09 522 4585.



## Submission on Officials' Issues Paper: Taxation and the not-for-profit sector

31 March 2025

**Contact:** Tim Jones, President, Living Streets Aotearoa, s 9(2)(a)

### Introduction

**Living Streets Aotearoa** is the New Zealand organisation for people on foot, promoting walking-friendly communities. We are a nationwide organisation with local branches and affiliates throughout New Zealand.

**We want more people walking** and enjoying public spaces be they young or old, fast or slow, whether walking, sitting, commuting, shopping, between appointments, or out on the streets for exercise, for leisure or for pleasure.

Living Streets Aotearoa is an incorporated society and a registered charity.

### Responses to selected questions for submitters

As our submission is very brief, we have not included a summary. Officials are welcome to contact us to discuss these points further, if required.

#### Question for submitters

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?

Given that the definition of 'unrelated to charitable purposes' appears not be clearcut, and that the impact of removing this tax exemption on small charities could be substantial, Living Streets Aotearoa submits that the tax exemption should be maintained for Tier 3 and Tier 4 charities. Should maintaining this tax exemption for Tier 3 charities be considered to be too generous, then at minimum it should be retained for Tier 4 charities.

#### Question for submitters

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?

Without knowing the outcome of the current review of FBT settings, it is difficult to provide a definitive answer. However, such a move is likely to have a greater effect on smaller charities, and therefore, we submit that this exemption should be retained for Tier 3 and Tier 4 charities.

31<sup>st</sup> March 2025

Submission letter on **Taxation and the not-for-profit sector**  
[policy.webmaster@ird.govt.nz](mailto:policy.webmaster@ird.govt.nz)

To Inland Revenue,

I write on behalf of Windsor Park Baptist Church and its three related entities - all four being registered charities and described in our language as the **Windsor Park Group**. For context, we employ a combined 160 staff and operate a wide and diverse range of services both in the traditional church context but also through numerous community service initiatives including in the mental health sector and for-purpose social enterprises within the marketplace.

This letter is our submission and feedback on the proposed changes to the taxation of charities, not-for-profits, and voluntary organisations in New Zealand, as per the above issues paper.

My submission will be in two parts:

1. Specific comments on individual questions referenced in the officials' issues paper.
2. General comments.

**Firstly**, in response to specific questions:

**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?***

In our more modern times, the charitable sector has become more congested as the needs in our society become more diverse and complex, and more obvious after many decades of under-investment in the social sector. At the same time, we have also seen more significant changes occurring within the social fabric of our society.



The lack of funding for charities, combined with a greater sense of urgency from people involved in the charitable sector, has meant that charities have had to become more adaptive to generating the funds to carry out their charitable objectives. There has clearly been an increase in charity business income as a result.

However:

- We don't believe that charitable trading entities have any market advantage over non-charitable trading entities. We currently operate in the domain of the marketplace with a charitable trading entity and have no competitive advantage that we can identify.
- As a result of a tightening of regulations around reporting and auditing requirements from Charities Services, there are increasing compliance costs that would be on par with those paid by non-charitable trading entities. **We note that IR has not provided any comparative evidence that non-charitable trading entities have a higher relative cost of doing business.**

2.14 states that *a charity could more generally have an advantage if it were to accumulate its tax-free profits back into the capital structure of its trading activities, enabling it, through a faster accumulation of funds, to expand more rapidly than its competitors.* We would suggest that the retention of tax-free profits is nearly always balanced out by the ultimate use of those profits for the purposes and objects of which the charity was created. Again, with increased compliance by Charities Services through more detailed and exhaustive annual reporting, charitable business activities are more thoroughly scrutinised to ensure their charitable purposes are being actioned. We welcome this scrutiny and believe that if there was to be more in-depth review of charitable business activities, Charities Services should be the driver and monitor of this.

**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?***

Practically, charities who operate charitable business activities would see a decline in funds that would otherwise be directed towards their charitable purposes and objectives that are specified within their constitutions. This decline in funds would reduce charitable input into our society, and result in more demand for the funding of services from central and local government.

**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?***

Our answer to Q4, above relates. **We believe that charity business income is related to an organisation's charitable purposes.** Continued scrutiny about how charity business income flows through to its charitable purposes is welcome, but an acknowledgement of the diverse income streams that charities utilise is needed.



**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?**

That *only 57% of those surveyed were aware the regime existed* is interesting, indicating that a proportion of people display hearts of generosity without tax considerations.

We would suggest that if IR was more resourced to collect data from donee organisations or that donation tax credits could be built into payroll transactions, we would see an increase in donations from the private sector. This could go some way to increasing the effectiveness of charitable organisations and the services they provide.

We note the comment that *it is important to note that in its response to the review, Inland Revenue indicated that these recommendations require system, administration, and policy changes, which would have to be considered against other priorities*. Given the public benefit of what could be achieved with an increase in donations to charitable organisations, this cost could be considered an investment into the social fabric of Aotearoa New Zealand.

**Secondly, some general comments**

As per the paper, we acknowledge that New Zealand has long adopted a policy of providing tax concessions to charities and not-for-profits (NFPs) to support organisations that provide public benefit. We believe this is a positive aspect of our society but note at the same time that New Zealand only ranks 17<sup>th</sup> in the world in the latest World Giving Index produced by Charities Aid Foundation (CAF). A more conducive environment that further encourages generosity towards the charitable sector would only have positive effects in our society, rather than the clamping down of the sector that seems to be proposed in the IR paper.

Any change to the tax settings proposed could further drive the wealth divide by reducing charities' and not-for-profits' ability to sustainably fund services that directly benefit our communities, thus reducing the generosity of the general public. The flow on effect of the proposed tax changes could put pressure on already strained organisations through diverting revenue streams that directly support those in our communities e.g., those who rely on our services and all employees of the charitable sector.

By separate correspondence I had also contacted The Minister of Revenue, the Honourable Simon Watts, about the very short length of the consultation period related to this issues paper. This will invariably result in a lack of more in-depth engagement with Iwi, Māori entities and a great many charities and not-for-profits. The consultation period has lacked genuine engagement with the community sector with grassroots organisations – and this raises an on-going concern as we see the rise of consultants and businesses positioning themselves to take the lead in advocating and engaging with the community sector rather than allowing time for meaningful dialogue that should be led by the community.



There is also a clear lack of any costed evidence or in fact any clear definitions for “related” vs. “unrelated” activities. We would like to see more evidence provided by government, concerning what is deemed related or non-related business income, we encourage IR to use case studies to demonstrate what this might look like for the charitable sector, including on-going or other costs that may arise in accountancy and compliance requirements.

## **Recommendations**

With the above in mind, Windsor Park Baptist Church (on behalf of the Windsor Park Group) would also suggest that IR:

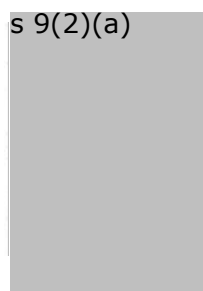
1. Work directly with those who hold governance roles in the community sector.
2. Present demonstrated case studies and financial information that can be shared within the charitable sector to better understand the tax changes, including what IR anticipates as potential revenue forecasted by these tax changes, and where will this tax go?
3. More comprehensively provide clear definitions for “related” vs. “unrelated” activities.

On behalf of Windsor Park Baptist Church, we encourage the government and IR to ensure that information is directly provided to the charitable sector. It is essential that those in governing roles are adequately resourced and kept up to date with any tax changes the government intends to implement.

Officials from Inland Revenue are very welcome to contact me to discuss the points that we have raised. We would encourage that to happen, due to our significant contribution to the charitable sector.

Yours faithfully

s 9(2)(a)



Grant Harris  
Senior Pastor

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

28<sup>th</sup> March 2025

## **TAXATION AND THE NOT-FOR-PROFIT SECTOR**

Dear Inland Revenue,

Activate Faith Group Trust is the parent entity of a large group of charitable organisations focused on activating community transformation, specifically through faith, education, social services, and health. We are passionate about serving our local communities with their holistic needs and have been active in delivering community services for the past 85 years. Over that time, we have understood the importance of being self-sustaining and not simply relying on donation-based income from our church members or the wider community. Relying on donation-based income limits our ability to meet the growing needs of the communities that we serve. We have had to “think outside the box” and be innovative with our approach. This has involved setting up or purchasing social enterprises/businesses and legally structuring and registering these as charitable companies, with the Group being the charitable shareholder. Many of these businesses have been established for the purpose of raising funds for our wider charitable purposes, although there are also indirect charitable outcomes.

An example of this is a residential property development company that we incorporated to build duplex units to be sold to the market for revenue generation. The primary purpose of this entity is to raise funds for charitable use by our other organisations, however, we have also sold some of our units to Kāinga Ora, meeting a need for more government-owned social housing. If the taxation of business income unrelated to charitable purposes was implemented, this could lead to the business income of this entity being subject to income tax, even though 100% of the profits are either reinvested into new projects or distributed to its sole shareholder (being a registered charity), to be used for charitable purposes.

There seems to be too much emphasis on how a charity is raising funds, eg through business income, and less emphasis on the fact that the business income, and associated profits, have been generated by a registered charity where no individual can privately profit. By and large, registered charities are following the rules and are legitimately operating in a way that is consistent with their charitable purposes. The bulk of charities are not out there to abuse the tax system and income tax exemptions. Instead of changing the income tax exemptions for all charities, it would be better and more efficient to adequately resource Charities Services to actively enforce the rules set by the Charities Act regarding the individual charities who are breaching rules and abusing concessions.

New Zealand relies on the services of thousands of charitable entities that are providing incredible support and services to our communities right across this nation. The government needs to continue to assist these charities with their good work, rather than adding more compliance, more costs, and income tax burdens. If charities started to be taxed, this would only remove precious dollars from the charitable sector, limiting charitable outcomes. If charities are unable to continue to fund their work at the same level, through dollars being used on compliance or income tax, this would have significant ramifications on the level of charitable services being provided to communities. This would in turn lead to the government having to pick up the shortfall, leading to a burden on the taxpayer. It is a known fact that government entities are not as cost-effective service providers as charities who are close to their communities and who are very used to operating with small budgets. This highlights that any potential tax revenue gained from the taxing of charities could be offset by the funding of social and community services, no longer met by charities.

The taxing of charities, first starting with business income unrelated to charitable purposes, is a slippery slope that once started, could grow into more tax liabilities for charities in years to come. The current tax exemptions are clear and consistent for charities. Removing the income tax exemption for certain types of income for charities makes the tax system more complex and harder to interpret. Charities will be required to engage with professionals such as accountants and lawyers, increasing their costs, to interpret what falls into unrelated and what is still exempt from income tax.

Paragraph 1.4 of the issues paper states:

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

However, this should be thought of as:

*“Every tax concession has a “benefit”, that is, it reduces government expenditure by empowering charities to have more impact at a lower cost than the government providing an equivalent service and therefore reduces the tax burden to other taxpayers.”*

We as a country must encourage our charitable organisations to be innovative and self-sustaining, otherwise, we will never keep up with the growing needs for social and community services, including faith, education, health, and social services. We cannot simply sit back and rely on donations from donors. There are too many great and worthy causes that are competing for donations. It is unhealthy for charities to have a culture of dependency on donations and hand-outs. This can lead to a poverty mentality within charities and limits the reach of our services. We as a sector must continue to be able to self-generate revenue, by looking for diverse sustainable income streams, to support our charitable purposes. Whether that be passive income, related business income, or even unrelated business income. The focus of this issue should not be on the generation of unrelated business income, and the possible income tax gained, but on whether this income is being generated by a fully registered and compliant charitable organisation structured where there is no private pecuniary profit. The focus of the issue (abuse of tax concessions) should be on the targeted intervention of those entities suspected to be abusing the concessions and the sufficient resourcing of the regulator to ensure it can take appropriate action. A blanket approach to all charities, to correct the behaviour of a few, is never a wise decision.

Below is our submission on specific questions of the discussion document that are relevant to the



Activate Faith Group. We welcome feedback or contact from Inland Revenue officials on the points raised in this submission. You can contact Caleb Firth, Group General Manager by email at s 9(2)(a)

Thank you for taking the time to read this submission.

Yours sincerely,  
s 9(2)(a)

Caleb Firth CA  
Group General Manager  
Activate Faith Group Trust

## **DISCUSSION QUESTIONS:**

### ***Chapter 2: Charities business income tax exemption***

#### **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, unrelated or related, discourages charities from seeking diverse sustainable income sources, and being innovative. This creates a culture of having to rely on hand-outs from donors and creates unhealthy competition between charities. There are many good and worthy causes, but only the same pool of donors. Social issues are on the rise in New Zealand, and there are more and more needs in our communities. We need charitable organisations to be able to grow and expand their charitable services and outcomes and the only way to ensure charities meet these growing needs is by encouraging them, through continued tax exemptions, to be innovative with sourcing other income such as business income.

Taxing charities only reduces the funding available for charitable purposes and outcomes, increasing the need for the government to meet social needs, which comes at a cost for the taxpayer. The question needs to be answered of how much revenue will be gained by the government in the taxation of charities versus how many additional services the government would need to fund if charities are less sustainable.

Charities also have the issue of funders needing to see financial sustainability before they choose to fund an organisation. If these charities reduce their business operations, they will become less sustainable and may therefore struggle to demonstrate sustainability, leading to declined funding applications.

Taxing charities will only add more compliance costs for charities that are often already operating on small budgets. Charities often operate with limited staff and volunteer labour and the additional compliance requirements will only reduce their ability to focus their time on charitable purposes and helping our communities. Charities will have to engage with professionals, only reducing funds available for charitable 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?**

Defining and interpreting what is related versus unrelated will be challenging in practice. This is subjective and very much open to interpretation. This subjective interpretation could mean that

charities are incorrectly including or not including income for tax purposes. Charities that are already abusing tax concessions will likely find loopholes around these definitions, leading to good and hard-working charities paying income tax, and abusive charities continuing to operate tax-free. There would need to be an enforcement of the taxation of business income, due to some charities not complying due to a lack of expertise and understanding, and then some who would abuse the tax system. This additional enforcement would need to be funded by taxpayer dollars.

Many charities operate business units/social enterprises that have indirect charitable purposes which could be argued as being either related or unrelated to their charitable purposes. An example is our social services organisation which has recently started an Op Shop. The primary purpose of this Op Shop is to generate funds for the community services we provide. However, an indirect purpose is that we can donate items from the Op Shop to our social service clients and whānau. This same entity has a property services division providing building maintenance and improvements to paying clients. An indirect purpose of this division is to provide training to the youth in our programmes on how to build small projects such as raised garden beds, which has been well received by the youth. If the taxation of unrelated business income is implemented, we would need to determine whether or not these two divisions are related or unrelated, which is challenging and highly subjective.

For these reasons we do not support the removal of the tax exemption for business income unrelated to 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?**

In our context, it is far too challenging to clearly define the difference between unrelated and related and there would be no appropriate criteria for defining an unrelated business. We come back to the point that it should not matter how the income is generated or classified, but rather how the income is utilised for charitable purposes. As long as the entity is a fully registered and compliant charity, and structured so that no individual can privately profit from the business income, then there should be no taxation of business income. For this reason we do not support the removal of the tax exemption for business income unrelated to 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?**

There would be no appropriate threshold as all charities, regardless of their size, should not be taxed on business income, especially when they are trying to be innovative and self-sustaining. We come back to the point that it should not matter how the income is generated, but rather how the income is utilised for charitable purposes. As long as the entity is a fully registered and compliant charity, and structured so that no individual can privately profit from the business income, then there should be no taxation of business income.

We do not support the removal of the tax exemption for business income unrelated to charitable purposes and therefore do not support any specific threshold for continued tax exemptions.

**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?**

As we do not support the removal of tax exemptions for charity business income, we agree that all business income distributed for charitable purposes by a registered and compliant charity should remain tax exempt.

We return to the point that it should not matter how the income is generated, but rather how the income is utilised for charitable purposes. As long as the entity is a fully registered and compliant charity, and structured so that no individual can privately profit from the business income, then there should be no taxation of business income, and every dollar distributed should continue to be tax exempt.

**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?**

If the tax exemption is removed for charity business income that is unrelated to charitable purposes, this will increase compliance costs for both government and charities, reducing funds available for charitable purposes. The government would be required to spend taxpayer dollars on enforcing new taxation rules, especially as charities are confused by the requirement to define business income between related and unrelated. There will still be abusive charities which will need enforcement.

It is important to note that many charities operate with pro bono or semi pro bono services and that their expenses are not reflective of a full for-profit commercial operation. This includes reduced wages and salaries (from volunteer labour) as well as lease arrangements that are commonly below market value. Any move to taxing business income unrelated to charitable purposes would need to take into account the valuation of these expenses, which would be a normal deductible expense so that the charity is able to claim the true cost of their business. If charities are taxed on business income, unrelated to charitable purposes, charities would have a disadvantage from normal for-profit businesses, as charities currently have high reporting obligations for public accountability and transparency. Businesses do not have these same obligations. Failure to address this issue results in charities being at an unfair competitive disadvantage with for-profit businesses.

Again, we do not support the removal of the tax exemption for business income unrelated to charitable purposes. We reiterate that it should not matter how the income is generated, but rather how the income is utilised for charitable purposes.

### ***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?**

If Inland Revenue is aware of significant abuse and that this appears to be a growing problem, then a distinction is valid. Otherwise, a distinction will simply add additional complexity without real impact. Clarity needs to be provided as to whether or not there is a major issue that would

be solved by such distinction.

**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?**

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 what unintended consequences arose. We would not want to disincentivise valid charitable activity in New Zealand.

**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?**

Whether donor-controlled charities should be required to make a minimum distribution each year depends on how big of an issue it is that these charities are not distributing sufficient funds and thereby abusing their charitable purpose and objectives. It is important to note that many charities have good reasons as to why they are building some reserves. This could be for future building projects, emergencies/contingencies, or for future generations. DIA Charities 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.

#### ***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.

The \$1,000 deduction seems both small and a very old number. As such, if this is designed to remove small scale NFPs from the tax system it will likely require increasing.

#### ***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?**

The current Fringe Benefit Exemption for charities has allowed charities to offer more competitive remuneration packages at a lower cost to the charity allowing them to attract and retain appropriate staff. It helps charities compete with for-profit businesses that have the resources and funds to pay higher remuneration and meet FBT liabilities. Having the Fringe Benefit Exemption ensures that charities can retain funds to be used for charitable purposes.

Many charities would struggle to complete FBT returns without engaging professionals such as accountants, therefore, removing this exemption would only increase compliance costs, reducing funds available for charitable purposes. With fewer funds available for charitable purposes, due to FBT liabilities and compliance costs, fewer charitable outcomes will occur and who will pick up the shortfall. The government through the taxpayer.

#### *Tax simplification*

**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 policy-related recommendations proposed appear to be sensible initiatives to help increase the uptake of donation tax concessions.



**placeforthepeople.nz**

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*He waahi haapai oranga o te iwi - A place to support the well-being of the community*

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faith

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education

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health

activate  
social  
services

31 March 2025

Taxation and the not-for-profit sector  
C/- Deputy Commissioner, Policy  
Inland Revenue Department  
[Policy.webmaster@ird.govt.nz](mailto:Policy.webmaster@ird.govt.nz)

## Retail NZ submission: Taxation and the not-for-profit sector

### Overview

1. Retail NZ is a membership organisation that represents the views and interests of New Zealand's retail sector. We are the peak body representing retailers across Aotearoa, with our membership accounting for nearly 70% of all domestic retail turnover. New Zealand's retail sector comprises approximately 27,000 businesses and employs around 220,000 Kiwis.
2. Retail NZ's membership includes large organisations that operate as charities but run significant retail enterprises as part of their fundraising and public good activities. We consulted our membership in the preparation of this submission.
3. The consultation is also directly relevant to Retail NZ as a not-for-profit organisation.
4. Retail NZ appreciates the opportunity to provide feedback on this consultation document. We have focused our response on the sections most relevant to both our members and ourselves, particularly Chapter 2 - Charity Business Income Tax Exemption; and on Chapter 4 - Integrity and Simplification. We also make brief comment on donor-controlled charities to the extent that they impact on our members.
5. We strongly advocate for a tax and regulatory environment that enables both charities and incorporated societies to continue delivering social and public good. Tax settings should support, rather than hinder, our ability to serve our communities effectively, ensuring that our organisations remain sustainable and continue to contribute to the broader public interest.
6. Compliance costs must also be considered, as increasing regulatory and tax obligations would be fiscally challenging for many charities and incorporated societies. Any new measures should not create undue financial or administrative burdens that could limit their effectiveness.

### Retail NZ responses to consultation questions

#### Chapter 2: Charities business income tax exemption

7. Overall, we are concerned that adjusting charity settings could have unintended negative effects, reducing funding, discouraging donations and burdening small charities with compliance costs.
8. In many cases, charities can deliver services more effectively than government, particularly where flexibility, community engagement and specialised expertise matter.

9. Also, charities often operate with lower overhead costs, being deeply embedded in local communities, and enjoying the ability to rely on volunteer networks. This allows them to respond quickly and efficiently to specific needs. Their mission-driven approach and ability to attract private donations and partnerships can also lead to more innovative and tailored solutions compared to government or commercial business initiatives.
10. Changes to charity tax exemptions may create the consequence of a net cost to Government accounts once the full range of costs have been taken into account. Taxing charities brings the strong likelihood that their ability to respond to community needs would be severely impeded.
11. For example, the Red Cross is frequently called on to respond to disasters around Aotearoa New Zealand. The income it derives from its chain of retail stores ensures it can be ready to respond immediately and that it has an established network already in place in affected communities. Additional taxation would reduce available income and directly reduce the services that Red Cross could undertake.
12. Similarly, if the income from Hospice New Zealand's shops was cut back by taxation, the organisation would be forced to cut its services. In turn, that would create the risk of more end-of-life patients taking up hospital beds at the government's cost, and impact on the quality of life at a critical time for patients and whanau.
13. Retail operations run by charities provide a relatively reliable source of income to the charity which can then be used to offset their costs and to contribute to their charitable purposes.
14. Charity shops provide a wide range of social benefits. People volunteer to give themselves a purpose and value in their life and community. Volunteers benefit from training in retail skills and customer service that can support them to get into the paid workforce. Retail customers benefit from the availability of cost-effective clothing and other goods.
15. Charity shops sell secondhand goods at low prices and low profit margins. Their stores provide significant environmental benefits by establishing a market for recycled goods and clothing. Without the ease of access to outlets for such goods, donors would likely dispose of them to landfill.
16. Some charity shops may become unviable if they are taxed, resulting in a loss of income to the charity and subsequent services.
17. While Retail NZ appreciates the requirement that charities apply all their income and assets to charitable purposes, in reality this does not mean the charitable purpose will always fit into the current financial year. The reasons for retaining some funds in reserve are varied. Often it is simply to ensure financial stability and continuity of services. Unexpected events, such as economic downturns, reduced donations, or emergency situations can create funding shortfalls. The most obvious recent example is the Covid-19 pandemic when retail shops could not open and charity events could not be held, severely impacting charities' income streams.
18. By maintaining reserves, charities can continue operating even when revenue fluctuates, allowing them to support beneficiaries without disruption.
19. Some long-term projects - for example, building a new hospice facility - require sustained funding, meaning charities must strategically allocate resources over multiple years rather than spend all income within a single financial year.

20. Reserves also enable charities to invest in future growth and innovation. By setting aside funds, they can develop new programmes, expand their reach, or improve infrastructure without relying solely on uncertain funding sources. It is often the case that grants for major projects require upfront investment, making reserves essential for securing long-term impact. Significantly, keeping a financial cushion helps charities adapt to changing circumstances, ensuring they remain resilient and effective in fulfilling their mission over time.
21. With regard to the de minimis exemption for small-scale trading activities, it is difficult to see why a charity that has reported business income of \$4.9 million should be treated differently to a charity with an income of \$5.1 million. Any tiered system will create inequities so we recommend that any charity that can demonstrate that business income is clearly and consistently being used for charitable purposes should be exempt.
22. Under current legislation, New Zealand charities are required to provide complete disclosure. Therefore, if there are concerns about particular charities not complying with the law, a more obvious solution would be to enforce the law that already exists, or to review charities sector legislation.

### **Chapter 3: Donor-controlled charities**

23. Donor-controlled charities should be recognised for their contributions and not subjected to excessive regulatory burdens that may limit their ability to provide charitable grants.

### **Chapter 4: Integrity and simplification**

24. We urge that the long-standing tax treatment of not-for-profit business associations is maintained, ensuring that these essential organisations can continue to serve their members and the wider New Zealand economy effectively.
25. Retail NZ is an NFP organisation that engages with Ministers and MPs, government officials, and other decisionmakers on a daily basis, to ensure our members' interests are represented throughout the policy making process. What we do benefits the wider New Zealand economy, and supports our members to operate their businesses.
26. The retail sector comprises thousands of SMEs who rely on Retail NZ's support to manage the numerous challenges of running their businesses, including employment, health and safety requirements, and meeting a wide range of regulatory and legislative requirements. We provide business updates, advice, advocacy, financial savings, upskilling and insights.
27. No single member business would be in a position to respond to all government consultations that might impact their business operations, or to keep abreast of the continual stream of requirements and updates they need to be aware of.
28. The proposal to tax subscription income of not-for-profits represents a significant departure from well-established principles. Such a shift would weaken Retail NZ's ability to support the businesses we serve, at the same time as increasing compliance costs.
29. As an NFP business association, Retail NZ operates on a tight budget, where member subscriptions primarily cover operating costs. Taxing our subscription income would impose unnecessary financial strain and limit our ability to invest in services for our members.



30. While we strive towards making an annual surplus, the reality is that the subscriptions and other member funds received are typically enough for only a small surplus if everything goes according to plan, with little room for unexpected costs.
31. Retail NZ reinvests any surplus revenue into the organisation in order to continue the benefits for our members. Therefore, taxing these funds would be counterproductive, as it would reduce the resources available for the initiatives that benefit retailers.
32. As with many other associations, Retail NZ has not been untouched by the current economic environment. Membership fees are often among the first expenses cut by businesses during cost-saving measures. The ability to build up reserves during more favourable economic times means we retain a buffer to continue operations that might otherwise be curtailed during economic downturns. This is standard practice for NFP businesses and ensures sustainability to meet ongoing member needs. The proposed changes to the tax treatment of NFPs threaten this ability to create reserves that we can rely on in times of need.
33. As highlighted in Business NZ's submission, we also question the inconsistency in tax treatment between different types of not-for-profit organisations. Inland Revenue has confirmed that sports clubs and societies promoting amateur games will continue to be tax-exempt, yet business associations could be treated differently. Both types of organisations typically reinvest any surplus into their mission rather than generating private profits, and both provide critical services to their members. Treating them differently from a tax perspective seems both unfair and illogical.
34. Adjustments to the NFP tax settings could lead to not only increased tax payment obligations, but also increased compliance costs, causing increased strain on limited resources. This could force Retail NZ to divert resources from core activities like advocacy, advice and networking events to tax management.


## Conclusion

Thank you for the opportunity to make a submission. Retail NZ is happy to discuss any aspect of this submission further.

No part of this submission should be withheld under the OIA.

Sincerely,

s 9(2)(a)



Carolyn Young  
Chief Executive

s 9(2)(a)

**From:** Alex Skinner s 9(2)(a)  
**Sent:** Monday, 31 March 2025 1:57 pm  
**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 respond to your consultation document 'Taxation and the not-for-profit sector'.

I am responding on behalf of **The Tait Foundation**.

### **Background to The Tait Foundation (TTF)**

TTF is a charity established by Sir Angus Tait with a clear purpose (extracted from trust deed):

*Devote or apply the same both capital and income to or for any educational purposes in New Zealand which are charitable...to grant financial assistance towards the organisation, establishment or advancement in New Zealand, of any universities, schools, education centres or like organisations of purely educational and charitable nature including the funding of scholarships in New Zealand*

Our educational focus is on Science, Technology, Engineering and Mathematics (STEM).

The Trust has a diversified asset base which consists of a long term loan, commercial property and a portfolio of investments. The trust does not undertake any business activities other than investing with the goal of generating income for donations - we do not trade and do not compete with non tax paying entities.

In recent years TTF has made donations in excess of \$1m a year.

### **Response to the consultation document**

We are responding to the questions which are most relevant to TTF and only from a TTF perspective. We feel that you are considering a blanket solution to the charity sector to try and deal with some very specific perceived issues.

***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?***

TTF's income is derived from financial assets and commercial property. If this income is deemed business income then there will be a significant tax cost to the trust which will only reduce the impact

TTF can make for our charitable purpose. We are not deriving income in competition to other parties and therefore do not enjoy any competitive advantage - we have nothing to compete for. The distinction between related and unrelated income to charitable purpose seems very confusing and would be contentious to apply for TTF. For example, we do not directly invest in organisations that are educational in nature, but we invest in financial assets to gain a return to then apply for charitable purpose. We would still see this as related income.

So for TTF the most compelling reasons not to tax charity business income are:

- we are not competing with anyone and therefore our non-taxed status does not result in a competitive advantage
- there would be difficulty in applying the concept of related and unrelated business income. There will be significant compliance costs trying to support our position
- If the regime was in place there would be increased compliance costs to determine how to allocate costs between taxable and non taxable activities

***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?***

As identified above, the most significant practical implication is defining what is unrelated business income

***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?***

If the whole premise is that charities with business income have a competitive advantage over non-charitable entities then the test should be on the nature of the income received by the charity. If the income/profit is taxed at source eg. through dividends through a normal corporate entity then there is no competitive advantage for the charity. This would help support investments in shares as part of a portfolio approach.

Alex Skinner  
Trustee and Chair - The Tait Foundation



31 March 2025

Subject: Submission to Issues Paper: Taxation and the not-for-profit sector

To: Inland Revenue Te Tari Taake

From: Francesca Eathorne, Antarctic Heritage Trust Executive Director

## 1. Introduction

We are writing to express our views on taxation and the not-for-profit sector as outlined in the issues paper. We believe that charities are highly important as they provide a range of services that are beneficial to New Zealand. Charities are typically running on very tight budgets, trying to execute their missions as efficiently as possible. They require support from donors who scrutinise every dollar spent, and to continue to win their support charities must keep their administrative costs low. Our sector is fragile, and having the ability to diversify income streams enables us to create more sustainable programmes. This in turn creates benefits for the government, as charities are addressing issues that otherwise would fall to the government to address.

## 2. Position

### Investments & Business Income

Charities rely on investments and business income to help them diversify their income streams and create financial sustainability. At the Antarctic Heritage Trust we have had initial fundraising dollars invested so that we can gain interest over time, which is able to be spent on our programmes. Endowment funds, in particular, are increasing in popularity, and something donors want to see is that charities have, as a sign of their financial responsibility and sustainability. We have also explored opportunities to raise funds from “business income” such as selling merchandise, or licensing intellectual property that we own. A loss of income through tours, merchandise, and the development of creative content for the Trust would reduce its ability to fulfil its charitable objectives.

The paper is not clear on what would be classified as “unrelated” investment income. We believe this needs further clarification to appropriately comment but overall we feel this type of income is very important for charities that are looking to be more financially sustainable.

## DTC Changes

Overall we believe the policy initiatives proposed for the DTC regulatory stewardship review findings are reasonable suggestions. Anything we can do to improve a donor's journey and experience in giving will be beneficial to the charity sector. It may be that the complicative nature of claiming your tax benefits could be why so many are going unclaimed. If people had a better experience, they may use this feature more, which could encourage more giving knowing that a percentage could be claimed back by the donor.

On the other hand, any system that is implemented shouldn't be compliance heavy on the charity.

### 3. Conclusion

Overall we feel that though the intent of this paper is good, additional regulations on the charitable sector could have unintended consequences. Charities are already stretched for resources, so we hope that the government will not add unnecessary hurdles to address issues that only a few organisations may be taking advantage of. Overall, we feel that more data needs to be presented to better understand the scale of the issue as it is perceived. It may be that it is better to address specific organisations that may be problematic rather than creating blanket policy changes. We would also appreciate more definition around "unrelated" income so that we can better understand the implications of any changes that may be made before commenting.

### 4. Contact Information

Francesca Eathorne, Executive Director  
Email: s 9(2)(a) Phone: 03 358 0212  
Antarctic Heritage Trust  
7 Ron Guthrey Road, Christchurch 8053

# **BAPTIST UNION of NEW ZEALAND**

## **Submission on the Officials' Issues Paper**

### **("Issues Paper")**

## **"TAXATION AND THE NOT-FOR-PROFIT SECTOR"**

**Issued 24 February 2025**

### **BACKGROUND**

The Baptist Union of New Zealand ("BUNZ" or "the Union") is incorporated under the Baptist Union Incorporation Act 1923 ("the Act") and is a union of 240+ member Baptist faith communities ("churches") and associated charitable entities in New Zealand.

The churches are independently governed, unincorporated charities registered individually with Charities Services.

The Union is the incorporated entity which holds church (and other) properties in trust for the churches, in accordance with the provisions set out in the Act. The Union does not govern the local churches.

Entities associated with the churches are a mixture of charitable trusts and charitable companies, each with their own incorporation documents and each registered as charities with Charities Services.

The Union gives support and advice to the churches in relation to various matters, particularly in relation to property responsibilities, governance, employment and legal matters.

While this submission will cover the BUNZ and its operations, it also advocates on behalf of its member churches - who are also free to make submissions on the Issues Paper.

We welcome the opportunity to submit on the Issues Paper.

### **CONCEPTUAL ISSUES THAT FRAME OUR SUBMISSION**

Baptist churches are actively engaged in charitable activities – beyond purely the "advancement of religion" (e.g. budgeting advice, youth support, family and marriage

support as a direct outworking of their faith and values systems – i.e. their advancement of religion.

The charitable activities of the churches and associated entities are often based in the immediate community around them and support the physical, financial, emotional, mental as well as spiritual health of their communities.

These activities are completed utilising a mixture of people resource and financial provided by members of our churches.

The “people” resources are often contributed in the form of volunteer hours. Recent studies out of Waikato University (Dr Juliet Chevalier-Watts) show “... *religions charities – the vast majority of which are churches and/or Christian organisations – contributed an enormous \$6.1 billion to New Zealand in 2018 alone.*”<sup>11</sup>

The “financial” resources utilised by Union charities are often received by way of donations contributed to the churches, sourced from tax-paid income of its parishioners. IRD will argue that these donations come at a cost of the Donation Tax Credits (“DTC”). In the 2023 tax year DTC paid were \$316m, of which only \$199m were DTC for donations to religious organisations<sup>2</sup>. The 2018 DTC for religions organisations was \$167m, meaning the Government got a minimum of \$6.1 billion of services value for an outlay of \$167m<sup>2</sup>.

This clearly demonstrates the benefit of the religious charitable community, of which the Union is a part, that “... *churches in NZ, don’t pay income tax is because the public benefit they provide reduces the burden on the government. Simply put, without charities, our taxes go up, and disproportionately. This is especially the case with churches, because churches help people in far greater ways than the Government could for a lot less money.*”<sup>1</sup>

Donations do not cover full costs of supporting the sector, and while we acknowledge that Government contracts for social services often form part of the funding for the sector, these contracts do not cover full costs, and charities are often reliant on the donations or “other business income” of the charities to supplement those Government services contracted.

Our churches and associated entities currently operate with significant volunteer assistance, operate within a fairly simple tax environment, often contribute PAYE and GST to the national tax take, are subject to all legislative requirements with other non-charitable “businesses”, and also comply with reporting and compliance obligations of the Charities Services regime.

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<sup>1</sup> Waikato Times, March 22, 2025

<sup>2</sup> IRD Dataset

We fully endorse the requirement for accountability in all these areas, albeit that they can be and are in some instances a significant barrier to increased provision of services and therefore productivity.

We do however question the need for the IRD to impose further compliance and financial constraints on a sector which by nature is already constrained by difficulties in attracting greater levels of volunteer input, and/or to raise capital efficiently.

Charities Services already provides a robust and tested regime to determine the charitable status of an entity, but it would appear from the Issues Paper that the IRD may have the opportunity to override that status and make an independent decision as to the charitable status of an entity. We argue that the ability to tax business related income should not determine charitable status.

The natural outcome of taxing part of the income of charities will be reducing the resources available by a reduction in cash available; a reduction in the ability for charities to get volunteers to manage additional compliance or need to pay experts to manage compliance; and a net reduction in services provided and therefore potentially a reduced tax take (were one to be implemented).

This has direct cost implications for the Government to cover the costs of services provision that charities may no longer be able to undertake and cover the costs of implementation of the new accountability and reporting structures. are likely to be greater than their support of the charitable sector via tax concessions.

We submit this outcome would be a disastrous outcome for the New Zealand communities we serve (physically, socially, mentally, emotionally), the finances of the Government, and the economy as the additional costs to Government will far outweigh the current tax concessions in business income earned by charities

## **OVERALL CONCERNS IN RELATION TO THE ISSUES PAPER**

We acknowledge and appreciate that the Issues Paper is narrow in focus, is supportive of the sector in places, and has objectives of “simplifying tax rules, reducing compliance costs, and addressing integrity risks”

These positives appear to be heavily outweighed by the following:

1. Issuing the Issues Paper on 24<sup>th</sup> February with a submission date of 31<sup>st</sup> March gives the impression of a concerted effort to limit the ability of charities to submit on the Issues Paper, giving them only 26 business days to seek advice and formulate a response.



2. The IRD approach seems to perpetuate an approach that charities should be solely dependent on donations and handouts rather than seeking to diversify and be encouraged to look for other sustainable income streams.
3. An overall reduction in support for the sector – a “thin end of the wedge” feel. E.g. 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?
4. The absence of costings/estimates of what the perceived revenue loss currently is – i.e. the reason for the potential change in policy.
5. The absence of recognition of additional compliance cost impact on charities of the proposed changes.
6. The absence of recognition of the potential cost of the Government having to pick up services that may no longer be able to be provided by charities as a result of these changes.
7. The proposals appear to mean a move further away from a simple tax system – which has been a strength of our system in NZ.
8. Not addressing unintended consequences/longer term likely impacts on charities e.g.:
  - a. Making it harder for charities to achieve financial self-sustainability if not allowed to retain full business income
  - b. Quantifying the additional revenue gained by the Government vs how many additional services will Government need to fund if charities are less sustainable?
  - c. Acknowledging whether the Government is likely to fill unmet social needs charities are less able to through implementation of the policies?
9. The Issues Paper appears to be very directed at a few charities that the IRD may believe are benefitting unfairly from the current settings. If in fact the core concern is abuse of charitable status under the Charities Act, taking a blanket approach via taxation concessions is likely to cause more damage than benefit due to flow-on unintended consequences.
10. The Issues Paper appears not to have any definitions around critical terms, so it is difficult to be asked to provide feedback when there is no clarity on critical terms. Examples of these will be noted in our submission in the relevant sections.
11. Potential differences in the definition of “charitable purposes” between the Charities Act and the Income Tax Act.

# SUBMISSION

## CHAPTER 2: CHARITY BUSINESS INCOME TAX EXEMPTION

### Reasons for Review

The opening paragraph 2.1 seems to make a statement of fact loaded in a way that justifies imposition of a tax, without consideration of the question of “Why?”. Funds raised through business activities are used to advance the charitable purposes of the organisations. And while those charitable purposes are carried out in NZ, they should be tax exempt.

Legislation is already in place to minimise revenue loss in relation to business income sent for charitable purposes overseas, unless the organisation comes within the exceptions laid out by the Government.

**We submit that** “unrelated business activities” is not defined adequately in the Issues Paper, rather the submitter is given a couple of examples with which they are left to perhaps form their own definition, which may or may not align with IRD thinking. Given that 2.3 specifically states that “It is the unrelated business activities that are the focus of this review”, it seems out of order that the phrase is not clearly defined and puts the submitter at a disadvantage.

**We submit that** “income” is not defined, and that this produces confusion over what exactly would be taxed. Is it gross income, net income, passive income, donations and parishioner offerings?

We appreciate the IRD’s acknowledgement that the tax exemption does not provide a competitive advantage, and in fact allows greater resources to be released for charitable purposes.

We do however point out that charities are most often (by Charities Services obligations or the charity’s rules) subject to additional compliance regimes than their taxable equivalents, e.g. audit or review by an external auditor, requirement to publicly publish their financial statements and annual returns.

The commentary in 2.13 of various (3) stated “second order” imperfections fail to take account of the following:

- Charities have tax compliance costs – PAYE, GST. But in addition to these costs, charities incur compliance costs imposed by the Charities Act.
- The non-refundability of losses for a business will wash through the tax system in future years, assuming they return to profitability. Both charities and businesses need to be cash positive for the majority of operating years to sustain continuity.
- Charities do not have the ability to get a tax credit for imputation credits lost on dividends, thereby being at a disadvantage to taxable businesses.

- The Issues Paper makes an assertion regarding the lower cost of raising capital, and we wonder whether the IRD is able to justify this position with data. Typically, trading banks have historically seen charities (and particularly churches) as high risk due to the reliance on donations and grants to survive. The higher risk means a higher cost of capital/debt, and so the accumulation of surpluses over sometimes many years is required to be able to make strategic investment in expanding the services provided by the charity. The Issues Paper itself points to the difficulty of raising equity capital. Charities are certainly no better off than taxable businesses in relation to raising capital, unless of course they have scale, which the IRD seems to now want to limit by taxing the business activities associate with the charity.

The reason given for the review at 2.15 states “tax concessions for unrelated charity businesses reduce Government revenue and therefore shift the tax burden to other taxpayers.”

**We submit that** taxing surpluses of unrelated charity businesses, which would otherwise be reinvested in the charity needs to be quantified, and that if charity businesses were taxed the likelihood is that a charity would not run a business, and therefore end up shutting its services down, shifting a larger burden to the taxpayer of providing the fully costed service.

#### Question 1

Based on the discussion above, **we submit that** there are no compelling reasons to tax a charity business where the surpluses are reinvested into the charity. The greatest reason not to tax a charity business where the surpluses are reinvested into the charity is that this would result in the reduction of services provided by the charity (usually social services) and the taxpayer would be burdened with the full cost of providing the services.

Taxing charity business income discourages them from being innovative and seeking sustainable income streams and greater efficiency.

It will increase compliance costs while not actually increasing revenue by a significant amount.

The factors described in 2.13 and 2.14 are at best not thought through properly and therefore do not warrant taxing charity business income.

## Implications of Change

We appreciate the IRD recognising that imposition of a tax and increased compliance costs is likely to result in an overall reduction in charitable activities, or result in switch to passive investment.

The Issues Paper does not provide 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.

Charities are close to their communities and due to constrained resources are commonly forced by necessity to be incredibly efficient. They are therefore generally much more cost-effective service providers than direct Government service provision.

### Question 2

**We submit that** the most significant practical outcome of the removal of the tax exemption for charities would be closure of some of the charitable services provided due to less resources being available, and the Governments having to provide some of those services at full cost, and potentially in a less efficient manner.

**We submit that** there is no definition of what is “unrelated” – which makes answering a question on this very difficult.

## Policy Design Issues

**We submit that** there is little clarity in the definition of “related” and “unrelated” business activities. While we appreciate that it appears (but should be confirmed) that donations are explicitly excluded, there are some guidelines listed in 2.24 that may be helpful. Without a definition of “unrelated” business activities in the context of this Issues Paper, it is difficult to submit on whether they should be taxed. It would be more helpful to have definitions set out, so consultation and discussion could be more transparent.

Without a clear definition of what is considered “unrelated”, confusion will be the only possible outcome, resulting in unintended consequences of potential censure/prosecution of charities. It is likely to lead to considerable compliance cost for charities, the IRD and DIA Charities Services.

### Question 3

**We submit that** if there was to be a tax on unrelated income (**which we do not support**), it should be limited to actively governed and managed business, as opposed to volunteer governed and led and passive income earning activities.

The IRD would need to make sure and provide very clear guidance on what is truly unrelated.

Providing a clear and meaningful definition of non-business vs. business income (e.g. what about income from passive investments) and also related and unrelated business would be critical.

Exempting income earned from social services under contract to the Government would be essential.

### De minimum for small-scale trading activities

It is helpful that the IRD example aligns with the Tier Reporting Structure laid out for charities in NZ, as defined by the Charities Services and the XRB.

Immediately we note from the data that 41% of charities report business income in their reports, and of that 41%, 88% fall into Tier 3 and 4, leaving 11% of charities vulnerable to a tax on unrelated business income. It would be good to know how much of the business income of these entities would be defined as “unrelated business income”, and further what the expense apportionment would be to be deducted from that unrelated business income, coming to a net income that a tax would be applied to. Has the IRD been able to quantify this figure?

Further, if a commercial tax paying business makes a donation to a charity that is unrelated, it currently gets a tax deduction for that donation/grant. Would a charity undertaking a nonrelated business that gave money to its donor charity, or any charity for that matter, then be disadvantaged by not getting a tax deduction?

If they were to be treated equally, then the amount of taxable revenue would be further depleted – possibly to zero, and the policy rendered ineffective.

This potentially leaves a very small number of charities, with relatively low levels of taxable surplus available for taxation, and these are the likely entities that contribute most to the charitable sector supporting significant social services to our communities, resulting in a punishing effect on our biggest charitable services contributors.

A lot of these large entities are the entities currently providing essential social services under contract to the Government.

#### Question 4

**We submit that** if the tax exemption is removed (**which we do not support**), we strongly support a de minimis threshold being set. An exemption for at least Tier 3 and Tier 4 charities is logical to reduce the cost impost on the very small. We suggest further that there is a huge range of sizes in Tier 2 reporting (ie between \$5m and \$33m per annum expenses), and that this could be more meaningfully broken into a minimum of say \$20m expenses.

In that regard, to ensure any taxation exemption remains aligned with the statutory financial reporting tiers, we would suggest that Tiers 2-4 would be an appropriate threshold to continue the exemption.

#### Relief for distributed business income

The Issues Paper does not define “accumulated.”

The main sources of income for charities are as follows:

1. Donations from individuals or legacies
2. Donations from Trusts and Foundations or other philanthropic entities
3. Government (or private) contracts for provision of charitable services
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.

Accumulation of surpluses in the good times is critical to charities whole will need to be able to continue operations (perhaps even fulfil legal obligations under contracts to Government) when items 1 – 4 might in any one or more years provide inadequate in the aggregate to sustain a year’s operation.

Funders included in 1-3 above often only want to fund charities that can demonstrate they are financially sustainable. Without adequate accumulated funds to provide this comfort to a funder, a charity may not be able to attract and secure funding.

If surpluses from unrelated business activities are able to be accumulated for a period tax-free, there would need to be a clear indication of how long those surpluses could be accumulated and not distributed before being taxable. This in itself would lower the potential tax take but still result in additional compliance cost on a charity to track accumulated surpluses from year to year.

#### **Question 5**

**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 as is currently the case for tax paying businesses.

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 agree 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 the Government and charities, reducing funds available for charitable purposes.

Often charities are involved in Limited Partnerships as a way of engaging in passive income earning, sometimes alongside tax paying entities/individuals.

The nature of a Limited Partnership as set out in the Limited Partnership Act is one where the limited partners are barred by statute from actively participating in management of the investments.

Sometimes these structures are also put in place to limit the commercial liability of the charity, as they partner with potentially other commercial entities.

It would be unfair to impose an arbitrary “look-through” provision based on the proportion of the limited partnership held by the charity.

**We submit that** a blanket removal of the income tax exemption for a charity, without looking through the LP to the source of the business activity behind it, would be disadvantageous to a charity, purely because of the vehicle in which they choose to earn additional income and or protect their legal liability, or the share held in the limited partnership - to support their charitable purposes.

### **Question 6**

Other issues as considerations that were not raised in the issues paper include:

- Labour cost is a significant input expense for any business. Currently many in the charitable sector are recipients of volunteer labour. Accordingly, it would be important for charities to be able to claim the true cost of their business in any income tax return.
- The valuation of other advantageous terms such as peppercorn leases may also need to be considered.
- 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**

Once again it is difficult to submit on this policy without a proposed definition of “donor controlled”, whether there is abuse of the system that can be removed, and what the extent of the abuse is.

It appears from the narrative that the IRD is wanting greater scrutiny where natural persons are the ones who may utilise such structures for both charity and also for personal gain through a DTC.

As discussed earlier, the Baptist Union is made up of a number of individual charities, and the ultimate “parent” charity is the Union (a charity itself) incorporated under the Act. The Union could be considered as having “donor control” of the charities that consolidate into it.

These are two very different forms of “donor-control”. If the IRD is seeking to control natural persons, their families and trust under this policy, it would have no relevance to the Union, and so we would not submit, as it would be irrelevant.



### Question 7

**We submit that** NZ should make a distinction between “donor-controlled charities” and other charitable organisations.

**We submit that** a definition of a “donor-controlled charity” be limited to charities where 30% or more of directors, trustees or like officials are **natural persons**, their immediate families and associates, or private trusts associated with any of the above.

**We submit that** a charity is not considered a “donor-controlled charity” if it is controlled by another charity registered with Charities Services.

### Question 8

**We submit that** if there is abuse by natural persons in NZ around “donor-controlled charities”, and the levels of abuse noted by IRD are significant, then it would seem logical to seek to restrict investments by donor-controlled entities to related entities.

**If** the definition of a “donor-controlled charity” includes charities that are controlled by another charity, **we would submit** a restriction on investments is not made, but that the IRD utilise other existing powers to address the abuse.

### Question 9

If the definition of a “donor-controlled charity” includes charities that are controlled by another charity, **we would submit** there be no minimum distribution rate.

## WE DO NOT COMMENT ON QUESTIONS 10 - 12

### FBT Exemption

Remuneration levels for employees and leaders in the NZ charities sector are typically lower than their peers in the public or private sectors, certainly for those in pastoral roles in churches. Being able to attract individuals at an affordable cost, into the charitable sector (particularly into pastoral roles) that provides so the many benefits to NZ communities and the economy, is a real challenge to charities.

Often the cash available needs to be efficiently used and non-cash benefits are a way to bridge the gap between the pay differentials.

The largest area of such benefits would be provision of vehicles. Often these vehicles are utilised significantly in the outworking of the charitable purposes, sometimes needing to be available 24/7 to provide pastoral, emotional and spiritual support at all times of the day, night and weekends.

As an example, the cost of a vehicle spread across (say) 5 years will often be less than the equivalent value “grossed up” into a salary for 5 years. There will be a cost saving for the charity that will be redirected to charitable purposes.

If there is a lack of coherence within the policy of exemptions for equivalent organisations, we suggest that the IRD needs to remedy this.

Even if IRD were able to reduce the compliance costs following a review of the FBT setting, there will still be additional costs to charities that are currently exempt from paying FBT.

### **Question 13**

**We submit that** the implications of removal/reduction of the FBT exemption for charities will result in additional compliance costs for charities (albeit that the compliance costs may be reduced for entities currently subject to FBT), particularly with those charities with large vehicle fleets.

There would be a reduced ability to attract or retain high performing individuals in the sector as effective remuneration levels would drop, resulting in reduced services being provided, and the Government having to provide more services at a net cost to the taxpayer.

### **Tax Simplification**

We welcome a simplification of tax-related compliance costs for volunteers.

Often our churches will have a guest speaker, who is recognised with an honorarium or a koha. Usually these are less than \$200 – and paid out of offerings received by the parishioners out of their tax paid income.

Small gatherings (often without entrance fees), or conferences are common where a speaker or number of speakers might participate voluntarily, but not for commercial gain. Our value of hospitality means we recognise someone’s time and effort.

Often local iwi or iwi representatives participate in significant gathering, and it’s appropriate to provide a koha.

A lot of charities governance boards are volunteer time or pay a low-level honorarium.

Treating payments like these as taxable through the schedular payments tax regime results in compliance costs for the charity, and often the assessment of ACC levies on the schedular payments. This results in unexpected cost for the volunteer as a result of a charity honouring their time and commitment to provide assistance.

#### **Question 14**

**We support** extending the FENZ simplification for people who give time and effort not expecting anything in return, but we honour them by providing an honorarium or a koha.

The most efficient way of reducing compliance on payments such as these would be to set a de minimus of (say) \$250.

#### **Donation tax concession**

Whilst this may appear to be something that increases the participation of involvement in the DTC regime, the current compliance cost is most efficient for charities, and the responsibility for claiming the DTC rests where it should rest – with the donor.

DTC's are calculated based on the annual income of the donor, and issue of DTC at time of payment does not allow for the ability for IRD to monitor donations against annual net tax paid income of the donor.

Collection of data by the IRD from the done organisation might produce a fear of donors of reduced privacy. Often people give anonymously – and there could be an unintended consequence of reducing donations to charities if people do not want their data shared with the IRD.

Charities have their systems to set up to manage donations and issue of receipts in the most efficient ways. A system as suggested seems to involve more compliance costs for the charity.

It is for the IRD to determine, but the cost of implementation of new systems for the IRD is likely to be all sunk costs, with the net outcome of paying more in DTC on an annual basis.

#### **Question 15**

For the reasons described above, **we do not support** the policy initiatives suggested.

***We thank you for the opportunity to submit on the Issues Paper.***

Wayne Schache  
Operations and Finance Director  
Baptist Union of New Zealand  
P.O. Box 12149  
Penrose, Auckland 1642  
Email: s 9(2)(a)  
31 March 2025



**The Fred Hollows  
Foundation NZ**

## **Submission on the Taxation and the Not-for-Profit Sector Consultation**

**Submitted to:** Inland Revenue Department, New Zealand

Via email at: [policy.webmaster@ird.govt.nz](mailto:policy.webmaster@ird.govt.nz)

**Submitted by:** The Fred Hollows Foundation NZ

[www.hollows.org.nz](http://www.hollows.org.nz)

Postal address: Private Bag, 99909, Newmarket, Auckland 1149

**Submission date:** 31 March 2025

## 1. Introduction

**Organisation Name:** The Fred Hollows Foundation NZ

**Legal Status:** Incorporated under the Charitable Trusts Act 1957 on 5 November 1992 and registered as a charitable entity under the Charities Act 2005 on 1 May 2008 (CC23722).

**Our Vision:** A world in which no person is needlessly blind or vision impaired.

**Our Purpose:** We work to end avoidable blindness and vision impairment in the Pacific. We advocate for the right of all people to high-quality and affordable eye care. We strive for eye care to be locally-led and accessible to all. In doing this, we continue Fred's legacy.

**Contact Persons:** Craig Fisher, Board Chair and Sharon Orr, Chief Operating Officer

**Contact Emails:** s 9(2)(a)

## 2. Summary Views

In summary, we are concerned, and broadly disagree, with the proposals contained in the Officials Issues Paper as they appear to indicate a reduction of Government support for the charitable sector.

We are firmly of the view that New Zealand society requires a strong, healthy and sustainable charitable sector of organisations able to address needs close to their communities and ideally involving their communities in the solutions. The erosion of existing taxation concessions will significantly weaken the sector. Any weakening of the sector will in turn transfer both the direct cost and the delivery burden of addressing charitable needs directly onto Government.

In this regard we suggest there is a flawed conceptual framework being used to consider these issues. This 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.”*

Given the nature of the charitable sector, we suggest this can 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.”*

We also note that the Government's tax and social policy work programme's objectives include "*simplifying tax rules, reducing compliance costs and addressing integrity risks*".

We are very concerned that the practical implications of many of the proposals, if implemented, would in fact complicate tax rules, and dramatically increase compliance costs for both the sector and Inland Revenue. We are also not convinced that tax rules are the most appropriate tool to address any charitable integrity risks which we believe should be addressed primarily through charity law and a well-resourced charities regulator.

Finally, if tax revenue is a key issue of the proposals, then we are unable to provide any informed opinion on the likelihood due to the complete absence of any financial estimates or context within the paper. We are however highly concerned at the potential aggregate compliance cost changes may make on the 29,000 charities and other not-for-profit entities that may also be subject to changes. Every increase in compliance costs in the charitable sector results in reduced funds available for charitable purposes.

### 3. Our Charity's Background & Context

The Fred Hollows Foundation NZ works alongside governments, national health authorities, and universities to increase sustainable access to quality eye care for the people of the Pacific. The Foundation has developed a best-practice approach focused on local training of the regional eye care workforce and supporting governments to develop resilient eye health systems to reduce avoidable blindness and vision impairment. This work has been strengthened over the last two decades through our strong partnership with the New Zealand Government and through generous support from the New Zealand public and other donors.

#### The Foundation's impact in the Pacific

The Foundation's work with its partners has generated inestimable impact across the Pacific, including through:

- The specialist training of 401 eye health clinicians from 14 countries in the Pacific and Timor-Leste, approximately 70% of whom are still in active service within public health systems.
- The delivery of more than 98,000 eye surgeries and 1.2 million eye consultations.
- Ongoing support to the Pacific eye care workforce to enable the delivery of quality eye care services, including in some of the toughest conditions.
- The construction of climate-resilient eye care clinics and training centres embedded within hospitals operated by Pacific ministries of health.

## The Foundation's Approach

To enable the training of the regional eye care workforce, we partner with and support local universities to establish and strengthen ophthalmic qualifications delivered by those institutions.

In Suva, alongside national and regional partners, we established the Pacific Eye Institute in 2006. This was the first teaching and clinical service facility established in the Pacific. The Institute partners with the Fiji National University to provide quality ophthalmic training for regional health workers at the Colonial War Memorial Hospital in Suva. The Institute is effective in developing and enabling access to locally-led eye care training, acting as a catalyst for strengthened eye health outcomes across the region.

Our work is founded on deep, long-term partnerships with Pacific ministries of health, and universities both in the Pacific and New Zealand, tailored to the unique contexts of each Pacific country.

The Foundation's ten-year strategy guides the ongoing collaborative work with Pacific governments and stakeholders who continue to determine, lead, and strengthen their own sustainable and resilient quality eye health systems. The Foundation's role is to support those endeavours. The Foundation is increasingly focused on improving eye health system policies and long-term planning as part of Pacific governments and communities' eye health system strengthening efforts. The Foundation's partners continue to seek support in the face of evolving and increasing eye health needs.

## Broader Development Impact

Increasing access to eye care is a critical enabler of improved social and economic well-being and security in the region. Globally, blindness costs USD \$411 billion annually. <sup>(1)</sup> Rising rates of diabetes and ageing populations are predicted to double the prevalence of blindness and vision impairment by 2050 if governments, donors, and civil society do not work together now to intervene with treatment and prevention measures at scale. <sup>(2)</sup>

In 2021, the United Nations formally adopted the resolution *Vision for Everyone: accelerating action to achieve the Sustainable Development Goals (SDGs)*. The resolution recognises that eye health is critical to achieving the SDGs and sets a target for vision for everyone by 2030. In addition to health and well-being outcomes, good vision strongly contributes to poverty reduction, economic growth and employment, education, gender equality, and reducing inequality.

Recent economic modelling has demonstrated that, globally, every \$1 USD invested in cataract treatment delivers an economic return of USD\$20.50, one of the highest direct productivity gains of any healthcare intervention. <sup>(3)</sup> In Papua New Guinea, the return on investment for cataract surgery is more than 29:1. <sup>(4)</sup>



The 2023 World Health Assembly adopted new targets for the two leading causes of blindness and vision impairment globally: cataract and refractive error. <sup>(5)</sup> Every country is required to report progress against these targets by 2030. The Foundation is supporting countries to undertake the necessary research to meet these obligations.

The Foundation's work is informed by, and contributes to, Pacific Island countries' development priorities, including the SDGs, particularly SDG 3 and its target of Universal Health Coverage. The *2050 Strategy for the Blue Pacific Continent's* vision guides our partner governments and The Foundation's work in the region, particularly the priority of people-centred development.

- (1) Burton MJ, Ramke J, Marques AP, Bourne RR, Congdon N, Jones I, et al. The lancet global health commission on global eye health: vision beyond 2020. *The Lancet Global Health*. 2021 Apr 1;9(4):e489-551.
- (2) Bourne R, Steinmetz JD, Flaxman S, Briant PS, Taylor HR, Resnikoff S, et al. Trends in prevalence of blindness and distance and near vision impairment over 30 years: an analysis for the Global Burden of Disease Study. *The Lancet Global Health*. 2021 Feb 1;9(2):e130-43.
- (3) Hennessy, J and Sweeny, K 2023. *Transforming Lives: An Investment Case for Eye Health*, The Fred Hollows Foundation, Melbourne, Australia.
- (4) Ibid.
- (5) The targets are: a 30-percentage point increase in effective cataract surgery coverage (eCSC) and a 40-percentage point increase in effective refractive error coverage (eREC). (United Nations General Assembly Resolution 75/310, Vision for Everyone: accelerating action to achieve the Sustainable Development Goals, A/RES/75/310 (23 July 2021). <https://undocs.org/en/A/RES/75/310>).

## Resources

The Foundation currently employs approximately 40 staff in full time roles in New Zealand who provide fundraising and technical support for its three Pacific-based entities in Fiji, Papua New Guinea and Solomon Islands, in which it employs an additional 75 staff.

## Revenue and Expenses

The Foundation's revenue and hence its financial sustainability comes from a range of sources including:

- donations from the New Zealand public;
- grant funding from the New Zealand Government and other supporters;
- interest and investment income;
- small volume of sales in the Pacific of spectacles and other medical consumables; and
- small volume of sales in New Zealand of Pacific-made *Gift of Sight* products.

The Foundation's expenses comprise primarily of:

- support provided to our Pacific partners for the delivery of the ophthalmic training programmes;
- scholarships, training equipment and other costs associated with the student faculty from across the Pacific who attend the ophthalmic training programmes in Fiji and Papua New Guinea;

- support provided to Pacific governments for eye health system strengthening including the provision of salaries for national eye coordination, funding for eye health research programmes, and support for the development of national eye health plans, policies, and budgets;
- workforce support and development for the graduate community in the form of medical consumables and equipment, continuing professional development, mentorship and sub-speciality training;
- support for the design, construction and ongoing maintenance of eye health clinics and training facilities which include environmentally sustainable initiatives such as low energy designs, solar systems and rainwater harvesting;
- salaries and wages; and
- operational costs.

Financial sustainability remains a constant concern and focus at both a governance and management level for The Foundation so that we can continue to deliver on our charitable purposes. While The Foundation currently doesn't have significant business income, this option is increasingly being considered due to the ongoing challenges with securing sufficient traditional charitable donations.

We also note that a big part of the late Professor Fred Hollows' success in establishing both a Foundation in Australia and one in NZ was due to his business innovation of establishing factories in war torn Eritrea and Nepal 30 years ago to manufacture intraocular lenses at a fraction of the cost of traditional western pharmaceutical companies. In doing so this enabled cost effective cataract operations in developing countries. Without this business innovation, millions of sight saving surgeries would never have been possible. We question whether this sight saving innovation would have been possible under the current tax law proposals.

### 3. Responses to Specific Questions

In this section we have addressed only the Issues Paper questions which we believe would directly impact The Foundation.

***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 removes a significant incentive and opportunity for us from being innovative and seeking sustainable income streams.
- By making us much more reliant on the donations/charity of others we will be much less financially resilient. We note the increased competition and pressure on securing donations.

- If part of our operation requires preparing taxation returns this will increase our compliance costs.
- We are very dubious that taxing charity business income will raise any significant taxation revenue. Conversely, we are very confident it would incur significant compliance costs.
- We do not understand the policy logic of taxing active business income but not passive income from investments etc? This also raises a definitional challenge (read potential for more compliance costs navigating this) between active and passive income. And when passive income is related or not to charitable purpose and nexus demarcations.
- We fear that this would open the door to further reductions in Govt support for the charitable sector.
- Regarding 2.13 and 2.14;
  - We already struggle being financially sustainable without the extra compliance cost of preparing a tax return on income.
  - Unlike a for-profit trading business, we cannot offset any losses we incur against anything.
  - Due to our charitable nature, we are disadvantaged in seeking outside capital as we cannot offer equity or to share in any profits, and banks don't see us as favourably as a for-profit trading entity over which they can generally secure more collateral for their funding.
  - Re 2.14; we have during COVID-19 accumulated a very modest capital due to some bequest windfalls, however, we are utilising most of those funds for a large infrastructure project in Papua New Guinea where we are constructing, with the support of the New Zealand and Australian governments and public donations, a Centre for Eye Health which will provide a long-term sustainable solution for the expansion of the eye care workforce to address the country's prevalence of avoidable blindness, which is one of the highest in the world.

***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?***

- We believe defining what is “unrelated” would be highly problematic and practically very challenging for both us and Inland Revenue. This difficulty would translate to being expensive in terms of compliance cost.
- We question why a company would not just donate its entire profits to charity to avoid making a taxable surplus - So what is being gained with this change?
- If we are required to provide taxation returns on business income, we would want to claim all allowable input costs. Currently we, as do most charities, operate with the benefit of some pro bono or semi pro bono goods and services. We would then seek to value these which we suspect would reduce any taxable surplus, as well as likely cause Inland Revenue valuation challenges and hence cost.

***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?***

- We believe the definition of unrelated business income will be highly problematic in practice. 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.
- 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?
- This issue of needing to make difficult and possibly arbitrary distinctions seems to go against one of the greatest advantages of the New Zealand taxation system which is its simplicity.

***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?***

- 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, given it is a clearly understood threshold in the sector would appear 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.
- If the reporting tiers are used as a threshold, then it would be important to ensure any taxation exemption remains aligned with the statutory financial reporting tiers.
- For larger charities we suggest there would need to be a threshold established of say at least \$500,000 of “unrelated” (recognising that would need to be clearly defined) business income before taxation applies.
- Given the variability in our financial results due to a wide range of reasons we question how significant variations in levels of business income from year to year would be accommodated?

***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?***

- We strongly agree that charity business income distributed for charitable purposes should remain tax exempt. However, this begs the question as to what is being achieved as wouldn't a business just do this? All that appears to be different is that it encourages all surpluses to be distributed in a single year as well as creating additional compliance costs related to taxation compliance.

- 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.
- We would be forced to apply more effort to claim the true cost of our business in any income tax return. We expect this would include:
  - have more focus on the valuation of donated goods and pro bono or semi pro bono services as input expenses to ensure we would be claiming the maximum possible expenditure in our taxation returns.
  - More closely reviewing any accounting estimates such as depreciation rates to ensure that we were claiming the maximum allowable for taxation return purposes.

We expect this would reduce our taxable surplus.

- 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 such as us being at an unfair competitive disadvantage with for-profit businesses.
- If any changes are to be implemented, then there would need to be a substantial transition period (say a minimum of 2 years) to allow charities to prepare and adapt.

***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 offers only one fringe benefit being a subsidised healthcare scheme to our staff. Given our charitable status and financial constraints, we struggle to offer commensurate market rates for staff as would a for-profit entity. Being able to offer this benefit allows us to attract and retain staff without the associated tax liability.
- Removing the FBT exemption would create more compliance cost for us in offering that benefit and hence reduce the funds available for our charitable purposes.

***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 appear to be sensible suggestions, and we are supportive of any initiatives that may improve the donation tax credit system and assist in promoting more donations to charities.
- We observe that perhaps the friction in the system is part of the issue in law DTCs i.e. there is the lag between giving, getting a donation receipt, then claiming at year end and it is easy to lose receipts, forget to claim etc.

## 4. General Observations

We also make the following general observations:

1. Any reduction in support of charities from Government is likely to result in increased demand on financial support from philanthropic bodies and the general public.
2. It is also likely to result in increased charity resources being directed to fundraising activities and an increase in competition amongst charities for funding. This is likely to directly reduce the charity funds available to be applied to charitable purposes.
3. There is a complete absence of financial estimates of impact in this issues paper. As such it makes it very difficult to assess if and what actions may be justified if one has no context of the scale of the issue. What are the objective measures and estimates of impact of these proposals?
4. We note that charities currently have a much higher level of legislated requirements for transparency than the majority of for-profit businesses. While we do not begrudge that and recognise transparency's importance in maintaining the stakeholder support of charities, we note that this does impose a compliance cost. We also note in relation to business that this puts a charity running a business at a competitive disadvantage compared to for-profit businesses who don't have any legislated public transparency obligations.
5. We understand that the relative simplicity of the New Zealand tax system is one of its major strengths. We note that the proposals in this issues paper appear to reduce this simplicity in the main.
6. 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 does not appear to be balanced nor evidence-based and hence 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*
7. Seeking to address concerns about charitable status through the tax rules would seem to be an exercise in regulatory duplication when there is already a charities regulator who has that role.
8. If there is concern as to abuse of charitable status by a small number of bad actors in the sector, then we suggest it should be appropriately addressed via charities law and regulation and the investigative actions of the charities regulator. We wonder if the charities regulator is appropriately resourced to carry out its role.
9. We are very concerned as to the cost and potential adverse implications of unintended consequences if blanket taxation rules are used in an attempt to address a small number of concerns of abuse of charitable status.

10. 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.
11. We would welcome a review of the Charities Act to strengthen the sector and increase its integrity. Albeit we note the last review was very protracted and also extremely limited in its scope.

## 5. Conclusion

We appreciate the opportunity to contribute to this consultation. We urge the Government to:

1. Maintain the current taxation concessions for registered charities
2. Address any concerns about abuse of charitable status through the existing Charities law and regulation rather than creating confusing regulatory duplication via changes to tax rules
3. Be cognisant of the considerable social and economic benefits generated by the charitable sector
4. Carefully consider all costs and benefits before any changes are made and especially the consideration of potential unintended consequences on the charity sector adversely impacting their ability to serve communities.

For a strong cohesive thriving society in Aotearoa New Zealand the charity sector needs a supportive Government, not attempts to tax it.

We are happy to discuss this submission further and provide additional input if needed.

**Signed by:**

s 9(2)(a)

Craig Fisher  
Board Chair

Sharon Orr  
Chief Operating Officer

21 March 2025

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

**Delivery via email [policy.webmaster@ird.govt.nz](mailto:policy.webmaster@ird.govt.nz)**

Dear David Carrigan,

**Re: Submission to Inland Revenue**

**1. Introduction**

We appreciate the opportunity to provide input on Inland Revenue's Issues Paper *Taxation and the Not-for-Profit Sector* (February 2025).

Our joint submission strongly opposes changes that would remove the current tax exemption for the charities' business income, as well as other tax concessions that enable the charity to focus on their mission effectively. Any concerns around potential misuse of charitable status should be addressed through stronger regulatory enforcement by the Charities Services, not through broad legislative changes that would increase compliance burdens and reduce the financial sustainability of the sector.

The current tax framework is sound. Charities operate businesses not for private gain, but to generate funding for their charitable purposes. If a charity's business income is ultimately used for charitable activities, it should remain tax-exempt.

Below, we outline our position on key issues raised in the consultation paper and provide recommendations for preserving the integrity and efficiency of Royal New Zealand Coastguard Incorporated and for the wider New Zealand charitable sector.

**2. Background**

Royal New Zealand Coastguard Incorporated ("Coastguard") is New Zealand's primary maritime



search and rescue organisation. Coastguard is a registered charity (charity number CC36138) and is an “overarching” entity, similar to a head office, providing oversight and support to 63 local Coastguard units located throughout New Zealand. Each of these units is also a registered charity.

Coastguard works in close collaboration with government-led search and rescue services, such as the Police and the Rescue Co-ordination Centre (“RCCNZ”), to coordinate major marine rescues. Together they play a vital role in keeping people safe on the water.

Coastguard is also committed to educating the New Zealand public about water safety and reducing preventable drownings involving watercraft. This is achieved through nationwide courses, community engagement initiatives and public awareness campaigns.

Coastguard’s activities are funded in part by government and other grants, which comprise approximately 40% of its annual revenue. The remainder is generated through membership fees, course and examination fees, donations, and other fundraising activities. Donations account for around 10% of total revenue. As such, Coastguard is heavily reliant on fees on membership income and fundraising to sustain its operations.

Any changes to the current charitable tax exemptions that would render all or some of approximately 90% of Coastguard’s revenue taxable, would reduce funds available in its core search and rescue operations, and education activities.

The points we raise below are in order as they appear in the Issues Paper. They have a direct impact on Coastguard. As such, we would like to make our submission on the basis that the status quo should be maintained, without which, the impact to Coastguard could be detrimental to its fundamental existence.

### **3. Charities’ Business Income Should Remain Tax-Exempt (Q1 & Q2)**

Coastguard engages in business like activities to raise funds that support their core purposes. These operations are not carried out for personal gain, but to strengthen their ability to deliver public benefit. They provide a reliable source of income that helps them become more financially sustainable, especially in a volatile funding environment where donations and grants fluctuate.

The proposal to remove the business income exemption, even in relation to “unrelated” business income, risks creating unintended consequences. It may discourage Coastguard from developing enterprise models that increase their independence and could result in scaling back services or becoming more reliant on public funding.

It’s important to recognise that charitable pursuits like Coastguard are not on a level playing field with private businesses. Charities and in particular Coastguard, cannot raise capital through

equity and their ability to pay competitive wages is limited. Every dollar earned must be reinvested in their mission. Their governance and reporting obligations are already extensive.

Furthermore, there is little evidence that charities distort markets. The suggestion that they use their tax-free status to undercut competitors is largely anecdotal and overstated. A comprehensive review by the Australian Productivity Commission found no compelling evidence that tax concessions provided charities with an unfair competitive advantage. On the contrary, the report noted that any perceived advantage is often offset by structural constraints unique to the charitable sector—such as restrictions on distributing surpluses, governance obligations and limited access to capital<sup>1</sup>.

We submit that the current exemption for business income used to fund charitable purposes should be retained. The financial sustainability, innovation and efficiency this supports far outweigh any potential tax revenue gains.

#### **4. Fundraising and Membership Income Should Be Excluded from Taxable Business Income (Q3 & Q4)**

Coastguard relies on a variety of income sources to sustain their work, many of which are clearly not commercial in nature, even if they involve transactions. These include:

- Fundraising events and campaigns
- Raffles and lotteries
- Sponsorships
- Membership fees or subscriptions

These activities are an essential part of community engagement and typically operate on small margins. Taxing these income streams would be burdensome and yield minimal net revenue, while discouraging grassroots fundraising efforts.

Coastguard invests significant time and effort in organising community events, running campaigns to attract and retain members, and building partnerships with corporate enterprises seeking advertising opportunities. These fundraising activities generate approximately 50% of Coastguard's income. If all of this revenue were to become taxable, expenses associated with these activities will remain unchanged. However, some of Coastguard's expenses may need to be apportioned as deductible vs. non-deductible and the overall cash position of Coastguard would deteriorate, leaving less funds available for its core charitable purposes. If no exemption is available for the government grants, then up to 90% of Coastguard's total revenue may become taxable income.

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<sup>1</sup> <sup>1</sup> Productivity Commission (2010), Contribution of the Not-for-Profit Sector, Research Report, Canberra.

We submit that to avoid ambiguity and ensure clarity, any legislative changes to charities' exemptions from income tax, should specifically exclude fundraising income and membership fees from the definition of taxable business income. We further submit that all government and other grants received by charities should be specifically exempt from income tax.

## **5. Income Distributed for Charitable Purposes Should Remain Exempt (Q5)**

In cases where charities run businesses through subsidiaries or structured entities, the profits are often distributed directly to the parent charity. These funds are then applied toward public benefit purposes, whether it be funding homelessness initiatives, scholarships, aged care, or in Coastguard's case on environmental projects.

Taxing these profits before they reach the charitable arm may effectively result in double taxation - once at the business level and again through the erosion of funds available for the charitable purpose. This would disincentivise reinvestment, disrupt funding models and penalise charities for seeking financially sustainable solutions.

Most jurisdictions that tax unrelated business income allow for relief when profits are distributed for charitable use. The OECD has noted that in many countries, income from commercial activity may be taxed. But where profits are reinvested in charitable purposes, a full or partial exemption is often granted<sup>2</sup>. New Zealand should be no different if any changes are made. The principle of "destination of income" remains important. What matters is that the funds are ultimately applied for charitable purposes.

Coastguard receives a significant portion of its income at the "head office" level, which is then distributed to local units. Any changes to the current framework would directly impact the amounts available for distribution and, in turn, the ability of units to carry out their charitable purposes.

We submit that if any change is made to tax business income, income distributed to a registered charity and applied to charitable purposes must remain tax-exempt. A practical mechanism, such as a memorandum account or tax credit scheme, could be used to track and exempt such distributions.

## **6. Fringe Benefit Tax (FBT) Exemption Should Be Retained (Q6 & Q7)**

Charities are uniquely constrained in the employment market, and this is relevant to Coastguard. They often compete with the private sector for skilled staff but cannot match salaries or performance-based incentives. The current FBT exemption allows charities to offer modest non-monetary benefits (e.g., subsidised services, wellbeing programs, parking) as a way to attract and retain talent—without compromising their mission or draining limited resources.

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<sup>2</sup> OECD (2020), *Taxation and Philanthropy*, OECD Tax Policy Studies, No. 27, pp. 57-64.

Removing this exemption would reduce Coastguards' ability to compete for qualified professionals, especially in specialist roles such as marine engineers and other sea going roles. The effect would be especially stark for charities in remote or high-need areas. It would also disproportionately affect charities with limited resources that rely on small benefits to support volunteer managers or overstretched staff.

Any tax collected through FBT would come at the expense of service delivery. For charities, every dollar paid in tax is one less dollar available for community impact.

We submit that the FBT exemption should be preserved to allow charities to remain competitive in the employment market and maintain service levels without incurring unnecessary compliance or financial burdens.

## **7. Removing the Business Income Exemption Would Substantially Increase Compliance Costs (Q8 & Q9)**

Charities currently benefit from relatively streamlined tax compliance, allowing them to direct resources toward their charitable objectives. Removing the business income exemption would require many charities to:

- Register for income tax
- File annual tax returns
- Keep detailed records distinguishing taxable and non-taxable income
- Potentially restructure their operations to meet compliance obligations
- For many charities—especially smaller ones with part-time or volunteer staff—this represents a significant increase in complexity and administrative burden.

Additionally, if different forms of revenue (such as donations, sponsorships, raffle proceeds, or membership fees) are treated differently under tax law, charities will need to adopt more complex financial systems and classification processes. This diverts resources from impact to administration.

The burden of compliance could easily exceed the potential tax revenue, especially for charities with modest trading activities. Even larger charities, while more resourced, would still incur costs to separate entities, maintain transfer pricing records, or ensure compliance across multiple reporting streams.

Coastguard is committed to transparency and its reporting obligations, and already files audited financial statements with Charities Services. The costs of producing audited accounting statements currently amount to approximately 1.5% of total revenue. The additional requirement to prepare and file income tax returns, along with the potential need to apportion expenses, would be purely administrative in nature, providing no additional benefit to Coastguard's charitable purposes.

We submit that the current exemption should be retained to avoid disproportionate compliance burdens on charities. If legislative changes are to proceed, they must include a meaningful de minimis threshold and provide clear guidance on the treatment of various income streams.

#### **8. Targeting Larger Charities for Special Treatment is Unjustified (Q10 & Q11)**

The Issues Paper hints at introducing additional rules or scrutiny for larger charities. However, this assumes that larger charities are more likely to misuse their status, which is not supported by evidence.

In fact, larger charities already undergo a higher degree of scrutiny:

- They are subject to independent audits or reviews, depending on their reporting tier.
- They file detailed financial statements and performance reports with Charities Services, which are publicly available.
- They are generally more transparent and better governed due to regulatory requirements and public expectations.

By contrast, many smaller charities fall under thresholds that don't require audit or extensive disclosure. If misuse or abuse is a concern, it should be investigated based on evidence and behaviour, not size alone. Singling out large charities would be unfair and inconsistent with the principles of good regulatory design.

We submit no arbitrary thresholds based on size be introduced. Enforcement must be based on risk and conduct, not scale i.e. an evidence-based approach to any changes.

#### **9. Regulatory Oversight, Not Tax Policy, Should Address Misuse of Charitable Status (Q12–Q15)**

Concerns about charities misusing their tax-exempt status are best addressed through stronger regulatory enforcement, not through changes to income tax law.

New Zealand already has a robust framework in place:

- Charities must be registered with Charities Services to access tax exemptions.
- They are required to report annually on their financial performance and use of funds.
- The regulator has the power to investigate and deregister charities that do not operate for public benefit.

If there are genuine concerns about accumulation of funds or “donor-controlled” charities, these can be addressed through greater transparency, clarification of reporting obligations and targeted enforcement.

Blanket tax policy changes aimed at all charities are unnecessary and risk harming the many for the sake of addressing the few.

We submit that Charities Services' enforcement and education functions should be strengthened. These channels should be used to address misuse rather than imposing new tax obligations on compliant and impactful charities.

#### **10. Removing the Business Income Exemption Will Increase Reliance on Taxpayer-Funded Support**

The current exemption for business income allows Coastguard to build independent, sustainable funding streams that reduce their reliance on government grants and ad hoc donations. These earned income models help Coastguard withstand economic shocks, adapt to changing needs and invest in long-term impact.

Removing the exemption would significantly reduce the net revenue available from these activities, particularly where margins are tight. Coastguard would be forced to:

- Reduce or close income-generating programmes
- Scale back frontline services
- Increase applications for government funding to replace lost income

Ultimately, this would shift costs from the charitable sector to the government and subsequently, rely on taxpayers' funds. Instead of charities using self-generated income to deliver services, the Government would need to directly fund services previously sustained by charitable enterprise. This would place additional fiscal pressure on the state and may lead to delays, fragmentation, or loss of responsive and critical community services.

As discussed earlier, Coastguard is a clear example of how even larger, government-partnered organisations remain heavily reliant on non-governmental support. In Coastguard's case, there is no business income in the traditional sense of the word. However, we fully appreciate how much other charitable organisations that do have such income streams rely on them to support their charitable purpose.

We submit that maintaining the current exemption for business income is fiscally prudent, as it allows charities to continue delivering services that would otherwise require government intervention and funding.

#### **11. Conclusion**

New Zealand's charities play an essential role in delivering public benefit, in many cases efficiently, innovatively and responsively. Their ability to do so relies on stable, flexible funding. The current tax settings, including the business income exemption, Fringe Benefit Tax exemptions

and the treatment of fundraising income, are crucial to sustaining this impact.

Removing the business income exemption would significantly reduce the resources charities can apply to their missions. Many, including Coastguard, would be forced to reduce services or seek increased government funding, ultimately shifting the cost-of-service delivery from charities to taxpayers. This is neither fiscally efficient nor socially responsible.

Finally, applying tax changes inconsistently, for example, applying exemption based on the size of a charitable organisation, would create a fragmented and inequitable system. Charities deserve coherent, transparent treatment under the law.

We therefore submit that the current tax settings should be maintained. If any reforms are introduced, they must be carefully targeted and designed to preserve the sector's ability to innovate and deliver long-term public benefit.

We urge officials to:

- Retain the business income exemption for charities.
- Ensure income distributed for charitable purposes remains tax-exempt.
- Preserve the FBT exemption to attract and retain qualified staff.
- Avoid imposing unnecessary compliance costs on charities.
- Maintain fairness by applying consistent rules across the sector.
- Exclude fundraising and membership income from taxation.
- Address abuse concerns through the charities regulator, not tax law.

We would be happy to discuss this submission further and provide case examples or data from the sector if required. Please contact Galina Bell of Andersen New Zealand in the first instance on s 9(2)(a)

Yours sincerely,  
s 9(2)(a)

Royal New Zealand Coastguard Inc

Andersen New Zealand Limited

# Charities taxation

March 2025



New Zealand Council Of  
Christian Social Services

## Tirohanga Whānui | Overview

The New Zealand Council of Christian Social Services (NZCCSS) welcomes the opportunity to provide feedback on the topic of taxation and the not-for-profit sector.

- We oppose the proposal to tax income intended to be used for charitable purposes and to institute Fringe Benefit Taxes (FBT) for charities.
- We urge that if the proposal proceeds, that it is carefully scoped to ensure that resources are maintained to support vulnerable New Zealanders.

## Whakaaro | Discussion

### The proposal would impact charities providing vital community services

New Zealand has high rates of social need that are increasing due to the current cost of living pressures and increasing unemployment [1]. This has very real impacts in terms of human suffering and reduced life chances, including for children and the elderly. Ministry of Health data show that in 2024, in our fair country, 1 in 4 children often or sometimes go without food [2]. This is not acceptable.

NZCCSS represents organisations who are responding to the increasing need and complexity of individuals and families across Aotearoa New Zealand. NZCCSS has more than 100 member organisations providing community social services from the Anglican Care Network, Baptist Churches of New Zealand, Catholic Social Services, Presbyterian Support, the Methodist Church and the Salvation Army.

Nationally, the range and scope of our member networks is extensive, delivering services in most towns and cities throughout New Zealand. Our members employ around 5,000 full-time staff, 6,400 part-time staff and coordinate around 2.4 million volunteer hours each year. Together they have an annual expenditure of more than \$1 billion.

Our members aim to advance a just and compassionate New Zealand by supporting people experience need in our communities. This includes support related to:

- Addiction and mental health
- Aged care and home help
- Bereavement
- Child and family social services
- Childcare
- Disability
- Employment
- Family violence, victim support and anger management
- Food banks, budgeting and other basic needs
- Health services
- Social housing and emergency accommodation



- Youth services and mentoring.

Most of this support is offered free or at low cost. Many of our members partially fund these supports with income from activity that could be deemed in scope of 'unrelated business activity'. This includes:

- Op shops
- Early childhood education
- Counselling services
- Accommodation, include social housing, disability and residential support services
- Aged care and retirement villages
- Adventure activities and youth programmes
- Social enterprises, such as for adaptive clothing, or supported employment.

The income generating activities of our members are strongly related to their charitable purposes. For example, an op-shop is a practical way to help people with low-incomes afford quality second-hand clothing and household goods as well as a potential source of fundraising income.

The lack of income tax on these activities allows charities to maximise their charitable activities and minimise their reliance on government contracts, direct donations and passive income sources.

Many of our members also benefit from the exemption from the Fringe Benefit Tax. They use it to attract and reward mission orientated staff willing to work at comparatively low rates, by offering other benefits such as the private use of a work vehicle. This enables them to keep their staffing costs low, freeing up resources for their charitable purposes.

### **The proposal would harm vulnerable New Zealanders**

If the proposal is workable (discussed below), taxation of charities' 'unrelated business income' and application of Fringe Benefit Tax to those working for charities would reduce the resources available to the charitable sector to achieve charitable purposes.

The charitable purposes that would be impacted for our members and the wider social sector are those mentioned above of feeding the hungry, housing the unhoused, comforting the grieving, supporting those experiencing mental illness and family violence, helping parents avoid their children going into state care and helping low-income older people live lives of dignity.

Every day our members are walking alongside struggling New Zealanders. Reducing the resources available to provide this support would harm the most vulnerable New Zealanders. Many social sector organisations operate with narrow margins, the proposal could threaten their viability, further reducing the supports available to communities.

**Recommendation 1:** We recommend that this proposal does not proceed. It risks significant negative impacts on vulnerable New Zealanders by removing resources for community support.

**Recommendation 2:** If these proposals proceed, we urge that they are carefully scoped to avoid reducing the resources available to deliver community social services.

### **The proposal would likely harm the taxpayer**

The government's social investment approach is building towards better decision making about where to invest for the best possible outcomes. The proposal would remove resources from charities

delivering social services in a way that is very ad hoc and not in line with the social investment approach.

Government funding for social services is frequently below the true cost of both contracted delivery and the scale of delivery needed to meet community needs, relying on charities to be able to bring their own resources, including volunteers, to respond to social problems [3].

Often charities can also deliver preventative social services effectively and reach those who otherwise may not receive support. Some New Zealanders may be apprehensive of government services, but charitable community organisations can form effective trusted relationships that support positive change and deliver social impact.

There is a broad literature suggesting that social services can deliver positive returns on investment in improved outcomes and avoided future social costs. Whether this is the improved life chances support can achieve for a child born into a struggling family, or aged care effectively keeping the elderly out of expensive hospital beds.

If charities have reduced resources to deliver community support, this is likely to require some replacement activity by government. However, the total amount of support available would likely decrease. This would result in:

- new increased direct costs, from replacement activity
- less effectiveness for the total invested, to the extent that the community sector can be more cost-effective
- increased future costs to society and government from the reduction in total effective support.

These would be experienced directly by New Zealanders in increased costs and indirectly by increased social issues and needs around them and their communities.

**Recommendation 3:** We urge officials to clearly communicate to Ministers the credible risks of increased fiscal and social short-term and future costs to New Zealand if these proposals impact social services.

### **The proposal will result in confusion, compliance burdens and low revenue gathering**

The proposal aims to increase tax revenue. However, on the face of it, the proposal is likely to be unworkable, resulting in very limited revenue gathering.

The paper specifically notes that 'unrelated business income' may to be able to avoid tax by distributing it for charitable purposes (2.30 - 2.35). This distribution already happens in most cases.

We have also received advice that charities may be able to move their 'unrelated business' income into a company structure and reduce taxable income from unrelated business income by some combination of charitable donation deductions, interest payments and management fees back to the charity [4].

It therefore does not seem as though the proposal is likely to achieve its purpose of increasing government tax revenue.

The scope of what counts as unrelated business income is unclear in the discussion document. There are likely to be difficulties in clarifying this scope. The charitable sector is diverse and as noted for our members, many 'unrelated business activities' can be reasonably linked to a charitable

purpose in some way. This could result in significant confusion, and litigation and compliance costs in determining the tax outcomes.

The proposal is likely to create compliance burdens on a wide scale. The increased compliance will require time and money, reducing the resources available to help struggling New Zealanders. Smaller charitable entities will bear the brunt of compliance costs and likely bear any resulting taxation where restructuring their activities is impractical.

**Recommendation 4:** We urge officials to clearly communicate to Ministers the risk that the proposals are ineffective and may fail to attract significant new revenue but will impose significant compliance costs on charities.

### **The proposal is the wrong solution, to an unclear policy problem**

It is unclear what problem this proposal is seeking to solve, beyond pure revenue gathering. Noting the intention of the wider review (1.5), we recommend rigorous cost benefit analysis including both the fiscal and social implications of potentially removing hundreds of millions of dollars out of the social sector.

There is a lack of an evidenced need for change, and it is unclear what the scale of the issue is. The discussion document makes a good case that the status quo is not creating competition problems (2.12). If it is just a few bad actors, then the answer is greater enforcement of the current settings rather than changing them.

**Recommendation 5:** We urge a reconsideration of the policy goal and a more rigorous analysis of potential options to achieve it.

### **Rārangi pātai | Discussion questions**

Below we've answered specific discussion paper questions, reiterating some of the points we have made above.

#### **Charities business income tax exemption**

*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?*

New Zealand has high rates of social need that are increasing due to the cost-of-living pressures and increasing unemployment [1]. This has very real impacts in terms of human suffering and reduced life chances, including for children and the elderly.

Our members aim to advance a just and compassionate New Zealand by supporting people experience need in our communities. They do this by feeding the hungry, housing the unhoused, comforting the grieving, supporting those experiencing mental illness and family violence, helping parents avoid their children going into state care and helping low-income older people live lives of dignity.

Tax free charity business income enables our social service members to better resource their work with the most vulnerable New Zealanders and minimise their reliance on government contracts, direct donations and passive income sources. Removing these resources will directly reduce the amount of support we can provide to struggling people and families.

We strongly urge an in-depth exploration of the scale of the impact of any changes, including the likely short-term flow-on impacts for a need for increased government funding, and the future costs of reduced life chances on those who would otherwise have been supported.

We oppose the proposal to tax income intended to be used for charitable 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?*

If the tax changes impact social services, it will result in less support available to vulnerable New Zealanders in their communities. For struggling people and families, this will result in avoidable hardship and suffering. This will likely also increase costs to the taxpayer now and in the future.

It will reduce the ability of social services to deliver support by reducing resources to hire and retain staff, to source accommodations for staff and clients, and to invest in research and innovation. Practically this may require layoffs of social support workers, higher caseloads, lower wage and benefit packages, and challenges competing for staff. Organisations may defer maintenance and reduce investment in training and continuous improvement.

Flow on costs for government of reduced social support are likely. Replacing some of this support will be unavoidable, for example elderly people requiring hospital care where they otherwise would have been able to stay in the community. In other instances, there may be long term impacts that impact the wellbeing and productivity of people, and New Zealand as a whole.

The proposal is likely to create compliance burdens on a wide scale. The increased compliance will require time and money, reducing the resources available to help struggling New Zealanders. Smaller charitable entities will bear the brunt of compliance costs and likely bear any resulting taxation where restructuring their activities is impractical.

*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?*

We urge that all settings are carefully scoped to avoid reducing the resources available to deliver community social services.

In the case of the criteria for an 'unrelated business', this could be achieved in most cases by excluding activity where some link can be made between the business activities and the charitable purpose.

Most of the income generating activities of our members are related in some form to their charitable purposes. For example, an op-shop is a practical way to help people with low-incomes afford quality second-hand clothing and household goods as well as a source of income. Having control of an op-shop means that the local social service can easily donate quality goods to their clients as needed. This clearly relates to the charitable purpose of alleviating poverty.

We recommend the following activities are defined as 'related', rather than 'unrelated' business activities:

- Op shops
- Early childhood education for low-income families
- Low-cost counselling services
- Community social housing
- Disability and other residential support services (incl. addiction treatment)

- Aged care and retirement villages
- Adventure activities and youth programmes targeted at disadvantaged and struggling young people
- Social enterprises, such as for adaptive clothing, or supported employment, including for disabled people and disadvantaged and struggling young people.

*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?*

We strongly agree that charity business income distributed for charitable purposes should remain tax exempt. In this case, the simplest approach would be for all income distributed for a charitable purpose to remain tax exempt. A more complicated approach would be to exempt tax specifically for the charitable purpose of relief of poverty.

As outlined in the discussion document (2.31), the sector has clearly communicated in the past that there are many good reasons that charities could need to accumulate capital. We recommend ensuring that this remains possible, and that additional complexity is avoided in this space.

If the tax changes impact charitable social services, it will have a significant impact on the wellbeing of New Zealanders. For struggling people and families, this will result in avoidable hardship and suffering. This will likely also increase costs to the taxpayer now and in the future.

### **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?*

Removing the FBT exemption for charities would significantly increase staffing costs for social services who use fringe benefits to attract and retain staff. These increased costs will come at the direct cost of reduced support available to struggling New Zealanders.

If the tax changes impact charitable social services, it will result in less support available to vulnerable New Zealanders in their communities. For struggling people and families, this will result in avoidable hardship and suffering. This will likely also increase costs to the taxpayer now and in the future.

We oppose the proposal to institute FBT for charities.

### **Ngā Tohutoro | References**

[1] The Salvation Army *State of the Nation 2025: Kai, Kāinga, Whānau | The Basics—Food, a Home, Family*. Access March 2025. Available: [www.salvationarmy.org.nz/SOTN2025](http://www.salvationarmy.org.nz/SOTN2025)

[2] Ministry of Health Manatū Hauora. 'Health Survey 2024—Annual Data Explorer.' *Children Topic: Household food insecurity*. Accessed March 2025. Available: <https://www.health.govt.nz/publications/annual-update-of-key-results-202324-new-zealand-health-survey>

[3] Chevalier-Watts, J. & Scrimgeour, F. University of Waikato. *The viability of some charities could rest on how they're taxed – we should be cautious about changing the rules*  
<https://theconversation.com/the-viability-of-some-charities-could-rest-on-how-theyre-taxed-we-should-be-cautious-about-changing-the-rules-251137>

[4] Personal communication. Mike Shaw, Tax advisor. March 2025.

[5] SPCA op shops generate around \$7 million in profits for animal care. *Taxing charities' business income would have 'devastating' impact on communities.*  
<https://newsroom.co.nz/2025/01/16/taxing-charities-business-income-would-have-devastating-impact-on-communities/>

### **Ko wai tātou | Who we are**

NZCCSS has six foundation members; the Anglican Care Network, Baptist Churches of New Zealand, Catholic Social Services, Presbyterian Support and the Methodist and Salvation Army Churches.

Through this membership, NZCCSS represents over 100 organisations providing a range of social support services across Aotearoa. Our mission is to call forth a just and compassionate society for Aotearoa, through our commitment to our faith and Te Tiriti o Waitangi.

Further details on NZCCSS can be found on our website - [www.nzccss.org.nz](http://www.nzccss.org.nz).

### **Ingoa whakapā | Contact Name**

**Alicia Sudden**   [ceo@nzccss.org.nz](mailto:ceo@nzccss.org.nz)  
Daniel Campbell

**From:** Adele Vannathy s 9(2)(a)  
**Sent:** Monday, 31 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.

To whom it may concern

I am writing in my capacity as a Pastor of a church, Hosanna Baptist Church in Cannons Creek, Porirua.

Porirua is an area of great diversity – many cultures, both ends of the socio-economic spectrum. Cannons Creek is at the heart of the area of socio-economic deprivation.

Churches can currently apply to be a charity and become exempt from GST.

My concern is that there doesn't seem to be a clear definition of 'business activities' and 'public benefit.'

The majority of our income is in donations ('tithes and offerings'). Would that be considered to be raising funds through business activities? If this income were to be taxed – it would plunge many small and medium sized churches into serious financial difficulty. We are already coping with high costs of compliance, insurance for example has skyrocketed in the last 5 years. Our own insurance has gone from \$17,000 in 2020 to \$47,000 in 2025. Anecdotaly, I have heard many stories of churches having had their income drop as well during this cost of living crisis. As people's income is affected, our income as churches is affected, because it is voluntary donations.

Some of our income is from hire of our building to local schools for their school productions. We charge well below what the building would be worth to hire commercially, as a service to the school. If this were to be taxed, we would end up passing the additional charge in on to schools.

Some may consider that churches do not generally provide 'public benefit.'

In our case, we run a small foodbank, and a couple of big community events per year – for example at Halloween when we have lots of free activities and giveaway free lollies prizes, and have a food stall that sells food below market value – to make an affordable family evening out for families in our socio-economically deprived neighbourhood.

However I would argue that even in the absence of specific public benefit activities, churches do provide a benefit to the fabric of society. Spiritual wellbeing contributes to overall wellbeing. Emotional wellbeing contributes to wellbeing. Churches when they are functioning well provide a place of safety, a place of belonging, a place of care, and connection. They are places where there is emotional and spiritual support and healing. Where relationships get reconciled. People who have struggled with (for example) addiction can find connection with people. Small groups which meet through the week provide a rhythm and a place and space for people to connect and keep occupied

in ways which are constructive rather than destructive. The opportunity to serve within churches gives people a sense of purpose and enhances mana.

**Donation tax concessions**

It would make sense that Inland Revenue could collect the data from done organisations to pre-fill DTC claims, provided the system for data collection is not cumbersome and time consuming to use.

Thank you for your consideration of these issues,  
Grace and peace  
Adele Vannathy, Lead Pastor, Hosanna Baptist Porirua





31st March 2025

David Carrigan  
Deputy Commissioner, Policy  
Inland Revenue  
C/- [policy.webmaster@ird.govt.nz](mailto:policy.webmaster@ird.govt.nz)

**Feedback on the taxation and the not-for-profit sector officials' issues paper**

Dear Mr Carrigan,

Thank you for providing the opportunity to provide feedback on the proposals for changes to the taxation of not-for-profit and charitable entities.

Amberley Rugby Football Club Incorporated has been a cornerstone of our local community for 145 years, delivering not only rugby but also social and community development. Our mission extends beyond the rugby field. We enrich lives, promote well-being, and drive positive societal change.

While the “Q and As” published by IRD mention that it is not expected that bodies promoting amateur games and sport will be affected by the proposals we would still like to take the opportunity to make a submission that this income tax exemption should remain as is.

**The Economic and Social Value of Grassroots Rugby Clubs**

Rugby is not just a sport in New Zealand – it is part of our national identity and contributes significantly to the economy and society. As one of the more than 470 grassroots rugby clubs in New Zealand, we play a crucial role in fostering community engagement, social connection, and personal development.

Our club, like many others across the country, provides a space where individuals of all ages and backgrounds can come together, engage in physical activity, contribute to their local community and form lifelong friendships and support networks.

Beyond playing rugby, we hold community events for the local North Canterbury Schools, funerals, youth dance classes, summer touch, Hurunui Youth Program, The Amberley A&P Show and other community group meetings such as Loins foundation, Cricket club, Pony Club and the Soccer club. These activities bring

communities together and generate economic activity for local businesses throughout the year, not just on game day.

### **The Importance of Retaining the Income Tax Exemption for Amateur Sport**

The current income tax exemption for bodies promoting amateur games and sport ensures that we can remain financially viable. Removing this exemption or imposing income tax on our membership fees would:

- significantly reduce the funding available for clubs to provide community programs, purchase equipment, maintain facilities, and support player development.
- create an administrative burden for us as a volunteer-run organisation, diverting time and resources away from our core activities; and
- lead to increased costs for participants, which could disproportionately impact those from lower-income backgrounds and reduce youth participation in rugby especially in the current cost of living crisis.

Preserving the current income tax exemptions is essential for sustaining the economic and social benefits they provide. Amberley Rugby Football Club Incorporated remains committed to enriching our community, and we urge the Government to consider the profound implications that changes to tax exemptions would have on grassroots organisations like ours.

Grassroots rugby is a cornerstone of New Zealand's social and economic fabric, and its contribution must be recognised and protected in any tax policy changes.

Yours sincerely,

Brendon Esler  
Club President  
Amberley Rugby Football Club  
s 9(2)(a)



## Submission regarding possibility of income tax being levied on subscription and other income and the 'simplification' of honoraria payments to volunteers.

### Background

#### The Photographic Society of NZ Inc (PSNZ).

We are an association of amateur photographers who pursue their hobby for private enjoyment. PSNZ relies on the income it receives from its members and term deposits to provide as wide a range of activities as possible to benefit members. Our aim is to help photographers to grow in the knowledge and understanding of the hobby of photography. We run activities such as workshops, trips to different parts of NZ to take advantage of local areas of interest, conventions where we bring in national and international speakers (if possible), charging members as low a fee as possible to ensure as many members as possible can attend.

It should be noted that a large proportion of our membership is people in their senior years for whom photography is their main recreational activity and now that they have retired, are able to spend a lot more time on it, despite income restrictions for many. It is also a hobby that suits many in their less physically active years because it can be of low impact on their mobility, an important feature for most senior citizens.

### Point one – taxing Society income

#### *Policy framework*

- 4.3 NFPs are generally subject to income tax under the broad-base, low-rate policy framework. There are three exceptions:
- NFPs that qualify for a specific income tax exemption (such as the exemption for registered charities or the exemption for bodies promoting amateur games and sport),
  - NFPs that have net income of no more than \$1,000, provided their constitution prohibits them from distributing property to members (this concession is intended to reduce compliance costs for small NFPs), and
  - NFPs that are permitted by their constitutions to make distributions to members can reduce their taxable income to the extent they distribute profits on member transactions back to members as a rebate. This tax concession provides a similar result to what would otherwise be provided under the common law mutuality principle.<sup>12</sup>

#### *Reason for review*

- 4.4 Many NFPs are mutual associations, that is, a body or association of people acting together to further an objective, which is often to provide benefits to members. Mutual associations supply or receive goods or services to or from members. Examples of mutual associations include clubs, societies, trade associations, professional and regulatory bodies, and industry councils.

If the income received by the PSNZ from its members by way of subscription or other services provided by the PSNZ were to be taxed, it would have a serious flow on effect to our members by having to **reduce** services or subsidies. This would mean that our members would not have the same level of

access to the enjoyment of their recreational hobby. Our income varies from year to year, sometimes in fact making a loss on the activities we provide, which means we need to draw on our reserves or raise subscriptions. In addition, our organisation is run by volunteers who willingly give up their time to ensure the PSNZ is able to operate effectively, there are no paid employees, and to impose a tax would require further administrative work and knowledge, much of which may be beyond the skills of the volunteers involved.

## Point two - Tax Simplification

### **Volunteers**

- 4.30 Officials are interested in ways to lower tax-related compliance costs for volunteers. One issue we are aware of relates to the tax treatment of honoraria.
- 4.31 Honoraria payments are given as a token of appreciation for voluntary services or contributions. They are not a contractual obligation but rather a gesture of gratitude, and the amount is not necessarily tied to the market value of the service provided.
- 4.32 Honoraria are treated as schedular payments for tax purposes. This means several compliance cost issues arise, such as requiring volunteers to account for ACC levies.
- 4.33 Simplifications were introduced from 1 April 2019 for volunteers for Fire and Emergency New Zealand (FENZ). This means volunteers are treated as receiving salary or wages, which can reduce tax compliance costs for volunteers.

We pay a small honorarium to those who provide services or do the administrative work of the Society. While we pay withholding tax on such honoraria because they are considered schedular payments by the IRD and therefore subject

to ACC levies paid by the individual, this small inconvenience far outweighs the extra work that would be involved by treating our volunteers as employees and all the relevant costs involved with that. Again, the volunteers who run our Society will not necessarily have the skill set to be able to be employers with all the responsibilities that brings on board.

**Accordingly the Photographic Society of NZ Inc opposes the introduction of income tax on subscription or other income received by the Society used solely for the benefit of members. The Society also opposes the introduction of any simplification that means volunteers are treated as receiving wages or salary as this would negatively affect the administrative work carried out by volunteers.**

On behalf of the Council and Membership of the PSNZ

Caroline Ludford

**President**

**Photographic Society of NZ Inc**

**March 31 2025**

31 March 2025

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

Submitted via email to: [policy.webmaster@ird.govt.nz](mailto:policy.webmaster@ird.govt.nz)

Tēnā koe Deputy Commissioner, Policy

### **Submission on Taxation and the not-for-profit-sector**

Thank you for the opportunity to submit on the officials issues paper, Taxation and the not-for-profit sector issued on 24 February 2025.

#### **Introduction**

1. This submission is presented by Ember Wellbeing Trust (EWT) the parent entity of a charitable group of five charities which provides vital mental health and addiction services and support.
2. EWT welcomes the opportunity to provide feedback on the Inland Revenue Department's (IRD) issues paper, "Taxation and the not-for-profit sector" (hereafter referred to as "the issues paper"). We recognise the importance of a fair and effective tax system and the need for ongoing consideration of the interaction between taxation and the not-for-profit sector.
3. However, we have significant concerns regarding several of the proposals outlined in the issues paper, which we believe, if implemented, would have profoundly negative consequences for the Ember group entities and, critically, for the vulnerable individuals and communities we serve.

Our submission draws heavily on the expert analysis provided by Sue Barker Charities Law in their submission on this matter. We concur with their assessment that the issues raised are complex and far-reaching, necessitating careful consideration of potential consequences and thorough consultation.

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51 Huia Road, Otahuhu, Auckland, 1062



## **The Vital Role of the Mental Health and Addiction NGO and Community Sector**

4. The charitable sector in Aotearoa New Zealand plays an indispensable role in addressing a wide range of societal needs, including health and social investment. **Organisations within the mental health and addiction NGO and community sector are a crucial component of this, providing essential services, support, and advocacy that are often not fully met by government funding or private enterprise.** Ember group entities and staff work tirelessly to support individuals experiencing mental distress, those struggling with addiction, and their whānau, contributing significantly to community wellbeing.
5. As highlighted by Sue Barker Charities Law, the charitable sector's contribution extends beyond direct service provision to encompass broader societal benefits such as social capital, social cohesion, and community wellbeing. In the context of mental health and addictions, our members foster supportive networks, reduce stigma, and promote understanding, all of which are vital for a thriving and inclusive society.
6. Many charities, often operate with limited resources, relying on a combination of government funding, philanthropic grants, community fundraising, donations and, in some cases, income generated from business activities related to their charitable purposes. The proposals in the issues paper have the potential to undermine these crucial income streams and increase operational burdens, ultimately impacting the availability and quality of mental health and addiction NGO and community services across the country.

## **Concerns Regarding the Taxation of Business Income**

7. The taxation of **business income** of charities that are “**related**” to their **charitable purposes** should **remain tax exempt from income tax**. In the mental health, addictions and disabilities sectors the government funding is at the low end for community providers when comparing to like positions / services provided by like government agencies eg Health New Zealand Te Whatu Ora services. In fact, the Ministry of Social Development states that their funding is a contribution to the real costs of delivering community services. The income tax exemption provides another way of funding community services and levelling the playing field.

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51 Huia Road, Otahuhu, Auckland, 1062

8. The “second-order” imperfections in the income tax system are real, but EWT considers them to be mostly immaterial and not warranting taxation of charity business income.
9. The issues paper raises the possibility of taxing the business income of charities that is deemed “unrelated” to their charitable purposes. Many charities undertake activities that could be classified as unrelated business income to support their core charitable work. This might include social enterprises that provide employment opportunities for individuals with mental health challenges or addiction issues, or the sale of goods or services that directly align with their mission and generate revenue for reinvestment.
10. If the tax exemption is removed for charity business income that is unrelated to charitable purposes, the most significant practical implication would be the **reduction in funding available for direct service delivery**, support programmes, and advocacy efforts. This could lead to a contraction of essential services at a time when demand for mental health and addiction support is significant and growing.
11. Furthermore, as Sue Barker Charities Law argues, **the proposal overlooks the comprehensive transparency and accountability framework already in place for registered charities in Aotearoa New Zealand**. Charities are subject to the Charities Act 2005, which requires them to register, disclose their charitable purposes, and comply with financial reporting standards. This framework ensures public scrutiny of their operations and the appropriate use of their funds. Imposing a new layer of taxation based on a potentially narrow interpretation of “related” business income seems unnecessary and unduly punitive.
12. **Further consultation is needed to define what is a “unrelated business”**. EWT agrees with the issues paper that the legislation and associated guidance should be clear. Considering international precedents and adding a kiwi flavour would assist in developing a workable definition.
13. Any tax change should not add a disproportionate compliance cost on small-scale business activities who may not have the resource to comply. EWT

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advocates using the existing financial reporting tier system as a threshold which would exempt SME sized charities.

### **Opposition to Mandatory Minimum Distribution Requirements**

14. The issues paper touches upon the accumulation of funds by charities and the potential for minimum distribution requirements. EWT strongly opposes the notion that accumulating funds is inherently problematic or indicative of a failure to apply those funds for charitable purposes. **For organisations in the mental health and addiction and community sector, accumulating funds can be a prudent and necessary practice for several reasons.**
15. Most charities need to build reserves to ensure the long-term sustainability of their services, particularly in the face of unpredictable government funding cycles, and increased demand during times of unexpected crisis causing temporary loss of income or funding. Accumulating funds may also be necessary for planned expansions of services, the development of new programmes, or the acquisition of essential assets to better serve their communities. As Sue Barker Charities Law notes, there can be many legitimate reasons for a charity to accumulate funds in the best interests of its charitable purposes.
16. Imposing mandatory minimum distribution requirements, as considered in the Department of Internal Affairs' earlier policy paper, could force mental health and addiction NGO charities to distribute funds prematurely, potentially jeopardising their long-term stability and their ability to respond effectively to future needs. This would represent an unwarranted intrusion into the operational decisions of independent charitable organisations.
17. We concur with Sue Barker Charities Law's argument that **the underlying assumption that charities do not further charitable purpose until they distribute funding is misconceived and represents a fundamental lack of understanding of the fiduciary duties to which all registered charities are subject.** The trustees and officers of charities have a legal and ethical responsibility to act in the best interests of their charitable purposes, which

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- includes making informed decisions about the management and application of their funds. These duties already provide a robust mechanism for ensuring funds are used appropriately.

### **The Importance of the Independence of Charities**

- 18. The independence of charities from government influence is paramount in a democratic society. As Sue Barker Charities Law rightly states, just as the Inland Revenue Department does not dictate how businesses should operate, the legal and policy settings should not dictate how charities further their charitable purposes. **This independence is particularly crucial for organisations in the mental health and addiction NGO and community sector, who often play a vital role in advocating for the rights and needs of their service users and challenging systemic issues which can contribute to worsening mental wellbeing and addiction.**
- 19. Policy settings that could be perceived as incentivising charities to align their activities too closely with current government priorities could undermine their ability to act as independent voices and to address emerging or unmet needs within the community. The strength of the charitable sector lies in its diversity and its capacity to respond flexibly to the evolving needs of society, where direct government services are unable to.

### **Transparency and Accountability are Already Robust**

- 20. As highlighted by Sue Barker Charities Law, Aotearoa New Zealand charities already operate within a comprehensive framework of transparency and accountability. The Charities Register provides public access to key information about registered charities, including their charitable purposes, financial statements, and governing documents. This public scrutiny, combined with the legal duties of charity officers, provides a significant level of assurance that charitable funds are being used appropriately.
- 21. EWT agrees with Sue Barker Charities Law that **any concerns about the operation of individual charities, including those in the mental health and addiction NGO and community sector, can be addressed through the existing regulatory framework and the enforcement of fiduciary duties.**

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The introduction of additional layers of regulation or taxation, based on unsubstantiated assumptions about the sector, is likely to create unnecessary complexity and divert resources away from core charitable activities.

### **Concerns Regarding Fringe Benefit Tax (FBT)**

22. The issues paper once again raises the potential removal of the FBT exclusion for charitable organisations. EWT strongly opposes this proposal. **The FBT exclusion is a vital support for charities, including those in the mental health and addiction NGO and community sector, helping them to attract and retain qualified staff** in a competitive labour market. As community services are underfunded, the provision of FBT exemption provides a source of funding which levels up the playing field for charities.
23. Removing the FBT exclusion would increase the operating costs for charity organisations, potentially impacting their ability to offer competitive remuneration packages and leading to difficulties in recruiting and retaining the skilled professionals necessary to deliver high-quality mental health and addiction services. This would ultimately harm the individuals and communities who rely on these services. We concur with Sue Barker Charities Law's assessment that concerns about the FBT exclusion creating a "competitive advantage" for charities appear overstated, given the significant challenges the sector faces in attracting and retaining staff.

### **Impact of Increasing Regulatory Burdens and Piecemeal Amendments**

24. EWT shares the concerns expressed by Sue Barker Charities Law regarding the increasing regulatory burdens and the trend of piecemeal amendments to the Charities Act. The Charities Amendment Act 2023 is a recent example of legislation that was enacted despite significant concerns from the charitable sector regarding inadequate consultation and a lack of evidence to support the changes.
25. **Such increasing regulatory complexity places a significant administrative burden on NGO and community organisations**, many of whom operate with limited administrative capacity. This can divert valuable resources and focus away from their core charitable purposes – providing mental health and

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addiction support. A stable and well-considered regulatory environment is essential for the sector to thrive and to continue its vital contribution to community wellbeing.

## **Conclusion and Recommendations**

26. In conclusion, EWT has significant concerns about several of the proposals outlined in the issues paper. We believe that the taxation of business income deemed "unrelated", the potential introduction of mandatory minimum distribution requirements, and the possible removal of the FBT exclusion would all have detrimental effects on the mental health and addiction NGO and community sector in Aotearoa New Zealand.

27. **We urge the Inland Revenue Department to carefully consider the potential negative consequences of these proposals on the financial viability, operational flexibility, and overall effectiveness of charitable organisations providing essential mental health and addiction services.**

We strongly believe that the existing framework of the Charities Act 2005, with its emphasis on registration, transparency, accountability, and the fiduciary duties of charity officers, provides an appropriate level of oversight for the sector.

28. We support the recommendations made by Sue Barker Charities Law in their submission, which advocate for a considered and evidence-based approach to any potential reforms, with meaningful consultation with the charitable sector.

**We specifically recommend that the Inland Revenue Department:**

- a) **Retain the current tax exemption for the business income of charities**, recognising the importance of this income stream for supporting charitable purposes, including within the mental health and addictions sector.
- b) **Not pursue the introduction of mandatory minimum distribution requirements for charities**, acknowledging the legitimate reasons for fund accumulation and the robust existing framework of fiduciary duties.
- c) **Maintain the FBT exclusion for charitable organisations**, recognising its importance in enabling these organisations to attract and retain essential staff.

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- d) **Prioritise a stable and well-considered regulatory environment for charities**, avoiding piecemeal amendments based on inadequate consultation and evidence.
  - e) **Work closely with the Department of Internal Affairs – Charities Services and the charitable sector itself** to better understand the unique challenges and contributions of different parts of the sector, including mental health and addiction service providers.
  - f) **Ensure thorough and meaningful consultation** with the charitable sector, adhering to the Generic Tax Policy Process, before any decisions are made regarding changes to the tax treatment of not-for-profit organisations.
29. EWT is committed to working constructively with the IRD and the government to ensure a tax and regulatory environment that supports a thriving charitable sector, enabling charities to continue their vital work in promoting mental health and wellbeing and supporting those affected by addiction in Aotearoa New Zealand.
30. EWT would welcome the opportunity to discuss the points raised in this submission further.

Ngā mihi,

s 9(2)(a)

Spencer Beazley

**Chief Financial Officer**

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51 Huia Road, Otahuhu, Auckland, 1062



31 March 2025

Deputy Commissioner, Policy

Inland Revenue Department

PO Box 2198

Wellington 6140

**By email: [policy.webmaster@ird.govt.nz](mailto:policy.webmaster@ird.govt.nz)**

**Re: Taxation and the not-for-profit sector**

Thank you for the opportunity to provide feedback on the Inland Revenue's *Taxation and the not-for-profit sector* issues paper (February 2025).

Melanoma New Zealand is opposed to the prospective taxation of charities' "unrelated business income" and the prospective removal or restriction of the fringe benefit tax (FBT) exemption for charities. Melanoma New Zealand submits that the current settings should remain unchanged.

### **Background about Melanoma New Zealand**

New Zealand has one of the highest skin cancer incidence and mortality rates in the world, with eight out of every ten cancers being diagnosed as skin cancer.

Melanoma New Zealand is the only charity in New Zealand solely dedicated to championing the prevention and early detection of melanoma and providing support to melanoma patients and their families.

Melanoma New Zealand does not receive Government funding and has to undertake a range of fundraising and income-generating activities in order to fund its charitable work.

Our nationwide work includes providing skin cancer education and skin cancer spot checks, running public awareness communications and campaigns on melanoma prevention and early detection, funding melanoma research, undertaking advocacy initiatives to improve health outcomes and patient care, and providing support (eg via our Nurses and Counsellor) and resources for melanoma patients and their families.

It is unclear from the issues paper if any of the fundraising or income-generating activities we currently undertake (or might wish to undertake in future) would be considered “unrelated business income”, albeit these activities are in place to support/reinvest into Melanoma New Zealand’s charitable work. Taxing this income would reduce Melanoma New Zealand’s funds and therefore restrict or prevent our ability to deliver lifesaving work and support across the country.

## **Key submission points**

### **1. The current charity income tax exemption settings should not be changed**

- a) In considering the continued tax-exempt treatment of charities’ business income, including “unrelated” business income, the public benefit of the services provided by charities such as Melanoma New Zealand that may be supported by such business income should be taken into account. The issues paper does not take into account the public benefit of charities’ services. It refers to the exemption of charities’ business income as a fiscal cost and a burden on other taxpayers, but the exemption is a fiscal gain and benefit to other taxpayers once the public benefit of charities’ services is taken into account.
- b) If there is a concern about some charities that derive tax-exempt business income not delivering public benefit because they do not use the income for their charitable purposes, or because of the nature of their charitable purposes, then that should be the specific target of any review, not taxing other charities’ business income.
- c) Changing current, straightforward charity income tax exemption settings would also potentially give rise to significant complexity, uncertainty, and compliance and transitional costs for charities such as Melanoma New Zealand, without necessarily generating much tax revenue, ie the deadweight loss would be significant.


## **2. The current FBT exemption for charities should not be changed**

- a) The FBT exemption effectively lowers charities' costs in relation to remunerating their employees with some fringe benefits included. This is an important form of support for charities, in circumstances where they have limited resources to remunerate, and therefore attract and retain, staff. Fringe benefits may also be delivered without significantly cutting into charities' financial resources (eg, benefits such as access to a charity's services, sponsored benefits such as a car or discounts provided by a sponsor).
- b) The importance of the support provided by the exemption is highlighted, for example, by Community Governance Aotearoa's current campaign to not only continue but enhance tax-effective remuneration packaging by charities to help them attract and retain staff. Australia also has generous remuneration packaging and FBT exemption rules to support charities in Australia.
- c) The current FBT exemption is also very limited. It does not apply to employees mainly employed in any business activities unrelated to a charity's charitable purposes, and short-term charge facility benefits are tightly capped.
- d) Once the public benefit of the services provided by charities such as Melanoma New Zealand is properly taken into account, the current, limited FBT exemption providing support to such charities is a fiscal gain, not a fiscal cost, for the government and a benefit, not a burden, to other taxpayers.

Please feel free to contact me should you wish to discuss this submission further.

Yours sincerely

s 9(2)(a)



Andrea Newland

Chief Executive, Melanoma New Zealand

David Carrigan  
C/- Deputy Commissioner, Policy  
Inland Revenue Department  
By email: [policy.webmaster@ird.govt.nz](mailto:policy.webmaster@ird.govt.nz)

31 March 2025

Dear David

**RE: Submission on Taxation and the Not-for-Profit Sector Issues Paper**

Thank you for the opportunity to provide feedback on the proposed changes to charities tax law. While we support a fair and transparent tax system, the Cancer Society strongly opposes these reforms. There is no compelling reason to tax charity business income, and the few instances of abuse could be addressed through better enforcement of existing rules rather than imposing broad, unnecessary changes.

Charities are already heavily regulated and adding further compliance burdens—without clear benefits—will only reduce our ability to deliver vital services to the communities we serve. Increased regulatory costs will divert resources away from frontline support, undermining the very purpose of charitable organisations.

We urge policymakers to reconsider these changes and instead focus on targeted solutions that address specific concerns without penalising charities. Instead of broad taxation changes, we recommend:

1. Clearly defining unrelated business income to eliminate uncertainty and ensure charitable activities are not unfairly taxed.
2. Retaining New Zealand's simple tax system for charities, ensuring sustainability and continued support for social needs.
3. Maintaining the current FBT rules to prevent excessive compliance costs that would divert funds from charitable purposes.
4. Supporting donation tax concession changes to encourage increased philanthropic giving.

We appreciate the opportunity to contribute to this consultation and welcome further discussions. Please find attached our submission. Do not hesitate to contact us if further clarification is required.

Kind regards,

s 9(2)(a)

**Nicola Coom**  
Chief Executive  
Cancer Society of New Zealand

The Cancer Society of New Zealand

Level 13, Ranchod Tower, 39 The Terrace, Wellington 6011 | PO Box 651, Wellington 6140  
04 494 7270 | Cancer Information Helpline 0800 CANCER (226 237)





Submission to:

Deputy Commissioner, Policy

Inland Revenue Department

**On: Taxation and the not-for-profit sector**

By email: [policy.webmaster@ird.govt.nz](mailto:policy.webmaster@ird.govt.nz)

31 March 2025

## Introduction

Research indicates that 1 in 3 New Zealanders will get cancer in their lifetime. The Cancer Society of New Zealand Incorporated (**“the Cancer Society”**) is a not-for-profit organisation established in 1929. Today, the Cancer Society is the leading non-government organisation that works together to create a future free from cancer for everyone in New Zealand and generations to come.

The Cancer Society is a registered charity (CC30617), structured as a federation, with a National Office, 5 regional divisions, structured as independent legal and financial entities. Throughout the length of the country we provide of community-based cancer services such as transport, accommodation, counselling, physiotherapy, dietician and practical and emotional support to navigate our complex health system. The Cancer Society is also the largest non-government funder of cancer research. We support approximately 93,000 people per annum, with 12,500 new referrals each year. Without the contribution of our 6,800 volunteers who contribute over 87,000 hours, much of our work would not be possible.

## Funding

The Cancer Society is funded by everyday New Zealanders. We do not receive any direct government funding other than a \$300k SunSmart contract. The Cancer Society has a wholly owned subsidiary, Daffodil Enterprises Limited (itself a registered charity (CC41865) (**“DEL”**), which was formed in 1997 for the purpose of managing various fundraising activities of the Cancer Society (such as the annual “Daffodil Day” appeal,<sup>1</sup> and sales of sunscreen and sunhats).<sup>2</sup> DEL operates commercially to return a surplus but the federation overall is only breaking even at the moment.

The federation runs some other very small enterprises. For example, “Encompass Health” is a joint venture with St George’s Hospital to provide pre- and post-cancer rehabilitation services (such as physiotherapy, dietician or counselling). Each such service is provided on a “fee for service” basis, with any profit made being redistributed to families who are unable to afford them (for each service purchased, one equivalent service is provided on a free or subsidised basis to someone who could not otherwise afford it).

The federation also runs 2 retail stores (“opportunity shops”) in the South Island, run by a volunteer pool of approximately 100 people. The proceeds from these stores are ploughed straight back into local communities for on-the-ground cancer support (such as food parcels, transport and accommodation etc).

The federation also receives some rental income. For example, we rent out rooms for meetings and events (with variable pricing for for-profits and not-for-profits), and accommodation for patients and the public. We have also purchased a couple of houses adjacent to our site from which we receive rental income.

The federation also receives investment income from term deposits and investments held with a fund manager.

## Timing

The Cancer Society is concerned at the very short time period (just over 4 weeks) provided for consultation. The closing date of 31 March coincides with the financial year end of many charities, which may make it very difficult for many charities to respond. The proposals raised in the issues paper are complex and their impact will be far-reaching, not only on the charitable sector but also on those it serves.

We ask that the issues paper’s proposals are not crystallised in legislation on Budget Day, but that if the government wishes to proceed with the proposals, an exposure draft of any proposed legislation is issued for

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<sup>1</sup> <https://daffodilday.org.nz/>.

<sup>2</sup> <https://www.cancer.org.nz/about-us/sunscreen/>.

proper consultation and reflection. It is important that charities have a clear picture of what is actually proposed, and a meaningful opportunity to respond to it, before legislation is introduced.

The Generic Tax Policy Process (“GTPP”) emphasises early, informed consultation with the public and stakeholders, to ensure “better, more effective tax policy development through early consideration of all aspects – and likely impacts – of proposals, and increased opportunities for public consultation”.<sup>3</sup> We ask that any proposals to change the tax settings for charities undergo a proper GTPP.

## Chapter 2: Charities business income tax exemption

The proposals set out in chapter 2 of the issues paper to tax the unrelated business income of tier 1 and 2 charities will have a significant impact on the Cancer Society. The Cancer Society and its 100% subsidiary (DEL) report at tier 2 level and will therefore be directly impacted by the proposals.

As discussed above, the community services that the Cancer Society provides are not government funded. While the examples of the Cancer Society carrying out commercial businesses “on the side” are not currently numerous, this is where we want to head. Our current funding is not sustainable: demand for cancer services is increasing, costs are increasing, but community funding is not increasing at the same rate. As a result, we find that we are continually having to ask families for money. We want to do more with social enterprise so that we can fund our service delivery and research in a sustainable way.

The proposals in the issues paper will make responding to the increasing rate of cancer diagnosis and supporting the community very difficult. Without access to these unrelated business income streams, a greater onus would fall on the government to either fund the charitable sector or provide services itself. Yet, research indicates that charities carry out such services more effectively and efficiently than government. The proposals in chapter 2 are not likely to raise revenue for the Government and in fact are more likely to increase the Government’s costs.

We refer to and support the submission of Fiona Martin, Emeritus Professor of the University of New South Wales in Sydney, Australia, who points out that an unrelated business income tax (“UBIT”) “raises insignificant amounts of revenue compared to the high compliance costs associated with calculation and collection”:<sup>4</sup>

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 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.

The necessity to make decisions about what is related and what is unrelated “means that this time consuming and unproductive activity must be replicated by all organisations that engage in some form of commercial activity”.

The issues paper’s proposals are not mitigated by the “relief for distributed business income” proposals referred to in the paper. The “special memorandum account” is a very complicated measure that will only exacerbate the complex matrix of requirements imposed. The net result will be to distract charities from their charitable purposes and ultimately result in a transfer of wealth from the charitable sector to the professional advice sector as charities seek assistance to navigate a labyrinth of rules.

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<sup>3</sup> See Inland Revenue Department *How we develop tax policy* 15 November 2023: [www.taxpolicy.ird.govt.nz/about-us/how-we-develop-tax-policy](http://www.taxpolicy.ird.govt.nz/about-us/how-we-develop-tax-policy).

<sup>4</sup> Professor Fiona Martin submission at 3-4.

Such complicated measures directed at preventing (or punishing) a charitable business for accumulating funds appear to be based on a misunderstanding of the constraints under which charities operate. All charities are required by law to act in good faith in the best interests of their charitable purposes; all funds of a charity must ultimately be destined for charitable purposes. The balance between accumulation and distribution rests on the circumstances and function of each charity and is a matter for their governance group and members to decide and manage. Stakeholders providing funds to a charity (philanthropic groups, the general public, government department contracts) have the ability to engage directly with charities to confirm the spending of funds on charitable purposes, using the comprehensive information now made available by means of the charities register.

Rather than imposing complicated restraints on charities' efforts to raise funds for their charitable purposes, a better approach would be to raise public (and government) awareness that running a business/social enterprise is a legitimate and encouraged activity for charities, that accumulating funds is sometimes necessary for a charity to further its charitable purposes in the best possible way, and that charities need the flexibility to make such governance decisions regarding the optimum levels of accumulation and distribution for themselves.

To answer the specific questions raised in the issues paper:

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

We are not aware of any compelling reasons to tax charity business income. There are few recorded abuses by charities (that could be addressed by enforcing existing rules), there is no unfair competition (as charities' business income tax exemption merely provides a degree of offset to the considerable difficulties charities otherwise face in their ability to access the level of capital needed to grow to their optimum size), and the experience of other jurisdictions demonstrates that an unrelated business income tax raises insignificant revenue compared to its high associated compliance and administration costs.

However, there are compelling reasons not to tax charity business income. Charities running businesses do pay tax: GST is paid on charities' social enterprise function, and PAYE plays a significant role (75% of our costs in relation to our social enterprises is staff-related). In other words, charities running businesses are generating other forms of revenue, in ways that are clear and well understood by the public.

Charities are already over-regulated, and it would not make sense to add to the regulatory burden in the manner proposed, particularly when there is no offsetting benefit. In the face of increasing demand for services, increasing costs, increasing pressure on volunteers, yet diminishing revenue streams, the legal settings should be encouraging charities to run businesses/social enterprise to raise funds for their charitable purposes to reduce their dependency on donations and government funding, not putting more barriers in their way.

***Do the factors described in 2.13 and 2.14 warrant taxing charity business income?***

No.

Registered charities are required to incur significant compliance costs in preparing the comprehensive transparency and accountability information required under the financial reporting rules, which information must be made publicly available on the charities register. Taxpaying businesses are not generally subject to such significant compliance and disclosure obligation. Charities are also subject to the compliance costs of tax obligations such as PAYE and GST. In addition, if a charity breaches the territorial restriction or the control restriction of section CW 42, its business income will be subject to tax. There is no evidence to suggest that charities have lower relative costs of doing business. To the contrary, given their financial reporting obligations and other obligations under the Charities Act, the relative costs for charities are likely to be higher than their for-profit counterparts.

In addition, far from being a disadvantage, taxpaying businesses have an *advantage* in their ability to carry forward losses to be offset against future income. Taxpaying businesses also have the advantage of being able to utilise imputation credits: the fact that imputation credits are non-refundable means that charities are effectively

subject to income tax on their investments in New Zealand companies.

Although the paper acknowledges that charities generally cannot raise equity capital, the paper does not acknowledge that charities' ability to access debt capital is also limited. For example, governments tend not to lend to charities, as priorities have shifted towards delivery of services, thereby restricting charities' ability to access government funding for capital development; the use of philanthropic capital on a loan basis to charities is similarly not widespread. Access to debt capital in the form of conventional loan finance is also limited, as charities often fail conventional lending criteria: income (for example from donations) may be inherently uncertain, depriving charities of a stable revenue stream to service the debt; charities with government contracts may have contract periods shorter than the debt service period which may cause particular uncertainty over ability to pay. Charities also have no "owner" to put their personal assets at risk, depriving many charities of suitable assets for collateral, creating further potential difficulties for accessing conventional loan finance. In other words, far from providing charities with a competitive "advantage" or the ability to "grow a business faster", the ability to accumulate pre-tax funds merely *offsets* significant disadvantages that charities face in their ability to access sufficient capital to expand to an optimal size.<sup>5</sup>

***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?***

Charities may be forced to close or reduce their services, and government may be forced to "pick up the slack". In other words, costs would increase significantly, for both charities and government, for no offsetting benefit.

***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 experience of other jurisdictions indicates that it is not possible to draw a line between "related" and "unrelated" businesses: there is no "bright line" indicating when charitable businesses are "related" and when they are not, and attempts to draw one are fraught with difficulty.<sup>6</sup> The difficulty arises because business is inherently an activity: attempts to draw prescriptive, blanket, black-letter lines regarding activities in a fundamentally purposes-based area of law create simply do not work.<sup>7</sup> Any such line would necessarily be arbitrary, and will require constant adjustment with further arbitrary rules to fill gaps and address unintended consequences. The net result will be considerable and ever-increasing complexity that will inexorably lead to unnecessary administrative and compliance cost. It would also risk risks enlivening a "culture of regulatory gaming",<sup>8</sup> and creating a climate whereby:<sup>9</sup>

[t]hose that would do harm [become] increasingly adept at finding new ways to inflict it, which means government must continually amend the rules to fight new risks. And so it continues in a never-ending loop with the rules becoming ever more complex and the regulation of charities ever more removed from the day to day good works that charities perform.

To make matters worse, such a prescriptive "regulatory" approach can also lead to undesirable behavioural changes, by distracting charities from their charitable purposes as they expend scarce resources endeavouring to satisfy the dictates of ill-fitting rules that cut across the "destination of funds" principle and are expensive to

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<sup>5</sup> See also the discussion in Austaxpolicy: Tax and Transfer Policy Blog [Do Businesses Run by Charities Have a Competitive Advantage?](#) 17 November 2021.

<sup>6</sup> See S Barker [Focus on purpose - what does a world-leading framework of charities law look like?](#) 10 April 2022 NZLFR 3, chapter 5.

<sup>7</sup> See also Report to the Treasurer *Australia's future tax system: Part 2 – Detailed analysis*, December 2009, Pt 2 vol 1: [<treasury.gov.au/review/the-australias-future-tax-system-review/final-report](#) at 212.

<sup>8</sup> C Decker and M Harding 'Three challenges in charity regulation: the case of England and Wales' in M Harding, A O'Connell and M Stewart (eds) *Not-for-Profit Law: Theoretical and Comparative Perspectives* (Cambridge University Press, 2014) 314 at 329, 325.

<sup>9</sup> T de March, former director-general of the Charities Directorate in Canada, in M McGregor-Lowndes and B Wyatt (eds) *Regulating Charities: the Inside Story* (Routledge, New York, 2017) at 273.

comply with and administer.<sup>10</sup> The complexity of the rules also increases administration costs, most likely well beyond any revenue raised. There is nothing to indicate that the rules have any practical impact on the circumstances of competing for-profit businesses; instead, their net impact is simply to place significant unnecessary barriers in the way of much-needed social enterprise activity. Harmful regulation risks stifling innovation and demoralising voluntary effort. It is important to ensure that changes do not come at the expense of the goodwill and community heart behind most if not all charitable work. A much better approach would be to simply enforce existing rules rather than creating new ones.

***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 tax exemption should not be removed for unrelated charity business income for the reasons discussed above.

***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?***

If there was genuine concern that a charitable business was inappropriately “hoarding” funds, the issue can be more than adequately dealt with by “questions from the monitoring authority”;<sup>11</sup> that is, by simply asking how such accumulations are being made in good faith in the best interests of the charity’s stated charitable purposes (with such questions informed by the comprehensive information now made available by means of the charities register, another factor not mentioned in the issues paper). If a charity is unable to meet this test, there is a prima facie breach of fiduciary duty which already constitutes “serious wrongdoing” as that term is defined in the Charities Act, thereby providing clear grounds for intervention. However, if the charity can meet this minimum threshold, there is no reason for the state to intervene; benefits to the public would in fact be maximised by respecting the independence of charities, rather than creating additional arbitrary rules that will only serve to distract charities from their charitable purposes (for example, by forcing them to distribute when their charitable purposes may be best served by not doing so).

***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 tax exemption should not be removed for unrelated charity business income for the reasons discussed above.

However, the issues paper does not analyse the position regarding imputation credits. The fact that imputation credits are not able to be refunded in New Zealand is relevant to the “competitive advantage” argument as it effectively forces tax-exempt entities such as registered charities to pay tax on their investments in New Zealand companies (because there is no tax liability against which such imputation credits might be offset). Non-refundability of charities’ imputation credits is distortionary because it biases charities’ investment decisions away from investing in New Zealand companies (where any dividends received will effectively be taxed), towards investments where their income tax exemption will be effective (such as interest-bearing debt and

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<sup>10</sup> C Decker and M Harding “Three challenges in charity regulation: the case of England and Wales” in M Harding, A O’Connell & M Stewart (eds) *Not-for-Profit Law: Theoretical and Comparative Perspectives* (Cambridge University Press, 2014) 314 at 321, 325, 326, 329.

<sup>11</sup> Inland Revenue Department [Tax and charities, a government discussion document on taxation issues relating to charities and non-profit bodies](#) June 2001 at [9.8].

shares in foreign companies offering unimputed rather than imputed dividends).<sup>12</sup> The distortionary impact of non-refundability was acknowledged by IRD in 2008:<sup>13</sup>

New Zealand company tax is paid on income earned by New Zealand companies. This company tax paid can then be attached in the form of imputation credits to dividends paid to shareholders, so that, effectively, the company tax is seen as a withholding tax for the shareholder. If shareholders are subject to New Zealand tax they will have tax to pay on the dividend they receive and can use the imputation credits to pay all or part of that tax.

If, however, the shareholder does not have to pay tax on the dividend – for example, if the shareholder is a tax-exempt charity – the imputation credits cannot be used and cannot be refunded. The benefit of the imputation credits is lost to the shareholder. Moreover, the dividend income earned by the tax-exempt shareholder has effectively been taxed at the company rate rather than at the shareholder's effective rate of zero percent.

*One of the effects of this treatment is that tax-exempt organisations may choose investments that pay them a before-tax return (referred to as non-imputed income, such as interest) over those New Zealand shares that provide an after-tax return, such as imputed dividends.*

This outcome is a concern for shareholders in New Zealand companies when those shareholders have a specific exemption from New Zealand income tax and consequently are not subject to tax on the dividends they receive. Registered charities are one example of a group that currently has a specific income tax exemption.

In other words, by denying registered charities the ability to have their imputation credits refunded, double taxation is not prevented, contrary to the underlying principle of the imputation system.

In 1995, the Australian Industry Commission specifically recommended a review to determine “the most cost effective way of removing the distortions in the investment policies of Community Social Welfare Organisations due to the dividend imputation system in Australia”,<sup>14</sup> this recommendation was made in the context of a wider effort to “remove unwarranted incentives and disincentives which have accumulated over the years ... and which may inhibit CSWOs from raising their own resources”.<sup>15</sup>

Since 1 July 2000, surplus imputation credits (known as “franking credits”) of charities have been able to be refunded in Australia,<sup>16</sup> leading to an inconsistency between Australia and New Zealand which was noted in the OECD report.<sup>17</sup>

New Zealand charities have long advocated for a similar change to be made in New Zealand.<sup>18</sup>

In 2001, IRD accepted that non-refundability of imputation credits discourages New Zealand charities from investing in domestic equity, but argued that it did not have sufficient *information* to assess the relevant fiscal

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<sup>12</sup> Inland Revenue Department [Streaming and refundability of imputation credits: a Government tax policy discussion document](#) August 2008 at [1.11]; Industry Commission *Charitable organisations in Australia - Report no 45* 16 June 1995 at 271, 318 - 319. See also Inland Revenue Department [Tax and charities, a government discussion document on taxation issues relating to charities and non-profit bodies](#) June 2001 at [9.3] n 25.

<sup>13</sup> Inland Revenue Department *Streaming and refundability of imputation credits: a Government tax policy discussion document* August 2008: [<taxpolicy.ird.govt.nz/en/publications/2008/2008-dd-imputation-credits>](#) at [4.1] – [4.4], [1.11], [4.13] (emphasis added).

<sup>14</sup> Industry Commission *Charitable organisations in Australia - Report no 45* 16 June 1995 at 318 - 319 and recommendation 12.8.

<sup>15</sup> Industry Commission *Charitable organisations in Australia - Report no 45* 16 June 1995 at 424.

<sup>16</sup> Income Tax Assessment Act 1997 (Cth) s 207-115; DR K Henry AC, G Smith, Dr J Harmer, H Ridout, Professor J Piggott *Australia's future tax system – Report to the Treasurer* December 2009 (Henry Review) at 190. See also Inland Revenue Department [Streaming and refundability of imputation credits: a Government tax policy discussion document](#) August 2008 at [4.19].

<sup>17</sup> OECD Tax Policy Studies [Taxation and Philanthropy](#) (2020) 27 (OECD Publishing, Paris) at Box 3.1.

<sup>18</sup> See, for example, Philanthropy New Zealand *Getting more from your investment in NZ businesses* 3 December 2019: [<philanthropy.org.nz/policy-briefs-and-submissions>](#). In Canada, a similar recommendation was made by the Ontario Law Reform Commission in 1996: “some thought might be given to extending the exemption to dividend income by making the dividend tax credit refundable for tax-exempt organisations” (Ontario Law Reform Commission *Report on the Law of Charities* (Toronto, 1996) at 377).

cost.<sup>19</sup> In 2008, IRD raised concerns about charities being used in “tax planning” arrangements.<sup>20</sup>

Since then, however, the Charities Act 2005 has been introduced requiring registered charities to file annual returns; from 2015, those returns must be accompanied by financial statements providing comprehensive financial and non-financial information. Research indicates that New Zealand registered charities are subject to the most comprehensive set of transparency and accountability requirements for charities in the world.

Despite the fact that these factors mitigated the original concerns raised by IRD, in 2018, IRD raised a new objection: although the background paper for the Tax Working Group’s 6 July 2018 meeting primarily focused on private foundations and business income, it did contain a brief table of seven other issues that might be considered, including refundability of imputation credits.<sup>21</sup> The background paper devoted five sentences to this issue, ultimately dismissing it as having a “material fiscal cost”; however, there was no analysis of what that cost might be, or how it might compare with the associated benefits of removing a significant barrier to investment by New Zealand charities in New Zealand companies.

The issue of refundability of charities’ imputation credits was included in the August 2019 tax policy work programme,<sup>22</sup> but has since been removed without having been progressed.<sup>23</sup>

Although the issue of non-refundability of imputation credits for charities was specifically out of scope for the Department of Internal Affairs’ review of the Charities Act, some submitters raised the issue nevertheless, pointing out that some philanthropic charities were paid millions of dollars in imputation credits, funding which they could not use, but which could have been invested back into the community where the impact would have been multiplied.<sup>24</sup>

New Zealand is a net importer of foreign capital: in the current environment of international instability and uncertainty, access to domestic capital is critical for the growth of most local firms. Unlocking the balance sheets of philanthropy would have significant flow-on benefits for New Zealand, and its economy.<sup>25</sup>

The question of refundability of imputation credits should not be dismissed as having a “material fiscal cost” without analysis of what that cost might be, and what offsetting benefits it might unlock.

#### Chapter 4: Fringe benefit tax

The FBT exclusion for charitable organisations has been described as “inefficient and incoherent”, with definitions that are “unclear and inconsistent”.<sup>26</sup> Nevertheless, the FBT exclusion provides important support for charities and other not-for-profit organisations who are operating in an increasingly precarious environment, with increasing costs, increasing demand for services, increasing difficulty in attracting volunteers, ever-increasing regulation (which, in relation to charities, is too often made in haste without proper consultation or analysis of the potential consequences), ever-increasing misperceptions (such as whether it is appropriate for charities to

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<sup>19</sup> See also Inland Revenue Department [Tax and charities, a government discussion document on taxation issues relating to charities and non-profit bodies](#) June 2001 at [12.1] - [12.5].

<sup>20</sup> Inland Revenue Department [Streaming and refundability of imputation credits: a Government tax policy discussion document](#) August 2008 at [4.10], [4.28].

<sup>21</sup> Inland Revenue and the Treasury for the Tax Working Group [Charities and the not-for-profit sector: Background Paper for Session 13 of the Tax Working Group](#) 6 July 2018 at 20-21, table 3. The seven issues were: coherence of other income tax exemption categories; charities and the FBT exemption; not-for-profits and GST concessions; tax benefits for donee organisations; refundability of imputation credits; mutual organisations; and charities and donee organisations with charitable purposes not limited to New Zealand.

<sup>22</sup> Inland Revenue Department [Government tax policy work programme: 2021-22](#).

<sup>23</sup> OECD Tax Policy Studies [Taxation and Philanthropy](#) (2020) 27 (OECD Publishing, Paris) at 60 (box 3.1) noting that the refundable credit “is essentially additional income for the entity to use for its worthy purpose”.

<sup>24</sup> [Submission](#) of JR McKenzie Trust. See also the [submission](#) of The Tindall Foundation.

<sup>25</sup> See, for example, the [submission](#) of The Ākina Foundation. See also Tax Working Group [Future of Tax: Interim Report](#) 20 September 2018 at 100 - 103.

<sup>26</sup> Inland Revenue | Te Tari Taake [Fringe benefit tax: regulatory stewardship review](#) 29 August 2022 at [42].



spend on “administration costs”),<sup>27</sup> yet diminishing revenue streams. These factors can make it acutely difficult for charities and other not-for-profit organisations to attract and retain staff.<sup>28</sup> Being able to offer non-cash benefits to staff, without having to engage in what is acknowledged to be a very complex FBT regime that is “difficult to understand and hard to comply with”,<sup>29</sup> is an important support for charities that should remain in place for as long as the FBT regime itself remains,<sup>30</sup> irrespective of the outcome of the current review of FBT settings.

***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?***

Even if compliance costs are reduced following the current review of FBT settings, removing or reducing the FBT exclusion for charities would force charities to enter the FBT regime and prepare and file regular FBT returns. In other words, compliance costs would be significantly increased, and further unnecessary regulatory barriers would be put in the way of charities’ ability to carry out their work.

Such an outcome would be particularly problematic because the arguments posed in the issues paper for removing the FBT exclusion for charities are weak.

For example, IRD argues that there are “weak efficiency grounds” for continuing this exclusion because it “distorts the labour market”.<sup>31</sup> However, no evidence is provided to support this claim. The reality is that charitable organisations are struggling to attract and retain staff as it is because they simply do not have the funding to pay them adequately. The FBT exclusion merely provides a degree of support for charities rather than any “distortion”.

In addition, the argument that exclusion for charitable organisations “creates an incentive for organisations and employees to negotiate for non-cash remuneration and in doing so, pay less tax than if they were paid salary and wages”,<sup>32</sup> is not persuasive. This argument ignores the reality of employment in the charitable sector. Most people moving from the for-profit sector to the not-for-profit sector take a considerable pay cut, even for work that is considerably more difficult.

The argument that the exemption “lacks coherence” because universities are excluded when other tertiary institutions are not,<sup>33</sup> is also not persuasive. Universities are also struggling: surely a better solution would be to simply extend the exclusion to universities, rather than removing the exclusion from charities altogether.

It is difficult to see how imposing FBT on charities would “reduce compliance costs”, no matter what changes are

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<sup>27</sup> See, for example, human and hope *Administration costs are crucial for charities* 15 April 2024:

<https://humanandhope.org/human-and-hope/posts/administration-costs-are-crucial-for-charities>

<sup>28</sup> Inland Revenue and the Treasury *Taxation (Livestock Valuation, Assets Expenditure, and Remedial Matters) Bill – Officials’ Report to the Finance and Expenditure Committee on Submissions on the Bill* March 2013 (published 7 June 2013) AT 83.

<sup>29</sup> Inland Revenue | Te Tari Taake *Fringe benefit tax: regulatory stewardship review* 29 August 2022 at [35].

<sup>30</sup> Officials argue (Inland Revenue and the Treasury *Recognising salary trade-offs as income – an officials’ issues paper* 18 April 2012 at [2.43]) that the FBT exclusion for charitable organisations may provide a charitable organisation with a “competitive advantage both in terms of attracting employees and when competing with other entities to provide services. To the extent that the FBT exemption attracts employees away from other organisations, it may be economically inefficient as it can enable the tax-exempt entity to expand at the expense of non-exempt entities”. With respect, given the significant difficulties charities have in attracting and retaining staff, such concerns appear very overstated.

<sup>31</sup> Issues paper at [4.27].

<sup>32</sup> Issues paper at [4.27].

<sup>33</sup> Issues paper at [4.28].

made to the FBT regime. The FBT exclusion for charities should remain.

**Contact details**

This submission is made on behalf of the Cancer Society by Anne Bridger, Finance and Business Services Manager. We are happy to be contacted to discuss the points raised in this submission. Our contact details are:

s 9(2)(a)

# Consultation Officials' Issues Paper

**Date:** 17<sup>th</sup> March 2025  
**From:** The Roman Catholic Diocese of Christchurch Diocesan Trust (CC33341)  
**Regarding:** Taxation and the not-for-profit sector

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## Introduction

The Roman Catholic Diocese of Christchurch Diocesan Trust (CDOC) was established by papal brief on 5 May 1887. CDOC was registered with Charities services on 30 June 2008.

The role of CDOC is to support the bishop and his work, which includes education (provided through 35 schools); supporting 18 Parishes, who reach out into their respective communities; running Catholic Social Services; and providing Youth events such as camps and training.

## Community Impact

CDOC, through our various outreaches, has a huge impact into our community, often filling needs that would otherwise need to be resourced by the government. For the year ended 30 June 2024, a small sample of this included:

- 2,421 face-to-face counselling sessions
- 1,530 pastoral encounters in hospitals
- 483 personal pastoral encounters in prisons
- 222 group programmes delivered in prisons
- 4,824 primary school students and 3,973 secondary students educated through our catholic schools.
- 41 Youth events were held with approximately 1,500 participants.

## Resourcing our impact and why taxation in the not-for-profit sector is important to us

While we understand there are concerns over the effectiveness of certain tax concessions, the scope of those concerns has not been quantified, or if they have, they have not been included in the consultation document. The current suggested “blanket” approach of changes to tax exemptions for the whole charitable sector seems like an overreaction and not the appropriate tool for dealing with the handful of charities operating outside their charitable purposes. We believe a more appropriate response would be to use the provisions already allowed for through the Charities Act. Charities Services needs to be appropriately resourced to be able to both regulate and promote the charitable sector.





Of particular concern is the suggestion to tax business income. While some of our income comes from fundraising campaigns, grants, bequests and other donations, we rely on “business income” to help ensure that our mahi is consistent year on year and that we are sustainable into the future. Reliance on unknown bequests, donations and grants is not sufficient to meet our ongoing operation costs. A move to tax this business income seems like a punishment to those charities looking to make themselves sustainable for the long term. Need for our services is increasing year-on-year, to meet this demand, we need ensure we have stable funding streams.

Furthermore, the proposed changes would increase compliance cost. Our accounts staff already run at capacity, so any additional compliance work will be an additional cost to us. Any additional costs would result in a reduction of services elsewhere.

## Responses to Specific Questions

### **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?**

#### **Response:**

Being self-sufficient in terms of funding is important for us (and other charities too). Donations can be fickle and often when the economy is at its worst and donations reduce, it is the time when we, as a charity, are needed the most in the community. The proposal to tax charity business income would discourage charities from seeking sustainable and innovative income streams.

Compliance costs will increase, with what we believe will be a disproportionate increase in revenue. We are concerned as to who will fill the void of the services lost in place of the compliance costs. We are at risk of a gradual erosion of what is provided to our community. We have concerns that this may be the “thin end of the wedge” with further concessions lost for the for-purpose sector in the future. Is the government prepared to fill the void that will be created from this?

### **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?**

#### **Response:**

Determining what is “unrelated” and then needing to apply this to what each charity does. A term in legislation like “unrelated” can be hard to apply to for-purpose organisation where what we do very rarely fits within a neat box.

We are concerned that the suggestions in this document will be shifting NZ away from the simple tax system that we are known for. Furthermore, these complications are to rest with a sector who does not have any additional resources to seek specialist tax advice to be able to accurately determine what will apply to us.



**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?**

**Response:**

It is concerning that this would need to be asked, as it goes to show what a vague a term it is. Therefore, interpreting a definition in legislation will likely be beyond the scope and knowledge that most charities have. As such, we would need to seek specialist tax advice on what may meet the definition or not. This tax advice would further increase the compliance costs and again divert funds from our good work.

**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?**

**Response:**

While we do not support the removal of the tax exemptions, if it were to happen, we would support a de minimis threshold. Keeping this inline with the current tier system would make logical sense. We would suggest that Tiers 2 to 4 should be exempt. We believe that the value of any tax revenue the government would receive from unrelated business income from the Tier 2 level and below would likely be so negligible, but the compliance costs a huge burden. We believe valuable services to the community would be sacrificed to meet the costs.

**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?**

**Response:**

Ensuring that if we are going to be taxed on any “unrelated business income” that we have been able to claim the full value of costs related to that income. We have many volunteers within our organisation, and an accurate value of their time would need to be able to be claimed as input expenses. Identifying what an appropriate “wage” cost is for each volunteer would, again, create more compliance costs, further detracting from our key purpose.

**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?**

**Response:**

This will decrease the ability of CDOC to compete with the “for-profit” sector when trying to attract and retain staff. Being able to offer a vehicle for some staff members as part of the remuneration package can be a drawcard in their decision to work at CDOC.



## Conclusion

Overall, The Roman Catholic Diocese of Christchurch Diocesan Trust does not support changes to the tax exemption status of charities.

We have concern that this is showing an overall reduction in support for the sector and the important work that we do. Furthermore, we believe it is a short-sighted response, that will reduce the resources of charities to provide the benefits to the community that we currently do. We believe that the for-purpose sector better fills these needs than the government can. We believe the costs of any changes to exemptions would outweigh the benefits.

We would ask that any sanctions required for charities operating outside of their scope be applied in a targeted manner, through the channels already allowed for in the Charities Act.

We hope that the important work that the for-purpose sector is recognised and the importance of charities making themselves sustainable and self-sufficient through business income (whether related or unrelated) is acknowledged and supported by the government by keeping tax exemptions in place.



THE MASONIC  
VILLAGES TRUST

## **Submission**

Taxation and the not-for-profit sector  
(February 2025 – Official's Issues Paper)

**Submission made by The Masonic Villages Trust, and on behalf of its charitable operating companies Masonic Care Limited and Masonic Villages Limited**

## 1. Introduction

The Masonic Villages Trust was established in 1960 with the mission of supporting older New Zealanders to age well by providing aged care and accommodation for pensioners. Today that founding Trust has established two charitable companies, Masonic Villages Limited and Masonic Care Limited through which its two core activities of delivering aged care and the operation of retirement villages are delivered. We are now a Tier 1 reporting charity.

Masonic Care currently operates six aged care homes with the majority being in a regional setting. In some settings the care home is the sole provider for aged care for a whole region. Masonic Villages operates 19 retirement villages. These villages are mostly in a rural or regional centre and as such provide a hugely appreciated option for people choosing to retire in these communities. Many of the villages also offer rental accommodation for older people, and alongside accessible price points Masonic Villages offerings are an important part of the mix available for retirees.

Our ability to grow and expand our network of care homes and villages has been supported by our charitable status where any surpluses generated that might attract tax outside of this status has been reinvested in more assets and services designed to support older people receive care and access accommodation.

Whilst we consider all our activities that generate income to be related to our charitable purpose, the lack of any definition of “charity business income that is unrelated to charitable purposes” within the Consultation Paper is deeply concerning and raises the spectre of unintended consequences and therefore risk to our charitable activities being sustainable in their current form.



## 2. Responses to Questions for Submitters

We wish to note at the outset, that we consider that the provision of a mere 24 working days on a consultation paper which portends the most significant reconsideration of settings that have sustained the charitable sector in New Zealand for decades, is a huge disservice to the sector. It is a sector that is often reliant on volunteers to staff both governance and management positions. Consequently, time is precious and finding access to the correct advice difficult. Should this consultation move into another stage we would strongly urge that the IRD process respects the need for timely consideration and deeper engagement with the charity sector than is apparent through this Consultation paper.

### **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 registered charity is ultimately applying its financial resources to its chosen charitable purpose, there is no compelling reason to tax income that may be generated in an aligned activity. Irrespective of whether that income generation is from activities that may not directly involve its cause of beneficiaries, if that surplus is used to support direct activities of its cause or beneficiaries, we contend it should remain untaxed.*

### **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?**

*This question highlights the biggest issue of the Consultation Paper – no clear definition of what IRD consider constitutes “business income that is unrelated to charitable purpose”.*

*Inevitably, this will lead to a withdrawal from providing services or support that is currently reliant on the income drawn from the business income that [using IRD phrasing] is unrelated to charitable purpose. For us, if setting changes cause any of our activities to be viewed as deriving income for an activity that is unrelated to our charitable purpose, then it could mean the sale of assets, the withdrawal of financially unsustainable services, such as meals on wheels, rental accommodation for older people, and in the extreme closure of some of our homes or villages.*

**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 is the big question, on which regrettably the IRD, did not offer any insights itself. It is not easy to define a set of criteria that could be used to define what might be an “unrelated business” as many charities have found novel ways to close the circle on funding for their charitable purpose by investing in activities that can generate a surplus that then go into direct charitable activities that simply consume financial resource. Whilst in and of itself the activity may be unrelated to the stated [ and approved] charitable purpose, if the proceeds of that activity are applied to that approved charitable endeavour they should not be assessed as being taxable income.*

*It may be the unintended consequences, or the complexity of trying to find these criteria, or the risk to thousands of charities activities if this process does produce a definition, is too great.*

**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?**

*Can a threshold even be contemplated? There are many very large charities that have build scale driven by a desire to meet community need. If indeed there is a part of their activity which IRD considers has income from an unrelated business activity, then by moving to tax it, there is a risk that the scale they have built works against the charitable entity. This is surely a perverse outcome; it would discourage innovation and growth across the charitable sector.*

**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?**

*We do agree that if there is a determination that business income generated from an activity that is unrelated to the charitable purpose of that entity, but that income is then used to charitable purposes it should remain tax exempt. In terms of effectiveness, any system needs to be simple and free of compliance issues.*

**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?**

*If there is move to capture tax on business income from an activity that is unrelated to charitable purposes, the definitions will be crucial to establish clarity for operating charities.*

*The risk is that with most of the 28,000 charities being quite small, complexity of any nature required to ensure entities are compliant may well drive charities to close.*

*How do you “value” the thousands of hours of volunteer hours that would need to be accounted for in any assessment of cost deductions to assess the true net income from this “unrelated business income”?*

# Commentary on Points Presented in the Consultation Paper

## Chapter 2: Charities business income tax exemption

<b>2.3</b>	<b>Some tax-exempt business activities directly relate to charitable purposes, such as a charity school or charity hospital. Other tax-exempt business activities are unrelated to charitable purposes, such as a dairy farm or food and beverage manufacturer. It is the unrelated business activities that are the focus of this review.</b>
<p>Many charities that address need of scale, such as education, health and related care services or housing do so because these areas of need are usually poorly serviced by the state, or there are “for profit” providers who service the more affluent clients.</p> <p>Where charities have successfully managed to establish operations that meet these types of needs it has been achieved by adopting a “not for loss” approach. This often requires establishing parallel income streams that are then used to support the “profitable” core of what they do.</p> <p>A change in the current settings to tax the net income will add compliance and accounting cost to the charity as well as a reduction in cash available to support the charitable purpose. Cuts will follow, and it may be that the state then must remedy that loss of service by adding more state run services. This would negate any perceived net gain to the state through the added income.</p>	

<b>2.6</b>	<b>Accumulation</b>
<p>Services we provide require land and buildings within which we can deliver care and accommodation. It is essential that we are free to accumulate capital over time to allow for land purchases, build projects, refurbishment work. There should be no setting that directs a charity as to the level of capital it is able to accumulate.</p>	

<b>2.7</b>	<b>A criticism often levelled at this exemption is that it provides the trading activity with a competitive advantage over its tax-paying competitors. One element of a firm's normal cost structure, income tax, is not present in the case of the charity-run trading operation. It is argued that this "lower" cost could be used by a large-scale entity to undercut its competitors, to improve its market share or to deter new entrants.</b>
<p>As a registered charity of services for older people, we know that there are too few services supporting those that are in need across Aotearoa. By lowering the cost for us to provide these services via tax exemption, ultimately means more supply of services to meet this need. By removing the tax exemption, it will create a significant barrier to being able to sustainably continue providing these services and will result in New Zealanders not getting the support they need at the most vulnerable times of their lives. New Zealand has an aged care crisis looming – this was brought to the forefront in the 2023 Domino Effect Campaign that highlighted the chronic underfunding of the aged residential care sector (see attachment). If charitable organisations are adversely impacted, many elderly will not have anywhere to go, and this will result in the problem shifting back to the Government to imminently address and ultimately cost the taxpayer more.</p>	

<b>2.18</b>	<b>A policy change focusing on the charity business income tax exemption may also create a preference for some charities to invest in passive (non-business) investments if income from these investments remains untaxed.</b>
<p>This could be detrimental to the populations served, 'encouraging' charities to move to passive income streams to secure their ongoing viability rather than investing in the 'business' of serving those identified in its charitable purpose.</p>	

<b>2.19</b>	<b>Compliance costs for affected charity businesses would increase. However, the extent of those costs would depend on the policy design.</b>
<p>Any additional compliance cost will pressure the sector, requiring additional staff, and adding more cost to a sector already stressed.</p> <p>Taxable income may be managed by larger entities by restructuring their businesses (as evidenced in the recent commentary on private businesses not paying tax).</p> <p>Many charity/NFP's already have limited capability and capacity to take on more activity associated with compliance without adding tax reporting.</p>	

2.21	<b>Distinguishing between related and unrelated business activities could be difficult in practice unless the legislation and associated guidance is clear. Most countries that tax commercial activities of charities will exempt business income that is related to a charitable purpose, and tax unrelated business income. There are many international precedents to follow.</b>
<p>Agreed – what are these precedents? what have been the consequences? What are the issues that have been addressed? Does population size and giving rates differ? How do these compare to NZ?</p> <p>There is a real risk if change is enshrined in legislation without the true consequences for charities being known or understood.</p>	

2.34	<b>If the New Zealand tax exemption is removed for charity business income that is unrelated to charitable purposes, a deduction could be allowed for distributions (donations or dividends) paid to a parent charity of a charity business. This is generally the situation at present and would mean that income provided to the parent charity for charitable purposes during the tax year would effectively remain tax exempt. There may need to be anti-avoidance rules to ensure that amounts distributed by the business are not immediately re-invested by the charity back into the business.</b>
<p>This potentially could work but would be critically dependent on the specific details. The challenge here is defining an ‘unrelated business’. Most NFP funnel any ‘unrelated business’ profits directly or indirectly back into the NFP entity. The burden on the Government to administer and monitor the NFP tax regime could be cumbersome and significant, needing to further grow IRD staff resources to confirm compliance.</p>	

2.35	<b>To enable charities to accumulate funds for charitable use in later years, additional rules may be necessary. For example, policy design could consider the creation of a special memorandum account for registered charities that carry out unrelated business activity, similar to an imputation credit account or Māori authority credit account. New rules could allow credits for tax paid to be refundable when they are attached to dividends paid to their charitable parent in later years.</b>
Refer to our comments on 2.6	

31<sup>st</sup> March 2025

## Taxation and the not-for-profit sector

Via email: [policy.webmaster@ird.govt.nz](mailto:policy.webmaster@ird.govt.nz)



## Concerns regarding accessibility

We note that this consultation, and the associated correspondence and documentation, is not accessible in New Zealand Sign Language (NZSL) and therefore many office bearers at Deaf-led charities will not have had the same access as their hearing counterparts to this process. This has undoubtedly disadvantaged these people and the organisations they lead, and we ask that should this process place the charitable status of these organisations at risk, that they be provided with access to all information in NZSL.

## About Deaf Aotearoa

Deaf Aotearoa is the primary non-government organisation representing the voice of Deaf people, and we are the national service provider for Deaf people in New Zealand. Our aim is to act in every way within New Zealand, and internationally as appropriate, for the best interests, wellbeing and aspirations of Deaf people and to work towards the goal of equality and full participation in society by Deaf individuals.

Deaf Aotearoa operates a budget of around \$9m, and has assets of \$6,765,00 which includes one building which houses around 25% of our staff, and funds of \$4,128,000 which are set aside to ensure the organisation can continue to operate during difficult financial times.

In many ways, Deaf Aotearoa contributes significantly, in cash and kind, to the Deaf community and wider society. If our charitable status were to be removed or amended significantly, our ability to continue this critical work would be heavily impacted.

PO Box 25439, Featherston Street Wellington 6146, New Zealand    0800 332 322    [www.deaf.org.nz](http://www.deaf.org.nz)



## **The Charity Sector is diverse**

The apparent one-size-fits-all approach proposed does not acknowledge the significant differences in size and scale of charities. Some charities operate on an annual budget of a few thousand dollars, and have minimal assets; whereas other charities operate on an annual budget of tens of millions of dollars, if not more, and have assets of more than 100 million dollars, or in some cases over one billion dollars of assets. Targeted measures to address actual problems are likely to be more appropriate and effective than broad, sweeping changes, and the latter may well have unintended negative consequences.

If the IRD's primary concern is that some charities that derive tax-exempt business income are not delivering public benefit, because they do not ultimately use the income to support their charitable services or because of the nature of their charitable purposes, then that should be the target of any review, not taxing other charities' business income.

The current charity income tax exemptions are relatively straightforward, especially for charities that advance their charitable purposes in New Zealand. Any change to tax charities' unrelated business income risks creating significant complexity and uncertainty, and transition, compliance, and tax costs, at the expense of charities' delivery of their services.

There needs to be clear definitions of 'related' and 'unrelated' business income. The design details of any change must make it easy for charities to apply this exclusion, and easy for charities to distinguish between "business" and "non-business" income, and between "related" and "unrelated" business activities, if they need to make such distinctions, in order to minimise complexity, uncertainty and compliance costs for charities.

If changes are made to tax charities' unrelated business income, they should be targeted at large-scale businesses competing in private markets and other charities should be excluded and any additional compliance costs minimised.

## **Remove any ambiguities**

There should be a clear exclusion from the taxation of unrelated business income for registered charities that do not run large-scale unrelated businesses competing in markets, e.g. an exclusion for all registered charities that are in tiers 3 and 4 for Charities Act financial reporting purposes, and for all registered charities whose



“unrelated” business income is below a relatively high threshold – we suggest a figure of \$5 million net would be appropriate.

The details of any changes should also make it clear that:

- a) Charities’ investment income, and especially passive income streams such as interest, dividends, rent or royalties, which does involve charities competing in any market, will not be taxed as “unrelated” business income, even if in other contexts the nature/scale of some investment activities might be viewed as a “business”, or at least business-like.
- b) Income such as charities’ sponsorship, fundraising event and lottery/raffle income will not be taxed as “unrelated” business income.
- c) Business activity will be recognised as “related” to a charity’s charitable purposes if the business activity or the way in which it is carried out advances any one or more of the charity’s charitable purposes.
- d) “Unrelated” business income should only be taxed to the extent that it is not distributed or applied to advance a charity’s charitable purposes – even if this occurs *within* the same legal entity. If such business income is distributed or applied for charitable purposes, it should be tax-exempt or a tax deduction should be available. If tax has already been paid, it should be refunded when income is distributed or applied for charitable purposes.

### **Fringe Benefits Tax**

Like most charities, Deaf Aotearoa is exempt from paying FBT, and we strongly recommend that this exemption remain, as if it were to be removed, the financial situation of many charities would be significantly negatively impacted.

s 9(2)(a)

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**From:** Katrina s 9(2)(a)  
**Sent:** Monday, 31 March 2025 2:23 pm  
**To:** Policy Webmaster  
**Subject:** Taxation of churches feedback

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

Hi,  
Putting in feedback for taxation and the not- for profit sector. I am in favour of normal income tax being required for these organisations inclusive of churches.  
Thanks

31<sup>st</sup> March 2025

Submitted via: [policy.webmaster@ird.govt.nz](mailto:policy.webmaster@ird.govt.nz)

Inland Revenue  
Wellington

**Re: Taxation and the not-for-profit sector; Official's Issues Paper**

Newtown Budgeting and Advocacy Service supports the Community Networks Aotearoa submission.

We are concerned that proposed tax changes would have the effect of significantly limiting our Service's ability to plan and fulfil our duties to our clients, our obligations as a good employer and our legal responsibilities as a lessee. We adhere to a financial policy of holding level of reserves to meet operational costs such as rent, wages and bills, for between 3 to 6 months in case our organisation needs to close the service.

Specifically, among other concerns, the possibility that unused grant funding could be viewed as profit and therefore be taxable is concerning for NBAS.

We are also facing the need to move premises at the end of our current lease to obtain cheaper rental space that better meets our needs and, in addition to maintaining sufficient reserves, we also need to save funds for the physical move and the range of set up costs for new premises. We would not be meeting our responsibilities or the expectations of our funder if we did not manage our finances properly in this way.

**Introducing our organisation and community**

Newtown Budgeting and Advocacy Service provides:

- A financial mentoring service for over 550 kiwis struggling with their finances
- A free, confidential and non-judgmental service
- NBAS has been operating for 40 years
- 35% of NBAS's clients are either former refugees or migrants
- NBAS serves the South Wellington region which includes some of the poorest areas in NZ
- A large number of our clients are beneficiaries who are struggling to make ends meet

**Conclusion**

Thank you for considering our submission. We are worried that in this time when budget cuts are already impacting social service organisation's ability to deliver quality services to vulnerable kiwis, that the proposed legislation changes will reduce financial resourcing for the sector with resulting long term negative social impacts.

Please contact the NBAS manager on 04 389 8121 or email [manager@newtownbudget.org.nz](mailto:manager@newtownbudget.org.nz) to discuss any aspect of this submission further.

Ngā mihi,

Gary Sutton  
Manager

Newtown Budgeting and Advocacy Service

# Submission on the Discussion Paper 'Taxation and the Not-For-Profit Sector'

By Community Networks Aotearoa

## Contact Person:

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**Mobile:** s 9(2)(a)

**Office:** 04 472 3364

**Website:** [www.communitynetworksaotearoa.org.nz](http://www.communitynetworksaotearoa.org.nz)

## Addressed To:

Inland Revenue  
POBox 2198,  
Wellington 6140

## Dear Sir or Madam,

Community Networks Aotearoa is the national office or umbrella organisation for non-profit networking organisations provincially and Wellington based. We are a national organisation, a communication agent, a partner with our members, a connector with our members and hopefully a catalyst for change. We provide our members with the opportunity to have their voice heard in the national arena.

We have 80 network members across the country, and considering their provincial members we believe we may reach over 10,000 organisations.

We have addressed numerous issues including questions as highlighted within the Issues Paper.

We understand that the Minister has asked for examples to our points and clarity about how this suggestion would affect Charities. To that point, this submission has more examples and discussion regarding cases in point than perhaps would normally be in a submission.

Although we recognise that there are some positive points for Charities overall, we are very concerned by this paper. This paper has some glaring flaws which need addressing, and it is also our opinion that there is a basic lack of understanding about how this sector works, and how the regulator Charities Services ensures that the majority of Charities work within all legal structures and with integrity.

This discussion paper feels like the 'thin edge of the wedge' about making inroads into Government support to the Charitable Sector. What happens if due to this consideration, multiple charities providing essential work to their communities at extremely low rates, end up closing down? Is Government prepared or interested in filling those gaps which will result as charities close, or have to charge higher rates, or are they considering using commercial companies whose basis of success is how much they can make for their stakeholders, rather than the well-being of their customers. Many in the Charitable Sector are already working on 'the smell of an oily rag'. Funding is harder and harder to access, Government does not fund contracts with cost of living adjustments nor reasonable wage allowance, and has not done so for many years. The charitable sector is already providing more for less to a point where viability is based on innovative and sometimes 'unrelated' revenue streams. Jeopardising those revenue options, could result in serious long-term consequences for the sector and for the people we serve.

It is very interesting that Inland Revenue seems interested in where the money comes from rather than the clear distinguishing interest from Charities Services of where the money goes. This shows a lack of understanding about how Charities are regulated and could create a clash of legislations making it extremely difficult for Charities to find a legislative path to follow.



## Abuse in the system.

This paper appears confused regarding abuse in the system.

We have not seen any shred of data to back up this claim in the discussion paper. Some of the points raised were already addressed by last year's change to the Charities Act eg: accumulated funds. There does not need to be yet another set of regulations overlaying what is already there, already working, and has a dedicated part of Government working on this.

Any proven abuse within the system, should be addressed through the Charities Regulator under existing Charities Law. We need these issues appropriately identified so the right means are used to address them. At the moment there is a lot of discussion about Inland Revenue using a blanket approach using taxation rules to address concerns with only with a small number of Charities.

Compliance is a heavy burden for charities already, and we have heard many times over the years promises from respective governments that this will be resolved. Instead, we are hit with even more compliance.

**"Every Tax Concession has a cost, that is it reduces Government revenue and therefore shifts the tax burden to other taxpayers."**

This statement has sparked significant discussion and once again highlights how little understanding there is about the charitable sector. This paper seems to be extremely one-sided, and this sentence is an example.

We would like to reframe this to:

**"Every tax concession has a benefit that is, it reduces Government expenditure by empowering Charities to have more impact at a lower cost than the Government providing an equivalent service, and therefore reduces the tax burden to other taxpayers."**

The original statement reflects a particular way of thinking, where charities are framed in a way that makes it harder for the sector to develop diverse income streams and build some sustainability into their models of operation.

## Related & unrelated income.

There is no clarification about what related or unrelated income is. This makes a response to the discussion difficult. The paper infers that any Charity with business income should prove profits provided to the Charity are directly related to the organisation's purpose. This raises a number of questions for us at Community Networks Aotearoa.

**Q –** Are Girl Guide biscuits related or unrelated to the aims of the organisation?

**A –** One could say that the mission of the Girl Guides (we enable girls and young women to develop into confident, adventurous and empowered leaders in their local, national and global communities) does not mention biscuits, and therefore their fundraising is not related to mission, that is of course unless you consider this is learning new and innovative ways to fund their organisation or if you consider selling biscuits might teach them how to become confident, adventurous and empowered in which case maybe it is related. How do you draw that line?

**Q –** Does the SPCA Op shop make related or unrelated money?

**A –** Purpose – To advance animal welfare and prevent cruelty.

One could say that raising money at the Opshop is not related to that purpose. However, if SPCA is unable to advance animal welfare and prevent cruelty because of closure, then the money is definitely related to the ability to meet that purpose. Not to mention that 2nd hand clothing is reused to make dog beds. Are some second hand items (cat beds, leashes, water bowls) animal related and some items (tea pots etc) are not, will the charity be required to audit every item to determine what is related income and what is unrelated income?

SPCA has 28 centres, with over 30,000 animals coming through their centres each year and they need \$66 million a year to operate. With only 10% contribution from the government each year, they need to raise 90% of their funding. If they are taxed on whatever they raise, how will they survive?

These two examples are simply to show that unexplained concept of 'related' and 'unrelated' income, and fairness issues along with lack of clarity about what exactly is intended to be achieved. This issue needs to be thought about very carefully and with consideration for unintended consequences.

## **Charities with fringe benefit tax exemptions.**

The question is for many Charities is "how do we compete for staff in a world where for-profit businesses and Government can offer better wages, better terms, and other benefits to attract competent staff?".

Take for example the wage difference between Oranga Tamariki seeking counsellors for staff a few years ago, where they offered thousands more in wages than the non-profit sector could. When this happened, there was a loss of non-profit staff to Government agencies that caused a crisis in the Charitable Sector.

Staff working for government agencies received higher salaries. Fringe Benefits often are one of the few benefits that charities can use to attract good staff. Taxing this benefit runs the risk of further disadvantaging the Charitable Sector.



## **This imaginary \$2 billion rolling around the sector.**

Once again, this claim highlights how little the sector is understood. The idea that there is an "extra" \$2 billion floating around appears to come from a simplistic calculation of income minus expenses, treating the difference as untaxed profit. It's concerning that the media has picked up on this misleading narrative.

In reality, this amount includes donations, timing differences, and funds earmarked for future events or projects beyond the financial year. It is money raised for specific purposes, not excess profit.

Most importantly, this calculation completely ignores the immense contribution of volunteer labour. Recent figures indicate that volunteers contribute 1.4 million hours per week. If even the minimum wage were applied to this, the so-called \$2 billion would quickly shrink.

## **Accumulated surpluses.**

On one hand Government has strongly encouraged Charities to find alternative sources of funding other than Government contracts. Social Enterprise was deemed the responsible path for non-profit organisations to fund the good they do in the community. Additionally, it has been considered prudent for Charities to maintain healthy reserves to ensure continuation of business and the ability to plan into the future. On the other hand, there seems to be a level of discomfort when this is achieved.

Most funding sources allow only one or two chances a year to apply for funding and if you are lucky enough to be the recipient of this funding, it will usually preclude you from reapplying in that same fiscal year. Some funders will not fund a charity for more than 3 years in a row, with a view that they do not want to create a 'dependence' on that funding. Alternative and self-sustaining funding sources can therefore be critical to the survival of a charity.

Charities have had to find innovative and other ways to not only top up the shortfall in Government contracts (Martin Jenkins 2019), but to ensure their fiscal security. Social Enterprise has been an encouraged and at times, favoured method that has been used by Charities now for years. Charity Social Enterprises are not taxed on their income because that income cannot go out to private pecuniary gain. Instead, that income is directed towards Charitable purposes. Any abuse of that, is appropriately directed towards Charity Services (the regulator) to investigate.

Over a financial year there are many reasons why surpluses might accumulate. Saving a year's operating costs is policy that CNA has, and we have given a dollars and cents amount to this saving in those policies. We also may have money that carries over towards projects and bills to be paid in the next financial year.



Community Networks Aotearoa have produced an on-line training programme called Tick for Governance (it is our belief that this fits the aims of our organisation) and we charge \$10.00 per module. This has become part of our income that we apply towards the annual charge for the platform where our training programme is held. So far this income has not covered the annual cost, even though we have over 1,000 people take up the programme. Taxing this income could result in the platform being unaffordable – and a very valuable and affordable governance training tool could be lost to the sector.

How is this problem solved? Charities Services had a change in law last year requiring Charities explain the purpose of their accumulated funds in their annual performance review. Why is Inland Revenue trying to come in over the top of these regulations with more blanket legislation that is currently unnecessary?

What if a Social Enterprise is not a direct line to the purpose of the Charity, yet without it the Charity does not have enough funding to continue. Then surely the Charitable business is, in fact, a direct line to the purpose of the Charity. This is a grey area, that Inland Revenue seems to have no explanation for.

The sector aims to promote sustainability and innovation, but imposing taxes based on questionable reasoning could lead to unintended consequences that may not have been fully thought through.

- We question if Charities should provide services for the vulnerable and if those services should be run by local communities or by Government.
- Taking away business income directly affects their financial sustainability.

Some for-profit business owners claim that charitable businesses with tax exemptions have an unfair advantage—but this is a myth.

First, charities face significantly higher compliance costs and scrutiny than for-profit businesses. Unlike businesses that receive government contracts, charities are often subjected to the argument that “taxpayers fund you, so you must comply with public demands.”

Additionally, charities rely on fundraising and street appeals to support their work—something businesses never have to do just to operate. They also navigate complex and sometimes contradictory regulations from multiple government agencies.

If the tax-exempt status of charities truly created a competitive edge, we would expect to see businesses rushing to establish op shops or small social enterprises. Yet, that isn't happening.

- Stopping the innovation required via taxing income from Charity business will put pressure on both Government and philanthropic entities to meet the need that Charities are currently addressing.

- Charities are much more cost effective and if Government reduces the support settings for Charities, then Charities capacity to provide services will be lessened. This could be a political risk for the government.

If charities can no longer rely on their existing income sources to meet their needs, competition among them will intensify. This will place even greater strain on fundraising efforts, which are already becoming increasingly difficult to secure for charitable purposes. Charities need to work together for public benefit, not in competition.

- The current simplicity of the New Zealand tax system enables efficiency. This proposal is not simple.
- This suggested tax change will benefit lawyers, accountants and auditors who Charities would need to navigate the system. Most charities have huge trouble finding affordable professional services without this additional compliance requirement.
- Any tax exemption must remain aligned with statutory financial reporting tiers.

At this point we would like to reiterate the summary of thoughts on each of the 15 questions in the Tax Consultant paper as considered by Craig Fisher a member of the External Reporting Advisory Panel of XRB and Steven Moe, Barrister and Solicitor and partner at Parryfield Lawyers. CNA and other signatories to this submission agree with the following:

Charities business income tax exemption	Thoughts to ponder for submissions
<p><b>Q1.</b> 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?</p>	<ul style="list-style-type: none"> <li>• Taxing charity business income discourages them from being innovative and seeking sustainable income streams</li> <li>• It will increase compliance costs while not meaningfully increasing revenue</li> <li>• It perpetuates a view of charity that donations are their only domain</li> <li>• This may open the door to other changes e.g. why not tax passive income from investments in funds which are unrelated to the charities purposes?</li> </ul>



<p><b>Q2.</b> If the tax exemption is removed for charity business income that is unrelated to charitable purposes, what would be the most significant practical implications?</p>	<ul style="list-style-type: none"> <li>• How to define what is “unrelated” would be challenging.</li> <li>• 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?</li> <li>• What are the objective measures and figures on these proposals, how much is even involved?</li> </ul>
<p><b>Q4.</b> 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?</p>	<ul style="list-style-type: none"> <li>• Consider your context and how this line might be drawn.</li> <li>• Monetary limit?</li> <li>• Tier 3 and 4 charities (the smaller ones) being exempt?</li> </ul>
<p><b>Q5.</b> 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?</p>	<ul style="list-style-type: none"> <li>• While this seems logical it begs the question as to what is being achieved as wouldn’t a business just do this?</li> <li>• If this were not allowed, then would it impact on charitable giving from non-charity businesses as well reducing the amount they give</li> </ul>
<p><b>Q6.</b> 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?</p>	<ul style="list-style-type: none"> <li>• This will increase compliance cost for both government and charities, reducing funds available for charitable purposes.</li> <li>• 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.</li> <li>• 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.</li> </ul>

	<ul style="list-style-type: none"> <li>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.</li> </ul>
<b>Chapter 3: Donor-controlled charities</b>	
<p><b>Q7.</b> 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?</p>	<ul style="list-style-type: none"> <li>Very unclear extent to which this is a major issue, or if there are just a few examples or instances.</li> <li>Will a distinction be helpful or add additional complexity without much real impact?</li> </ul>
<p><b>Q8.</b> 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?</p>	As above
<p><b>Q9.</b> 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?</p>	<ul style="list-style-type: none"> <li>Perhaps policy question should be whether this should apply for all charities not just donor-controlled?</li> <li>To determine the figure perhaps continue with looking at what is done in other places.</li> </ul>

Chapter 4: Integrity and simplification	
<p><b>Q10.</b> 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:</p> <ul style="list-style-type: none"> <li>• Increasing and/or redesigning the current \$1,000 deduction to remove small scale NFPs from the tax system,</li> <li>• Modifying the income tax return filing requirements for NFPs, and</li> <li>• Modifying the resident withholding tax exemption rules for NFPs.</li> </ul>	<ul style="list-style-type: none"> <li>• Many of these points will be specific for small charities and mutuals so consider your context and if it will impact your situation.</li> <li>• 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.</li> <li>• 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.</li> </ul>
<p><b>Q11.</b> What are the implications of removing the current tax concessions for friendly societies and credit unions?</p>	<p>As above</p>
Income tax exemptions	
<p><b>Q12.</b> What are the likely implications if the following exemptions are removed or significantly reduced:</p> <ul style="list-style-type: none"> <li>• Local and regional promotional body income tax exemption,</li> <li>• Herd improvement bodies income tax exemption,</li> <li>• Veterinary service body income tax exemption,</li> <li>• Bodies promoting scientific or industrial research income tax exemption, and</li> <li>• Non-resident charity tax exemption?</li> </ul>	<p>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.</p>

FBT exemption	
<p><b>Q13.</b> 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?</p>	<ul style="list-style-type: none"> <li>• This does make policy sense but if your charity will be impacted greatly then suggest you explain how and why.</li> <li>• 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.</li> </ul>
Tax simplification	
<p><b>Q14.</b> 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?</p>	<p>This is not an issue we have seen talked about regularly before as an issue.</p>
<p><b>Q15.</b> 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?</p>	<ul style="list-style-type: none"> <li>• These seem like sensible suggestions so worth endorsing and adding any other suggestions on improving donation tax credit system.</li> <li>• 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).</li> </ul>

Community Networks Aotearoa appreciates the opportunity to provide input into this consultation and strongly encourages Inland Revenue to consider the distinct nature of Charities in any tax reform. We would welcome further discussion and engagement to ensure that New Zealand's tax settings remain fit for purpose and support the sustainability of the Charities sector.

**Ros Rice**

**Executive Officer**

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## Supporting signatories to this submission.





31 March 2025

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

By email: [policy.webmaster@ird.govt.nz](mailto:policy.webmaster@ird.govt.nz)

Tēnā koe

**Re: Officials' Issues Paper – "Taxation and the not-for-profit sector"**

**1. Introduction**

- 1.1 This submission is in response to the Officials' Issues Paper about "taxation and the not-for-profit sector" (**the Paper**).
- 1.2 I am a senior specialist lawyer, with particular expertise in not-for-profit law. I work with charities and not-for-profits across all sorts of legal issues including governance, compliance, constitutional matters - and lately considering the implications of and submitting in response to the Paper.
- 1.3 I write this submission in my personal capacity, so it represents my personal opinion.
- 1.4 Broadly, and as set out in more detail below:
  - 1.4.1 I oppose the removal of the current tax exemption for charity business income.
  - 1.4.2 I support the idea of increasing awareness and uptake of the donation tax credit regime, but this must be done without transferring an unreasonable burden onto charities.
  - 1.4.3 I am concerned that unspecified implications for approximately 9,000 not-for-profits relating to the Commissioner's revised opinion on mutual association rules are unclear and the affected entities cannot fully comprehend the impact on them.
  - 1.4.4 I oppose changes which shift a greater burden of compliance onto charities and not-for-profits.

**2. Charity business income tax exemption**

- 2.1 Any potential tax revenue gained by removing the charity business income tax exemption will be vastly outweighed by the resulting impacts on the charities sector.
- 2.2 Removing the tax exemption will take away many charities' ability to be self-reliant in obtaining funds to further their charitable purposes. If charities are to continue doing good in the communities they serve, funding will have to come from elsewhere and there are only a limited number of alternatives.
- 2.3 Charities have a limited number of ways in which they can obtain the funds they need to carry out their charitable purposes, and business income is one that generally provides more stability than reliance on third party funding or donations. Reducing, or even removing, that option for financial stability may seriously impact how much good charities can do. It will put a strain on the limited capacities of donations and fundraising, and cause more charities to seek support from the government.
- 2.4 The net effect will be a loss of charitable good in our society, with service reductions the only way some charities will be able to manage with reduced funds available, while others will be forced to close their doors altogether. Our society relies on the contribution of charities, and there is no clear alternative to ensure comparable services and support are available. I have heard charities ask,



will the government be able to pick up the shortfall and deliver comparable services if charities can no longer?

- 2.5 The notion of “unrelated business activity” is very difficult to define, and likely to be the source of lengthy arguments. What is seen as “unrelated” is often a matter of public perception, influenced by misinformation or current societal preferences, rather than an objective assessment. People need to take the time to properly understand a charity’s purpose, its history, and the good work it does, to understand how its business activity is connected.
- 2.6 While I support the general concept of addressing tax avoidance, it is unclear what is meant by donor-controlled charities (particularly given that the Paper asks us to define how such a charity can be identified, while also indicating that however they are currently identified they are open for tax abuse). How will this extend to legacy/bequest trusts, or sub-funds within trusts set up to manage endowments?
- 2.7 In general, the changes proposed in the Paper have the potential to destabilise the whole charities sector “ecosystem”, taking away a means by which many charities obtain some degree of financial stability, causing charities to become more reliant on donations and funding (which are already stretched and sought after), and targeting a particular type of charity (donor-controlled) on which other charities rely.
- 2.8 Charities are subject to much higher reporting requirements than for-profit entities, which is justified by the charity business income tax exemption and the need for public accountability. If the exemption is removed, will for-profit entities be required to report to the public to a similar level of transparency, or will the current expectations of charities be reduced?

### **3. Donation tax credits**

- 3.1 Changes to increase awareness and update of the donation tax credit regime are good in principle, but the references in the Paper point towards an increased administrative burden on charities to make that happen (for example having to provide data to IRD to prefill claims).
- 3.2 The “problem” seems to be a need to better educate the public, not to make charities play more of a role in ensuring the regime works. Improving public awareness is not a responsibility that should fall to charities alone.

### **4. Not-for-profits**

- 4.1 It is a tough ask for the 9,000 not-for-profits potentially impacted by the Commissioner’s updated view on the mutual association rules to respond properly to questions 10 and 11 when the draft operational statement is not available for them to consider.
- 4.2 The Paper refers to “including some subscriptions” - which is enough to alarm incorporated societies going through the compulsory re-registration process under the Incorporated Societies Act 2022 (which are required to prohibit distribution of surpluses to members by section 216 of that Act), without actually giving them enough information to understand or act on the implications.

### **5. General compliance burden**

- 5.1 As an overall comment, I am concerned about the compliance burden the proposed changes will put on charities and not-for-profits which are already stretched, managing ever-growing demand, and subject to increasing compliance obligations.
- 5.2 Smaller not-for-profits and those serving lower socioeconomic communities stand to be disproportionately impacted by the proposed changes, despite doing enormously valuable work often right at the coalface.

### **6. Timing**

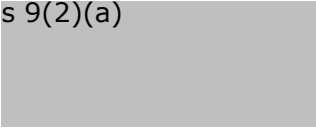
- 6.1 Given the timing of this short consultation period and its proximity to the 2025 Budget announcement, it seems reasonable to assume that substantive decisions are already well on the way to being made.

- 6.2 However the organisations and experts contributing submissions in response to the Paper have vast amounts knowledge about and experience in the charities and not-for-profit sector. I hope that in consideration of those submissions, genuine consideration will be given to the views of those who truly understand the impact of what is being proposed.

Thank you for the opportunity to provide this submission. I am happy to be contacted in relation to it.

Yours sincerely,

s 9(2)(a)



**Louisa Joblin**  
Special Counsel, Wellington  
LLB, BA (Hons), ATCL, MInstD

# Submission on IRD issues paper “Taxation and the not-for-profit sector”

Good Shepherd NZ, March 2025

## General comments

Thank you for the opportunity to submit on the IRD issues paper ‘Taxation and the not-for-profit sector’. The ability to comment at an early phase of policy development allows the sector to provide more meaningful comments than consultation on pre-defined proposals, and we are glad to see this approach being taken.

It is great to see Ministers and the Government committed to a strong charity and not-for-profit sector. Although we don’t currently (or have immediate plans to) operate a related business, Good Shepherd NZ wanted to provide the below comments on the issues facing the charities and not-for-profit sector as laid out in the consultation paper. As a registered charity, Good Shepherd NZ wants to see the sector supported to thrive and deliver the best possible outcomes for New Zealanders. Charities and NFPs like us play a different role than government in local communities and the wider social support system, and it is essential that this continues.

As the paper notes, Good Shepherd NZ and other charities receive tax benefits at a cost to government tax revenue because of the significant public good we provide. There is national and international research on the economic benefits that charities provide to a country, and to our most vulnerable people and communities.

Like Good Shepherd NZ, many charities are also efficient and effective, often operating on very low incomes and yet managing to deliver great outcomes. For example, many charitable organisations return high Social Return on Investment ratios, delivering value for money across healthcare, community services, social lending, education and many other areas. Those who are supported by our services are directed out of publicly funded hospitals, prisons, and benefits. In this way, we (and other charities like us) help reduce costs for government services.

As a charity delivering social sector services, we’d like to highlight some points related to delivering our impact now and into the future, as they relate to the topics in the issues paper:

- Funding for charities and NFPs is often sporadic and inconsistent. Funding secured by a government or philanthropic contract one year may not be renewed the next, sometimes at short notice despite the funder’s hopes and intentions.

- In our quest to remain financially sustainable, it helps to diversify income streams and be innovative. Business initiatives can be an important part of a funding strategy.
- We sometimes accumulate funds to enable capital investment, smooth out cashflow, and create operating reserves.
- We use our revenue carefully to create outcomes for people and wider society. Demand for our services is beyond what our resources can manage. If we make and keep less of our revenue, we won't be able to do as much.

In the current economic climate, we have seen a decrease in government funding of charitable activity. Good Shepherd NZ has contracts for our services expiring, which adds uncertainty as to whether we can continue delivering our supports. We, like many other charities, are more frequently turning to the philanthropic sector and individual donations to continue offering our services.

It is therefore important that we are incentivised to innovate and find alternative sources of income to fund our supports, services, and charitable activities. Business activity, related and unrelated to charitable purpose, becomes a way in which organisations can diversify their income. If organisations no longer have tax concessions to enable this, it becomes harder for us to become financially self-sustainable. Good Shepherd NZ is on our own journey to achieving financial sustainability and are considering a variety of innovative solutions to diversify our income.

It seems likely, in the current fiscal environment, that without on-going financial sustainability some charities and NFPs will close and this will put increased pressure on government funded services.

## Specific comments on issues noted and policy design

### *Charity business income tax exemption*

We support the intent that tax benefits received by charitable and NFP organisations should go directly to charitable purposes and good social outcomes. Tax concessions should be carefully considered, as recommended by the Tax Working Group, to ensure that this is occurring, and our priority is the people and communities that are supported by charitable activity – not profit making.

However, see our general comments above about how accumulation and business income can support charitable activity. If the exemption were to be removed, we support some of the suggestions offered to minimise negative impacts.

We agree that a de minimis threshold should exist and be based on charities financial reporting tiers, exemption small Tier 3 and 4 charities for whom this would likely create high compliance costs for little revenue.

We also agree that income that is subsequently distributed for charitable purposes, should remain tax exempt. Any system would need to be as simple and easy to implement as possible.

High compliance costs are already an issue for many charities like Good Shepherd NZ due to the amount of reporting required, and this will only exacerbate the issue and divert money away from our charitable purposes and the services we deliver.

### *Donor-controlled charities*

We support the intent of initiatives to reduce the risk of private charities being used as a vehicle for tax avoidance. Distinguishing donor-controlled charities from other charitable organisations seems like a logical way to develop specific interventions for the potential issues posed by these organisations. The suggestions for investment restrictions, such as ‘arms length’ terms, also seem logical to reduce the risk of abuse by donors.

Requirements for yearly minimum spends by donor-controlled organisations could be helpful if there is evidence of widespread issues associated with these charities effectively sitting on funds over several years. However, similar to what we detail above, there are many reasons why it may be necessary to accumulate funds over several years. Private foundations may have access to capital to fund large, audacious projects that small charities or NFPs could not raise or get from other methods. There are opportunities for social change that could be missed by handing out small, piecemeal funding rather than a large, funded programme.

Good Shepherd NZ is often seeking partnerships with funders who are able to finance bold, audacious projects that can have societal outcomes at a wider scale.

### *Integrity and simplification*

We generally support the intent of simplifying the tax system for charities and NFPs and ensuring integrity. Some of the proposals in this section are specific and do not relate to our functions or interests, and we have no comment on these.

We do note concerns that changes to fringe benefit tax will impact the charity and NFP sector’s ability to compete for talent. The for-profit and Government sectors have the capital to offer competitive remuneration packages, which we cannot compete with without some help. Good Shepherd NZ can already struggle to retain or gain employees, and we’re concerned this will exacerbate this issue. Without workers, the sector cannot function.

### *Concluding comments*

Once again, we are grateful for the opportunity to provide our comments on this issues paper. We welcome further discussions and consultations with the sector on this issue

and look forward to seeing policy developments that take into account the significant benefits the charitable and NFP sector brings.

It would be great to see further evidence and costings of the scale of the issues noted in this paper. Being able to understand how financially significant and widespread these problems are would be useful so we can comment more specifically on interventions to prevent this.

For example, if issues exist across a few large, profitable businesses operated by Tier 1 charities, then the most effective intervention could be different than if there is widespread accumulation occurring across all sizes of charity and types of business. If it is the former, Charities Act changes might provide more benefits than a blanket approach via tax system reform that could have unintended consequences – particularly given the simplicity of our tax system is often globally lauded.

**Taxation and the not-for-profit sector**  
**Officials' Issues Paper issued 24 February 2025**  
**Submission on Chapter 2 by St George's Hospital Incorporated**

**Introduction**

1. Thank you for the opportunity to make this submission on the Officials' Issues Paper (the Issues Paper) that addresses the review of taxation and the not-for-profit sector. Our submission relates only to Chapter 2, Charity business income tax exemption.
2. St Georges Hospital (SGH) is an Incorporated Society and a registered charity operating by and for the people of Canterbury and wider New Zealand. The Hospital was first suggested in the 1850s and was eventually built as a result of cooperation between the Anglican Church and a group of interested Cantabrians. The Hospital's doors were opened in 1928 and is registered to care for surgical and medical patients. SGH does not have shareholders, and any financial surplus is reinvested in the Hospital and used to carry out the Hospital's charitable objectives of providing medical facilities and treatment to the community.
3. The SGH campus has been at the same location since it opened. Today the campus incorporates a range of medical facilities that are available to the community and integral to the operation of the hospital. These include the Cancer Care and Heart Centres that are operated as joint ventures with specialists in the respective areas.

**Summary**

4. Following is a brief summary of the major points and recommendations from our submission:
  - There are no compelling reasons to tax charity business income, based on the information set out in the Issues Paper and also from SGH's own experience;
  - The broad removal of the tax exemption would result in significant distorted tax costs for building-dominated charities like SGH, that cannot claim building depreciation under current tax rules;
  - The targeted removal of the exemption for unrelated business activities would require care when drafting the meaning of unrelated business activities. Modern hospitals operate in a dynamic environment. SGH, like most hospitals, has many and varied commercial relationships with medical providers on its hospital campus. Those relationships are an integral component of the hospital activities.

- Funds flowing back and forth from these commercial relationships are not from unrelated business activities;
  - The key criteria for unrelated business activities should incorporate, firstly the absence of any connection between the business activity in question and the core charitable activity of the charitable entity, and secondly surpluses from the business activity in question not being for the purpose of funding the core charitable activity of the charitable entity;
  - Building-dominated charities that must accumulate surplus funds for future building commitments cannot be subject to a minimum distribution rule. If considered necessary, a building reserve account could be monitored and made subject to sensible thresholds;
  - The burden of any unnecessary tax compliance costs for charities, on top of existing regulatory compliance costs, must not be overlooked. This concern extends to any change to the FBT exemption.
5. We comment on each of these major points and recommendations when addressing the “Questions for submitters” detailed in the Issues Paper.

**There are no compelling reasons to tax charity business income**

6. This is first question asked of submitters is what are the most compelling reasons to tax, or not tax, charity business income. It is difficult for SGH to answer this question without more evidential and financial analysis around the points made in the Officials’ Issues Paper. In addition, a basic question to be answered is how much additional tax would actually be raised as a result of any change. Such forecasts are conspicuously absent from the Issues Paper.
7. On the other hand, SGH has always valued its charitable status and has always reinvested funds in the hospital and the wider hospital campus. Not having to pay tax or be burdened with tax compliance costs, has clearly benefited the wider public and fulfilled our charitable objectives. On this basis, SGH strongly supports the continuation of the current tax exemption for businesses operated by charities.

**Removing the broad exemption results in significant distorted tax costs for building-dominated charities like SGH**

8. The removal of the exemption would have significantly greater implications for charitable entities like SGH. This is because SGH, due to operating a hospital, has a significant investment in buildings. For these charities, it is about more than simply looking at the annual accounting surplus to determine how much tax may be payable. Due to the denial of a tax deduction for building depreciation, they would often have to pay tax on income that is significantly higher than their annual accounting surplus.



9. This distortion would have significant implications for SGH and similar building-dominated charities. By way of example, SGH currently charges approximately \$10m of building depreciation against its annual income. The denial of this deduction would alone result in almost \$3m tax payable, based on a corporate tax rate of 28%. This would be in addition to the tax payable on any annual accounting surplus. There will inevitably be years where the combined effect of these taxes could more than eliminate any annual surplus.

Clearly, a charity would find it very difficult to survive and carry out its good work in the long term, if confronted with this tax outcome.

10. While SGH does not support any change to the current tax exemption, for the remainder of this submission we comment on the proposal to remove the exemption for income from business activities that are not related to an entity's charitable purposes. Our comments are made in the context of SGH activities.

**Removing the exemption for unrelated business activities requires careful drafting of the meaning of unrelated business activity**

11. The operation of a modern hospital incorporates a broad range of medical services and facilities that are offered to the community. These are all integral to the successful operation of the SGH hospital. Most of the medical services and facilities are provided directly by SGH, while others are provided through various commercial relationships that SGH has with organisations that are located either within the hospital or on the wider hospital campus.
12. Following are examples of the range of medical services and the corresponding relationships with SGH:
  - Core hospital services provided directly by SGH.
  - Radiology, Blood and Pharmacy services & facilities located in the hospital, and performed by organisations that lease hospital space from SGH.
  - Cancer Care and Heart Centre services & facilities located on the hospital campus and provided under a Joint Venture arrangement between SGH and Specialists.
  - Specialist Clinician services and facilities located on the hospital campus and performed by organisations that lease facilities from SGH.
13. SGH enters the above arrangements to ensure it can provide the broad range of medical services and facilities expected of a modern hospital by the community. These businesses are clearly related to the charitable activities of SGH. Funds received by SGH under these arrangements are put back into the hospital activity. Further evidence of this relationship to the charitable activities, is the financial assistance given to tenants to encourage and accommodate their continued support of the core hospital services. Of course, the tenants and joint venture parties will be paying tax on their income arising from these arrangements and their business.
14. When drafting any legislation, care would need to be taken to ensure the above arrangements are not inadvertently captured as unrelated business activities, simply because of the nature of the commercial arrangements that must be put in place.

That is, the simple existence of a lease or a joint venture arrangement does not mean any revenues received by SGH are from an unrelated business activity. In the case of SGH, they are simply a means to an end for the provision of medical services and treatment. Put simply, the nature of the income received should not of itself make it income from an unrelated business activity.

**Criteria to be used to define an unrelated business**

15. Following on from our above observations about the charitable activities of SGH, the definition of an unrelated business activity should focus on two key criteria being:
  - the absence of any connection between the nature of activities in question and the core charitable activity of the charitable entity; and
  - any surplus from the business activity in question not being for the purpose of funding the core charitable activity of the charitable entity.
16. The criteria should not singularly focus on the nature of any underlying commercial arrangements that may have to be put in place. They may be relevant at times, but they should neither take priority nor should they usurp the above criteria. As discussed above, in the context of SGH, such arrangements are often a means to an end rather than end until to themselves.
17. In paragraph 2.24 of the Issues Paper, you have outlined examples of unrelated commercial activities that could remain exempt. These are based on overseas experience. SGH strongly supports the exemption of these and similar activities.

**Appropriate threshold to continue to provide an exemption for small-scale unrelated business activities**

18. While less relevant to SGH, we consider it would be appropriate to provide a broad exemption for unrelated business activities that are small in scale.
19. As a general observation, we support the proposal of basing the exemption on the charity's financial reporting tier. The suggested threshold of exempting Tier 3 and 4 charities seems reasonable.
20. However, we believe there should also be a second threshold available based on a simple turnover threshold. Like the UK example you refer to in paragraph 2.26, it should be based on an absolute amount and also a percentage of turnover (with a cap). If a charity comes within either the financial reporting threshold or the turnover threshold, they would satisfy the exemption. This approach would provide some continuity and solidity for the exemption, in the event the financial reporting rules change in a manner that is not consistent with tax policy.

**Most effective way of ensuring unrelated business income that is distributed for charitable purposes remains exempt**

21. The question asked is whether we agree that charity business income distributed for charitable purposes should remain tax exempt. The simple answer to this is yes. The income has been applied for charitable purposes and the community has benefited.

It is the same policy outcome as that under the current tax rule for companies that are allowed a largely unfettered deduction for charitable gifts.

22. However, put differently, paragraph 2.30 of the Issues Paper then notes that:

“Any policy change is likely to reflect the broad principle, adopted by many countries, that only accumulated unrelated business income should be subject to income tax”

23. SGH acknowledges the policy rationale for this approach. However, any changes should take account of the unique challenges confronted by building- dominant charities like SGH. To keep hospital buildings operational today and in the future, it is fundamental that funds are put aside for future maintenance, refurbishment, alterations and rebuild. This is not something SGH has a choice in. Trustees and directors would be considered negligent if they did not do so. In addition, funds put aside would mostly come from annual surpluses.

24. Your proposals to mitigate this problem would involve, firstly structural changes for charities like SGH that do not currently have a parent entity and/or, secondly the long-term cash management of tax payments and credits/refunds in a memorandum account. We do not consider it is necessary to go to such lengths to show that accumulated surpluses are applied for charitable purposes by charitable entities like SGH.

25. If considered necessary, a better approach would be to create a reserve account which records, firstly unapplied surpluses credited annually and secondly debits for the subsequent application of funds for charitable purposes. This is similar to what is currently done for accounting purposes. The reserve account could be monitored and made subject to sensible thresholds.

**Other policy settings and issues to be addressed if the exemption for unrelated business is removed**

26. The factor that must not be overlooked or downplayed is the burden of any additional compliance costs on charities that may be subject to the proposed changes. Many charities rely on assistance from volunteers and are already stretched (or struggling) with the existing burden of compliance costs across the regulatory spectrum. Officials must give this factor particular priority when decisions are to be made with respect to charities.

27. By way of example, any change to the FBT exemption for charities will clearly have a significant impact across the range of charities. In the case of SGH, we currently provide minimal fringe benefits to employees. However, any burden of significant compliance costs would be a deterrent to further availing this remuneration option for our staff in the future.

Thank you again for the opportunity to comment on the proposals.

Yours sincerely

s 9(2)(a)

Scott Bampton, Chief Financial Officer