

s 9(2)(a)

From: Nicolson, Clive s 9(2)(a)
Sent: Wednesday, 19 March 2025 12:12 pm
To: Policy Webmaster
Subject: Taxation and the not-for-profit sector

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As a member of The Salvation Army I write in regard to the possible taxing of this charity as tge obvious outcome would be that there would be less money available to assist those in need who come to us foemr assistance. In my view this would not be of benefit to either us, our clients or the Government. I submit that the current policy in regard to taxing the Salvation Army remains as is.

Thanks

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From: Shaun Baker s 9(2)(a)
Sent: Thursday, 20 March 2025 12:29 pm
To: Policy Webmaster
Subject: Submission - Taxation and the not-for-profit sector

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To whom it may concern,

I am writing in order that my voice may be heard regarding the new 'Taxation and the not-for-profit sector' proposal.

I am an officer in the Salvation Army and have been for 15 years. 11 of those were on the frontline, overseeing work in our Community Ministries (including food banks) and Family Stores. It would be my suggestion that if this proposal went forward in its current format, the Salvation Army would be significantly hindered in our ability to support the most vulnerable in our communities. Less money to work with means less support, and although we will continue to do our best in this area, I foresee it ultimately feeling like we are operating with one hand tied behind our backs.

Those requiring support will not diminish, in fact, stats show that people requiring support of some kind is growing steadily every year. This shortfall will ultimately fall on the governments shoulders and while I am not aware of the exact figures, the cost to the government will be significant.

All I'm asking, from a Salvation Army perspective, is that this proposal be given the time and care to consider the consequences of such a proposal, and that the people who matter most (the vulnerable in our communities) and their needs be given priority in any decision.

Ma te Atua e manaaki

Shaun Baker, Captain | Territorial Secretary for Chaplaincy Services, THQ Chaplain, Emergency Services Coordinator Wellington Region

The Salvation Army | Territorial Headquarters

204 Cuba Street, Wellington 6011

PO Box 6015, Marion Square, Wellington 6141

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Email: s 9(2)(a) | W: <http://www.salvationarmy.org.nz/>

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Kia Ora,

My name is Carl Worthington, and I work with The Salvation Army at Whangārei Community Ministries Foodbank for the last 2 years. I'm writing to share my thoughts on the proposed tax changes affecting charities and not-for-profits.

At our centre, we walk alongside people going through really difficult times — whether that's needing food, help with bills, finding housing, or just someone to talk to. Our Food bank alone reaches over 3000 families per year, which is the equivalent of 10,000 Tangata receiving kai support. A lot of this work is supported by the income we receive through our TSA Family Store or fundraising.

One solo mum that I have served in the food bank recently, lost everything in a house fire with 5 tamariki to care for and no possessions or food, this very courageous wahine needed immediate kai support which we provided along with navigation to other services.

This kind of support is only possible because of the resources we have — and that includes the money our store earns and generous donations we receive from the public.

If the Government starts taxing this income or making the admin more difficult, it will take away time, money, and energy we'd rather be spending on the people who need us. We already work with limited resources — we don't want to spend more of it on red tape.

Please keep these kinds of charities tax-free where the money is clearly being used for good. We're not here to make profit — we're here to make a difference.

I'm happy to talk more if needed.

Ngā mihi,

Carl Worthington

Food Security Team Leader

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From: Mike Lai s 9(2)(a)
Sent: Thursday, 20 March 2025 11:03 pm
To: Policy Webmaster
Subject: Taxation and the not-for-profit sector

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

Hi there,

Please find below my submission re Taxation and the not-for-profit sector

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

Please do not tax charitable business income. Charities like ours, a church, need to support pastoral staff and the donations we receive from the church members is often times simply not enough to cover the combined costs of overhead expenditure, staff salaries, ministry expenses, not to mention finding additional funds in preparation for the future earthquake strengthening requirements to our get our building up to necessary standards (once government confirms). Our church benefits the public in so many areas and have helped the local community and even places outside our city. Putting an additional financial strain causes undue pressure on ministry leaders who wish to provide a fantastic level of service in their ministries, shifts more pressure to congregation members to donate more (which we're already struggling to do), does not help in efforts to sustain the running of the church and increases stress levels for pastoral staff. Even with rental business income, there are mortgage costs that have taken several years to pay off and is needed to support the running of the church for in the aforementioned areas.

Kind regards,
Mike Lai (Treasurer)



21 March 2025

David Carrigan
Deputy Commissioner, Policy
Inland Revenue Department
PO Box 1298
Wellington 6140

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

Dear David,

Taxation and the Not-for-profit Sector

Please find attached our feedback to the questions raised in the Official's Issue Paper issued on 25th February 2025. As will become clear, we strongly oppose the many of the proposed changes, as we believe they will result in bad outcomes for New Zealand as a society.

Best Regards,

s 9(2)(a)

Paul Dalton
Secretary- General

YMCA New Zealand
PO Box 38-240
Wellington Mail Centre
Lower Hutt 5045
Charities Registration: CC21153

E: s 9(2)(a)
Mobile: s 9(2)(a)
Website: www.ymca.org.nz
Address: Pelorus Trust Sports House, 93 Hutt Park Road, Moera, Lower Hutt

Feedback on the Questions Raised

Overview

The National Council of YMCA's of New Zealand Inc is the national body representing the YMCA Associations across New Zealand.

We are a network of independent regionally based charities with a diverse range of offerings including low-cost accommodation, fitness & recreation centres, gyms, outdoor education camps, childcare services, youth development, social services, tertiary education, alternative education and employment support'. We have been operating in New Zealand for over 150 years, supporting communities across the country.

Collectively our national turnover is around \$60 million per annum, and we would very much feature as a charity whose business activities could be portrayed as not being related to our charitable purpose, and as such we feel compelled to respond to the items being raised in the paper.

We will respond to each of the specific questions asked, but first want to give some overall feedback:

1. **We strongly feel that the approach of further taxing the not-for-profit sector is misguided and 'looking for gold in a coal mine'.** The changes being proposed seem to be based on misinformed views of their being some \$2 billion dollars of untaxed earnings from NFP's that could be contributing to the tax take.

What seems to have been overlooked is that without the opportunity to raise capital via shareholders, NFP's seek funds for capital projects via revenue streams such as grants, donations and other channels which then appear as revenue in their P&L statements. However, with capital expenditure not appearing in their P&L's, their surpluses become overstated, often for years at a time when the capital accumulation is taking place. This distorts the financial reporting of underlying trading operations of the charity, which is all that really should be taxed if there is to be any tax on profits. In reality most charities day-to-day operations are breakeven or loss making.

If the CAPEX related revenues were removed from the revenue streams of charities we are very confident you would find that \$2 billion of surpluses would disappear, and that there is no 'gold' for the IRD to be targetting in the NFP sector that would justify the bureaucracy and compliance costs being contemplated in this paper.

In addition, these funds can often sit in their Balance Sheets for years as funds are built up over time to start a project such as a new building, falsely creating an impression of wealth.

And while it may not be the intention of the changes, it still needs to be said that it would be disastrous for the sector to be taxed on 'surpluses' created by CAPEX related revenues. With CAPEX revenue streams tightly tagged to projects, any tax to be paid would have to come out of other operating funds, which would not be able to cope with the scale of tax being incurred. This would be the death of those projects or indeed the charities themselves.

2. **It is very important to remember that the sector is already contributing to the tax take** via a myriad of other taxes – in particular GST, PAYE, fuel exercise taxes etc, and that any impression that the sector is fully 'tax-exempt' is completely false!
3. **We do not need another sledgehammer to crack a nut.** If there are genuine concerns of a few fully commercial entities masquerading as charities, then the simpler and more direct approach would be to have Charities Services revoke their charitable status. Problem solved, without tipping

up the worlds of the other 29,000 charities! If necessary the Charities Act could be strengthened if there are issues here, or review Charities Services enforcement capabilities.

4. **Don't bite the hand that feeds you!** The Government in New Zealand is very fortunate to have a huge number of charitable organisations doing its job for them, often with volunteer labour! If those charities did not exist, the burden of providing these services to the community would fall back directly and fully on the taxpayer.

It is in its own best interests for the Government to ensure that the NFP sector thrives, so and it should be doing everything it can to support the sector. Adding additional taxes to the NFP sector is going in the opposite direction!

5. **For Charities to be self sufficient is a good thing!** In an environment with reduced Government support and more intense competition for existing sources of funding such as gaming trusts, community trusts, sponsorships and donations, it is more important than ever that charities find other ways to generate income to support their causes. Having commercial operations to generate that revenue should be seen as a good thing and actively encouraged, not being portrayed as borderline illegal!
6. **We don't need to make lawyers any richer.** The litigation that would occur in determining and challenging what constitutes an 'unrelated' business activity will be a major distraction and cost drain on charities and the crown. Ironically it will be those who are allegedly 'abusing the system' that will have more resources to invest in that and are more likely to win their arguments in court. Once again, the rich will get richer and the poor will stay poor.

A simple example of this is our own activities in providing early childhood and after school care services. In many places we are competing with commercial operators, but does that make it a business, when our focus is on providing it as a community service, in many cases with the support of WINZ and MSD? There could be arguments both ways and it is ultimately a subjective judgement. The NFP sector does not need that level of uncertainty and having to spend money on lawyers to debate this in courtrooms, when our energies and funds are needed on the frontline supporting families.

Charity Business Income Tax Exemption

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

- There are no compelling reasons to tax charity business income. The alleged \$2 billion of profits from NFP's is hugely misrepresenting the real level of profitability as it is overstated by including CAPEX funding with no corresponding expenditure. As such, there is no 'pot of gold' for IRD to be targeting, as this CAPEX related income would have to be removed from any calculation of taxable profit, or the impact on the sector would be catastrophic.
- There are several key reasons to not further tax charities, such as:
 - The sector already pays significant taxes – via GST, PAYE, Fuel Excise Duty etc.
 - If more taxes are added that end up reducing charity business activity then the Government will lose out on these existing taxes.
 - It is in its own best interests for the Government to ensure that the NFP sector thrives, so and it should be doing everything it can to support the sector to be innovative and seek sustainable income streams beyond having its hand out for donations. Adding additional taxes and compliance costs to the NFP sector is going in the opposite direction.

- Charities having commercial operations to generate that revenue to support their charitable work should be seen as a good thing and actively encouraged.
- Only the lawyers will benefit from these proposals, and the charities being targeted will have the best lawyers and be most likely to escape the 'net'.
- A simpler and more direct approach to the alleged problem would be to have Charities Services revoke the charitable status of those commercial businesses masquerading as charities.

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

- No, these are spurious arguments. Charities already have compliance costs for all their other tax obligations, and do not operate in an ecosystem where having a nominal 'rate of return' better than the next business has any relevance. Being able to raise capital from investors is a luxury that charities don't have – and should never be portrayed as a 'benefit', and the vast majority of charities have very low levels of retained earnings.

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?

- Firstly determining what is 'unrelated' and making sure that is fair and consistent, when every charity will be unique in some aspect.
- Secondly, having to add the complexity into keeping accounting records to distinguish whatever is deemed to be an 'unrelated' business from the rest of the activities. It is wrong to assume that such businesses will be run in a manner that is easily segregated, such as via a subsidiary company with its own bank accounts, staff and systems etc, and many will be just part of the overall entity's operations. As such the allocation of overheads to the 'unrelated' business will be subjective and open to debate, and there will be a clear incentive to minimise the profits of that business.
- Loss of income (through whatever extra tax is paid), impacting the viability of the charity.
- If charities fail, or reduce services as a result, that the Government then has to pick up the slack.
- Any curtailing of business activities as a result of the additional taxes will reduce the tax take for other taxes paid by the charity (GST, PAYE, Fuel Excise etc).

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 purpose?

- This is a primary reason why the idea should not proceed!
- Charities are so variable in their nature and scope that it would require a unique analysis for each entity, which is a massive compliance exercise in its own right to put onto the sector. 'Guidance' by its nature can only ever be that, which will require legal interpretation and debate to get final decisions. It will be so important for many charities that it will be taken to the courts to decide, clogging up the legal system and transferring vital income from charities and the crown to lawyers pockets.
- The treatment of passive (e.g. investment) income also needs to be clarified – if it is going to be considered 'unrelated' that massive negative implications for the sector.
- Common sense would suggest that any business venture being run by a charity creating revenue for the charity by definition is not creating wealth for the benefit of any private individual/entity, so there should be no need for a definition around what is 'unrelated' or not, as it is all related!
- If there is doubt about the charitable status of the organisation, then address this directly, not via this approach.

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

- As above, we believe that this is the wrong approach and no additional taxes should be added to any charities, regardless of size.
- Again, if there are concerns about the abuse of the charitable status by a very small number of organisations, then the simpler and more direct approach would be to have Charities Services revoke their charitable status, and leave everyone else alone.
- Just by reducing the number of charities being targeted by IRD does not reduce the severity of the impact on those remaining in the spotlight. Harm is still being done to the NFP sector, and by targeting the bigger players it will mean the harm is significant!

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?

- Absolutely!

If so, what is the most effective way to achieve this? If not, why not?

- By defining all business income for a charity as being used for charitable purposes and side-stepping the issue! There is nothing wrong with a charity re-investing in its own business activities, as it will be to generate more income in future for the charity, and this should not be penalised.

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?

- For the IRD to gain a greater understanding of what proportion of charity profits are not actually 'real' profits, i.e. being created by the anomaly of CAPEX related revenue appearing in charities P&L's but not the corresponding expenditure.
- For IRD to gain a greater understanding of how charities actually run their business activities – i.e. that they are not all nice 'neat' subsidiaries, and therefore would therefore incur extra accounting and compliance costs in practice to differentiate profits from those that are deemed 'unrelated' from the rest of the business.
- For IRD to assess the level of litigation that would occur in determining and challenging what constitutes an 'unrelated' business activity – which will be a major distraction and cost drain on charities and the crown.
- To consider the loss of tax revenue from GST, PAYE and other sources of tax as a result of charities curtailing business activity as a result of additional taxes being imposed.
- Step back and consider the Law of Unintended Consequences, and what the impact will be back on Government if charity activity is reduced, forcing the crown to pick up the slack.
- In the same vein, consider the value to the Government of having a NFP sector that is self-sufficient for funding, and whether in fact more should be done to encourage charities to develop businesses to fund their activities (e.g. tax incentives).
- In general, to relook at what the ultimate objective really is, and re-assess if using the blunt tool of the tax regime is even the right way to achieve this. Would it not be better to strengthen the Charities Act or Charities Services enforcement capabilities to stop a few 'bad actors' rather than damaging the viability of tens of thousands of legitimate charities?

Donor Controlled Charities

The Y movement does not have any donor controlled charities so we have not responded to questions 7-9. Having said that, our understanding is that Charities Services already has the tools to regulate DCC's and better enforcement here would be more effective than wholesale changes to the tax system.

NFP and friendly society member transactions and related matters

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

- Policy changes should not allow the Commissioner's updated views to change the status quo, where NFP's do not pay tax on profits from member transactions or subscriptions.
- For many NFP's the levies charged on their members are the lifeblood of the organisation, and are already being taxed (via GST). Adding an additional tax burden is not appropriate, and will unnecessarily impact the viability of the NFP and its members.
- It will be inordinarily difficult to have to determine what the 'profit' is on levies & other member transaction versus other revenue streams, and this compliance burden should not be placed on charities.

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

As we are neither a friendly society or a credit union we cannot comment on this topic.

Income Tax Exemptions

The Y movement is not a local or regional promotional body, herd improvement body, a body promoting scientific & industrial research, a veterinary service body or a non-resident charity, so we have not responded to Q12.

FBT Exemption

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

- Charities are not in a position to absorb any additional compliance costs and because they do not currently incur any in relation to FBT, any costs will be a significant increase.
- However, the compliance costs are a red herring, as the real issue is that (genuine) charities are not in a position to be paying any FBT, on top of their existing tax burden as it will materially impact their viability.
- Many charities receive contra support from donors/ businesses – for example through providing the free use of vehicles for day-to-day operations that at times may result in some personal use for the driver. There is no revenue stream to pay the FBT for this contra support, so to avoid this significant liability there will be unintended consequences of not being able to accept this contra support in the first place and having to work in a less cost-effective way.
- There is clear evidence through independent surveys that the NFP sector is unable to pay their employees as much as the 'for profit' sector. As such, there is a genuine need to 'level the playing field' in any way possible to attract the necessary standard of talent to the sector.

The reasons being put forward for the review, in themselves are not a justification for making any change to the FBT exemption, in that:

- The labour market is already distorted by NFP's being unable to match 'for profit' remuneration levels. What is being proposed only worsens this distortion.
- Levelling the playing field via the tax system is arguably a very efficient way of addressing the issue.
- The IRD argument of 'weak efficiency' seems to be just a smokescreen for wanting additional tax revenue, rather than any matter of improving integrity and simplification.
- If there is a lack of coherence in the current exemption, then this is up to IRD to fix their own problem. That cannot be used as a justification to remove the exemption!
- As above, if there are no compliance costs currently, any costs are a material increase, regardless of whether they are lower than they might have been before. Therefore the concerns of compliance costs are just as valid.

Tax Simplification - Volunteers

Q14: What are your views on extending the FENZ simplification as an option for all NFP's.

- Anything that assist with reducing the compliance burden on NFP volunteers is a good thing. However the applicability of the FENZ simplification in other NFP environments would have to be looked at in more detail before assuming it was a 'one size fits all' solution.

Do you have any other suggestions on how to reduce tax compliance costs for volunteers

- Make any payments, such as honoraria fully tax exempt.

Tax Simplification – Donation Tax Concessions

Q15: What are your views on the DTC regulatory stewardship review findings and the policy initiatives proposed?

- These make good sense. A major hurdle at the moment is linking it to the annual tax return cycle, as it is hard to hang on to receipts for up to 12 months, so many potential donations are never claimed for.

Do you have any other suggestions on how to improve the current donation tax concession rules?

- Perhaps increase the lower threshold from \$5 to reduce the quantum of claims to deal with.
- Provide an online claiming system.

s 9(2)(a)

From: NZ Gifts of Love and Strength s 9(2)(a)
Sent: Friday, 21 March 2025 8:59 am
To: Policy Webmaster
Subject: Taxation and the not-for-profit sector

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Hi

We are a tier 4 charity NZ Gifts of Love and Strength.

We were founded in March 2019.

We are the first and only charity that addresses the issue in the wider Canterbury area of youth affected by sexual harm receiving a healing tote bag and toiletry items after a DSAC (police forensic medical examination).

Our healing tote bags are full of items that aid youth on their healing journey and were put together in consultation with the management team of medical staff that work with the youth at The Cambridge Clinic and START.

Over 80% of the items in the healing tote bag are made by our talented volunteers.

A year ago we started also making handmade waterproof toiletry bags full of items. As after the DSAC you have a shower. I know this as I have gone through this 2hr examination as an adult. You have a shower afterwards and it can feel sterile and I didn't want youth to feel like I did. What we weren't aware that by giving youth these items we were also addressing some poverty in the community with comments like mum and dad can't afford to buy me a deodorant now I have one.

Since the recession our donations of items have come to a complete stand still so we have had to buy in our products for our healing tote bags. As much as we want to support local we have had to go to places like TEMU for colouring pencils to make our dollars go further.

We have approached multiple companies and been turned down repeatedly.

It seems if you don't have a celebrity attached to your charity it is very hard these days to get anything given to you.

Our charity works exceptionally hard at doing fundraisers outside the square that others may not have thought of then others copy us.

We do not have any paid staff and this is to keep our overheads low so everything we do goes straight back into the charity. I as founder do the admin from my own home and don't even claim home office expenses like Internet at home.

Getting funding from the larger funding organisations is getting harder and harder with less money to go around.

Our charity has survived with zero support from lottery or Cogs, having being turned down repeatedly for 6 years. That's another story. But our local council has belief in us repeatedly.

Our concern is that should you go and tax our fundraisers then we would for the first time ever go against our beliefs of hiring anyone on wages to do the taxation.

We firmly believe because our name has love in it, that love is free and we never wanted any paid staff.

Currently we have a pro bono lawyer, and an accountant who specialises in non profit accounting who we send our annual accounts into.

With the little amounts, normally under \$1500 raised at a fundraiser this seems so unfair and will be time-consuming that is it really worth existing and then you're hurting our clients where there is no charity currently helping these youth.

Canterbury has the highest statistics for youth reported sexual harm in NZ (nz police statistics April 2024). 1 in 4 kiwi kids are affected by sexual harm. I really hope that you do not put us in a position where our movie nights, car rally fund raisers, xmas cocktail night, market stall where our talented volunteers make additional items to sell to raise funds are taxed so that we hardly see a cent that makes it not worthwhile operating any longer.

Kind regards

Vicki-Anne Parker
Founder
NZ Gifts of Love and Strength

Taxation and the not-for-profit sector

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

policy.webmaster@ird.govt.nz

Taxation and the not-for-profit sector

To whom it concerns,

We wish to make a submission on the above issues paper.

Submitter North Haven Hospice Society Incorporated (NHHS)
Contact Helen Blaxland - CEO
s 9(2)(a)
Available to be contacted by IRD if required.

Entity type Registered charity - CC25574

Entity's Purpose NHHS provides compassionate care for people of any age, with any terminal illness or life-limiting condition within the Whangārei and southeast Kaipara Districts. NHHS provides palliative care for people who have conditions and illnesses that have been diagnosed as terminal

Background NHHS care goes beyond the individual: we wrap a cloak of care and support around the family, whānau, and carers. 95% of our care and support takes place in the community. The care and support we provide is not just about a physical condition, we are also able to help with social, emotional, cultural and spiritual challenges that may be experienced. Our type of care considers family and friends, how all are feeling, their wishes, worries and concerns, and questions and thoughts about how a life has been lived and what may come after.

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

There seems to be a perception that services provided by charities don't give rise to any taxation. That perception ignores the fact that more than 100,000 people work full time in the charitable sector and pay PAYE and other employment related taxes, together with those GST registered charities that pay GST on their business activities. (Source- Charities Services)

The reduction in funds lost to taxation would mean a reduction in services provided by the charity, on the assumption that the funds lost to tax would **not** be used directly by the government to replace those services. And even if they were, there would be the inevitable time delay in collection of tax and subsequent expenditure, plus the loss of funds by way of administrative expenses as tax is collected and then re distributed back to service providers. The funds provided from charity business income by being tax exempt saves the government from having to provide the services and but also enables volunteers to take ownership of the service.

Charities rely greatly on volunteers. Over the 29,000 registered charities and the 121,000 officers who serve on their boards, it is estimated by Charities Services that volunteers provide 1.4 million hours per week to the charitable sector. Charities harness this volunteer mahi because they provide services for the public good and these are aligned with the beliefs of the volunteers. They are passionate about what they do and anything that reduces the benefits they provide (such as the imposing of tax) would impede their passion and enthusiasm and in our opinion lead to a drop off in volunteer commitment.

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?

North Haven Hospice would likely have a further \$400,000 - \$500,000 annual income shortage if non-related to charity business income surplus was taxed.

Parts of the service would have to be stopped due to lack of funds.

We only operate the Hospice charity shops etc because the revenue received from the government is not sufficient to cover the costs of the service. If Hospice was fully funded by Te Whatu Ora we would not need to operate the shops.

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?

Investment income from interest and dividends should not be defined as unrelated business income as there is no potential for the undercutting of competitors as the market sets interest rates and the dividend levels. All players in the market are on the same level regardless of their tax status.

Dividend income should not be defined as unrelated business income on the basis that charities like all other dividend recipients pay dividend tax by way of imputation credits that are not refundable. There is no competitive advantage by being tax exempt.

One of the hallmarks of a charity is the degree of reliance on volunteers. Volunteers will only be involved in unrelated business if they can see sufficient nexus between what they were volunteering for and the entity that ultimately benefited from their volunteering. Hence, we would suggest the **level of volunteer involvement** in the tax-exempt business would be one of the defining criteria.

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?

We would advocate that reporting tier levels 3&4 remain exempt. By adopting the tier-related basis, it is using an already existing system that the charities sector is familiar with. By adopting levels 3&4 it is exempting 88% of charities that are shown to have business income (table 1 page 10 of IRD issues paper) and given the level of activity of those charities as evidenced by their levels of expenditure at those tier levels the quantum of business income and therefore the tax forgone is minimal.

This exemption will require some anti avoidance provisions to prevent donors from forming multiple charities (for deliberate avoidance) seeking to remain below the threshold limits.

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?

North Haven Hospice Society believes the current tax-exempt regime should remain and the tax exemption for charity business income should **not** be removed. Why?

- 1 The charitable sector is better able to deliver public benefit services because of the way it harnesses the volunteer workforce
- 2 To expose the charitable sector to taxation will reduce the funds available to those services they provide and put pressure on the government sector to replace the services curtailed.
- 3 To expose the charitable sector to taxation will require defining what is "unrelated" and what is "business" income, with all the usual exemptions, adds to the uncertainty and administrative burdens that the imposition of taxation would bring. Financial statements will have to be prepared defining business income from other income and could be prepared in such a way that maximises overall costs against the business income thereby reducing tax.
- 4 If the perception is that the tax-exempt benefit is being abused then rather than bringing in rules and regulations that impact on all charities, surely Charities Services have the regulatory power to investigate those that they suspect are abusing the privilege. If they do not have the powers, then they should get them and have resources to implement them. Table 1 page 10 of the issues paper indicates 1300 charities in tier 1 & 2 report as having business income. Assuming not all 1300 are abusing the system, then the number of charities subject to a more thorough review would be manageable.

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?

NHHS thinks that if the tax exemption is removed, IRD should implement similar policy as adopted in other similar countries (like Australia) eg specific exemptions for businesses run by volunteers and charity op-shops selling donated goods etc.

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

Yes

If so, what criteria should define a donor-controlled charity? If not, why not?

IRD should be guided by precedent from other countries similar to NZ where rules/guidelines are already in place

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

Yes

If so, what restrictions would be appropriate? If not, why not?

IRD should be guided by precedent from other countries similar to NZ where rules/guidelines are already in place

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

Yes

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?

IRD should be guided by precedent from other countries similar to NZ where rules/guidelines are already in place

Q10-12 Not applicable to NHHS so no answer submitted

Income tax exemptions

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?

NHHS submits that the current FBT exemptions should remain in place

Tax simplification

Q14. What are your views on extending the FENZ simplification as an option for all NFPs?

Makes sense and seems like a good way to create consistency for all NFP's. We agree with the proposed idea.

Do you have any other suggestions on how to reduce tax compliance costs for volunteers? No

Q15. What are your views on the DTC regulatory stewardship review findings and policy initiatives proposed?

NHHS would be happy to have it de-linked from income tax and allow IRD to collect data from donee organisations to pre-fill DTC claims to better facilitate the donor credit in a timelier streamlined manner

Do you have any other suggestions on how to improve the current donation tax concession rules?

No

From: s 9(2)(a)
To: [Policy Webmaster](#)
Cc: s 9(2)(a)
Subject: Taxation and the not-for-profit sector - Presbyterian Support Central Response Submission
Date: Friday, 21 March 2025 12:13:48 pm
Attachments: [image001.png](#)
[image002.png](#)
[IRD Taxation and the not-for-profit-sector - PSC Response Submission - FINAL.pdf](#)
[Te Whata Ora - PSC Financial Sustainability Report Final \(030524\).pdf](#)
[The Domino Effect - NZACA Campaign.pdf](#)

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

Kia ora koutou,

Please find attached Presbyterian Support Central's response to the Taxation and the not-for-profit sector official's issue paper released in February 2025.

The following supplementary documents are also attached, and are referred to in our response submission:

- Te Whatu Ora – PSC Financial Sustainability Report
- NZ Aged Care Association – The Domino Effect Campaign

If you have any further questions, please don't hesitate to get in touch.

Ngā mihi,



s 9(2)(a)
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***Presbyterian Support
Central***

Response submission

**Taxation and the not-for-profit sector
(February 2025 – Official’s Issues Paper)**

Submission made by (on behalf of Presbyterian Support Central):

Jonathan Gan – General Manager Business Services & Sustainability

s 9(2)(a) [Redacted]

[Redacted]

21st March 2025

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1) Context and Introduction

Tēnā kotou katoa. This submission provides PSC's view, commentary, and feedback on the provided consultation '*IRD issues paper on taxation and the not-for-profit sector*'. As part of our response, we have highlighted and brought to the fore some unintended consequences, should these changes go ahead. We then step through each point that has been presented in the paper, and address each of the questions raised that are relevant to us.

Presbyterian Support Central (PSC) is one of seven autonomous regional Presbyterian Support organisations. Collectively we are one of Aotearoa's largest not-for-profit (NFP) health and social service providers. PSC operates and provides services in Taranaki, Whanganui, Horowhenua, Manawatu, Wairarapa and the greater Wellington region. We provide services to support those in Aotearoa that are at the most vulnerable and needy stages of their lives.

Through **Enliven**, PSC provides aged care services by operating 14 aged care homes offering various levels of care including, rest home, hospital, and dementia care. We also operate 9 retirement villages. These villages are in provincial centres and are purposefully priced lower than our for-profit competitors so that they are more accessible for our elderly.

Through **Family Works** we provide social services that support children, young people, families and communities who have experienced trauma, family violence, separation, poverty, stress and anxiety, to have a safer and brighter future.

Today, there are more families in need than ever before, and we have an ageing population meaning there is a greater need for more residential care beds as each year passes (over 13,00 by 2030 according to Te Whatu Ora). To add to this number, over 1000 beds have permanently closed recently, and there are other significant pressures in the system forcing listed/private providers to make difficult calls on who can access their care beds. This makes it harder for our elders to access the care they need, in their community – especially those on lower incomes, when they need it especially through charitable providers such as us. As a not-for-profit provider, we have and continue to face extreme financial pressure. Over the last few years, we have already had to downsize services, close beds and are today facing further difficult choices. We know how important it is for people to have access to our services and to have a home to live in, that otherwise they couldn't afford, and we are saddened that health funding is not keeping pace with the inflationary costs we face daily.

It is important to note that as a not-for-profit we look after those residents who cannot afford the 'premium room' rates charged by "for-profit" providers, through our 'standard rooms' (none of which have been built for many years). Unfortunately, the funding deficit means our homes are more 'tired' than we would like, needing more maintenance. Our retirement villages are generally older, smaller, in rural/semi-rural settings and (by design) are more affordable to lower income New Zealanders. Indeed, audits confirm that we are generally much more cost-effective service providers than direct Government service provision. The services we provide are an important contribution to the wider publicly funded provision for health and social care to those that are at the most vulnerable stages of their lives.

While we are 'not-for-profit', we are "not for loss". To operate our range of services we very much rely on the financial provisioning and support from our independent living retirement villages, which effectively subsidise our operating costs for our aged care and social services. This has been, and continues to be, a necessity because of the chronic underfunding through the aged residential care and social service contracts from the Government.

It is well reported that there are a significant number of people (especially women) over 65 that do not own their own home and who only receive the National Superannuation . As a result, they cannot afford anything other than a 'standard' room, let alone entry into a retirement village. If operators like us are forced to close more homes (due to financial non-viability) this will push more out of our care (rest home and independent village living) with the obvious subsequent impacts on general housing for the wider and younger population trying to get onto the market.

We consider this IRD Issues Paper on taxation of the not-for-profit sector will significantly, and negatively, impact PSC's operational ability and financial viability. If we, and many not-for-profits like us, are not there to provide the desperately needed care and services (with increasing demand) by people at the most vulnerable times of their lives, then New Zealand will be worse off. As an unintended consequence of this, the Government will either need to step in and provide additional funding, or risk having to take on these issues (at a cost to the taxpayer) that will likely outstrip any financial gains proposed by removing the tax exemption (noting that substantive evidence of the tax gain has not been provided). In addition, the fact that we generally under report the true cost of service provision means the absolute benefits of taxation will be reduced.

PSC is *not in support* of removing the tax exemption for charities/NFP's. The unintended consequences that will arise from this are dire and will have negative implications that will flow through to next generation, impacting Government, and New Zealand society significantly, and ultimately harm those in our care that are vulnerable, in need, and require our support. There is no 'one-size fits all', and while we accept that there may be charities currently abusing their charitable status and benefits, a blanket approach across the whole sector is not the right answer. Instead, we would encourage the review and improvement of the regulatory function that is already available through the Charities Act, to address this issue that has not been clarified.

As it stands, if the proposed changes go ahead, there is a real risk that PSC, and many others will no longer be able to operate.

2) Unintended Consequences of Proposed Taxation Changes

The proposed changes suggested in the paper, take a blanket approach across the whole charity/NFP sector, to address potential issues stemming from what we assume is a small number of charitable organisations who are outliers. If there is a wider issue, this should be presented openly. These 'blanket' changes are sweeping and significant and will impact not only the charitable/NFP sector, but those public services that rely on the community and volunteer support that comes from and is available to these organisations.

If enacted, these changes will require charities/NFP's to either increase the cost of their operations by way of charges to 'customers' or to their beneficiaries, or at worst force us to close our doors. This will do nothing to serve those that need care and support across Aotearoa, except make it more difficult for them to access services. This additional need will inevitably end-up falling back on Government and the general taxpayer to address or alternatively there is a widening gap across society between those who 'have' and those who 'have not'. This brings a political risk for any Government.

PSC have identified several unintended consequences, that will have both a significant and negative impact if this develops:

- a. The loss of goodwill from the public to support charities/NFPs where their time as volunteers, or indeed their donations, are taxed at entity level. A disappointing outcome when New Zealanders are one of the highest recorded donors to charities in the OECD.
- b. The introduction of FBT and the additional compliance burden of this proposal, if introduced, will add a significant increased costs to an already stretched/underfunded sector.
- c. These changes seem to move us further away from a 'simple tax system', contrary to one of the main objectives identified in the consultation.
- d. Taxing membership fees will effectively drive members away and reduce volunteering activities as entities (such as Rotary, Lions and others) who will have to increase their fees to whatever 'corporate' tax rate is applied. Many such organisations provide additional support and funding to charities such as PSC and this would further impact on our sustainability.
- e. The changes could create the perception that charities/NFPs are *quasi private businesses* that don't need donations – further reducing essential funding from individual donors and funders. Reducing charities income sources (to further rely on the charity of others) will lead to more competition between charities for funding, incurring more cost on fundraising which in turn is not available for charitable purposes.

- f. Charities have been encouraged to actively think about and develop social enterprise initiatives. To now be taxed for that innovation seems somewhat contrary and insulting.
- g. Increased regulation and compliance will further increase direct costs for charities/NFPs pushing the sector to employ more qualified finance staff at private sector rates that do not directly add value to those needy and vulnerable people the organisations serve. This is surprising when, generally, charities have significantly greater transparency requirements than 'for-profit' entities in New Zealand, most of which have no legislated obligation.
- h. Proposals will further exacerbate the funding shortfalls the sector has seen from grant bodies and public/philanthropic donors over the past decade or longer. Ultimately this makes it harder for charities to survive and achieve financial self-sustainability. It will discourage us from being innovative and seeking sustainable income streams
- i. Evidence of the revenue gain is missing from the document. Indeed, the revenue that will be gained by the Government through taxing charities, may well fall short of the additional services Government will need to provide if charities become less sustainable or close their door. Additionally, IRD and Government should consider the cost to fulfil the unmet social need if charities are no longer able to do this.
- j. The changes, if ratified, will negatively impact the charitable aged care sector. 70% of aged care beds are provided by those other than the 6 NZX listed companies. These small/medium-sized operators cannot remotely compete with these companies. The current funding shortfall from Te Whatu Ora will be exacerbated by impacting different aspects of our charitable business i.e. retirement villages and social enterprise activities. Adding to this, current proposals to amend the Retirement Villages Act will be catastrophic for the sector
- k. If small/medium-sized aged care providers are forced to close 'standard room' beds, it means that those least able to pay private care rates will be forced on the public health system with demand having to be picked up through the public hospital system, that is already under pressure.
- l. There are marked differences in pay rates between the private and charitable/NFP sectors as signaled through the Strategic Pay annual surveys. This provides evidence that the charitable organisation does not (and cannot afford) to employ those with the necessary capability to meet the requirements of a more complex taxation regime. Indeed, staff costs in general will be increased if FBT is enacted. It will reduce our ability to compete for appropriate skilled labour resource with the for-profit sector. Currently there is not a level playing field in respect of reporting transparency with for profit businesses, i.e. we must 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.

3) Commentary Specific to Points Presented

Chapter 2: Charities business income tax exemption

2.1	Many of New Zealand’s 29,000 charities registered under the Charities Act 2005 raise funds through business activities. These activities range from small op shops to significant commercial enterprises.
PSC is a registered charity under the Incorporated Societies Act.	

2.3	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.
<p>Our business focus is caring for the needy and vulnerable through our aged care services and social services. It is unclear to us what constitutes an ‘unrelated’ business activity, and it is imperative that this is well defined and made clear. Our mission is to support those that are vulnerable and needy. Due to chronic underfunding by government, all our business activities that generate income, from any source, goes back towards supporting our mission and keeping the business operational. PSC has run an operating deficit for more than a decade due to inadequate central and donor funding for the care and services we provide. In 2024, PSC’s management team openly collaborated with Te Whatu Ora (our funder of the aged residential care contract) to do a whole of business review of our operations and start discussions for additional funding. As a result of this, Te Whatu Ora openly commended PSC on the work done over the last few years to ‘turn over every rock’ to reduce costs and bring in additional revenue and conceded that additional funding should be provided to PSC (circa \$2m pa), but this was not forthcoming.</p> <p>Attached to this submission, is the external review of our service undertaken by Te Whatu Ora/Health NZ. As a rough estimate, assuming we eventually make a profit, every \$1m additional tax paid is equivalent to approximately 10 care beds per year. If taxed additionally on our existing sources (based on this paper that could be considered ‘unrelated’) of income, every \$100k of additional cost has the potential impact of closing one care bed.</p>	

2.4	The current tax policy setting makes New Zealand an international outlier. According to a 2020 OECD study, most countries have either restricted the commercial activities that a charitable entity can engage in, or they tax charity business income if the business income is unrelated to charitable purpose activities. These countries have typically been concerned with a loss of tax revenue from businesses if a broader tax exemption was applied, unfair competition claims, a desire to separate risk from a charity’s assets, and a desire to encourage charities to direct profits to their specified charitable purpose.
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PSC operates a number of retirement villages. These may be considered ‘unrelated business activity’, however, the chronic underfunding in the sector means that these villages, priced at the lower middle-end of the market, go towards subsidising the care for our residents living in standard rooms. No funding is distributed to shareholders (as we have none) and we have not made an operating profit in many years. Loss of tax relief would further negatively impact the services we provide and likely the operational viability of PSC. New Zealanders are recognised as one of the highest donor populations in the OECD. Changing the taxation policy could significantly affect this – for the worse.

2.5 Our income tax exemption framework for registered charities takes a “destination of income” approach. This means that income earned by registered charities is tax exempt because it will ultimately be destined for a charitable purpose.

All of PSC’s funding and income goes back into supporting the vulnerable and needy through our services and allows us to build on our offerings e.g. standard rooms, social housing, foodbanks etc. We have no shareholders (except those people and whanau we serve).

Issues affecting our small number of retirement villas have been highlighted earlier in our response.

As examples, we have previously established a Competence assessment Training Programme for internationally qualified nurses to build and enhance our workforce, established an online shop meet specific needs of our elders and built relationships with external partners to raise funds. PSC is about to launch a new social enterprise in the form of an elder adaptive clothing range. This provides affordable and practical wear for elderly that are vulnerable or those with disabilities, and where normal clothing is not usable.

While each of these could be classified as an ‘unrelated business activity’ they does support our mission and therefore charitable purpose. However, if taxed it would force us to consider the value of undertaking these activities and indeed any future innovative social venture or partnership. Currently due to underfunding by the Government, we have no other option but to be innovative and seek out alternative revenue streams to support our organisation.

2.7 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.

As a charity/NFP, 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). Without charitable organisations like PSC, 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.

2.10	On this basis, the tax-exempt entity will charge the same price as its competitors. The tax exemption merely translates to higher profits and, hence, higher potential distributions to the relevant charitable purpose. Consequently, funding the charitable activity from trading activities is no more distortionary than sourcing it from “passive” investments, such as interest on bank deposits, or from direct fund raising.
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PSC broadly agrees with this point.

2.11	Another concern is whether a tax exemption gives a charity a greater ability to use predatory pricing to gain an advantage. While a charity might be able to sustain lower prices and operating losses temporarily to out-compete others, the value of tax losses for taxable businesses mitigates this advantage. Taxable businesses can carry forward losses to offset future profits, reducing the impact of initial losses. Therefore, the argument that charities can use their untaxed retained earnings to engage in predatory pricing overlooks the mitigating effect of tax loss carry-forwards for taxable entities.
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Despite hearing claims from business of competitive advantage of charities, we are not aware of any evidence of *‘predatory pricing’* examples or independent studies showing this. In Australia, we understand this has been investigated with *no evidence* confirming this is the case. Further to this, charities have several significant commercial disadvantages compared to any for-profit competitors. These include:

- Charities are held to a much higher level of reporting requirements and public transparency
- Charities reporting requirements in compliance with legislated reporting standards, and often independent audit, based on scale, impose greater compliance costs.
- We are already restricted in raising finance as they cannot share their profits.

- Charities cannot claim the imputation tax credits from tax dividends when investing in shares.
- Also, Charities operating businesses cannot offset losses against future year profits as for-profit businesses can.

As a charity, PSC is chronically operating at a loss and has been for over a decade. We provide a competitive pricing service as a direct result of the tax exemption. In lieu of this, and for us to continue providing our services to those that are vulnerable and in need, this would need to be further funded by the Government.

2.13 However, there are various “second-order” imperfections in the income tax system that may need to be taken into account. For example:

- **Charitable trading entities may have an advantage over non-charitable trading entities in that they do not face the compliance costs associated with a tax obligation. This lowers their relative costs of doing business.**
- **The non-refundability of losses for taxable businesses can result in a disadvantage for such businesses relative to tax-exempt businesses, resulting in a higher relative rate of return for non-tax paying businesses over time when there has been a loss in one year.**
- **The costs associated with raising external capital, such as negotiating with investors or banks, can be significant. These costs often make retained earnings the most cost-effective form of financing. Because charities’ retained earnings are higher, this may give them lower costs in raising capital. On the other hand, charities generally cannot raise equity capital (as private investors cannot receive a return).**

We consider that PSC will have at best a marginal, or non-existent, advantage over for-profit competitors. The compliance costs for health and social care are far more onerous on us as a charitable organisation, than the tax compliance. The increased compliance would introduce higher costs e.g. more skilled finance staff and would mean less funding going to the needy and vulnerable reducing our overall charitable purpose and impact.

These points also assume that there is a ‘profit’ to be taxed. PSC has *urgent* home operating repairs more than \$10m but no funds to deliver these. We have significant risk that our buildings become uninhabitable and must close if taxation strips us of our already limited funds.

While correct that costs associated with raising external capital are significant, PSC cannot afford to raise capital due to the debt load it would create, and the lack of returns to cover the debt interest. There is a high risk that being taxed will further reduce our ability to raise funds to support our charitable purpose.

2.17	A policy change to tax income accumulated within charity businesses would have financial implications for some affected charities. For example, for profitable businesses reporting a taxable surplus it would reduce the amount of accumulated funds available to their businesses, which they would otherwise use to grow their net assets or ultimately pass on for charitable purposes.
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There is significant and real risk that this change would push many charitable/NFP organisations out of existence. This absence of charities will fall back on the Government in both cost and political support.

As we have social enterprise activities and our core services, we have an obligation to maintain funds to allow wind-up activities if this were to occur. Charities will always have some accumulated funds. We assume if their purpose is 'tagged' this would be acceptable. However, taxation of accumulated funds will have a flow on affect of significantly impacting the amount of good that NFP's are able to deliver aligned with their charitable purpose.

If charities are not providing their services and addressing societal needs, the result will generally become increasingly loud calls to Govt to address the issues that charities used to. This has direct cost implications for Govt – likely to be more than their support of the charitable sector via tax concessions. It will also likely eventually equate to an adverse impact on the political support of the Govt of the day if they are then not seen to be addressing the issues effectively themselves.

2.18	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.
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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 people!

2.19	Compliance costs for affected charity businesses would increase. However, the extent of those costs would depend on the policy design.
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Any additional compliance cost will pressure the sector, requiring additional staff, and adding more cost to a sector already stressed.

Taxable income is probably avoidable for larger entities by restructuring their businesses (as evidenced in the recent commentary on private businesses not paying tax). Many charity/NFP's already have limited capability and capacity to take on more activity associated with tax reporting.

2.21 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.

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?

There is a real risk if change is enshrined in legislation without the true consequences for charities being known or understood.

2.30 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.

This is unclear to PSC. Is this saying that if we have made funds from an unrelated business and not used them then they are liable to tax? otherwise if we allocate all our funds no tax? Significant detail is needed to fully understand and consider this question.

2.33 Some countries only exempt a charity's business income if the business profit is distributed towards a charitable purpose within a given time period.

But this also depends on the scale of activity, infrastructure requirements, operations impact and economic environment at a given time. In addition, charities can be impacted by environmental factors and policy/legislation changes in different ways compared to the private sector i.e. volunteer and donor behaviour, philanthropic givers, public scrutiny etc.

2.34	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.
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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.

2.35	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.
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We need more specific details around the `additional rules that may be necessary`. This would need further consultation with the sector.

2.37	If a charity's charitable purposes are not limited to New Zealand, its business income must be split on a reasonable basis between its charitable purposes in New Zealand and outside New Zealand. Only the part that is apportioned to the charity's charitable purposes in New Zealand is exempt from tax. This is sometimes referred to as the "territorial rule" or "territorial restriction".
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We have a strong view that Government funded contracts with charities/NFP should *not* be taxed. This would seem counter-intuitive to the intent of the funding to support social good and enable us to fulfil our charitable purpose at a lower cost to government.

Chapter 3: Donor controlled charities

3.1	The term “donor-controlled charity”, for the purpose of this issues paper, refers to a charity registered under the Charities Act 2005 that is controlled by the donor, the donor’s family, or their associates. Donor-controlled charities often referred to in other jurisdictions as private foundations typically take the organisation structure of charitable trusts or limited liability companies.
<p>Currently not applicable to PSC. However, we would be interested to understand where trusts and their distributions fit into this?</p> <p>PSC are responsible for and could be beneficiaries of specific Trusts but do not have donors controlling them.</p>	

Chapter 4: Integrity and simplification

4.25	Benefits provided by a charitable organisation to its employees while they are carrying out the charitable purposes of the organisation are exempt from FBT. This exemption has been in the FBT rules since 1985, although it was removed for a brief period in 1990.
<p>For many charitable organisations, PSC included, the FBT exemption has been invaluable to allow us to offer more competitive remuneration packages at a lower cost to the charity, allowing us to attract appropriate labour resource aligned to best delivering our charitable purpose. This has been important in allowing us to attract and retain the right talent, in competition with the for-profit sector. By default, this has increased funds available for our residents and clients and reduces compliance costs.</p> <p>The likely implication of removing or reducing the FBT exemption for charities will be significant and negatively impact on the ability to compete for appropriate labour resources and introduced significantly increased compliance costs in accounting for any fringe benefits that may still be provided. Ultimately, this will critically impact the ability to deliver on our purpose and for some organisations will mean they are at risk of being not viable.</p>	

4.27	There are weak efficiency grounds for continuing this exemption because it distorts the labour market. The current position 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.
<p>However, NFPs generally pay employees less than the private sector. Before any changes are discussed further, we recommend <i>an analysis of salary differences should be undertaken.</i></p> <p>Each year there is a review undertaken by Strategic Pay showing salary difference between the NFP and Private sector indicating a notable difference.</p> <p>For the reasons mentioned earlier NFPs will be unable to compete in the general marketplace for appropriate labour resourcing as will not be affordable – this has a direct consequence of on charitable impact and purpose.</p> <p>The increased compliance costs will make it financially unviable for us to exist and cause the loss of essential staff (PSC has already stripped out many of its back-office staff to contain costs). The result will be organisations deferring to the Government for services with unintended consequences as identified previously e.g. reducing services, competition for employment etc"</p>	

4) Response to Discussion Questions

Below are PSC's responses to the specific questions asked, where applicable to us as a not-for-profit provider of aged care and social services.

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?
	<p>PSC is <i>not in favour</i> of removing the tax exemption on charity business income. Our reasoning for this is as follows:</p> <ul style="list-style-type: none">• Our view is that this would harm vulnerable New Zealanders and likely flow on to the taxpayer:<ul style="list-style-type: none">➤ Charities do amazing mahi and provide social good for unmet needs to those that are vulnerable with aroha. Removing the tax exemption would cut our resources and the support available to struggling kiwis that we support. Connections with local communities are a unique feature that could never be replicated by government services, as a minimum, resulting changes would mean that PSC are unable to continue providing both the quality, quantity and diversity of aged care and social services for lower to middle income New Zealand, exacerbating the current looming aged care crisis in New Zealand and burgeoning unmet social need. At worst, we will be forced to close.➤ Changes to FBT may require wage increases to retain skilled and capable resources – this would directly mean that there is less funds to fulfil our charitable purpose. Recruiting skilled employees in this sector is already hard enough as it is when competing with for-profit entities – we simply cannot afford to pay enough (even with the tax exemption). PSC has had on-going recruitment struggles for this exact reason for over a decade. Some of our 1000 staff are not even paid a living wage and we are aware some are having to rely on foodbanks to supplement their income.➤ These changes have a high risk of forcing many of us to close our doors. If this occurs, the Government will have to step in to fill the void, at a much higher cost, with less community engagement and increasing social burden for government agencies already under pressure. Often a social investment case; unsupported people would go on to cost the taxpayer more in terms of 'bottom-of-the-cliff' costs.

	<ul style="list-style-type: none"> • It is likely unworkable, resulting in low revenue gathering: <ul style="list-style-type: none"> ➤ Scope is uncertain and will be difficult to implement; seems counter intuitive to the objective of simplifying the tax system. All this will do is increase compliance costs, reducing the resources available to help kiwis. ➤ The unintended consequences from these changes would likely mean that the Government will need to pick things up to provide continuation of services for those that are vulnerable and in need – and will be unable to do it as cost-effectively or with community support. This will come at a likely increased cost, that will ultimately funnel back to taxpayers to cover for a lesser service (just consider the recent example of school meals where local charities were delivering and the impact of centralisation). • We think it this is the wrong solution, due to an unclear policy problem: <ul style="list-style-type: none"> ➤ What is the scale of the problem? Where is the research and investigation to support this? If it is just a few bad actors, then chase them and utilise the current regulatory powers that are in place through the Charity Act and DIA – that is why they exist? ➤ There is no competitive advantage provided to charities/NFP’s vs. for-profit providers (as mentioned previously and noted in your paper).
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<p>Q2</p>	<p>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"> • The economic and policy climate for charities over the past decade has made it more difficult for organisations to deliver their charitable purpose, in an already stressed environment. PSC has run an operating deficit for over 10 years despite doing everything we can to reduce costs, identify new revenue opportunities and other cost-cutting measures. Philanthropic funding for charities has gotten more difficult over the last two decades which means there are reduced funds available for an increasing number of charities like us. • Specifically for PSC, a whole of business view needs to be taken and not slices of the business e.g. retirement villages, fundraising partnerships, social enterprise activities, understanding where the funds we receive go and how they are utilised for the people being supported. All income we receive, regardless of where it comes from, goes towards our mission of supporting those that are vulnerable (i.e. our shareholders) and in need across Aotearoa in the provision of aged care and social services – both are significant issues in New Zealand. PSC does not get

	<p>funded sufficiently to meet our historical and current operating costs. We have significant technical debt, capital/property repair and maintenance costs that we are already unable to address due to our financial position. Despite this we continue to provide highly regarded, quality and much needed services to our residents and clients – but this is not sustainable and removing the tax exemption will be the straw that breaks the camel’s back!</p> <ul style="list-style-type: none"> • Consideration also needs to be given to the scale of operations, relative to other for-purpose operators in the market. • Taxing our business income would discourage us (and others) from being innovative and seeking sustainable income streams as it would no longer be viable to do so with our already limited (and declining) funds. Charities (including PSC) often must be more creative (as described earlier) with funding from external sources than government agencies – staff are often performing multiple roles across workstreams paid from different funding streams. This is not often understood and as a result, there will be unintended consequences from increased taxation on programme delivery. • Many staff working in charities and NFPs are paid at the lower end of the income scale and further income reductions may lead to staff cuts and being unable to retain employees. • There are many implications and workarounds that must also be considered here. For example, couldn’t a company just find other ways to do the same thing e.g. donating out profits to the charity from the unrelated business entity, so it wasn’t taxed – so therefore, what is to be gained? • A view of the strategic goals for each business and its sustainability, and how much income generated (from any source) will be used charitable purpose <i>must be considered</i>. If it cannot be justified that income from ‘unrelated business’ is being used/earmarked for a charitable purpose then it should be taxed – especially if just a cash generating exercise – however, current regulatory powers and policy tweaks could and should be used to enforce this rather than a blanket change across the sector that, as mentioned already, will have significant unintended consequences.
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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?
	<ul style="list-style-type: none"> • There is no simplistic answer to this. The definition of what is ‘unrelated’ will be extremely challenging to define given the complexities in our sector. However, it is of utmost importance that this be done properly and will require further sector consultation.

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	<ul style="list-style-type: none"> • A few points for consideration: <ul style="list-style-type: none"> ➤ Make sure it is truly unrelated if this is a criterion to be used e.g. PSC has 14 retirement villages that are better value compared to for-purpose. All income received from our villages goes back into the business to support our charitable purpose, effectively subsidising the residential care and social services we provide. Our online Shop, CAP Programme, Elder clothing, additional service fees, outreach activities, FDR contract, private mediation etc. return all income to service our clients and residents. ➤ How will a meaningful definition be made of non-business vs. business income (e.g. passive investments) and related and unrelated business?
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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 should be dependent on the individual charity and the scope of its business and not just the income. There would need to be an assessment of the business and unrelated activities concerned to take account of the associated differences and complexities.

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 that if the tax exemption is removed that charity business income distributed for charitable purposes should remain tax exempt. However, we do not support the removal of tax exemption for the points made previously.

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?
	In the first instance, we would need more significantly more detail of what happens in other jurisdictions to understand the implications from any proposal.

	<p>Other considerations are:</p> <ul style="list-style-type: none"> • This will increase compliance costs for both government and charities, reducing funds available for distribution to charitable purposes. • The valuation of <i>pro bono</i> or other ‘free’ voluntary services as input expenses. Labour cost is the main input expense for all charities, and we receive <i>pro bono</i> or service support from various parties to help us deliver. • 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 IRD as to what the appropriate ‘fair’ labour costs should be. This will further reduce the ‘tax gain’ to Government. • The playing field is not currently level in respect of transparency of reporting compared with for-profit businesses, i.e. charities must 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.
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Chapter 4: Integrity and simplification

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?
	<p>The likely implications of removing or reducing the FBT exemption for charities will be marked for some of us to compete for appropriate labour resource vs. the for-profit sector. It will also increase compliance costs in accounting for any fringe benefits that may still be applied.</p> <p>Specifically related to PSC, the following implications will be:</p> <ul style="list-style-type: none"> • Inability to afford/recruit staff from the general employment market. • Reduced skills/capabilities - <i>you can only afford what you can afford</i> (i.e. we will end up with lower skilled employees to live within our means – this is happening today as roles are being replaced, we are reducing the salary offered).

	<ul style="list-style-type: none"> • Compliance costs will undoubtedly increase, but more so, it is the salary increases that will need to be given to retain existing employees. This will result in less money being channelled towards our purpose. • Employees coming to charities do expect a lower salary for 'doing good' which in the current economic environment, is not viable or sustainable for most of the population. • Impact of more tax dollars flowing out of the business and the impact on our already pressured cashflow. While our asset base on paper is good, the quality of buildings need significant investment. Cashflow is one of our major challenges.
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Tax simplification

Q14	<p>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>More information will need to be provided. We are not sure of the compliance benefits. What are they and are they meaningful?</p> <p>This doesn't appear to be an issue that has previously been raised or is regularly talked about with the sector.</p>

NZACA CAMPAIGN

The Domino Effect



PSC - All Staff Communication - Tuesday 8th August

Kia ora team,

NZ Aged Care Association have launched a campaign today where they are running a large, national multimedia campaign which you will start to see across TV, digital channels and social media, and hear on radio.

The TV/video creative presents a dark future around the availability of aged care beds and has been designed to shock. While this may sound concerning for staff, residents and their families, rest assured, this narrative is what is needed to build awareness of the situation and spur the Government into action.

As a member of the Aged Care Association, we are fully supportive of this campaign as older people don't feature in any of the health goals outlined by government or indeed any policy statements from opposition bodies.

As an organisation, we will be showing our support for the campaign through having a section on our website aligning with the campaign, our leaders and managers will be encouraged to share thought leadership pieces through their personal networks and social platforms and we will share a number of messages across our social media channels over the eight-week campaign period leading up to the election.

A website has been set up for the campaign www.dominoeffect.co.nz which provides more information and how the public can help. We strongly encourage all of our team to be sharing this with a link via email signature and through your own personal networks.

This campaign is an important opportunity to amplify the challenges for both residents and staff in our sector, and aligns with our purpose of making a positive difference in the lives of those we serve, so we are passionate about sharing this kaupapa far and wide.

The following pages of this document show the campaign creative and links to the videos and website, we encourage you to take some time to view these and familiarise yourself with the campaign.

If you have any questions about this, please direct them to aimee.williams@psc.org.nz.

Nga Mihi

Aimee Williams

Marketing, Communications & Fundraising Manager

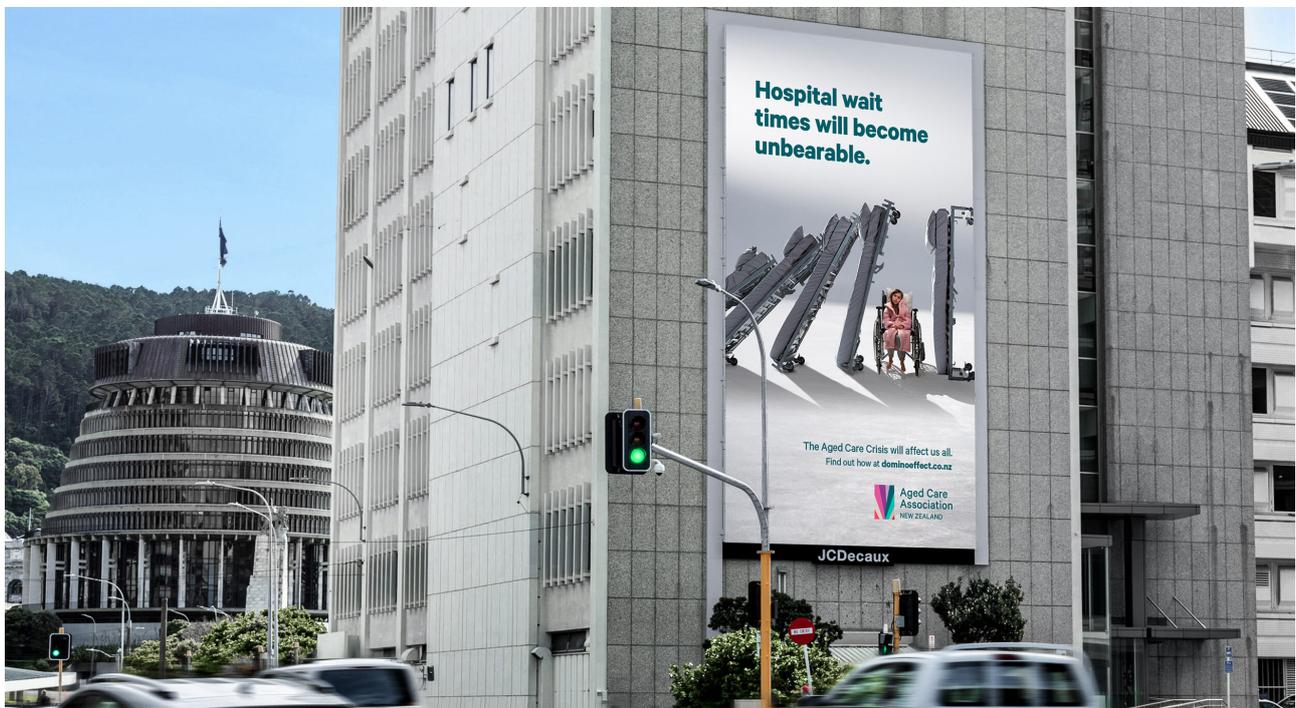
www.dominoeffect.co.nz

NZACA CAMPAIGN

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Campaign Creative



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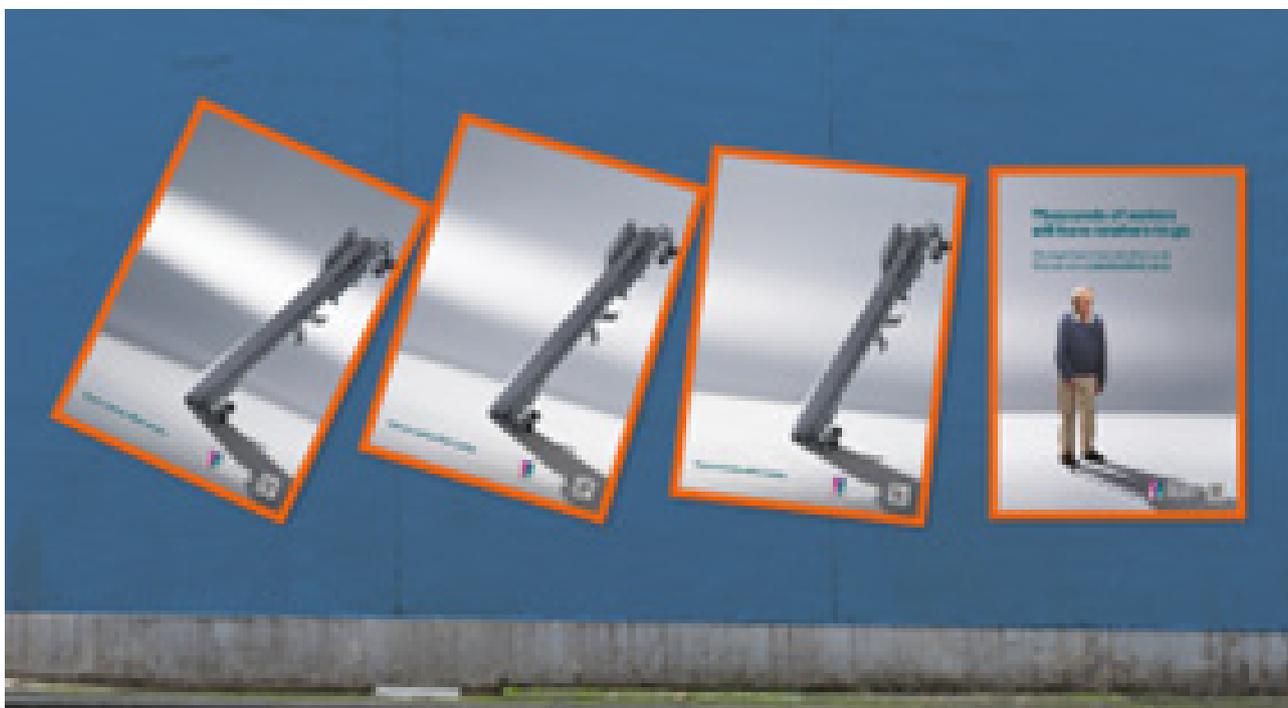
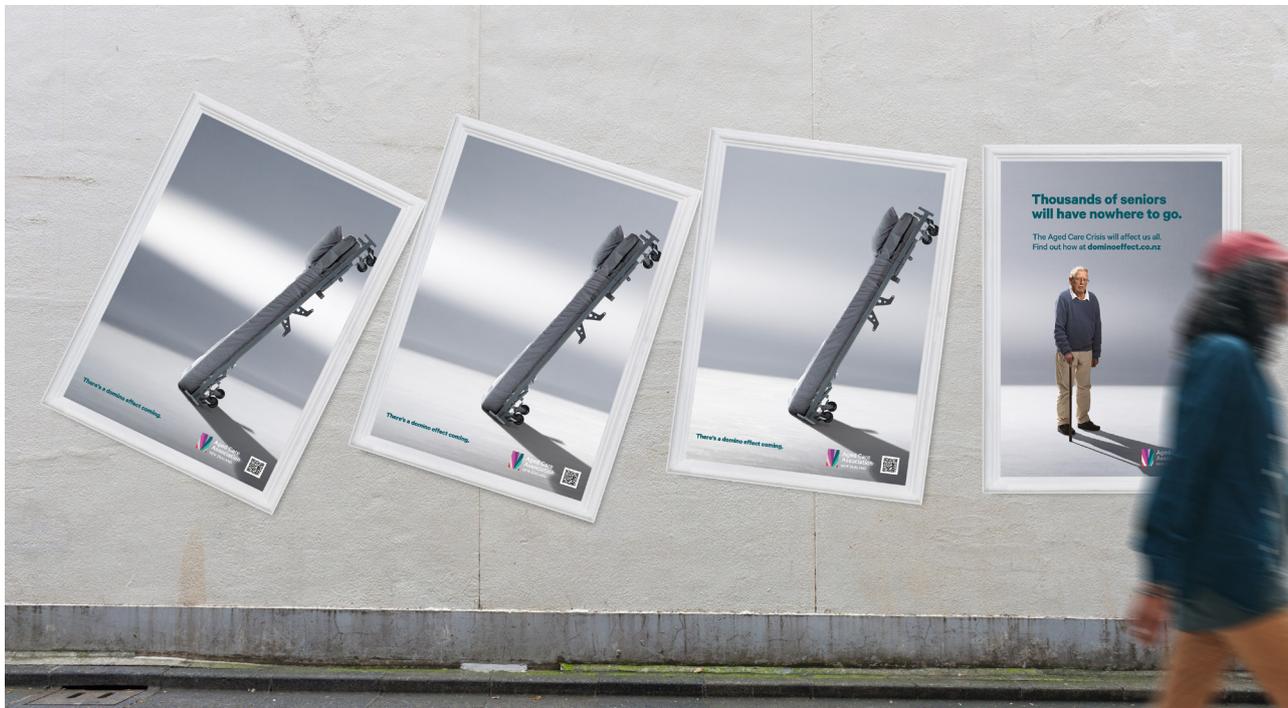
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Video Links



<https://vimeo.com/850038655/c9b14bb425>



<https://vimeo.com/850038554/febe622ab6>

www.dominoeffect.co.nz

The Domino Effect

Frequently Asked Questions - All Staff

Why are we seeing this, and taking part in this campaign?

We are a member of the Aged Care Association and this is an important campaign to raise awareness of the issues facing our industry.

If I am contacted by the media, what do I do?

All media enquiries are to be directed to aimee.williams@psc.org.nz

Queries will be triaged and responded to as required at a local level, and there is a National Spokesperson appointed on behalf of the NZACA that we are liaising with.

What if I am contacted out of hours or at the weekend?

Please ask the journalist what questions they are wanting answered, along with their contact details and call or email Aimee to liaise.

What do I do if a resident or family member raises concerns or has queries about the campaign?

Please direct them to your home manager in the first instance for a discussion, and they can consider and work through an appropriate course of action.

Should we be concerned about any of our Homes?

No, rest assured we have adapted considerably over the past few years from the impacts of covid, nursing shortages and underfunding.

We are firmly focussed on the sustainability of our organisation for another 100+ years. As a not-for-profit any returns from our villages contribute to the running and maintenance of our care homes ensuring we are committed to continued excellent care for our residents and those who need our services.

Can we have conversations with friends and family about this campaign?

Yes, we strongly encourage all of our team to be participating in conversations with family and friends and sharing these messages. This will help build the awareness of the problem and you are empowered to use your voice sharing what you see at the coal face. We would also encourage you to share the website link and call to action with your friends and whanau to get the message out there.

How do Enliven's retirement villages impact on aged care?

There is a wide spread lack of understanding about the connections between Retirement Villages and Aged Residential Care. They are very separate industries and we hope the campaign assists in raising this awareness.

We do operate a number of retirement villages, however as a not-for-profit any returns from our villages contribute to the running and maintenance of our care homes ensuring we are able to support the most vulnerable in our communities.

Where can I find more information on the campaign?

All information relating to the campaign can be found on the website www.dominoeffect.co.nz

What is the call to action for New Zealanders?

Go to the website www.dominoeffect.co.nz and understand more about the situation and how they can help.

Commissioning Team - Financial Sustainability Paper

Presbyterian Support Central

Date:	3 May 2024	Author: Ian Goulton, Programme Manager, Reporting, Costing and Standards
For your:	Information	Approved by: Brent Harvey
Seeking funding:	Yes	Funding implications: Yes
Concerning:	Sustainability	

1. Purpose & Scope

Presbyterian Support Central (PSC) provides aged residential care at a variety of locations across the lower North Island of New Zealand. The Health New Zealand Commissioning team have asked for the finances of PSC to be studied with a view to providing recommendations on a practical way forward that are ultimately sustainable.

2. Recommendations

REQUIRED The Commissioning Team is asked to:

- Note** the findings and observations contained within this report.
- Note** that this paper will be shared with the management team of PSC to check for factual accuracy and when finalised, their Board.
- Consider** the recommendations in this paper, and how they can be shared more widely in the sector.
- Agree a** course of action to be discussed with PSC and approved within the Commissioning team.

3. Executive summary

As for all Presbyterian Support organisations in New Zealand, PSC operates under an ethos that is driven by the Christian faith. For this reason, decisions that are made sometimes emphasis their contribution to the wider community rather than best economic practices. This somewhat contrasts PSC with for-profit providers in the sector.

Presbyterian Support Central's (PSCs) vision is for *inclusive communities where people and families are safe, strong, and connected*.

Recognising the differences between PSC and commercial providers in the aged residential care (ARC) sector, the aim of this assignment was to study the operations of PSC and discuss practical solutions to their financial sustainability challenges.

PSC operates 14 aged care residential facilities, with over 800 care beds and, 9 retirement villages (with 196 units), and 45 social housing units for older people in various locations across the Central Region under the banner "Enliven". PSC's vision states: *Enliven creates elder-centred communities that support older people to have companionship, choice and independence, variety and fun, meaningful activity, and purpose in their lives*. As with other Presbyterian Support organisations, PSC also operates a series of social community services under the Family Works banner, with the following objectives: *Safe children. Strong families. Connected communities*. Today, approximately 70% of Enlivens available care beds are 'standard' rooms providing support to those elders that cannot afford premium rooms offered by for-profit providers.

Although born from the same movement, PSC does not have any formal relationships, either governance or funding-wise, with the Presbyterian Church of Aotearoa New Zealand.

Audited financial statements over the last five years (2019-23) show occupancy-based funding provided by Te Whatu Ora has been insufficient to cover operating costs to deliver these core services and cover fixed corporate costs elsewhere in the organisation. This has resulted in an inability to fund other services from any operating surpluses that might have been generated through operations. For this reason, services like Family Works have had to reduce their size and scope in order to be self-sustainable. This operating shortfall should be distinguished from cashflow, which remains positive from operations (as a result of PSC drawing from its investment fund). PSC has not been able to invest in refurbishing its aged care facilities for some years, and that the additional revenue to support operations has come from initiatives such as fundraising and income from exiting villa unit turnover etc.

The application of (correct) accounting treatment due to the recognition of changes in Fair Value of both investment properties (retirement villages) and other property, plant and equipment means that fair value gains (and losses) are pushed through the financial statements giving a distorted view of profitability to the casual reader. Due to valuation methodologies that are required to be used, the 'bottom line' profitability of the business is influenced greatly by swings in the property market from year to year. These gains are not able to be 'cashed up' to provide additional liquidity to the organisation as they are vested in the facilities used to deliver services.

The main drivers for PSC's financial position are:

- Rising acuity and older average age on admission resulting in higher levels of turn-over of residents with more admission / discharge delays per bed, and associated income loss due to reduced average occupancy (funding under the current arrangement is based on occupancy, not availability).
- An overall occupancy decline in recent years, from 90% in 20/21 to 87% in 22/23 and 87% 23/24 YTD, noting that prior to recent increases in insurance and construction costs and compliance changes, breakeven was around 93% under current funding arrangements. It is

noted that reduced occupancy was due to bed closure with the registered nursing shortfall, rather than reduced demand. The current rate of resident turnover will make reaching 93% extremely challenging and given the majority are 'standard rooms' PSC is unable to charge premium room rates.

- Although predictive resourcing tools are in place, a degree of inflexibility (due to geographical spread of homes across the region) to manage staff levels (and costs) when clusters of resident deaths mean rapid, unplanned drops in occupancy without the ability entirely to match this with reduced staffing level and costs.
- Significant increases in corporate compliance costs to manage day-to-day risk in the business (HR, Health and Safety, Food Safety Act, increasing Fire Safety requirements, Information Systems and Technology, Certification, and other auditing). In addition, CPI, inflation, and wage demands have had a notable impact.

PSC has supplemented these shortfalls by drawing down on the investment fund (\$20M in the last 5 years), attempting to grow new revenue sources, while looking at operational efficiencies. But this strategy is unsustainable as the availability of the fund to drive investment will soon reach a point where the balance is exhausted (circa \$2.5M of untagged funds remaining at the end of FY23/24). The remaining funds being tied to Trusts and Legacies and not available to PSC.

PSCs development of License to Occupy (LTO) retirement village properties contributes to the overall liquidity of the business, as does income generated from donations, fundraising and staffing restructures. These developments alone will not put PSC into surplus, and are not intended to cover operational shortfalls, but rather to build the portfolio.

At present, the forecast operating deficit for 23/24 will be approximately \$2.6M (before any revaluations). After property fair valuations, this will produce a surplus of \$ 1.1M.

The operating deficit has a direct impact on forecast closing cash balances (\$0.3M, down from \$1.2M). Actions to address the bullet points above should be considered, but the status quo will result in PSC running out of cash once the investment fund is unable to cover shortfalls.

Furthermore, as seen elsewhere in the sector, the deferment of repairs and maintenance over an extended period creates further challenges for the organisation. PSC estimates that approximately \$11M of CAPEX would be required to return the current building stock to an acceptable level, before even considering an ongoing lifecycle of maintenance or indeed a home development programme.

As it will take several years to address these challenges, Commissioning should consider additional funding mechanisms beyond occupied bed days that would allow PSC to breakeven in the short term, while developing sustainable solutions in the future. It is noted that detailed reviews of the ARC sector performed by Ansell and Sapere were released at the time of this assignment. While these are not referenced in detail, there is notably some commonality with the findings in those reviews and the conclusions independently made in this report.

The sections that follow are grouped into specific focus areas that outline the problem; the recommendations section then outlines practical recommendations to address these issues to restore sustainable financial results.

4. Discussion

4.1 Capacity

PSC has recognised the need for continuous evaluation of its portfolio to ensure it can be occupied safely and efficiently. To this end, there are regular detailed reports by facility that show a range of metrics including funding based on occupancy, clinical costs and net contribution. The suite of reports are able to 'slice and dice' this information for detailed analysis.

Most recently, in partnership with Health NZ, PSC is repurposing Cashmere Heights as a Dementia facility after 40 hospital level beds were needed to be closed in 2022 due to a registered nursing shortage. Cashmere and Cashmere Heights are two buildings in close proximity that are managed as one entity. Reopening this building as a dementia unit has generated unfunded costs while this facility has been configured to meet compliance and clinical requirements of people living with dementia. This saw an associated drop in capacity while these changes were being completed. Cashmere Heights re-opens in May 2024.

Although reluctantly, due to the social and family impact, PSC has made pragmatic decisions and closed facilities in the past that were not viable as occurred in South Taranaki.

Other facilities in the portfolio are being evaluated for viability on a rolling basis. Section 4.5 shows this analysis.

4.2 Budget v Occupancy

Although PSC has achieved overall occupancy exceeding 95% in some years, the 2023/24 budget has been set at a more pragmatic level of 90% allowing for reopening of closed beds now that all registered nursing vacancies have been filled. PSC achieved occupancy levels of 90% and 87% in 21/22 and 22/23 respectively. PSC have noted that 83 beds were fully closed during the 21/23 period and other Homes had fluctuating ability to admit new residents due to unprecedented staff sickness levels, covid outbreaks and recruitment challenges. These are now reducing back to slightly above pre-covid levels. Encouragingly, occupancy for the month of March 2024 saw an overall occupancy of 88%, exceeding the YTD average of 87% and tracking upwards. However, YTD occupancy shows a 2.5% unfavourable variance to budget. Achieving the full year budget of 90% will require significant occupancy lift in Q4 (April – June 2024). A shortfall against budgeted occupancy will have an obvious flow through effect to the financial statements.

Occupancy by Facility 2023/24	Month (March)		YTD		Full Year
	Actual	Budget	Actual	Budget	Budget
1-14 - Huntleigh	90.3%	93.0%	82.6%	92.0%	92.2%
1-17 - Woburn	98.5%	96.9%	99.3%	96.0%	94.3%
1-18 - Longview	96.7%	94.8%	96.8%	94.5%	94.8%
1-25 - Cashmere	95.5%	92.5%	92.8%	93.0%	92.9%

1-31 - Kandahar	78.5%	95.6%	82.0%	92.5%	93.2%
1-51 - Reevedon	75.0%	88.1%	71.6%	82.8%	84.1%
1-52 - Levin War Vets	88.3%	92.5%	87.7%	91.8%	92.0%
1-53 - Coombrae	98.7%	88.6%	94.6%	89.4%	88.8%
1-55 - Willard	81.7%	86.4%	80.4%	84.3%	85.0%
1-60 - Brightwater	88.9%	93.0%	87.3%	95.5%	95.0%
1-73 - Kowhainui	96.5%	89.9%	96.4%	90.6%	90.8%
1-93 - Chalmers	69.4%	90.0%	68.4%	69.4%	75.7%
Total	88.0%	92.3%	87.0%	89.5%	90.1%

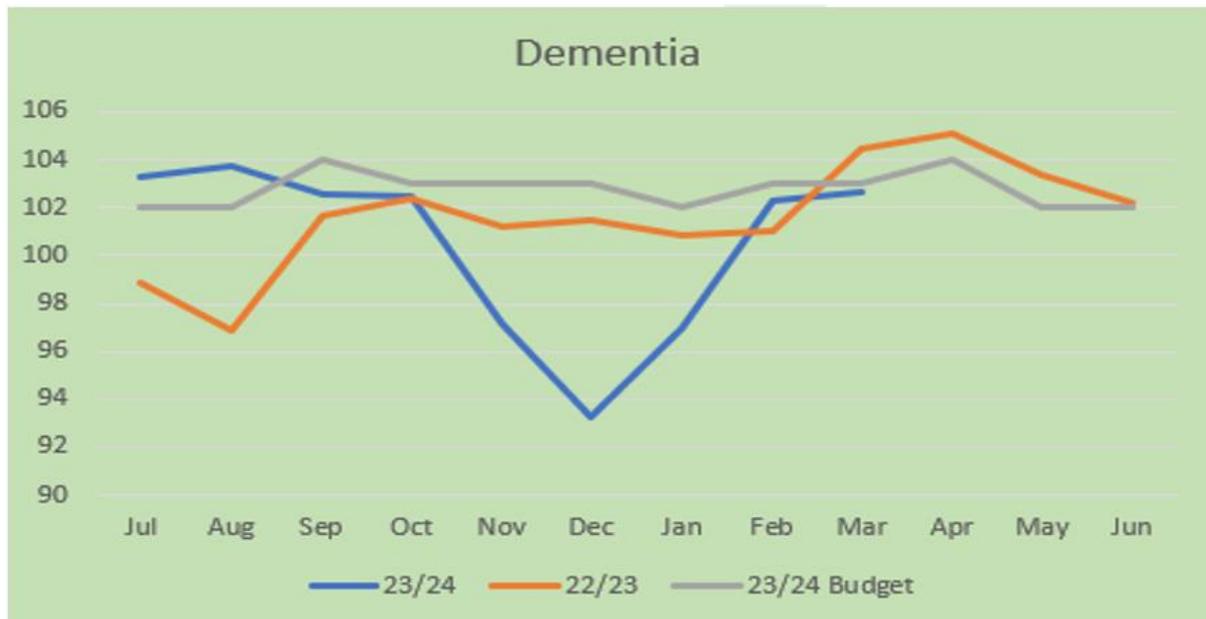
Fig i – Occupied Beds as a percentage of the Budget (23/24 position as at March 24)

4.3 Clinical Staffing

Like most organisations in the sector, PSC has experienced significant challenges with recruiting and retaining staff in recent years. An effective strategy to manage this was the introduction of the Enliven’s Competency Assessment Programme (CAP) based in Levin to support Internationally Qualified Nurses (IQN) to build on existing knowledge and skills to practice competently, confidently, and independently within the New Zealand health sector. The excellence of the programme was recognised by the New Zealand Nursing Council and by the Aged Care Association (NZACA) for its quality and innovation being the recipient of the “Overall Excellence in Care Award” in 2022. This programme is however likely to be discontinued mid-2025 with the Nursing Council relocating CAP training to a single national provider that will further impact PSC’s revenue stream (est. \$0.6m). Due to changing pay rates on offer across the sector, PSC has seen the majority (over 95%) of this cohort of staff leave for other employers, notably Health NZ. Notwithstanding the plans the Nursing Council has for CAP training, PSC is very keen to maintain this programme, potentially partnering with the public system in training these nurses or working collaboratively on other education opportunities to achieve a ‘win-win’ result.

Recruitment of new staff to a bureau deployed to many parts of the region along with carefully managing capacity (and therefore not needing to overstaff it) along with the sharing of resources between homes located closely together are some tactical measures already in place to manage staffing levels and associated costs to try as close as possible match resourcing to occupancy.

Increased acuity of patient presentations sadly means shorter stays and a higher turnover in residents, and this comes with unplanned vacancy gaps. At present, approximately one-third of residents in PSC facilities will die over the course of the year. It is therefore important that the NASC and PSC assessments are completed in a timely manner to ensure sudden vacancies can be filled as quickly as possible as this does have a direct impact on funding. The compulsory, unfunded, nursing InteRAI assessment time for each new resident can take up to 10 hours. The chart below illustrates the time it takes to rebuild occupancy after a sudden decline due to the death of several patients.



A detailed reporting suite out of IBM planning analytics provides the data to drive a focus on staffing levels and other costs coupled with profitability analysis by facility. This provides PSC the insights to manage costs as efficiently as possible. Examples are included in **Appendix 1**, along with a resourcing calculator and analysis of resident movement by month. All tier three managers sit in a two weekly meeting to review the numbers as a group, with a particular focus on outliers, both good and bad. One such example was the focus on the process concerning ACC funding adopted by the manager at Longview Home with positive results and shared with colleagues as an example of good practice and a formal project to increase revenue that has significantly contributed to PSCs results compensating for the reduction in expected occupancy over the past few months. Self-audit between different sites provides an opportunity to benchmark and learn for both the reviewer and those being reviewed.

Furthermore, the business recovery plan, established on top of the annual business plan, was to ensure PSC was operating as efficiently as possible and generating income, was adopted by the board, and is regularly reported on by management. This outlines the key activities to achieving optimal service and income mix and should remain a focus of management. In addition, PSC has, and continues to, explore other revenue opportunities: consultancy to smaller homes, online retail for elders and a tailored elder clothing range.

The table below shows both clinical and corporate employment costs over the last five years. Attention to detail has seen a modest decline in this period, a contributing factor being the leadership team restructure completed in 2023.

To operate efficiently PSC continues to look at system restructuring, contract value and returns, and centralising functions to service operations (including clinical support and management).

Employment Cost Growth	18/19	19/20	20/21	21/22	22/23	23/24
Employment costs as % of Operating Income	79%	77%	75%	78%	74%	75%
Employment costs as % of Operating Expenses	72%	72%	71%	73%	71%	71%

Fig ii Employment Cost growth over the last 5 years. 23/24 figure are based on full year Forecast.

4.4 Fixed/Compliance Costs

Compliance costs to meet regulatory standards, mitigate emerging risks and/or avoid penalties is a common challenge for all entities. Consequently, PSC has seen recent increases in HR, Health and Safety, Information Systems and Technology, and Cultural expertise to mitigate these risks. This cost has not been headcount driven (apart from salary changes in the market and minimum-wage changes). The emergence of cyber-risks and associated costs being one example of areas needing to be addressed. A significant investment in the IS platform / infrastructure is an example of this.

PSC has seen these costs increase 38% in the last 4 years, as shown in the table below.

Corporate Expenditure (000's)	FY2021 (Actual)	FY2022 (Actual)	FY2023 (Actual)	FY2024 (Budget)	FY2024 (Forecast)
Direct Labour	2,288	2,801	2,726	2,657	2,216
Personnel costs	180	176	174	169	118
Food Expenses	9	9	8	2	2
Household expenses	20	18	10	16	16
Medical Expenses	1	2	0	1	1
Admin and General	517	445	534	661	392
Vehicle Expenses	26	20	25	17	26
Energy	25	9	10	8	11
Property Charges	232	238	283	322	322
Asset Maintenance	17	26	5	70	6
Marketing	46	31	17	20	39
Communication	81	140	142	163	163
Computer Expenses	944	1,483	1,401	1,695	1,583
Financial Expense	11	185	171	14	44
Governance	5	6	4	4	10
Depreciation	171	186	193	199	1,385
Total Operating Costs	4,573	5,775	5,703	6,018	6,334

Fig iii – Total Corporate costs

As PSC's funding is driven by occupancy, there is an inability to cover corporate costs when occupancy (and income) decreases. The increase in total operating costs in the current year is driven by a significant increase in depreciation due to capitalisation of \$8M of WIP. This increase is in part offset by notable decreases in Direct Labour, Admin and Computer expenses. The high Admin costs last year

were largely driven by the consultancy/legal costs associated with the Royal Commission of Enquiry into Abuse in Care and survivor settlements.

4.5 Home Maintenance and Capital Costs

This is an area of concern for PSC. For some years, the organisation has sacrificed maintenance and repairs to ensure clinical care remained optimal. This has resulted in an aged stock, requiring significant investment in the coming years (est. \$11m) to meet external building accreditation standards, keep the building waterproof and in an acceptable state to present to potential residents.

As an example, a complete refurbishment and building additional standard rooms to Levin War Vets Home would cost est. \$37m (with the alternate refurbishment only of \$15m to bring it up to acceptability by today’s standards). This would allow redevelopment of Reevedon Home site (also in Levin) currently not providing an acceptable return.

Without remediation work being completed to maintain standards, this home may be required to close beds, further impacting PSC’s cashflow.

4.6 Profitability per Bed by Facility

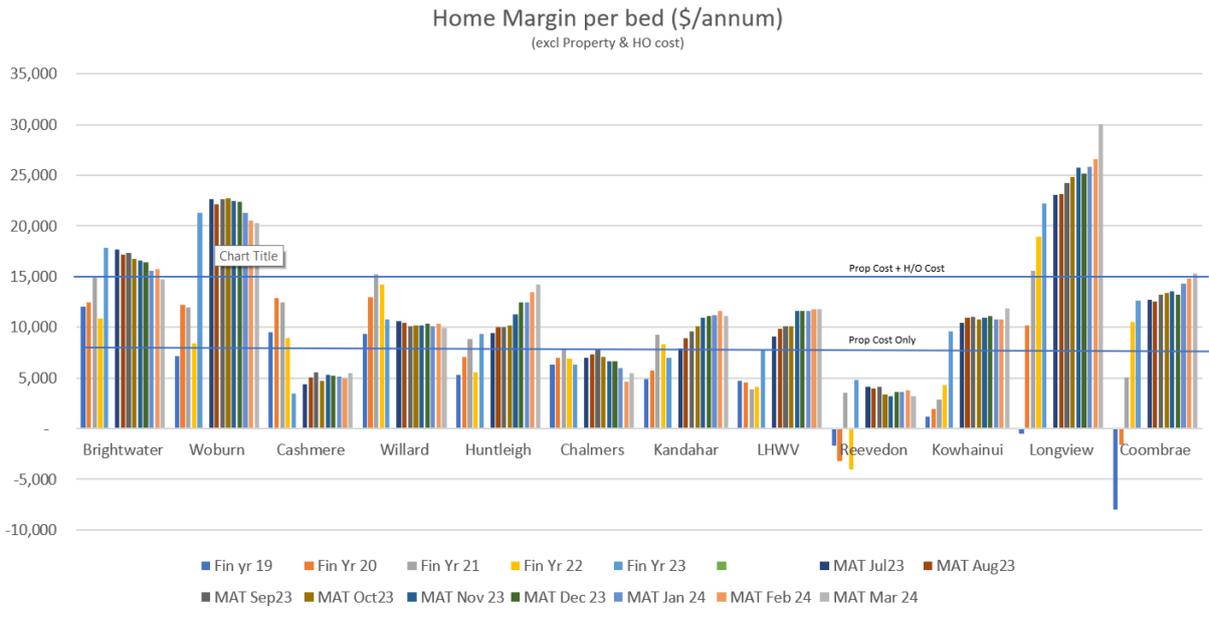


Fig iv – Margin per bed by facility. FY19-23, and monthly FY24

The table above and in **Appendix 2** shows variation against different facilities indicating overall profitability per bed (excluding property and Head office costs) across the portfolio. PSC has been, and continues to focus, on the efficiency and profitability of each of its sites. The pipeline of admissions is impacted by NASC assessment, population demographics, rurality, and the presence of other providers. Many of PSC’s properties are now visibly aged.

Notable *good performers* relative to others are Woburn and Longview facilities.

This compares to Cashmere and Reevedon that have contributed a *low margin* for some time.

When property costs and Head office costs are added (blue lines), overall profitability per facility become more challenging: **The \$15K contribution line represents a 'breakeven position' for the business, and only four facilities are exceeding this bar at present.** However, the average net margin per facility has been increasing month on month over time (\$11,093 in June 23 to \$12,793 in March 2024). This is also shown in **Appendix 2.**

It should be noted these improvements have been because PSC has stopped (for some years) refurbishment and maintenance and have dropped back to a break/fix only position to support the viability of the homes. Efforts from the Business Recovery Plan have borne some financial benefit.

4.7 Growth Strategy and Partnering Options

PSC operates in a sector that exhibits some significant configuration differences between for-profit and not-for-profit providers. Not-for-profit operators typically provide a greater number of residential care beds to ORA residential villas. For PSC, this ratio is 4.3:1 as of March 2024.

The reverse holds true for commercial providers, with the ratio being in the order of 1:4 (Francis report) i.e. 1 care bed to 4 villas. This has obvious implications for both organisational profitability and demand planning as the acuity of the population in all types of aged residential care increases.

Projected demand for beds sees an increase of 13,000 people requiring aged residential care over the next 8 years. Ultimately, there will be a shortage of beds by 2032 if the sector cannot increase availability by approximately 1,000 beds per year over the next decade (Ansell report, quoting Te Whatu Ora).

PSC has a range of initiatives both underway and under consideration to contribute to both its own and wider sector sustainability over the coming years. Discussions with both management and governance covered a range of topics. These are summarised as follows:

- A focus on operational efficiency. An external review in 2022 resulted in PSC restructuring its management team and corporate office this past year to achieve FTE and cost savings circa \$900k. Other initiatives such as the outsourcing of telephony and the fleet utilisation review are examples of increased efficiency at lower cost. Purchasing, procurement and delegation policies and procedures are all under review.
- A focus on rebuilding occupancy noting that in the past PSC achieved rates exceeding breakeven point of 93% PSC have noted with a resident turnover of 30% it will be a challenge to be able to reach this occupancy level.
- Continuing LTO development as conditions, and Bank funding allows (from 196 units at present, with another 68 consented) to reach 450 - 500 in the future. Noting that PSC is restricted in its capacity to build more than 20-30 per year due to staff resourcing constraints and servicing bank loans.

- Evaluation of the portfolio and closing sites on valuable land but in poor state -this will negatively impact short-term cashflow and operational/corporate costs during the process.
- Proceeds on the Capital disposals will be directed to invest for the future rather than to subsidise aged care home operations in the short-term, thus ensuring that capacity will be available in the future.
- A willingness to partner-up in the design, build and operation of villas or new facilities.
- Providing consultancy and partnership arrangements with for-profit village providers to recognise the pipeline of village customers that will need higher levels of care in the future.
- Development of adequately funded daycare services.

However, the achievement of many of these objectives will require system level change and the buy-in of other parties. Some tactical changes in the short term could include:

- Joint assessments between providers and the NASC to save time and streamline the admission process.
- Consideration of capacity or available bed (top-up) funding to maintain a break-even operational cost point. This would provide capacity in the wider system for step down care and encourage discharge of appropriate patients from more expensive secondary care facilities.

5. Financial implications

Contributed by: Andrea Stewart, Chief Financial Officer, PSC.

Reviewed by: Ian Goulton, Reporting Costing and Standards.

5.1 Operating results

PSC is primarily funded by occupied bed days for the Enliven aged residential care operation. For PSC to fully cover operational costs, Enliven must generate a margin to fund the rest of the operations, that cover insurance, compliance, IT Software as a Service (SaaS) and Licencing costs, and non-clinical administrative costs which are held centrally. This is shown in the 23/24 Budget extract below, and in

Appendix 3:

The consolidated result is a forecast loss of \$2.570M against a Budget of \$1.929M.

	Residential			Ambulatory			Central			TO Sales			Report Development			Consolidated Operations			
	Forecast	Budget	Var	Forecast	Budget	Var	Forecast	Budget	Var	Forecast	Budget	Var	Forecast	Budget	Var	Forecast	Budget	Var	
Revenue																			
Residents Income	60,058	58,333	1,725														60,084	58,333	1,751
Accommodation Income	1,723	1,723		27	18	9					2,256	2,271	(15)				4,006	4,012	(6)
Premium Rooms																			
Daycare	559	654	(95)														559	654	(95)
Home Support Income	200	170	30														200	170	30
Fundraising Income	10		10	61	200	(139)	642	300	342								713	500	213
Counselling Income				3,295	3,195	100											3,295	3,195	100
Other Income	1,187	1,112	74	50	50												1,237	1,162	74
Total revenue	63,737	61,993	1,744	3,433	3,463	30	642	300	342	2,256	2,271	15				70,094	68,027	2,067	
Expenditure																			
Direct labour	45,530	44,103	(1,427)	2,694	3,087	393	2,596	2,657	61	132	132			318	318		51,269	50,297	(972)
Personnel Costs	213	178	(34)	38	26	(12)	118	169	51					0	(0)		369	373	4
Food Expenses	2,679	2,508	(171)	1	10	8	2	2						1	1		2,683	2,520	(162)
Household Expenses	833	833		8	4	(3)	16	16									856	853	(3)
Medical Expenses	2,013	1,963	(50)				1	1									2,014	1,963	(50)
Vehicle Expenses	281	286	5	83	86	3	26	17	(9)					21	21		412	410	(1)
Energy	1,442	1,342	(100)	18	17	(1)	11	8	(4)								1,471	1,366	(105)
Property Charges	2,104	1,949	(154)	162	143	(19)	322	322		114	82	(32)		14	14		2,715	2,510	(205)
Asset Maintenance	2,222	2,030	(192)	31	26	(6)	29	70	41	198		(198)		124	(124)		2,603	2,125	(478)
Major Maintenance	600	550	(50)											(0)	(0)	0	600	550	(50)
Depreciation	2,232	2,549	316	113	37	(76)	1,385	199	(1,186)	74	11	(64)		15	15		3,820	2,810	(1,010)
Marketing	165	165		14	14		39	20	(19)	43	74	31					261	272	12
Admin & General	673	673		72	48	(25)	392	661	269					12	4	(8)	1,149	1,385	236
Communication	169	169		64	64		163	163		0	(0)			1	2	0	398	398	0
Computer Expenses	351	351		23	23		1,583	1,695	112								1,957	2,069	112
Financial Expense	27	27		7	7		44	14	(30)								78	48	(30)
Governance							10	4	(6)								10	4	(6)
Total expenditure	61,533	59,675	1,858	3,329	3,593	264	6,735	6,016	720	561	298	263	506	375	131		72,665	69,956	2,709
	97%	96%	-107%																
Operating Surplus before Interco. Allocations	2,204	2,317	114	104	129	234	6,093	5,716	378	1,695	1,974	279	506	375	131		2,570	1,929	641

Fig v –23/24 Financial Forecast to Budget all Operating Divisions

Points to Note:

Enliven:

- Increased Income to Budget (\$1.7M) is matched by a corresponding increase in Direct Labour costs. The Enliven operation produces an operating surplus of \$2.2M.

Family Works:

- The Forecast is close to budget and is set to see a modest operating surplus of \$0.1M. due to significant resizing and contract review – this is continuing.

Central (Corporate)

- As described earlier in the report, unbudgeted Depreciation due to delayed capitalisation of WIP projects has resulted in an unfavourable variance of \$1.1M. This has in part been offset by favourable variances in several areas including fundraising (\$0.3M) and Admin Costs (\$0.3M). Overall, the cost of the central functions is forecast to be \$6.1M.

The impact of the above sees an unfavourable full year forecast to budget, after depreciation of \$0.6M.

23/24 Summary of Operating Result by Division (000's)	Total Forecast	Budget
Enliven	2,204	2,317
Family Works	104	-129
Corporate Services	-6,093	-5,716
LTO Sales	1,695	1,974
Property Development	-506	-375
Operating Surplus / (Deficit)	-2,596	-1,929

Fig vi – Operating segments 23/24 Financial Forecast to Budget after depreciation. After depreciation, the income from Enliven is insufficient to fund the total operations included corporate costs. Net contribution from LTO Sales does not cover operational shortfalls.

5.2 Impact of Other Items – Total Comprehensive Revenue and Expenses.

While the net operating results after depreciation in 5.1 above tells part of the story, other 'non-operating' items have created significant swings impacting on Total Comprehensive Revenue and Expenses for PSC over the last five years. A change in strategy in 19/20 saw a one-off impairment to WIP, which resulted in a charge of \$13.3M.

The calculations giving rise to gains and losses as shown below are subject to external expert advice based on a variety of valuation tools. It should be noted that ultimately most of these items are driven by changes in the property market and do not produce additional operational funds that the business can draw on.

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To illustrate this point, the significant net changes in investment properties highlighted in yellow are related to the retirement villages owned and operated by PSC. As similar effect is seen with the 3-yearly revaluation of property, plant, and equipment.

Nonetheless, these changes are required to be shown to produce financial statements that are compliant with applicable accounting standards.

Total Comprehensive Revenue and Expenses (\$Millions)	18/19	19/20	20/21	21/22	22/23	23/24
Operating Surplus	-5.60	-4.10	-3.10	-4.70	-2.60	-2.60
Net change in Fair Value of Investment Properties	1.8	-0.40	9.60	7.50	-5.40	3.10
Impairment	-	0.00	0.00	0.00	0.00	0.00
Other Income (Expenses)	13.30	3.10	2.80	-1.00	1.30	0.60
Net Surplus (Deficit)	-	-1.40	9.30	1.80	-6.70	1.10
Net Change in FV of Property, Plant & Equipment	13.30	0.00	0.00	0.00	8.60	0.00
Total Comprehensive Revenue & Expenses	-	5.00	9.30	1.80	1.90	1.30

Fig. viii Total Comprehensive Revenue and Expenses 2018/19 - 2023/24 (23/24 figures are Forecast as at March 24).

5.3 Consolidated results

Coupled with the net result from Operations (\$2.6M deficit) and offset by Other Income of \$0.6M and Net change in FV of Investment Properties of \$3.1M, the Net Consolidated result is a **\$1.1M surplus** as shown below:

Other Income & Expenses	Actuals 22/23	Forecast 23/24
Total Operating Surplus/(Deficit)	- 2,572	-2,570
Financial Income (Expenses)		
Interest	237	175
Dividend	406	311
Realised Share Gains (losses)	81	80
Unrealised Share Gains (losses)	775	150
Net Change in Fair Value of Investment Properties	-5,353	3,165
Gain (loss) on Sale of Fixed Assets	2	2
Grants Distributed from Trust	-146	-150
Legacies	-	-
Tax Expense	-94	-80
Total Other Income/(expenses)	- 4,092	3,653
Net Surplus/(Deficit) for Year	- 4,092	3,653

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Other Income & Expenses	Actuals 22/23	Forecast 23/24
Other Comprehensive Revenue & Expenses		
Net Change in Fair Value of Property, Plant & Equipment	8,648	
Total Other Comprehensive Revenue & Expenses	8,648	-
Total Comprehensive Revenue & Expense	1,984	1,083

Fig ix – PSC Consolidated Operations 23/24 Financial Forecast to Budget.

5.4 Cashflow

The table below shows the audited statement of cashflows for the last 5 years and the forecast for 23/24. Cashflow from Operating Activities has been positive for the last 5 years and has contributed to the investment property portfolio, along with borrowings. The net contribution to cash shown from the investment fund is contained within the Investing activities line and has contributed circa \$20M since 2021.

This is not sustainable long term, as the accessible component of the fund will be approximately \$2.5M at 30 June 2024, and will likely be exhausted in the 2024/25 year. At this time, PSC would consider selling assets in the Wellington region with the consequential impact on the Public Health system. (300 beds across 5 homes in Wellington). The full cashflow forecast for 23/24 and 24/25 is included in **Appendix 4**.

Statement of Cashflows (\$Millions)						Forecast	
	18/19	19/20	20/21	21/22	22/23	23/24	
Opening Balance	3.7	2.6	2.1	0.7	1.0	1.2	
From Operating activities (to)	-1.3	3.2	1.9	4.5	3.7	2.4	
Investing activities (to)	0.4	-3.5	-3.1	-9.8	-7.4	0.3	
Financing activities (to)	-0.2	-0.2	-0.2	5.6	3.9	-3.6	
Closing Balance	2.6	2.1	0.7	1.0	1.2	0.3	

Fig x – Group Cashflow

5.5 Statement of Financial Position (Balance Sheet)

PSC has seen a strengthening in the Net Asset position over the last five years, but this has been in part driven by net increases in the fair valuation of Investment properties, and Property Plant and equipment over this period, as described in section 5.2 above. The increase in current liabilities in part reflects the increase in LTO liability to occupiers, which is driven by investment property valuations described above.

(\$Millions)	18/19	19/20	20/21	21/22	22/23
Current Assets	5.0	4.8	2.9	3.7	4.4
Investment Properties	54.5	60.3	77.9	97.4	100.4

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Property, Plant and Equipment	77.9	77.8	78.6	79.5	87.7
All Other non-Current Assets	24.7	28.4	24.6	19.2	16
Non-Current Assets	157.1	166.5	181.1	196.1	204.1
Current Liabilities	37.9	42.2	45.6	59.5	65.1
Non-Current Liabilities	0.1	0.1	0.1	0.2	1.2
Net Assets	124.1	129.0	138.3	140.1	142.2

Fig xi – Statement of Financial Position

5.6 Financial Risks – MHUD review

The Ministry of Housing and Urban Development (MHUD) review of the Retirement Villages Act (currently underway) has a number of tabled options. The outcome could ultimately require village operators to pay back villa sale proceeds to families in a short period (e.g. 30 days) or to share capital gain (up to 50%). This would significantly impact PSC’s cashflow profile.

6. Conclusion and Recommendations

Given the above financial constraints, PSC will be unable to fund their operations and will have insufficient cashflow to do this by the end of the 24/25 financial year without increasing borrowing (which according to PSC is unlikely, based on conversations to date) or selling Assets to fund shortfalls (a strategy not favoured by the PSC Board).

PSC is already closely monitoring their costs through the many activities described in section 4 of this report. The options for PSC are therefore to:

- **Provide continued focus on improving occupancy and reducing clinical costs** by using the detailed data available to match resources to occupancy as much as practical.
- **Provide continued examination of corporate/centralised costs** in light of the current level of occupied beds and consider with Health New Zealand Commissioning whether there is a funding model that considers these being funded differently than solely by occupancy.
- **Continue to build on the strategy** to increase other sources of income such as donations and bequests.
- **Continue right sizing the property portfolio** considering profitability, location, competition, prioritisation, and strategic direction. This would release capital (or provide borrowing) to provide support for redevelopment (noting re-development costs are significant and returns are long-term) and CAPEX maintenance costs will continue to grow. However, harvesting the Balance Sheet to fund operational shortfalls is not a sustainable solution, as the investment fund is almost exhausted. Any right-sizing would need to factor in capital requirements, home legacy requirements and village dependencies (as most have both).

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- **Consider enhanced governance arrangements** with other Presbyterian Support organisations in NZ. This could take the form of informal arrangements such as sharing best practice (this is already in place across all PSC aged care providers) to more formal measures such as having common board members across multiple organisations. Strengthened collaboration at a national level would be advantageous to all the Presbyterian Support operations. (PSC have noted a KPMG report did recommend nationalisation but this did not progress due to the cost of transition and provincial interests).

8. Next Steps

PSC Actions:

PSC should regularly update Commissioning on the status of their operating position, having utilised the tools and initiatives discussed in this report to ensure 'a no surprises approach.'

This includes:

- An update on the achievement of the Business recovery plan and property profitability portfolio analysis
- a quarterly reforecast to Budget and the associated risks and mitigations against these as outlined in the risk register.

Considerations for Commissioning:

- Given the time to implement all of these effectively, Commissioning should consider what additional financial support could be provided to PSC for the 24/25 financial year to provide ongoing solvency while strategic changes are made. The 23/24 operational shortfall after depreciation will be \$2.6M before considering fair value adjustments to Investment properties. Any support, however, should not be provided in isolation, but in the context of the incremental achievement of the action plans developed to address the above points.
- In the discussion with the directors of PSC, there were several funding options explored such as capacity-based rather than occupancy-based funding for standard rooms (as mentioned in section 4.7). The directors also raised providing a capital contribution for deferred maintenance through a suspensory loan arrangement. These are noted here as options for discussion should Commissioning wish to explore them.
- A follow up visit should take place in the next 12 months to check on the overall status and effectiveness of these initiatives.

9. Attachments

- Appendix 1: Margin per resourced bed
- Appendix 2: Margin per bed by facility
- Appendix 3: PSC operating forecast 23/24 by Division
- Appendix 4: Cashflow Forecast 24/25 and 25/26
- Appendix 5: Scope

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10. Acknowledgements

The Reporting, Costing and Standards team would like to express our thanks to colleagues in Commissioning and in PSC for their availability and candour in supporting the completion of this assignment. All information contained in this report, including supporting documentation will be retained on secure servers and not be distributed further than the intended recipients of this report.

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Submission on 'Taxation and the not-for-profit sector'

Summary of Key Points.

1. This submission considers only donor-controlled charities.
2. If a minimum distribution is introduced, we suggest a distribution free period of up to 10 years at the beginning of a charity.
3. We suggest that any required distribution rate is averaged over a 10 year period rather than each individual year to allow for wide variations in trust income from year to year.

Introduction. We have 10 years' experience in donor-controlled charities. My wife and I established the Munro Family Christian Charitable Trust in 2014 and are so far the sole donors of cash to the trust. We are currently two of the three trustees. We have therefore had the opportunity to think a lot about various relevant issues. We are therefore addressing just the three questions related to these 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?

I don't have a strong opinion on this question. But there certainly need to be rules in place to prevent the sort of abuses outlined in section 3.6 that could occur in some other charities as well.

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?

I think it is fair that rules should be in place to prevent investments or loans from the charity to the donors that financially benefit the donors. Transactions in the reverse direction that financially benefit the charity should be permitted even though they would also be considered non-arms-length transactions. For example, an interest free loan from the donors to the charity should be permitted.

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?

If a charity never makes any distribution, then why does it exist? I think a requirement for distribution is fair, but I think the rules need to be flexible to maximise the long-term benefits to charitable causes.

For our charity it was very useful to have an initial period of about eight years when we accumulated capital and made no distributions. This enabled us to build up the fund so

that we could make more meaningful contributions to other charities that we were passionate about and wished to support. Now after 10 years our charity is donating just over \$50,000 per year to a smaller 'coal face' Christian charity and this amount makes a real difference for them. In the tax year just ending we distributed 4% of gross assets. We therefore advocate for a distribution free period of up to 10 years at the beginning of a trust.

We would point out that investments in anything that gives a reasonable return, such as equities or businesses, will be highly variable from year to year. So it would make sense that any required distribution rate was averaged over a 10 year period, rather than fixed at an annual rate. In 2008 and early 2009 equities went down by about 50% and having to make a distribution in such a year would cause even more damage to a fund. We think 5% is a bit high given that inflation erodes the spending power of money each year. We would advocate for 3 or 4% minimum as giving more flexibility between building up the funds and distribution.

I really appreciate the opportunity to submit on this matter and hope that my comments are useful.

Peter Munro

Trustee, Munro Family Christian Charitable Trust



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

Submitted by: Xtreme Zero Waste Limited
www.xtremezerowaste.org.nz
Postal address: PO Box 153, Raglan

21 March 2025



1. Introduction

Organisation Name: Xtreme Zero Waste Limited

Legal Status: Charitable Trust (CC57840) and 100% subsidiary of Xtreme Zero Waste Charitable Trust (CC57839) and a member of the Xtreme Zero Waste Group (CC60051)

Primary Charitable Purpose: The charitable purpose of the company is to continue to foster and encourage the knowledge, understanding and practice of Zero Waste and environment care in communities. We do this through modelling using a Community Enterprise structure to operate, develop and promote community ownership and operation of a Community Resource Recovery Centre and Systems, and environment centre in Whāingaroa (Raglan). This community enterprise model integrates social, cultural, environmental and economic visions.

Contact Person: Michelle Howie, Director. Craig Fisher, Director

Contact Email: 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 of 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 will 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 (IR). 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

In the late 1990s, the Whāingaroa Raglan community came together over concerns about the open landfill site on Te Hutewai Rd that was impacting local water health. This was an era in history when many Whāingaroa locals championed the environment, founded important community movements, protested loudly and demanded better for te whenua, te moana and te taiao.

Over successive years, local recycling collections were collectively established, the landfill was closed, and Xtreme Zero Waste (XZW) was founded in 2000 to manage Raglan’s waste under the principles of zero waste to landfill.

Some people still refer to the site on Te Hutewai Road as ‘the dump’ but it has developed over the years to an unrecognisable new type of facility. No waste is dumped and left on site, the stream that used to be buried beneath Raglan’s mixed waste now runs into a much improved harbour with cleaner water and a thriving ecosystem.

Locally and globally, waste is a growing issue. Volumes of waste per capita have been steadily growing in Aotearoa, despite central and local government efforts.

Xtreme Zero Waste has always been guided by working towards a vision of 'a world without waste'. We have worked hard since the 2000s to achieve a 75 to 80 percent waste diversion from landfill, setting a benchmark for diversion across Aotearoa that is admired by many Councils.

XZW was initially contracted by Waikato District Council to manage the Transfer Station, develop a Community Resource Recovery Centre (CRRRC) and conduct kerbside collections. Today, we service Raglan residents with a weekly collection of pre-paid rubbish bags, a large range of recyclables and, more recently, food waste that is hot composted on site to create six popular, organic garden products.

Additional contracts have been provided for street bin servicing, rural zero waste solutions, water catchment filter servicing, behaviour change programmes in Waikato Schools, and mentoring of Huntly community enterprise to develop a Resource Recovery Centre in Huntly. Xtreme has held contracts with Waikato District Council for the above services for the last 25 years.

Passionate about sharing knowledge for the benefit of society as a whole, Xtreme has conducted joint ventures and mentored other organisations to form Resource Recovery Centres and is currently contracted by Auckland Council to provide advice on the development of 21 community Resource Recovery Centres throughout the Auckland Region. Xtreme staff are currently on three WasteMINZ Sector Groups – Behaviour Change, Organics and Resource Recovery. Staff have also been involved in numerous regional and national waste steering groups.

Xtreme is currently the Waikato Wellbeing Project Manu Taki for Sustainable Development Goal 12: Sustainable Production and Consumption for the Waikato Region. One of the goals of SDG 12 is the development of a network of Resource Recovery Centres throughout the Waikato Region.

To broaden our impact and align visions, in 2023 the XZW social enterprise merged with the Whāingaroa Environment Centre (WEC) who had been an aligned and collaborative sister organisation for over 20 years. Together, the newly merged entities operate a local centre hub which hosts a seed bank and runs a tool library, a weekly local Growers Market is flourishing, and regular local events including Science Nights and community-led Repair Cafes are hosted. Annually, WEC and XZW celebrate and advocate for Maui's dolphins with an iconic zero waste rafting event in the harbour.

All these efforts continue to educate and engage the local community towards a resilient and circular future for the next 25 plus years.

Xtreme Zero Waste Limited operates as a social enterprise committed not only to its zero waste kaupapa but also committed to a healthy community with a model of offering employment and training opportunities to local youth and residents. ZXW currently employs 31 staff in full and part time roles. Over its history, the organisation has enabled over 200 staff to gain licences and certifications to pursue further skilled employment.

Our revenue and hence our financial sustainability comes from a range of sources including:

- Waste contract for services with local government
- Sales of recovered and recycled products, to national commercial markets as well as to the local community. This includes collected waste such as cans, cardboard etc, recycled clothes and household goods through our resource recovery centre shop, recycled metal and timber through our metal yard and woodshop.
- Consulting revenue
- Occasional capital grants
- Other donations and fundraising
- Small amount of interest income

Our expenditures are dominated by labour, waste disposal costs and the ongoing repairs and maintenance of our equipment.

We are an effective and innovative organisation run by hard working and passionate individuals from our community, for our community and supported in various ways by our community.

We have however experienced large swings in surplus and deficit over the years due to the highly variable nature of many of our income streams and fluctuating market prices for recovered resources. Our competitors for contracts and market prices are large commercial waste operators, mostly owned by multinational companies. In contrast to our aims of zero waste and providing meaningful employment opportunities, our competitors bargain on driving down costs, reducing staffing through automation and absorbing landfill costs rather than seeking to increase diversion rates.

Financial sustainability remains a constant pressure and challenge for us to be able to provide our community with the services it needs as well as continue to innovate and effect reductions that edge us closer to a world without waste.

3. Responses to Specific Questions

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

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. It would also make us much more cautious about incubating new initiatives and business ideas.
- 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. Currently our accounting resource is one of the most expensive people resources in our organisation.
- 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 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 would love to be able to have the luxury of accumulating capital!

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 IR. 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 IR 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.
- Concern over this could impede our willingness to attempt more innovative ways to achieve our zero waste aims.
- 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 NZ 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 imposed 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 surplus 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 does not offer any fringe benefits. We have no motor vehicles that staff would be able to make use of nor are we in a financial position to be able to offer free goods or low/zero rated interest loans etc.
- We are however aware that some larger charities are able to take advantage of the FBT exemption and especially in relation to providing a vehicle it forms an important strategy in their overall attraction and retention of staff. We expect some of these may be significantly disadvantaged both financially as well as in their ability to attract and retain labour resource if this was removed.
- We also observe that if FBT exemption is removed then this creates yet more compliance cost for charities offering benefits and hence reducing funds available for 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 Govt 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 NZ 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:

Michelle Howie, Craig Fisher
Directors
Xtreme Zero Waste Limited

Submission to the IRD Consultation Paper

This submission is made on behalf of the New Plymouth Districts Veterinary Group (Inc)

This Incorporated Veterinary practice operates differently to those in private ownership – these differences and repercussions of losing the current taxation status are summarised below:

1. **Community Benefit:** Since its incorporation in 1951 this organisation has supplied veterinary services to both rural and city-based clientele. Through the provision of study scholarships, the practice has assisted local residents with their tertiary studies in Agriculture/ Veterinary Science. The practice is the primary care giver and veterinary care hospital for the treatment of injured or ill native birds. This service is given at no charge and annually more than 300 birds will be triaged, treated (or euthanised) and made ready for rehabilitation or release. The Department of Conservation endorse this benevolence and are the main referral source. Robert Mills the Clinical Director/CEO has been recognised in the Queens Birthday awards for these services.

Local schools are sponsored in product or funding. Veterinary students or those wishing to become veterinarians are supported by the practice.

2. **Profit Recycling Nature:** All profits are re invested within the business. This allows for the provision of an affordable veterinary care for the clientele and for the provision of the community services.
3. **Alignment with Purposes:** The practice actively promotes best practice and compliance for our Dairy Clients. This includes seminars and guest speakers at a cost to the business but not the client. Staff are available to assist at times of need – this includes during drought periods such as Taranaki is currently experiencing. Veterinary Groups facilitate seminars and liaise with other support organisations such as the Rural Trust. Having an active core group of veterinarians will give support to MPI in the case of exotic disease and additionally the veterinarians function as “watch dogs” for disease incursion. The New Plymouth Veterinary Group supports their veterinarians into voluntary roles within the larger veterinary framework. These opportunities include the NZVA Board, VCNZ CAC complaint committee and competency standards investigations teams – this availability is aided by the ability to pay staff to do these roles and may be limited should taxation be required.

4. **Impact of Taxation:** The taxation free status allows us to carry more staff than a private practice would. Training opportunities are also enhanced. Community good is financed through retained earnings. As a monetary value our pro bono services to DOC in the past twelve months would equate to approximately \$105,000.
5. **Donating back to the profession:** As an employer we encourage employees to volunteer for veterinary industry committees and groups at no charge, for example, NZVA Executive, NZVA Companion Animal, NZ Vet Council CAC and Competency Assessment and other committees. It is estimated that around 200 hours of veterinary time, @ \$250/hr is donated each year to industry bodies with a full value of ~\$48,000 annually. This donation of time assists these committees to function within their own budgets particularly in tight times.
6. **Mentoring of Veterinary Students:** Hosting of around 10 veterinary students per year within the clinics to “see practice”, with each student staying for 1-2 weeks. This takes up a large amount of all NPVG employees’ time with induction processes, teaching and learning and ensuring the students get to see an adequate level of work. This level of student support is over double the number of students we would host if we did not want impacts on individual veterinarian earning capacity. 10 students for 2 week each at 1 hour per day of extra veterinary attention is worth \$24,000 annually at full veterinarian rates.
7. **Collaboration with Commercial Practices:** Having been able to reinvest in our own infrastructure with no dividends or rebates being payable has meant that facilities have been developed that allow for this practice to supply cost effective referral services for other local practices. Additionally, we can offer services to clients where they have been refused by others.
8. **Rural and Provincial Focus:** This practice is in New Plymouth a provincial city, where the return on infrastructure costs is much lower compared to big cities and towns. This lower return on investment makes it challenging to attract and retain veterinarians in these areas, as the commercial returns are not as high^{[1][2]}. The impact of losing tax-exempt status could further exacerbate the shortage of veterinarians in rural communities, ultimately affecting the level of care available to these communities^{[1][2]}. The taxation free status allows for active recruitment and additionally ensures a veterinary service

References

[1] [Shortages in vet sector hitting rural areas the hardest](#)

7. **Large Corporates:** Veterinary industry is made up of many small entities, Clubs help create competition and independence at a local level. Corporate consolidation has already occurred outside of the Club environment and is likely to increase if the core club community ownership model is changed

The veterinary industry in New Zealand, much like in other parts of the world, has seen significant consolidation in recent years. This trend is driven by large corporate entities acquiring smaller, independent practices. My concern is that the removal of community owned club benefits will speed consolidation, reduce competition and reduce services to rural and provincial New Zealand. The presence of community owned veterinary clubs that will not be acquired by corporates ensures adequate competition in the markets where they exist. Removal of taxation benefits will call into question the need for a business being community owned allowing for the opportunity of corporate takeover/purchase of what were once community assets.

New Zealand is likely to follow the global trends of consolidation and corporate ownership. A brief overview of the New Zealand and UK situation is noted:

New Zealand Consolidation

1. s 18(c)(i) [Redacted]
2. Franklin Vets: Franklin Vets has expanded significantly, becoming one of the largest privately owned veterinary practices in New Zealand. They operate multiple clinics across South Auckland, North Waikato, and the Hauraki districts.
3. s 18(c)(i) [Redacted]
4. VetPartners: VetPartners is a large companion animal veterinary clinic business in New Zealand, owning over 270 clinics across Australia, New Zealand, and

Singapore. They have significantly contributed to the consolidation trend in the veterinary industry.

UK Experience

In the UK, the veterinary industry has also experienced significant consolidation, with large corporate groups acquiring independent practices. Indeed, approximately 80% of veterinary practices are now corporate owned. This is seen as a significant threat to the industry. Some of the major players include:

1. IVC Evidensia: One of the largest veterinary groups in the UK, IVC has acquired numerous independent practices, raising concerns about reduced competition and higher costs for pet owners
2. CVS Group: Another major player, CVS Group, has been actively acquiring practices, contributing to the consolidation of the veterinary market in the UK
3. Medivet: Medivet has also been involved in acquiring independent practices, further consolidating the market and impacting competition

Concerns About Corporatisation taking advantage of the proposed changes

The consolidation in both New Zealand and the UK has led to a competitive landscape dominated by fewer large players. While this can lead to efficiencies and improved services, it also raises concerns about reduced competition, higher costs, and the potential impact on the quality of care especially for smaller more isolated communities. In the UK, the Federation of Independent Veterinary Practices (FIVP) has raised concerns about the impact of corporatisation on the veterinary profession, including changes in industry culture, professional freedom, and client relationships

2. The British Veterinary Association (BVA) has also highlighted issues related to consumer choice and the structure of practice ownership.
3. Currently, in the UK their equivalent of the Commerce Commission is investigating anti-competitive behaviour and excessive “profiteering” within this corporate driven environment. The call for public submissions gave the UK’s largest ever response to Public Submissions.

In summary, the presence of taxation benefits allows for veterinary services to be maintained at a local community level. As profits are not able to be distributed to individuals, they are channelled to investment within the business itself ensuring continuity of service and to the community that the business serves.

Tax is already being paid in the form of Payee, FBT and GST. Further income tax will reduce the available funds that are currently being used for community good, pro bono work and self-investment (ensuring continuity of care over many decades).

Robert Mills MNZM, BVSc, MACVSc, MVM (Dist.)

CEO

New Plymouth Districts Veterinary Group (Inc)

Whaioranga Trust Submission for Taxation and the not-for profit sector

21/06/25

The relationship between taxation and the not-for-profit sector is a crucial aspect of ensuring the sustainability and effectiveness of charitable organisations across Aotearoa. Whaioranga Trust, has been at the forefront of empowering and supporting local communities in Tauranga, with a focus on whānau, hapū, and iwi. Founded with a clear vision to support the wellbeing of Maori wahine and their whanau. Whaioranga Trust embodies the core principles of Maori tikanga, kawa and traditions.

History of Whaioranga Trust

Whaioranga Trust was established in 1983 as a response to a growing need for culturally relevant services that support the holistic well-being of Māori whānau in the Tauranga region. Originating from a deep commitment to enhancing the lives of Māori families and their communities, the trust's foundation was built upon the principles of whakawhanaungatanga (building relationships), manaakitanga (caring for others), and tino rangatiratanga (self-determination). The trust's inception can be traced back to local Māori leaders recognising gaps in existing services and striving to create a sustainable solution rooted in Māori values.

Purposes and Activities of Whaioranga Trust

Whaioranga Trust's primary purpose is to provide a range of services aimed at uplifting the lives of whānau in Tauranga. The trust operates across several areas, including health and wellness, education, housing, and employment support, all with a particular emphasis on Māori cultural practices and values. Its activities are designed to support the needs of individuals and families in practical ways, while fostering a sense of identity and belonging. These initiatives range from social support programmes to leadership development workshops, creating pathways for personal growth and community resilience.

People Served by Whaioranga Trust

The charity primarily focuses on Māori whānau, hapū, and iwi in Tauranga, also supporting all whanau who have a need for support in the region, practicing our values of manaakitanga and aroha. Whaioranga Trust works with individuals and families who face a range of challenges, including socio-economic hardship, health disparities, and

educational barriers. The trust also focuses on empowering youth and providing intergenerational support, ensuring that future generations of Māori have the tools and resources to thrive.

Impact on Whānau, Hapū, Iwi, and Aotearoa

The impact of Whaioranga Trust extends far beyond its direct services, contributing to the broader social fabric of Aotearoa. By fostering self-determination, cultural pride, and economic independence, the trust plays a pivotal role in strengthening whānau, hapū, and iwi. In turn, this contributes to the overall well-being of Aotearoa, helping to close the gaps in health, education, and economic outcomes between Māori and non-Māori communities. The trust's efforts have a ripple effect, promoting unity and fostering a more equitable society where Māori are empowered to lead their own development.

As we explore the relationship between taxation and the not-for-profit sector, Whaioranga Trust's journey serves as a powerful example of how targeted support and community-driven initiatives can create transformative change.

Response to Question 1

We strongly oppose the imposition of income tax on unrelated business income for charities. The existing settings within the Charities regime provide sufficient safeguards, such as:

- a) the prohibition of private profit;
- b) the requirement to only distribute funds for charitable purposes; and
- c) the requirement for charities to maintain charitable registration meaning that the taxing of profits reduces funds available to Whaioranga Trust to carry out its charitable purposes. In effect it will mean Whaioranga Trust will have less money to continue to support the health and wellbeing of our people.

Further, and connected to the point above, Whaioranga Trust is best placed to carry out the charitable purposes, for the benefit of the people of Tauranga Moana and the charitable purpose we serve, as opposed to those funds being transferred to the Crown in the form of income tax. This is because:

- a) Whaioranga Trust is connected to its community and aware of the needs and supports required in the community. We are able to direct funds to the area most needed to meet the ever changing needs. We are able to respond to the needs of whanau for example collaborate with local schools and Marae in projects or services that benefit individuals, families and future generations. An example of this is providing traditional healing

wananga with other local providers, creating a space for healing and recovery using traditional methods and modalities.

b) There is no guarantee that the funds transferred to the Crown as income tax will directly benefit the people of Tauranga Moana or the wider and more remote areas we support.

c) Taxing unrelated business income is not only inefficient, it disincentivizes Māori charities developing their own solutions to address current inequities that affect Māori in health, education, housing and because:

i. Māori charities often use their charitable funds to undertake activities that the Crown often have a duty to provide support towards, or practically provide relief for Maori . This includes our Marae who support our Maori communities for example a point for local evacuation points, homeless shelters and wananga for Maori led kaupapa. There's no guarantee the additional revenue generated by government will deliver the same outcomes and have the same targeted impact on Māori communities;

ii. Taxing unrelated business income will reduce overall funds Whaioranga Trust has at our disposal in any given financial year, which will impact on what we can deliver each year for Māori in our communities, and will have a chilling effect on us undertaking charitable activities generally;

To impose income tax on unrelated business income would discourage Whaioranga Trust from undertaking business income earned by the charity altogether. This will result in less funds being available, rather than providing for a transfer of the funds to the Crown, in the form of tax, and ultimately disadvantage whanau, hapu and iwi.

The imposition of income tax appears to be based on the underlying assumption that charities have a competitive advantage by not being subject to income tax, and therefore having less compliance costs. In our view, this is not accurate, for the following reasons:

There are significant compliance costs for charities given the robust reporting requirements that apply to registered charities under the financial reporting rules:

a) Charities are still subject to other tax compliance costs, including PAYE and GST.

b) Māori charities are unique in that they have a range of compliance costs that a non-Māori entity, or charity, does not have. For example: ensuring we have specific obligations that reflect Māori cultural, social, and governance practices. These include adhering to Māori values in governance, reporting back to Māori communities, upholding Treaty principles, and providing culturally specific services. As we are accountable to the people, we also provide wrap around support for the whole family, resulting in an increase in time, and cost. Private businesses, while they may choose to engage with Māori culture, do not have these same cultural and community responsibilities. In short, any business activity Whaioranga Trust practically undertakes is subject to iwi/hapū scrutiny.

This analysis is missing from the ‘competitive advantage’ analysis set out in the Issues Paper.

c) Introduction taxation of unrelated business income will substantially increase the onerous burden for operating Māori charities. Specifically, apportioning unrelated business income and expenses is administratively onerous and will exacerbate compliance costs without any corollary benefit.

For charities, the generation of business income (related or unrelated) is not directed toward private profit or gain. Rather, business income provides us with more funds to further our charitable purposes. This is a key and important distinction from for-profit businesses. The proposal to tax ‘unrelated business income’ will prevent charities from flourishing by discouraging business and innovation. The negative effect on the charities sector will far outweigh the benefit of any revenue generated.

Furthermore, imposing a tax on unrelated business income while at the same time keeping the existing restrictions on charities (i.e., not to exist for pecuniary profit) would create a perpetual inequity between not-for-profits and private companies.”

Response to Question 2

If the government developed a tax-credit regime (for example, so that tax was only paid on accumulated surpluses rather than all business income), and required charities to maintain a special memorandum account, similar to a Māori Authority account as alluded to the Issues Paper. This would create a significant additional accounting burden.

Taxing unrelated business income is not practical, is likely to be expensive, and increase compliance costs for IRD and charities and the Issues Paper lacks any analysis on revenue generation if unrelated business income is to be taxed”.

An assessment of business income, and whether it is unrelated or related would be difficult to apply, and would likely require specialist taxation advice, each year. Presumably an assessment of expenditure would also need to be undertaken. This would result in an increase of costs, resulting in less funds available for Whaioranga Trust to carry out its charitable purposes.

Response to Question 3

In the first instance, it should be noted how difficult it will be to assess whether income is related, or unrelated to a charity’s purposes. As an “in the alternative” argument, we recommend you advocate that, if the imposition of income tax is to occur, a broad approach should be applied, together with necessary exemptions. A broad approach

should be allowable. Anything that touches on our purposes, should be considered related. For example:

- a) If we open a wellness centre for the community providing opportunities for an increase in access to treatments and activities that result in good health and an increase in wellbeing of our people and community, increased employment and training opportunities the income should be related.

Response to Question 4

If there is to be an imposition of income tax for unrelated business income, we consider that all Tier 2, 3 and 4 charities are excluded. The Tier 2 category captures a significant range (between \$5m and \$33m), and will impact the smaller Tier 2 charities in a significant way”.

Response to Question 5

Whaioranga Trust has an obligation, and must take an intergenerational and whanau approach to services we provide. We are required to carefully and intentionally balance the needs and aspirations of generations today with the needs and aspirations of the next generation, and every generation thereafter. Accordingly, income tax should not be imposed on retained income Whaioranga Trust.

Response Question 6

Some examples of analysis we consider is missing includes:

- a) The unique drivers and features of Māori charities,
- b) The social good that charities contribute to Aotearoa, and in particular the work that is undertaken by Māori charities in Aotearoa.
- c) Analysis of the underlying drivers for the proposals – the Issues Paper assumes that charities have a competitive advantage without testing that driver. In particular, it fails to acknowledge the strict rules around distribution and reporting that do not apply to for-profit entities.
- d) Thought around if a business income tax was imposed, whether a charity could then be relieved from its charitable obligations in relation to that portion of income. It appears the proposal is seeking to tax charities, but at the same time maintain the same strict rules around distribution and reporting.

From: Liz Gifford s 9(2)(a)
Sent: Friday, 21 March 2025 4:58 pm
To: Policy Webmaster
Subject: Taxation and the not for profit sector

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For my submission; I agree with the focus of taxing business activities that are unrelated to charitable purposes such as dairy farming, food/beverage.

Q1) From my perspective, the most compelling reasons to tax charity business income is that the tax-concession when they are not is burdening the rest of the tax paying country. When there are small business owners struggling to get footing in the NZ market- it is unfair and gives the tax-exempt businesses an unfair advantage.

Q2) By removing the tax exemption for charity business income that is related to charitable purposes- the main implication is that it will put all businesses on an equal footing with tax, decrease the tax burden on the rest of New Zealand and will also generate more tax revenue for the government to put towards things like infrastructure- which those currently tax-exempt businesses would be using and contributing to their wear and tear and not paying tax to help with investing in their upkeep or improvement.

Q3) Following guidelines that other countries have set would be a great start. Unrelated business would be: business that is obviously not advertised as run by the charity that has a clear benefit to the public (ie a dairy farm does not seem charitable to the public when they are getting the benefits from being tax exempt compared to obvious charity work like an op-shop that is branded). They should not self-assess whether it is of a charitable nature.

Q4) Given that small sole-trading operators that would be classified in that tier 4 of under \$140,000 have to pay income tax, I would suggest that all business activities unrelated to charitable purposes should also pay income tax, so no exemption or threshold.

Q5) If income that is distributed for charitable purposes; I agree with point 2.33 that it should be done within a certain timeframe to be tax-exempt, and that anti-avoidance rules should be put into place- so that if it is tax exempt for charitable reasons- the non-charitable business end of it don't take advantage of a loophole and still get a tax exemption.

Q6) I believe that an independent assessor will need to review charities- so they don't self assess and state their non-charitable business as charitable to get tax exemption- rather they need to prove the charitable/benefit to the public. Tax exemption burdens the rest of tax-paying New Zealanders.

Q7) Yes donor-controlled charities should be distinguished as to limit avoidance on paying tax. Following the guidelines of Canada with 50% seems logical.

Q8) It makes sense that investment restrictions be introduced for donor-controlled charities to address the risk of tax abuse.

Q9) As mentioned in Q5- for tax exemption, there should be income distributed in a certain amount of time. So yes a minimum distribution each year would answer both Q5/Q9. So to have a minimum distribution- whether it is a percentage or set value- and the charity has to request an exemption and prove the reasoning of the exemption for if there is a specific goal of a charitable nature (eg instead of distributing the \$11,000 in 2006- the charity proves it will use the \$11,000 from 2006 + 2007- so the 22,000 in funding a team to travel internationally for charity/volunteer work that does not happen annually).

Q10/Q11) Policy change to protect against tax avoidance and evasion and to maintain a stable, simple and predictable tax system.

Q12) I agree that the tax exemptions should be removed for those points.

I did not realise that these tax exemptions were available- and if some New Zealanders that are paying tax are competing with those not paying tax/taking advantage of these points that are not well known; and these tax exemptions seem no longer applicable to the current time.

I am gobsmacked that non-resident charities with no charitable purpose in New Zealand that do not need reporting or overseeing/regulation that their work is charitable vs business/profitable and generating business income. I do agree this raises an integrity concern and agree that this tax exemption should be removed.

Q13) Simplification of the FBT settings;

Q14) The FENZ simplification method so volunteers aren't stung with compliance costs seems a beneficial simplification.

Q15) I am not surprised to hear low levels of awareness of the regime.

Kind Regards,
Liz Gifford

Re: Opposition to the Proposed Taxation Change Policy for Charities

To Whom it may concern,

Mercy Ships New Zealand appreciates the opportunity to provide feedback on the New Zealand Government's proposed changes to tax legislation affecting charitable organizations. Mercy Ships, as a small registered charity is committed to supporting the two largest non-government hospital ships in the world to provide surgery's to the forgotten poor in Africa, alongside education and training of African medical staff and providing New Zealand volunteers to crew the ship. Mercy Ships strongly opposes any move to impose taxation on charities.

We submit the following points for your consideration:

1. Reduced Resources for Communities

Introducing taxation on charities would divert precious funds away from essential services. Every dollar paid in tax is one less dollar available to assist the people and communities we serve. Small charities like ours already operate on tight budgets with limited resources. Imposing taxes will directly reduce our ability to meet the needs of those most vulnerable.

2. Disproportionate Impact on Small Charities

This proposal disproportionately impacts small charities. Unlike large, well-funded organizations, smaller charities lack the financial resilience to absorb new tax obligations without sacrificing core services. Applying a uniform tax policy to all charities regardless of size risks penalizing smaller organisations operating under very tight budgets.

3. Disincentivizing Donations & Undermining Public Trust

Taxation may inadvertently discourage both donations and volunteerism. Donors give with the expectation that their contributions will be used directly for charitable purposes. Similarly, volunteers and supporters, who are vital to the operations of Mercy Ships New Zealand may feel disheartened if their efforts are supporting taxed entities rather than purely charitable outcomes.

4. Increased Administrative and Compliance Burden

Beyond the financial cost, the administrative burden of complying with new tax obligations will be significant. Mercy Ships New Zealand rely on a small number of staff, any new compliance demands may require outsourcing professional services, resulting in further diversion of funds.

Recommendation

We urge the Government to reconsider this proposed taxation policy. Instead, we recommend engaging with the charitable sector to explore alternative measures that enhance transparency and accountability without imposing undue financial strain. We encourage the government to seek solutions to the specific problems they identify in the charitable sector, rather than 'taking a sledgehammer to crack a nut'.

Conclusion

In summary, we believe that reforming taxes on charities is, in effect, taxing community generosity and penalising organisations dedicated solely to public good. We strongly advocate for policies that protect and empower charities, particularly small, grassroots organisations such as Mercy Ships New Zealand that make a huge impact on the needs of the forgotten poor.

Thank you for considering our submission. We would welcome any opportunity to engage further on this matter.

Yours sincerely,

Toni-Maree Carnie

National Director, Mercy Ships New Zealand

s 9(2)(a)

s 9(2)(a)



23 March 2025

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

Dear Sir/Madam

TAXATION AND THE NOT-FOR-PROFIT SECTOR

Thank you for the invitation to submit comments on the Officials' Issue Paper dated 24 February 2025.

This submission is from the New Zealand Amateur Sport Association Inc., (2669211), (NZBN: 9429046103086), (the Association). The Association can be contacted to discuss the points made in this submission on +64 21 612 451, or by e-Mail at office@asa.org.nz.

The Association has two principal elements it wishes to focus on relating to community sport organisations which hold either a DV8 or CW46 income tax exemption. We note that the Association is not a taxation specialist, nor has it sought the opinion of taxation specialists, but nonetheless hopes that its comments are well-directed in respect of the issues and proposals raised in the paper.

1. Chapter 4 : Q10

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

We encourage the removal of small-scale NFPs from the tax system.

At present, the Association is of the view (based on our interaction with sports clubs nationally), that many clubs are unaware of their income tax obligations and are quite possibly (in some cases) non-compliant with those obligations. We acknowledge that the financial transactions involved with many of these organisations are small, with low levels of taxable income arising relative to the costs of preparing and processing annual income tax returns.

We submit that it is possible to create a legislative definition of what "small-scale" entails.

A legislative precedent exists in s. 103 (2) (b) of the Incorporated Societies Act 2022, which denotes a society (the preferred legal structure of many small-scale NFPs) to be a "small society" if:

- (i) in each of the two preceding accounting periods of the society, the total operating payments of the society are less than \$50,000; and
- (ii) as at the balance date of each of the 2 preceding accounting periods, the total current assets of the society are less than \$50,000; and
- (iii) at the balance date of the accounting period, the society is not an entity described in section LD 3(2) of the Income Tax Act 2007 (i.e., not a donee organisation).

We submit that if a similar definition is applied in the Income Tax Act 2007 to define a "small-scale NFP", the threshold sum of \$50,000 be lowered (perhaps halved), with the following additional criteria (as envisaged by the Incorporated Societies (Small Societies) Amendment Bill) to also apply:

- (iv) the NFP is not an employer under the Employment Relations Act 2000;
- (v) the NFP is not registered for GST under the Income Tax Act 2007;
- (vi) the NFP is registered as a non-profit organisation under the Income Tax Act 2007 (s. DV8), or
- (vii) the NFP is registered as a body promoting amateur games and sports under the Income Tax Act 2007 (s. CW46).

2. Chapter 4: (4.4 : 4.8)

The Association acknowledges your earlier correspondence (7 March 2025) in response to ours (dated 6 March 2025), concerning the exclusion of NFPs with a CW46 (amateur sport promoter) income tax exemption, from the considerations discussed in the Issues Paper concerning "mutual associations".

Further to our earlier correspondence, an open question remains of whether "affiliation fees" (paid from subscriptions received to a national body by an affiliated NFP (club) member with a CW46 income tax exemption) might fall within the definition of "member transactions", in that those levies arguably are used (at least in part) to fund resources which support a national operating framework, and would therefore be classified as "taxable income" under the proposals contained in the "draft operational statement" referred to in 4.6 of the Issues Paper.

If affiliation fees were treated as member transactions, this would be a material issue for community sport (and many other) organisations with national affiliations, both in terms of financial impact (i.e., creating a new tax liability), and ongoing taxation compliance obligations.

We recommend that if the changes envisaged by the draft operational statement are implemented, "affiliation fees" (perhaps in a similar manner to how "closely related entities" are treated in s. 44 of the Charities Act 2005 as a single entity), are declared to be exempt from this income tax consideration.

Again, thank you for providing an opportunity for this submission to be made.

As noted, we are available to discuss our feedback should you wish to do so.

Yours sincerely

s 9(2)(a)



Gordon Noble-Campbell
Chair, New Zealand Amateur Sport Association Inc.

cc. Mark Mitchell
Minister for Sport and Recreation
Department of the Prime Minister and Cabinet
Parliament Buildings
1 Museum Street
WELLINGTON 6160

m.mitchell@ministers.govt.nz

Our Mission

We work collaboratively with all sporting codes in promoting, fostering, advancing and encouraging the core values of organised amateur sport, with the goal of ensuring there are opportunities, incentives and recognition for all participants, of all abilities and ethnicities, (whether players, coaches, or administrators), which are aligned to their distinctive status as amateurs.

Our Vision & Values

For all New Zealand communities (both urban and rural) to have viable and enduring amateur sporting bodies which are able to attract, engage, build and sustain membership based on each participant's and each community's unique needs. We value respect for all cultures, genders and beliefs; the social good arising from volunteerism; tradition as a foundation for new ideas and fresh thinking; diversity of thought; and egalitarianism in sport.

Submission on 'Taxation and the not-for-profit sector'

Summary of Key Points

1. More than half of our funding for national expenses including staff training and development activities comes from other charities that have business activities. A reduction in this part of our income would have a severe effect on the effective running of our whole charity. The effect is indirect as we do not run significant business activities but will be substantial.
2. The accumulation described in points 2.5 and 2.6 is normal business practice to increase the resilience of the business during economic downturns. It is not an attempt to withhold funds from this year's charitable purposes.
3. We believe that income of businesses run by a charity should remain tax exempt.
4. Charity business income that is distributed for charitable purposes in the year that it is earned should certainly remain tax exempt.

Introduction. International Student Ministries of New Zealand (ISMNZ) has been a registered charity since 2000. We provide pastoral care to international students on many tertiary campuses throughout New Zealand. According to our KPI data 15,279 international students came to our relationship building activities in 2024. We are also involved in assisting students who have difficulties settling into New Zealand or face challenges with their studies.

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?

We need to maintain a strong, healthy, sustainable base of charities in New Zealand as a vital part of the social fabric of our country. So much good is done, often by those in part-time and voluntary capacities, that are almost entirely dependent upon donations from charitable trusts. This public good is based on the good will, generosity, and sacrifice of many New Zealanders. Charitable work is a strong value in our culture and complements the important work done by government agencies. Our country would be poorer in terms of the overall wellbeing of its citizens without it. Therefore, encouraging the work of charities is a form of social investment. Any withdrawal of funds from the sector whether by taxation or otherwise will inevitably have an effect on the public good delivered by charities.

We do not run any significant business activities within ISMNZ. Most of our funding comes from donations from individuals and churches. But a significant amount also comes from other charities that undertake business activities. At least \$35,000 per year from a total income of around \$600,000 comes from such business charities. A critical fact is that this \$35,000 is almost all used on our national expenses including staff training and development activities and covers more than half the costs of those

activities. Like many charities we are typically short of funding to run our activities. A reduction in this part of our income would have a severe effect on the effective running of our whole charity. The effect is indirect but will be substantial. That is why we have chosen to make a submission.

No business gives back 100% of its profits to the shareholders as a dividend except perhaps occasionally in a financially difficult year. A business must retain some profits to reinvest in the business to ensure that the business is still there in 20 years. Many businesses also retain profits to pay back debt and strengthen the balance sheet to increase their resilience with downturns in the economy. Similarly, no charitable business should give 100% of its profits in donations. The accumulation described in points 2.5 and 2.6 is therefore normal business practice to increase the resilience of the business. It is not an attempt to withhold funds from this year's charitable purposes.

It is clear from the above that we believe that income of businesses run by a charity should remain tax exempt.

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 term “unrelated” is used in each of the following five questions. We would point out that all income of a charity has a relationship to charitable purposes, regardless of how it is gained. The issue is the timing of the release of that income to frontline charitable activities. Any form of taxation reduces the money available to be used for charitable purposes and will ultimately weaken the charitable sector.

The practical implications for us of a reduction in income from business charities is outlined in our response to question 1.

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 there are charities that distribute business income to any person or entity that are not included in their stated charitable purpose, then that could be considered as unrelated.

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 a dollar threshold for tax exemptions is introduced this is likely to cause undesirable distortions. Some larger charitable businesses are likely to divide their business activities into smaller units to avoid taxation and this will reduce their efficiency and result in smaller distributions to frontline charities.

However, if a threshold is introduced then the least disruptive method would be to exclude Tier 3 and Tier 4 charities from the new rules as these thresholds are already well understood.

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?

Charity business income that is distributed for charitable purposes in the year that it is earned should certainly remain tax exempt.

Questions 6 to 15. We have no useful comments to make.

We really appreciate the opportunity to submit our comments on your paper and trust that our comments are useful.

Paul Stock and Jonathan Thorpe (National Codirectors of ISMNZ)

Peter Munro FRSNZ (Member of ISMNZ)

s 9(2)(a)

From: Chris Henderson s 9(2)(a)
Sent: Sunday, 23 March 2025 10:40 am
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.

Please do not tax The Salvation Army as the work they do would have to be less than what they do now.

More people would be in need and we find it hard to meet needs now.

It's not a good idea to tax charitable trusts ever.

Kind Regards

Chris Henderson

s 9(2)(a)

Sent from [Outlook for Android](#)

From: s 9(2)(a)
Sent: Sunday, 23 March 2025 12:43 pm
To: Policy Webmaster
Subject: Taxation and the not-for-profit sector

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

Dear Officials

I am the Finance Officer for a ski club. Of the discussion questions, only Q10 applies to us, so I will limit my comments to that area.

Covid, poor snow conditions and a weak economy mean that we have not made a surplus since 2019 – except in the year when received a grant to replace the roof at one of our ski lodges. Our situation provides a fairly good example of what is likely in our sector - a NFP body promoting amateur sport.

If we were to lose the tax exemption for, then we would have had no tax to pay in 4 out of the last 5 years. In the year we received the grant for the capital work, we had a surplus, so there would have been tax to pay. This would then have reduced the amount available for the roof replacement, which would have meant us requesting a larger grant. Which would have resulted in a bigger surplus, so more tax to pay.

In the normal course of events, we would have been able to fund the roof replacement ourselves, by making a small surplus each year, to build up the funds to carry out the works required. The same is true for other big maintenance items like the occasional repaint. Over the normal course of years it is not our objective to make surpluses, but we do need to build up funds from time to time for large maintenance items. If all the surpluses became taxable, it would reduce our ability to pay our way.

Also there is an administrative burden to dealing with tax. I am a Chartered Accountant, so quite happy to file tax returns – even if there is no tax to pay. The person who takes over from me may not be so comfortable with this. Having to file a return will place quite a burden on someone doing a voluntary job. A burden placed on the voluntary sector, for little increase in tax revenue.

To address this burden with little benefit for the NZ economy, the \$1,000 exemption should be lifted substantially to at least \$10,000. This would enable organisations like ours to build up small surpluses to fund maintenance, whilst reducing the administrative burden required to deal with tax return filing and cash management.

Best Regards

Susan Sonntag
Treasurer
Serac Ski Clu
[Redacted]

Submission to Inland Revenue: Taxation and the Not-for-Profit Sector

Submitted by: Chris Davidson, Chartered Accountant

Sector Involvement: I work with several clients in the charity sector, each of which depends, to varying degrees, on social enterprise to support their charitable objectives.

Date: 23 March 2025

Contact:

- s 9(2)(a) [REDACTED]
- s 9(2)(a) [REDACTED]

1. Introduction

Please find my response to the officials' issues paper "Taxation and the Not-for-Profit Sector" (February 2025). I submit this feedback as a Chartered Accountant who works with several charitable organisations across Aotearoa New Zealand. These organisations, varying in size and scope, all rely to some extent on social enterprise to support their charitable purposes.

This submission reflects both professional experience and input drawn from wider sector engagement and commentary. The consultation raises important questions about fairness, transparency, and the future sustainability of the charitable sector. While the objective of simplifying tax rules and protecting integrity is commendable, the approach outlined in the paper risks undermining vital community infrastructure and diverting resources away from the very impact we collectively seek to achieve.

2. General Comments

2.1. Timing and Legislative Context

These proposals are being developed ahead of Budget 2025 but are not expected to be introduced as budget-night legislation. Inland Revenue has indicated that any changes would likely be introduced in the August 2025 Omnibus Bill or potentially in 2026.

This provides a window for further meaningful consultation. I would encourage officials to use this time to fully engage with the sector, particularly smaller charities and community-led organisations.

2.2. Systemic Impact and Knock-On Effects

The proposed changes may have significant flow-on effects. Removing tax exemptions for unrelated business income risks:

- Increasing compliance costs, particularly for smaller charities
- Creating disincentives for innovation and financial sustainability
- Forcing charities to rely more heavily on already stretched public or philanthropic funding (the ‘Oliver Twist’ approach)

The sector’s ability to diversify income through social enterprises is crucial for long-term sustainability. Shifting the compliance and tax burden onto them could prove counterproductive, both fiscally and socially.

Importantly, this ultimately shifts the cost to the taxpayer through provision of government funded social services. Any calculation of potential increased tax revenue from policy changes should include this assumption.

2.3. Unclear Problem Definition

The specific issue these reforms are intended to address is not completely clear to me. No quantitative evidence has been presented about the scale of the problem or the fiscal cost to justify such broad changes. It would be helpful to understand the data driving the issue, and to know whether enforcement under existing charities law has been sufficiently explored to address the problem.

2.4. Philosophical and Policy Coherence

Charities operate under strict transparency rules, reinvest surpluses into public-good missions, and provide essential services at low cost to the government. Tax exemptions reflect these facts, not a special privilege. Without them, many services currently delivered efficiently by community groups would fall back on government to provide.

2.5. Need for Sector-Specific Solutions

The diversity of the sector means blanket approaches risk harming many to address the actions of a few. Proposals like the related/unrelated business test will be hard to apply consistently and fairly. If reforms are pursued, options could include:

- Set clear exemptions or thresholds so small organisations aren't caught up in complex tax rules
- Provide simple examples and tailored guidance for different types of charities, so they know what to expect
- Offer clear and consistent rules that line up with the tiers that organisations already report on

3. Responses to Consultation 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?

Position: Oppose taxing charity business income, particularly where surpluses are applied to charitable purposes.

Rationale: Tax exemptions are not a loophole; they are recognition of public benefit and the absence of private gain. Taxing such income disincentivises self-sufficiency and innovation and contradicts the government's goal of sustainable, community-led social investment.

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?

Position: The impact would be disproportionately harmful to smaller and mid-sized charities.

Rationale: Charities would face increased compliance costs, restructure to isolate revenue streams, and reduced investment in growth or innovation. Enterprise activities, often modest in surplus, would decline due to uncertainty and cost. Communities would bear the downstream costs.

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?

Position: I recommend avoiding rigid definitions. Rather, adopt a principles-based approach.

Rationale: Rigid criteria will result in administrative disputes and inconsistent outcomes. Some commercial activities support charitable goals indirectly (e.g. employment, community connection). Guidance should favour intent and use of surplus rather than business type alone.

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?

Position: If changes were made, at a minimum introduce a generous, inflation-indexed threshold for exemption.

Rationale: For example, if thresholds were aligned with Tier 3 and Tier 4 financial reporting, the changes would exclude charities with minimal commercial activity and avoid capturing volunteer-driven initiatives.

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?

Position: Yes. Income applied to charitable purpose should be exempt.

Rationale: The charitable application of income, not its source, should determine tax treatment. Allowing deductions or exemptions for income distributed to charitable purposes aligns with the goal of public benefit and avoids double handling or inefficient tax collection.

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?

Position: Consider administrative costs, transition timeframes, and interaction with Charities Act reporting.

Rationale: Any reforms will be least disruptive if phased and appropriately resourced. Charities Services and Inland Revenue will both need guidance and sufficient staff resources.

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

Position: Support raising the \$1,000 threshold and simplifying filing for small NFPs.

Rationale: The current threshold is outdated. Raising it to \$10,000–\$20,000 should be considered.

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?

Position: Not to remove FBT exemptions unless offset by real wage funding.

Rationale: Charities use non-monetary benefits to attract and retain staff. FBT changes would reduce workforce resilience without additional funding or salary support.

4. Conclusion

Inland Revenue should ensure this review results in targeted, evidence-based policy that supports the long-term sustainability of the charitable sector. Broad-brush reforms risk damaging high-impact organisations, increasing compliance burdens, and disincentivising innovation and community-led solutions.

Thank you for the opportunity to submit. I welcome any further engagement or clarification

Ngā mihi

Chris Davidson

Chartered Accountant

From: Alice Norton s 9(2)(a)
Sent: Monday, 24 March 2025 5:19 am
To: Policy Webmaster
Subject: Taxation and the not-for-profit sector - FBT

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

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 or reduction of the Fringe Benefit Tax (FBT) exemption for charities could have several significant implications:

1. **Increased Financial Burden:** Charities would face higher operational costs due to the additional FBT payable on benefits provided to employees. This could strain already limited budgets, reducing the funds available for charitable activities.
2. **Reduced Attractiveness of Compensation Packages:** The not-for-profit sector often pays less than the corporate or government sectors. Benefits like health insurance help make compensation packages more competitive. Imposing FBT on these benefits would make it harder for charities to attract and retain talent.
3. **Impact on Service Delivery:** With higher costs and potential staffing challenges, charities might struggle to maintain their current level of service delivery. This could affect the communities and individuals who rely on their support,
4. **Administrative Complexity:** Even with reduced compliance costs, the administrative burden of calculating and paying FBT could divert resources away from core charitable activities.

In summary, while reducing compliance costs is beneficial, removing or reducing the FBT exemption for charities could have adverse effects on their financial health, ability to attract and retain staff, and overall service delivery. Maintaining the exemption helps ensure that charities can continue to offer competitive compensation packages and focus their resources on their charitable missions.

E mihi ana

Alice

Alice Norton CA | Financial Controller
Para Kore Marae Incorporated

[Book a time with me](#)

M s 9(2)(a)
E finance@parakore.maori.nz

W parakore.maori.nz
F facebook.com/parakore



Please note, I work part-time (Monday to Thursday) so will not always respond immediately. You can expect a response within 2 working days. With anything needing urgent attention please contact me via cellphone number above.



24 March 2025

TAXATION AND THE NOT-FOR-PROFIT SECTOR

An officials' issues paper February 2025

Submission by the YWCA of Hamilton

1.0 INTRODUCTION

- 1.1 The Young Women's Christian Association of Hamilton Inc (YWCA of Hamilton) welcomes the opportunity to make a submission to Taxation and the Not-for-Profit Sector – an officials' issues paper February 2025.
- 1.2 YWCA of Hamilton is a not-for-profit organisation and a registered charity (CC34536) with a vision that every woman in Waikato is confident, connected to opportunities and supported to be the best versions of themselves. We work towards a future where everyone has the same opportunities in life regardless of their gender. Other YWCA of Hamilton services include affordable accommodation and venue hire.
- 1.3 Over its 82-year history through responsible financial management, the YWCA of Hamilton has been able to accumulate a moderate amount of retained earnings to safeguard the continuation of its operations in case of financial hardship. On their own, they are not enough to fund the necessary maintenance of our property in the years to come.
- 1.3 YWCA of Hamilton has read with interest the Taxation and the Not-for-Profit Sector – an officials' issues paper February 2025. This submission is solely focused on the section on charities business income tax exemption.
- 1.4 **YWCA of Hamilton strongly opposes a blanket removal of the charities business income tax exemption, even for income that is unrelated to charitable purposes.**

2.0 IMPACTS ON LONG-TERM SUSTAINABILITY

- 2.1 YWCA of Hamilton is concerned how the removal of the charities business income tax exemption will impact the long-term sustainability of many of the charities, especially the smaller ones.
- 2.2 According to the Issues Paper, 88% of the charities that report business income have less than \$5M in annual expenses. For many of these charities limiting their ability to earn business income makes it harder for them to reduce reliance on government funding, grants and donations, undermining long-term sustainability.

- 2.3 Charities provide significant public benefits and any moves that weaken their long-term sustainability ultimately shift costs back to the Government. A key policy question is whether the Government is prepared to carry the cost of providing these benefits if charities are unable to do so.
- 2.4 YWCA of Hamilton proposes that the Government engages directly with the sector to better understand the impact these changes would have on the charities' ability to continue their valuable work.

3.0 ABUSE OF CHARITABLE STATUS

- 3.1 YWCA of Hamilton recognizes that there are charities that abuse their charitable status and supports action against these entities.
- 3.2 However, the YWCA of Hamilton is against doing this by taking a blanket approach through taxation law that risks harming the entire sector.
- 3.3 Instead, the YWCA of Hamilton proposes that a more proportionate response would be to strengthen oversight of specific cases under the Charities Act. Another option would be to undertake a first principles review of the Charities Act to determine what constitutes a charitable purpose.

4.0 LACK OF DATA

- 4.1 YWCA of Hamilton would like to have seen more data on the scale of the issues. There is no information about how big an increase in Government revenue this change would mean depending on the applied thresholds. Nor are there estimates of how many charities might be abusing their charitable status and at what level. Finally, it would be important to have a better understanding of the compliance costs these changes would impose on charities.
- 4.2 YWCA of Hamilton proposes that a thorough cost-benefit analysis is carried out and published before any action is taken.

5.0 REDUCTION IN SUPPORT FOR THE SECTOR

- 5.1 YWCA of Hamilton is concerned that this proposal is only the beginning of an overall reduction in support for the not-for-profit and charitable sectors. The tax exemption has been a clear signal from the Government that it recognises the value of the charities in providing essential services and benefits for the country. The proposal to remove the exemption seems to be a fundamental shift in the Government's regard for the sector.
- 5.2 YWCA of Hamilton proposes that the Government recognises the essential role charities play in delivering cost-effective services and ensure that policy settings support, rather than hinder, their sustainability.



6.0 FURTHER INFORMATION

6.1 YWCA of Hamilton appreciates the opportunity to submit on this important issue.

6.2 If there are any questions, please contact Riikka Anderson (General Manager) on s 9(2) s 9(2)(a)

Yours sincerely,

s 9(2)(a)

Riikka Anderson
General Manager
YWCA of Hamilton



Inland Revenue Department
Policy.webmaster@ird.govt.nz

24 March 2025

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

Paralympics New Zealand Inc (PNZ) welcomes the opportunity to provide a submission on the Officials' Issues Paper on Taxation and the not-for-profit sector.

The objectives of the Officials' Issues Paper are to "simplify tax rules, reduce compliance costs, and address integrity risks" which are all laudable and positive objectives, however we have concerns that the options discussed will not actually meet these objectives, and if any changes are rushed and not fully considered, they will have a significant negative impact on the charitable sector in New Zealand. This would be very damaging to the sector and impact the work we are able to do for the country.

PNZ is the National Paralympic Committee for New Zealand and is a registered charity. Our vision is *through Para sport, lives will be transformed*. PNZ is part of the global Paralympic Movement, which aims to promote inclusivity, and positively influence perceptions of disabled people through the power of sport.

PNZ supports and celebrates the achievements of Para athletes at both national and international levels, including leading the NZ Paralympic Team to the Paralympic Games every two years. We also advocate for greater accessibility in sports and work to create systems and programmes that enable participation in Para sport.

Our organisation is funded through government grants, donations, commercial partnerships, and other contributions, which support our community and advocacy programmes.

PNZ is based in Auckland and employs 13 full or part time staff. Over a typical four year Paralympic Games cycle we will spend approximately \$7 million to support the NZ Paralympic Team attending and winning medals for Aotearoa New Zealand at the Summer and Winter Paralympic Games – of which, only \$2 million is funded by High Performance Sport New Zealand.

In addition, our wider programmes of key outcomes and deliverables, which support increasing the participation of disabled people in Para sport, and efforts to change the narrative contributing to an inclusive and diverse Aotearoa New Zealand, require investment of approximately a further \$8 million to resource and implement within the same four year cycle. We currently do not receive any Government funding to achieve these further strategic objectives, and rely solely on forming and growing partnerships through a direct association with commercial partners, donors and the public alike.

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Whilst we have worked extremely hard to establish financial reserves, which amounted to \$5.4 million at 31 December 2024, this is simply not sustainable within the current economic landscape.

With funding becoming more difficult to obtain we are currently investigating other income sources, many of which could be considered to be “unrelated income”, but the reality is, that if we don’t find new funding sources, our reserves will be depleted by the end of 2028. That is not an option the PNZ Board is prepared to accept, but note that any changes to the rules for the taxation of income for charities will just make this task more difficult and potentially accelerate this financial challenge.

In conclusion, we strongly advocate for policies that support the charitable and not-for-profit sector and enable it to thrive. Charities and not-for-profits play a critical role in addressing social, environmental, and cultural challenges, and their contributions need to be recognised and supported through appropriate tax policies. Any changes to these policies need to be well considered to ensure there are no unintended consequences.

Thank you for considering this submission. Should you wish to discuss this submission further, we would welcome the opportunity to be in contact.

Ngā mihi,

s 9(2)(a)

Greg Warnecke
Chief Executive Officer and Secretary General

On behalf of the Paralympics New Zealand Board and Staff Team

Attached:

Paralympics New Zealand (PNZ) comment on the questions identified in the Officials’ Issues Paper



Paralympics New Zealand (PNZ) provides the following comment on the questions identified in the Officials' Issues 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?

Historically charities and not-for-profit entities have sourced funds from the likes of Government, Commercial Partners, Fundraising, Class 4 gaming funders etc. In order to be financially sustainable, not-for-profit entities have had to “look outside the box” as income from traditional funding sources has reduced.

Some charities have opted to engage in business activities which may or may not be related to their underlying charitable activity, in effect diversifying their funding sources. Other options to diversify funding sources include lotteries and pin and win promotions. These promotions have the potential to raise significant amounts of money for a charity but also hold a level of financial and reputational risk. If such income became taxable, a charity may deem that the returns are not sufficient to offset that risk.

By removing the tax exemption for business activities, not-for-profit entities would be penalised financially as it would impede their financial sustainability. There would also be an increased compliance burden.

It should be noted many entities like ours have costs that are not spread evenly across a cycle or period of years. We may need to make a surplus in some years to carry the enormous costs we incur in future years (e.g., a Summer Paralympic Games Year where our costs may be hundreds of thousands or “millions” more than in other years). It would have a significant impact on our sustainability if we were taxed on the surplus we make in these non-Paralympic Games years.

One of the justifications for the proposal (in 2.14 of the Officials' Issues Paper) is that charities retained earnings are higher which in turn enables them to put their profits back into their structure and to “expand more rapidly than its competitors”. We are not sure where the evidence is of this, but for PNZ it does not have competitors as there is only one National Paralympic Committee in each country. In a sporting context it is hard to think of any case where a sports charity (e.g., Regional Disability Sport Organisations, Parafeds organisations, clubs) has a competitor doing the same thing, which makes a blanket rule problematic.

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 we currently understand, the proposal could have significant impacts on our financial sustainability given the annual view taken on profit versus the longer term cycle of our costs.

We are also unsure how you define what is unrelated income? Does it include passive income such as investment income? Is there a distinction between active and passive income? If so, why? What is the logic of allowing related business activity income to be exempt but not unrelated?

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 a difficult question and really needs a lot of consideration around what criteria would be appropriate. Given the wide variety of charities and their circumstances it would also be difficult to define criteria that fits all situations and does not create unintended consequences.

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?

It would make sense to use the Charities Tier reporting structure as a basis for thresholds with Tier 3 and 4 entities being entitled to an exemption.

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 no, why not?

We agree that charity business income distributed for charitable purposes should remain tax exempt but also note that setting guidelines around this will not be an easy exercise, particularly where there may be a delay between the generation of the income and the disbursement of those funds.

There may be a genuine reason for a delay in disbursement e.g. building funds leading up to a Paralympic Games year when all the accumulated surplus then gets spent, or where surplus funds are retained to contribute to a capital project which is consistent with the charity's objectives. Any new guidelines are going to add a level of complication to the not-for-profit's operation, as well as a higher level of compliance cost.

It is also important to note that many funding bodies that we apply to for grants look more favourably on those charities who have reserves/retained earnings showing prudent management of funds. If these reserves are taxed, or if there is a requirement to disburse these reserves, it may affect how successful we are applying for grants, which are critical to supporting our strategic and operational deliverables.

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?

We believe that the Panel needs to reconsider what they are wanting to achieve from these proposed changes and whether taxation changes are the best method for achieving this. As noted in the Officials' Issues Paper, the tax exemption on charity business income provides a taxation advantage to the charity, but not a competitive advantage. In the majority of instances the end result of this taxation advantage is that the charity has a higher level of funds available to be disbursed to the relevant charitable purpose.

Taxing the business income, both related and unrelated, is going to reduce the level of funds available for the charity to disburse. It will increase taxation income for the Government, but that may also correspondingly increase the need for higher level of disbursements from Government to meet to a funding shortfall to organisations such as ours.

Perhaps instead of considering that a tax concession has a "cost" as referred to in paragraph 1.4 of the Officials' Issues Paper, it could 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."*¹

¹ With thanks to Craig Fisher and Steven Moe for this quote
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Removing the tax exemption on unrelated business income will not simplify the tax system, it will increase compliance costs, and we believe there are more appropriate levers available to address integrity risks. DIA Charities Services already has the tools and ability to identify and deal with charities that are an integrity risk. It is a matter of ensuring that DIA Charities Services is adequately resourced to be able to do this work.

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?

Donor controlled charities have not been a sector we have historically approached for funding, but we are currently investigating how we can increase philanthropic funding, and this would include approaching donor controlled charities.

Q8. Should investments 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?

We find it difficult to comment on this as we do not have a clear understanding of the size of the issue, and correspondingly the level of response required.

Accepting there is a need to prevent the situations listed in paragraph 3.6 of the Officials' Issues Paper (e.g. circular transactions), too many compliance costs and rules on donor controlled charities will ultimately impact our potential income sources. We would prefer to see resources put into enforcement rather than compliance/rules. It appears a blanket approach is being considered for all donor controlled charities, to catch the few.

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

We agree in principle that some form of minimum distribution rule may be appropriate, but also note that it would be difficult to make a blanket rule, as there are so many situations where it may not be appropriate.

For example, a charity that is building an endowment capital fund where the intention is that income from the capital is disbursed, while the capital is inflation protected and remains intact. During the accumulation phase, any minimum distribution rule is going to slow the capital growth process and delay the timing of distributions being able to be made.

We note that DIA Charities Services have recently introduced additional disclosure requirements on charities to explain their reasons for any significant accumulation. Perhaps this is a more appropriate lever to deal with any potential issues around accumulation? And should this be restricted only to donor controlled charities?

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

We do not have a view on this as it is not relevant to our charity.

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

We do not have a view on this as it is not relevant to our charity.

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

Local and Regional promotional body income tax exemption

Herd improvement bodies income tax exemption

Veterinary service body income tax exemption

Bodies promoting scientific or industrial research income tax exemption, and

Non resident charity tax exemption?

We do not have a view on this as it is not relevant to our charity.

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 FBT exemption has been another concession that has supported the charitable sector. It has allowed us to offer more competitive remuneration packages at a lower cost to our charity while allowing us to attract appropriate personnel. In doing so we are able to compete with the for-profit sector. By not having to pay FBT, it also increases the funds available for charitable purposes and reduces compliance costs.

We currently provide vehicles to four employees. These vehicles are provided to our charity under a commercial partnership package at no “cost” to our charity. These vehicles are provided as part of the individual employee agreements, so we would not be able to discontinue the provision without renegotiating contracts or attracting new additional operating expense.

If required to complete a FBT return, we would need to determine a cost value – is it a retail value or a wholesale value? In our situation the operating cost method of calculation would be most applicable meaning that we would need to have our employees maintain a log book for a period of time so that we can calculate a private percentage. As an estimate, a removal of the FBT exemption could reduce the funds we have available for our charitable purpose by \$30,000 per annum, not including the additional compliance time cost.

While we understand that the core policy rationale behind FBT is to ensure that remuneration paid to employees is appropriately taxed on a fair and equitable basis, we also note that any change to the FBT exemption is going to increase compliance costs to charities and will not simplify the tax rules. In order to determine whether any change is worth undertaking, it would be useful to understand the quantum impact of the current exemption.

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

While this is not applicable to our charity, the tax simplification rules introduced for FENZ appear to be logical.

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

Any changes that will simplify the process for donors to claim back the donation tax concessions and on a more timely basis would receive our support. This provides an opportunity to grow the level of donations that we receive.

s 9(2)(a)

From: s 9(2)(a) s 9(2)(a)
Sent: Friday, 21 March 2025 4:02 pm
To: Policy Webmaster
Cc: s 9(2)(a)
Subject: Submission. Taxation and the not-for-profit sector[In Confidence]
Attachments: taxation-and-the-not-for-profit-sector.pdf
Importance: High

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

Hello.

We detail below our submission regarding Taxation of the not-for-profit sector. Our submission is provided on a confidential basis.

We are a South Island based family-owned business. We specialise in the dredging and dewatering of sludge, fine grain silts and hydrocarbon contaminated materials plus, water treatment and water recycling.

We were incorporated 2010 and have grown organically to our current situation where we have established a Hornby, Christchurch base to be close to the South Island key accounts we work with. We have 5 permanent staff and 3-part timers.

Our strategy has been to build strong B 2 B relationships with customers in the public and private sector. Aside from initial seed capital, all our growth has been funded from earnings. These retained funds have been re-invested in new plant and technologies to expand the tools available to remedy environmental issues and build sustainable solutions, particularly in NZs primary export sector (dairy, meat, industry, aquaculture) where wastewater is increasingly a problem.

We cannot grow to employ more crew plus invest in new technology and productivity improvements unless we can secure ongoing work at fair returns. The retained earnings being the seed funds for growth and technological improvement.

We disagree strongly with the claims in the IRD Consultation Official Issues Paper, clause 2.7 *Competitive Advantage* that the non-taxing of (trading) charities does not create a competitive advantage. We offer top line industrial pumps (2-inch medium flow to 8-inch-high flow units) and mobile water treatment systems (Lamella plate clarifiers/LPCs and filter bags) to the civil works and construction sector. Two Brethren operated companies, dominate the industrial pump market simply because we cannot compete with them on price with same spec, imported pump units. Similarly on LPCs, we were one of two companies that developed and launched LPCs into the market and the two 'nontaxed charitable' companies copied the technology and piggy banked into the market with cheaper units due to their tax – price advantage.

A caveat here. This is not a criticism of how these two companies are run. Indeed, we trade with one of these entities and they are professional and pay their bills on time. It is a plea for the tax law to be fair to all.

Anybody who does not believe the tax competitive advantage they have is not in touch with reality. Words written from a Wellington desk don't reflect what is happening in the real commercial world. I know because I own the company and we fight for every \$ to reinvest. In addition to having a price advantage due to the charitable tax status, these very same parties don't have the cash flow burden of provisional tax. Like us, they have fixed overheads like wages and rent and insurance. But we have to pay provisional tax in advance and on time and fund these same overheads from margin (If we get the business and execute well) or bank funding or shareholders cash injection.

Cash is key to any corporate that is competing fairly. And a fair and fairly applied tax regime is central to fair competition. It just cannot be separated out.

Addressing the questions as detailed;

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? *As above, these so called charity businesses are actively trading as direct competitors to companies such as ours. You can drive out the Hutt Road past Condor Pumps. It is a standard industrial set up selling plants and services just like us.*

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 will be fair for all. Companies such as ours will get a fair share of the business based on price and be able to reinvest this into smarter technology and more jobs.*

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 they make a profit from a standard, high street trading operation with plant or services then it should be taxed the same as we are currently. What they do with their tax paid \$s is their business.*

Q4. If the tax exemption is removed for charity business income that is unrelated to charitable purposes, what would be an appropriate threshold to continue to provide an exemption for small-scale business activities? *No threshold exemptions should apply.*

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? *That's for IRD to decide.* If not, why not? *I believe that like us, if they decide to donate a portion of their taxable income to a bone fide charity then they can. But the bone fide is the key. We donate to various charities also. FifeShire Foundation for example. But these are arm's length, bone fide, non-staff or family charities.*

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? *Best IRD do the wording on this from above. They are the policy experts.*

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?

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

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?

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.

Q11. What are the implications of removing the current tax concessions for friendly societies and credit unions? **It will screw them They are raising funds from bone fide, taxed sources and generally assisting the general public or their causes and of these much of the funds are supporting roles and needs that our Government should be doing. But they have gradually moved away from such welfare support and left a lot of it to community groups. Meantime, so called charities like the brethren milk the system.**

Q12. What are the likely implications if the following exemptions are removed or significantly reduced: • local and regional promotional body income tax exemption, • herd improvement bodies income tax exemption, • veterinary service body income tax exemption, • bodies promoting scientific or industrial research income tax exemption, and • non-resident charity tax exemption? **It will be fair. (Why on earth do vets get a tax break). We must have a level and fair tax playing field.**

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? **That's the same old nonsense excuse that government have used to kick the no capital gains tax down the road. Most other OECD nations manage a much fairer tax regime including the likes of religious groups and vets (!!) on income and capital gains tax. IRD have the people, experience and systems and moral compass to make this work. Additional costs to implemented would be covered by the addition fair tax rate.**

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?

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?



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24 March 2025

Submitted to: Deputy Commissioner, Policy – Inland Revenue Department

Via: policy.webmaster@ird.govt.nz

Submission: Taxation and the Not-for-Profit Sector Consultation

Introduction

The New Zealand Speech-language Therapists' Association (NZSTA) is the national professional body representing speech-language therapists in Aotearoa New Zealand. Established in 1946, we represent over 1,100 registered members—approximately 95% of the registered workforce.

Speech-language therapists (SLTs) support communication and swallowing across the lifespan, working in diverse sectors, including health, education, disability, and justice. Our members hold recognised qualifications at the bachelor's or master's level and must meet ongoing requirements for registration, ethics, continuing professional development, and clinical practice.

As a self-regulating body, NZSTA operates as an incorporated society. We reinvest all revenue directly into activities that support our members and deliver public benefit through high-quality, equitable speech-language therapy services.

Overview of Submission

NZSTA welcomes the opportunity to respond to Inland Revenue's consultation on taxation and the not-for-profit sector. While many of the questions are framed around charitable organisations, we submit that it is critical the review also considers the broader impact on incorporated societies and other membership-based organisations that operate for the public good, even if they are not registered charities.

Responses to Questions 1–9: Charities and the broader NFP landscape

We advocate for a balanced approach that upholds the integrity and sustainability of the not-for-profit sector without imposing disproportionate compliance burdens.

NZSTA submits that:

- Taxation settings for charitable business income must not discourage reinvestment in public benefit initiatives.
- Donor-controlled charities play a valuable role in local communities and should not be constrained by excessive regulation.
- Simplification and integrity measures must be designed to support, not restrict, legitimate not-for-profit activity.

- Incorporated societies and professional associations—such as NZSTA—should continue to benefit from existing exemptions, as we reinvest all income into member services, sector development, and activities with clear public value.
 - Compliance costs should be proportionate to the size and function of each organisation. Rising obligations risk diverting limited resources away from community and sector impact.
-

Question 10: Income deduction threshold for small not-for-profits

NZSTA supports increasing the income deduction threshold for non-charitable NFPs from \$1,000 to \$10,000.

This change would:

- Reduce unnecessary administrative requirements for small and medium-sized incorporated societies with low revenue.
- Enable these organisations to focus more fully on their member and community contributions rather than tax compliance.
- Reflect the actual costs and realities of operating sustainably while generating a modest surplus income through membership fees or sponsorships.

This threshold adjustment would better recognise the purpose and function of these organisations and support their ongoing contribution to Aotearoa New Zealand.

Question 11: Tax concessions for friendly societies and credit unions

We support the continued tax-exempt status of friendly societies and credit unions, recognising their alignment with the values of the not-for-profit sector.

Removing their exemptions could create uncertainty for other mutual and membership-based organisations, including professional associations like NZSTA. These organisations operate without a profit motive, instead prioritising reinvestment into member and public benefit initiatives.

Any policy shift in this area must be carefully considered to avoid undermining the financial sustainability of organisations that serve the public good.

Question 12: Exemptions for industry, science, and research bodies

NZSTA strongly supports maintaining tax exemptions for not-for-profit entities engaged in sector development, research, innovation, and professional education.

Many incorporated societies contribute to national and regional development through evidence-based practice, workforce support, and the advancement of knowledge—activities that benefit the public, even if not structured as formal research.

Tax exemptions recognise these contributions and allow such organisations to continue playing a vital role in strengthening Aotearoa’s professional and economic systems.

Question 13: Fringe benefit tax settings

NZSTA supports the simplification of the fringe benefit tax (FBT) framework. However, any changes must be carefully assessed to avoid unintended impacts on incorporated societies that provide modest benefits to staff or volunteers in recognition of their service.

Removing exemptions could reduce the ability of professional bodies to attract and retain skilled staff, particularly where salary budgets are limited, and may increase the burden on volunteer-driven organisations.

Question 14: Reducing tax compliance for volunteer-driven organisations

NZSTA supports extending the Fire and Emergency New Zealand (FENZ) tax simplification approach to other NFPs and introducing further measures to support volunteer participation.

We recommend:

- Simplifying reporting requirements for volunteer reimbursements.
- Introducing a clear tax-free threshold for volunteer expenses to reduce compliance costs and support the vital role of volunteers in our sector.

Our association, like many others, relies on the work of volunteers—from governance to policy development and competency framework creation, as well as raising public awareness. Minimising barriers to participation is key to sustaining this contribution.

Question 15: Donation tax concessions

While most incorporated societies do not qualify for donation tax concessions, many—like NZSTA—engage in sector-wide initiatives with significant public benefit.

We recommend:

- Retaining current donation tax concessions for entities delivering educational, workforce, or sector development initiatives.
 - Recognising the contributions of professional associations that advocate for quality and equitable service delivery and build capacity across the system.
 - Ensuring any regulatory changes support, rather than restrict, these contributions.
-

Conclusion

NZSTA appreciates the opportunity to provide feedback on this important review. We urge Inland Revenue to continue recognising the value of membership-based and incorporated societies within the broader not-for-profit ecosystem. These organisations are essential to New Zealand’s professional landscape and make a meaningful contribution to public well-being.

We are open to further dialogue and would welcome opportunities to contribute constructively to any ongoing policy development.

Ngā mihi nui,

Siobhan Molloy

.

For further inquiries, please contact

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executivedirector@speechtherapy.org.nz

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24 March 2025

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

Dear Mr David Carrigan,

RE: Submission on the Taxation of Charities and Non-Profit Organisations

We, the Nelson Environment Centre, are writing to express our concerns regarding the proposals to tax charities and other non-profit organisations (NFPs) outlined in the recent discussion document. As an organisation dedicated to sustainable action for good, we focus on providing social and environmental impact through waste reduction, recycling and reuse, and building resilience in our community to meet environmental challenges. We believe that the tax exemptions currently in place are essential for ensuring that charities can continue to focus on their charitable purposes without the burdens of unnecessary administrative costs and financial strain.

While we understand that the Government aims to review and modernise tax policies to ensure fairness and consistency, we strongly oppose any proposal that would tax charities. Charities provide a unique and invaluable service to New Zealand's communities and taxing them would have a multitude of negative consequences for the organisations, the communities they serve and New Zealand as a whole.

Responses to Discussion 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?

We do not believe charity business income should be taxed. Charities should not be penalised for generating income that supports their charitable mission. While we understand the concern about unrelated business income, many charities operate social enterprises or businesses that directly support their mission. Taxing this income would reduce the charity's ability to fund its core activities and serve its beneficiaries. The existing tax exemptions for income directly related to charitable purposes remain an essential tool for promoting charitable activity in New Zealand.

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

Removing the tax exemption for charity business income unrelated to charitable purposes would place a significant financial burden on charities. It may lead to increased operating costs, reducing the resources available to charities for their core activities. Charities would struggle with the administrative burden of determining and reporting unrelated business income, diverting resources away from their mission.

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?

An unrelated business should be defined as one that operates outside the charity's core purpose and does not directly support its charitable mission. However, many activities that generate income, even if they appear commercial, are often closely aligned with a charity's work. Any criteria introduced would be inherently ambiguous due to the huge diversity of charitable operations in New Zealand, increasing uncertainty, administrative burden.

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?

We strongly oppose the removal of this tax exemption and don't believe any limit would be in the benefit of New Zealand or support the fantastic mahi the charitable sector do in our country.

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. The primary goal of charities is to reinvest any surplus income into their mission, and taxing income that is subsequently used for charitable purposes would undermine that objective. The most effective way to achieve this would be through the current tax exemptions, any changes that introduce complexity into this sector would not be useful.

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?

It is important to consider the impact on all charities, many of which lack the resources to comply with complex tax regulations. Policy settings should also account for the need to preserve the charitable sector's ability to innovate and generate income to support its work. Additionally, any policy changes should avoid creating a disincentive for donations or volunteerism, which are essential to charity operations.

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

We do not believe a distinction should be made between donor-controlled charities and other charitable organisations for tax purposes. Donor-controlled charities often still serve the public good, and singling them out for different tax treatment would create unnecessary complexity. The focus should remain on whether the charity serves a legitimate charitable purpose, regardless of its funding model.

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?

We do not believe investment restrictions are necessary for donor-controlled charities. New Zealand already has general anti-avoidance provisions in tax law. Strengthening enforcement of existing rules might be a more effective approach rather than introducing new restrictions that could inadvertently penalise well-run charities.

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?

We do not support the introduction of a minimum distribution requirement for donor-controlled charities. Charities should be able to determine the distribution of funds based on their specific needs and strategic objectives. Introducing a mandatory distribution rate could lead to inefficiencies and force charities to allocate funds to activities that may not align with their core mission or long-term goals, as well as limiting their ability to pursue strategic objectives freely.

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

Policy changes should focus on reducing the compliance burden for smaller NFPs. For example, simplifying reporting requirements, increasing the current \$1,000 deduction threshold, and allowing for more streamlined processes for smaller organisations would significantly reduce the administrative burden. The Government should also consider increasing support for smaller NFPs to ensure they can navigate any regulatory changes effectively.

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

Removing tax concessions for friendly societies and credit unions could significantly harm their ability to serve their communities. These organisations already provide vital financial services, often to lower-income or underserved groups. Without tax exemptions, they may

face increased operational costs, which could reduce their ability to provide affordable services and support their members.

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

Local and regional promotional body income tax exemption

Herd improvement bodies income tax exemption

Veterinary service body income tax exemption

Bodies promoting scientific or industrial research income tax exemption

Non-resident charity tax exemption

The removal or reduction of these exemptions could result in increased costs for organisations in these sectors, potentially reducing their ability to carry out important public-facing work. Charities and nonprofits in these sectors often work in areas that directly benefit the public, such as tourism, public health, and scientific research. Any additional tax burden would negatively impact their ability to provide these services effectively.

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?

If the exemption for charities is removed or reduced, this would increase compliance costs and reduce the financial resources available for charitable activities. Charities already face significant pressure on their resources and removing the FBT exemption would exacerbate this issue. The Government should consider maintaining this exemption to ensure that charities can focus on their charitable purposes rather than navigating complex tax regulations.

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?

We strongly support extending the FENZ simplification to all NFPs. This would reduce the administrative burden on volunteers, ensuring they can continue contributing to charitable causes without worrying about complicated tax reporting. Simplifying the tax treatment of honoraria for all NFPs would be a positive step in supporting the volunteer sector.

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?

We support the recommendations of the DTC regulatory stewardship review, particularly the idea of delinking DTCs from income tax to allow for more real-time payments. This would streamline the process and encourage greater participation in donation schemes. Improving awareness of the donation tax credit and simplifying the claiming process would also increase uptake and enhance the impact for charitable organisations.

In conclusion, we strongly oppose the proposals to tax charities. Charities are already operating in a challenging environment, and introducing additional tax burdens and complexity would be counterproductive, harming the very communities these organisations aim to help.

We urge the Government to consider alternatives to taxation and to maintain the existing tax exemptions that enable charities to continue delivering essential services to New Zealand.

Thank you for the opportunity to provide our submission. We hope that you will consider the significant impact any changes to charity tax exemptions would have on the charitable sector and the communities we serve.

Dominic Bloomfield (Chairperson)

Nelson Environment Centre



31 March 2025

Submission to the Inland Revenue Department on Taxation of the Not-For-Profit Sector

Submitted by: Stephen Keeling

Chief Financial Officer

**Royal New Zealand Foundation of the Blind (Blind Low Vision
NZ)**

539 Parnell Road, Auckland 1052

Introduction

Blind Low Vision NZ welcomes the opportunity to provide this submission in response to the discussion paper on the taxation of the not-for-profit sector. As New Zealand's leading provider of vision rehabilitation services, we are deeply invested in policies that affect our ability to serve individuals who are blind, deafblind, or have low vision.

Our submission focuses on Chapter 2 of the Officials Issues Paper and provides answers to a selection of the discussion questions.

About Blind Low Vision NZ

Blind Low Vision NZ is the operating name of the Royal New Zealand Foundation of the Blind (RNZFB). Established in 1890, our organisation has provided essential services to New Zealanders with vision loss for over 130 years. Guided by our mission and strategic plan, we are committed to empowering approximately 16,000 clients to lead independent and fulfilling lives.

It is estimated that 193,000 New Zealanders currently live with vision loss^{i,ii}, a number projected to increase to 225,000 by 2028ⁱⁱⁱ. Common eye conditions include Age-related Macular Degeneration, Diabetic Retinopathy, Glaucoma, and Cataracts.



To support our work, Blind Low Vision NZ owns Foundation Properties Limited (FPL), a wholly owned subsidiary responsible for managing our property portfolio. The income generated from this entity is repatriated to Blind Low Vision NZ as dividends, directly contributing to the funding of our essential services

Our Services

Blind Low Vision NZ provides a wide range of critical services, including:

- Orientation and Mobility Services
- Community and Support
- Guide Dog Services
- Library Services
- Accessible Formats Service
- Daily Living Skills
- Adaptive Technology
- Vision Store
- Sport and Leisure
- Emotional Support
- Employment and Youth Transition
- Deafblind Services
- Children's Services
- Support Grants

These services are integral to ensuring that individuals with vision loss can participate fully in society and maintain their independence.

Our Position on Taxation of Charitable Business Income

Blind Low Vision NZ strongly recommends that any tax reforms maintain the existing tax-exempt status for charities. Taxing income derived from charitable business activities could have significant negative consequences, reducing the funds available for essential services and threatening the sustainability of charitable organisations.

Question 1: Key Considerations

1. Supports Charitable Work

- a. Business income provides a crucial funding source for nonprofit activities, reducing reliance on donations and government grants



- b. Foundation Properties Limited contributes approximately 11% of our total funding. Additional revenue sources include government contracts (20%), fundraising (62%) and reserves.
- c. A reduced dividend from FPL would necessitate increased government funding or public donations, both of which are already under pressure.

2. Encourages Self-Sustainability

- a. Tax-free business income allows charities to generate their own resources rather than relying solely on unpredictable external funding
- b. Foundation Properties distributes at least 75% of its operating cashflows to Blind Low Vision NZ, with the remainder reinvested to enhance long-term financial stability.
- c. Introducing taxation would hinder our ability to grow our income stream, ultimately reducing our self sufficiency.

3. Administrative Complexity

- a. Distinguishing between related and unrelated business activities is complex and would impose significant compliance burdens.
- b. Increased administrative costs would divert resources from frontline services to legal, accounting and auditing expenses.

4. Social Good Justification

- a. Many charitable enterprises provide essential services to vulnerable communities.
- b. Taxing charities could lead to service reductions, placing greater strain on the public health and social welfare systems.
- c. If Blind Low Vision NZ's funding were reduced due to tax changes, our ability to support people with vision loss would be significantly impacted.

Question 2: Potential Consequences of Removing Tax Exemptions

If tax exemptions for business income were removed, the following practical implications could arise:

1. **Reduced Charitable Impact:** Fewer funds available for mission-driven activities.
2. **Structural Changes:** Charities may be forced to restructure (for example splitting activities into different entities to reduce the compliance costs of apportioning expenditure), diverting resources away from service delivery.
3. **Compliance Costs:** Additional tax reporting and regulatory burdens. Tax compliance costs should not be underestimated, particularly for a sector which has not previously had these requirements. If ultimately tax credits are granted when income amounts are distributed for charitable purposes, you are creating deadweight costs for society. This is particularly the case for Blind Low Vision as the majority of income earned from FPL is distributed to charitable purposes each year.



The charitable sector already incurs material compliance costs complying with Charities laws.

4. **Legal Challenges:** Increased complexity in defining taxable business activities.
5. **Reduction in Services:** Possible price increases or cutbacks in essential services.

For Blind Low Vision, taxing FPL's commercial property income would materially impact our ability to maintain current service levels. Funds currently reinvested to support long-term sustainability would be redirected to tax obligations, ultimately weakening our financial resilience.

Governance and Oversight

Foundation Properties Limited is governed by an independent board aligned with Blind Low Vision NZ's mission. This structure ensures that all income generated benefits people with vision loss rather than being used for personal or commercial gain. By maintaining FPL as a separate entity, we enhance financial stewardship while reducing reliance on taxpayer-funded support.

Question 3: Defining Business Income Unrelated to Charitable Purposes

Unrelated business income (UBI) is generally defined by three criteria:

- **Trade or Business:** Revenue-generating activities involving the sale of goods and services.
- **Regularly Carried On:** Conducted in a manner similar to commercial enterprises.
- **Not Substantially Related:** Activities not directly contributing to the charity's exempt purpose.

Blind Low Vision NZ sells subsidised equipment to clients to support independent living. This activity would likely be classified as related business income and therefore remain tax-exempt. Similarly, FPL's property income is essential to sustaining our charitable mission and should not be classified as unrelated business income.

Question 4: Establishing an Appropriate Threshold for Small-Scale Business Activities

Any threshold for taxing business income should balance fairness with administrative efficiency. Possible approaches include:

- **Revenue Threshold:** Exempting income below a certain dollar amount.



- **Profit-Based Exemption:** Only taxing profits above a set margin.
- **Percentage of Total Revenue:** Exempting business income below a certain proportion of total revenue.

Applying such thresholds would create uncertainty and administrative burdens across the charity sector. Instead, we advocate for maintaining the current system, which provides clarity and ensures charities can maximise their social impact.

We recommend that there be some form of bright-line test, whereby if, on average, greater than 50% of business income is applied to charitable purposes that all business income remains exempt from tax. That way, those charities that are not accumulating funds within a business are spared compliance costs. An averaging approach will ensure that charities don't flip in/out of rules. There should be an ability to apply for an exemption if there is a one-off low distribution (for example the need to invest in a capital asset).

Conclusion

Blind Low Vision NZ strongly opposes any changes that would impose taxation on charitable business income. Any such policy would have detrimental consequences for our organisation, our clients, and the wider public. Existing regulatory mechanisms under charities law already provide oversight and accountability, ensuring that nonprofit income is used for charitable purposes.

We urge the Inland Revenue Department to maintain the tax-exempt status of charitable business income to protect the financial sustainability of New Zealand's not-for-profit sector and the essential services it provides.

¹ Thornley SJ, Gordon K, Shelton C, Marshall R. The prevalence of visual impairment: a capture-recapture study in three urban regions of New Zealand. Available at: <https://blindlowvision.org.nz/news/new-study-vision-rehabilitation-new-zealand/>

ⁱⁱ Original numbers were obtained from: New Zealand Disability Survey 2013. Available at: <https://www.stats.govt.nz/information-releases/disability-survey-2013> .

ⁱⁱⁱ Moore, David; Rippon, Rebecca; and Niemi, Malin. *Vision Rehabilitation in New Zealand*. 27 February 2019. Sapere Research Group. Page 14, Section 4.4.





NZ Association of Metal Recyclers, Inc

PO Box 16 0020, Hornby, Christchurch 8441 P:(03) 344 3006 E: gm@nzamr.org.nz W: www.nzamr.org.nz

24 March 2025

Taxation and the not-for-profit sector
c/- Deputy Commissioner, Policy
Inland Revenue Department
Via email: policy.webmaster@ird.govt.nz

Dear Sir/Madam

Taxation and the not-for-profit sector

The NZ Association of Metal Recyclers, Incorporated is a not-for-profit industry association that has operated since 1968.

The primary source of our income is an annual membership subscription which receives an income tax concession. With this income, we undertake activities that are associated with the public good. These include:

- Working with central and local government bodies on policies to ensure metal recycling is enabled and maximised
- Promoting the industry to the public with activities including Recycling Week, provision of bin decals to members to enable collection of metal packaging items, and production of educational materials
- Operating a stolen metal reporting system which is used by victims of theft and the NZ Police

No single metal recycling business can afford to engage in the above activities which is why an industry association is needed. If the income tax concession was removed, our organisation would lose over \$4,000 p.a. in income which would be hard to replace.

We recommend that no change be made to the tax concession framework. If officials need to contact us to discuss this submission, please refer any enquiries to our General Manager at gm@nzamr.org.nz.

Kind regards,

s 9(2)(a)



Glen Jacobs
President

Taxation and the Not for Profit Sector – Consultation

Submission by the Fundraising Institute of New Zealand

Introduction

The Fundraising Institute of New Zealand (FINZ) is the professional body that represents fundraising in New Zealand.

Our vision is our aspiration for the future:

Everyone in Aotearoa New Zealand is empowered and inspired to give generously and confidently to causes they care about.

Our mission is how we work towards our vision:

To inspire, create and strengthen confidence in giving and generosity across Aotearoa New Zealand that leads to positive impact.

Our feedback on this proposal

FINZ represents a membership that is diverse both in purpose and in structure. As such, this submission does not seek to make comment on specific policy suggestions contained in the consultation, as taking a position on each or any runs the risk of including and representing the views of some members while disenfranchising other members.

Instead, FINZ chooses to keep our comments on the consultation at a high level, considering, in the main, the perceived motivation and principles behind the introduction of such a discussion.

1. The value of the not for profit sector to GDP and the fabric of New Zealand society

FINZ urges the government to carefully consider the contributions made to New Zealand by the not for profit (NFP) sector. These contributions range from strengthening families, communities and the capacity of individuals to look after themselves and contribute to their own communities, to the massive fiscal contribution of the sector to NZ GDP.

The NFP (or 'for-purpose') sector has always filled inherent gaps in government provision for social programmes, support of individuals, people with special needs, communities of high deprivation and others at scale and far more cheaply than the government ever could.

FINZ argues that this value, much of which can be measured in quantitative terms but importantly also in the qualitative measurements by which real progress can be valued, far outweighs any fiscal gain that may be made by the government in the introduction of new taxation on the sector.

The government relies heavily on the NFP sector to provide support that it would have to provide, were it not for the generosity and will of the people who make the decision to create entities that care for and support healthy families and community.

We urge the government not to introduce any 'blunt measures' in taxation that will stifle the NFP sector's ability to continue to provide vital services and support where the government either cannot afford to, or is unwilling to do so.

FINZ comments that there is a lot in this consultation paper that indicates a lack of consultation and 'thinking with' the NFP sector and those best placed to offer robust advice on the advisability of taxing charitable activity. We urge the government to slow down this process and run authentic consultation with the sector about the implications of such taxation on the sector's ability to deliver the very services upon which the government relies.

2. Encouraging Philanthropy

One of the most important consequences of the work of FINZ is to assist organisations, through the fundraisers who work for them, to encourage and support philanthropy in New Zealand.

New Zealand has an international reputation for its generosity. Kiwis are inherently generous people.

Any legislative moves that discourage this generosity should be vigorously opposed.

In fact, FINZ asserts that any and all legislation pertaining to the NFP sector should, either directly or as a consequence, encourage the New Zealand public to support their efforts to the greatest extent possible.

3. Conclusion

FINZ encourages the government to slow this process down, to undertake a far more in depth analysis of the value of the NFP sector and the potential impact on the NFP sector, along with more consultation with a broader group of experts. We recommend the government take a broader view of what that value includes, prior to any decision-making with regard to how it should (or in this case, should not) tax charities. Without this, we believe there will be unintended consequences that will have a net negative effect on the NFP sector and consequently New Zealand society.



24 March 2025

David Carrigan
Deputy Commissioner, Policy
Inland Revenue
C/- 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.

The Wellington Rugby Football Union (WRFU) has been a cornerstone of our local community for 146 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 A's" 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

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 26 grassroots provincial unions in New Zealand, WRFU plays a crucial role in fostering community engagement, social connection, and personal development through its 18 affiliated Rugby Clubs catering to almost 10,000 members.

Members of our union, like many others across the country, provide 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, members facilitate community wide events, fundraisers, and social initiatives and activities that support a wider whānau outcomes. These

activities bring communities together and generate economic activity for local businesses throughout the year, not just on game day.

Our Rugby clubs are also at the forefront of addressing important societal issues in our communities. These include wellbeing, high deprivation, mental health awareness, and domestic and family violence prevention.

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 unions and 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. Wellington Rugby Football Union 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)



Tony Giles
Chief Executive Officer
Wellington Rugby Football Union

s 9(2)(a)



s 9(2)(a)

From: O'Connor s 9(2)(a)
Sent: Monday, 24 March 2025 1:08 pm
To: Policy Webmaster
Cc: s 9(2)(a)
Subject: Taxation & Not for profit sector

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

I have concern for communities in general if Churches lose their charitable status. All over the country Church Ministers are available to go where they are needed in any situation, at any time of the day or night. Many are involved in other voluntary services as well, such as the fire brigade, search & rescue. I believe that over 1.4 million hours per week are freely given by volunteers in so many areas in our country. In our situation, the contract allows the Minister to spend half of his time involved in the community volunteering, talking to shop keepers, attending gatherings etc, to connect with people.... Quite surprising the things people get off their chests and feel better for. If there are concerns about any of them, it would be best to look into the individual situation. Some sports clubs are being hit with big rates and lease accounts, and would not survive without this help. The wellbeing of people is detriment to the wellbeing of this country. This tax help inspires charities to do well which reduces the burden on Government. Erica O'Connor, Kaikoura