

**From:** Jenny Herbison-Ware s 9(2)(a)  
**Sent:** Monday, 24 March 2025 4:46 pm  
**To:** Policy Webmaster  
**Subject:** Submission - Taxation and The Not for Profit Sector

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To Whom it Concerns,

My name is Jennifer Herbison-Ware and I am a Store Manager at the Stratford Salvation Army Family Store.

I have been in this position for just over two years and new to this industry. I can appreciate a need for research by the IRD into possibly taxing charities and perhaps hold some accountable for tax. However, I truly believe there is a distinctive difference in how various different charities distribute profit and how each one services the wider community.

I have witnessed every single day, customers in dire need of household basics, sheets, towels, blanket, cup, plate, the real basic needs that we take for granted. The Salvation Army through the continuous generous donations and the help from volunteers fills this need every single day and at prices that these people can afford. And if they cannot afford to buy it the Salvation Army will organise provision of items from the profits. This gives people dignity and this is invaluable. If we were taxed on our profit, we would need to put our prices up to continue supplying all these people in desperate need without a doubt.

This organisation operates with volunteers, minimal paid staff who go above and beyond their pay because they believe in the worth of what they are doing.

I repeat, yes there is a need to look closely at charities and how they directly redirect their profits into helping the wider community and not selective communities and hand on heart, The Salvation Army is the real deal and hundreds if not thousands of desperate people would be a lot worse off if that's even possible if it wasn't for The Salvation Armies selfless effort. I really hope a blanket isn't thrown over all charities and very careful consideration is applied by the IRD.

Kind Regards  
Jennifer Herbison-Ware  
Stratford Family store

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s 9(2)(a)

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**From:** Corinne Cameron s 9(2)(a)  
**Sent:** Monday, 24 March 2025 4:58 pm  
**To:** Policy Webmaster  
**Subject:** Taxation and the not-for-profit sector

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Please do not tax the charity sector nor introduce changes to this area.

Registered charities do phenomenal good for our communities across a variety of areas. Areas that are not funded currently at National or Regional level by Government/Local Councils/Health Boards/etc or not funded to a high enough level.

Any revenue gathered via introduction of taxation would result in increased spending in other areas and more importantly a negative impact on NZ society and wellbeing.

Thanks  
Corinne Cameron

**From:** Sonya Cameron s 9(2)(a)  
**Sent:** Monday, 24 March 2025 5:07 pm  
**To:** Policy Webmaster  
**Subject:** Submission - Taxation and the Not for Profit Sector

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Kia ora Submissions team

My name is Sonya Cameron and I work with The Salvation Army as the National Food Security Manager, with oversight of food and funding for more than 60 foodbanks across the country from Kaitia to Invercargill.

At the Salvation Army, we supported over 90,000 people and their whānau in 2024 with food. A lot of this work is supported by the income we receive through fundraising as well as funding from Government.

Attached below is a snapshot of some of the issues faced by some wahine and their whānau we support in Manukau – our busiest foodbank.

- Chronic health conditions: most are living with chronic health conditions that affect either themselves or their tamariki
- Private rentals & arrears: Most are living in private rentals, and 70% are in utilities arrears.
- Rent, debt & kai: The average rent for those in private rental was \$775 and 71% have debt. 57% had only \$20-\$80 for kai for their whānau and the other 43% had \$100 - \$130.
- Cooking and food support: 70% cook from scratch for the whānau 5 nights or more per week. But they are looking for food support (e.g. food parcels) weekly or fortnightly using a variety of options.
- No energy, food consumes thoughts: 100% of wahine indicated that not having enough food means they have no energy, and that getting food consumes their thoughts either frequently or sometimes.
- Struggle with healthy diet: 71% were only able to eat a good healthy diet sometimes, but most weeks they do not.

At the Salvation Army, we are now only receiving one third of the funding we had available for our foodbanks from all sources compared with two years ago, which is severely impacting on our ability to provide food support to whānau experiencing food poverty. This year we understand that the Government may end funding for foodbanks, which will make things even more difficult.

We are finding that the number of families seeking food support from us is far more than we can manage. While we remain committed to providing food support, we can only do so within the limits of our resources. As a result, many of our foodbanks have had to start appointment systems in order not to disappoint those whom we do not have the resources to supply, and also to reduce the amount of food we provide. Reduced food and more rigid appointment systems mean that many whānau who approach us are not able to access the essential support they need to meet their basic needs.

Stressed and hungry whānau often get angry at our staff; however, due to other funding cuts we now only have 5 social workers nationwide (down from 17), which means we have fewer qualified staff to help diffuse these situations and support more complex needs.

**If the Government starts taxing the already limited income we are able to source, it will take away even time, money, and energy we'd rather be spending on ensuring that whānau are able to access the food they need. 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

Sonya Cameron  
Kaihautū Te Kai Mākona | Food Security Manager  
Te Ope Whakaora | The Salvation Army  
s 9(2)(a) | *Working hours: Monday to Thursday*

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## **Submission on Taxation and the Not-for-Profit Sector – An Officials’ Issues Paper**

**To: Policy, Inland Revenue**

**From: Coeliac New Zealand Incorporated**

**Date: 13 March 2025**

**Subject: Feedback on Taxation and the Not-for-Profit Sector**

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### **Introduction**

Thank you for the opportunity to provide feedback on the "Taxation and the Not-for-Profit Sector – An Officials’ Issues Paper" issued on 24 February 2025.

### **Charity Business Income Tax Exemption**

#### **Policy Framework and Rationale**

It is unclear the size of the issue being addressed, which raises questions about the necessity of such a broad change. A more targeted approach addressing tax compliance using the current charities sector regulations might be more appropriate, focusing on specific areas of concern rather than implementing a blanket policy change to taxation that affects all charities. A more focused strategy could address specific issues without disrupting the entire sector.

We appreciate the efforts to review and improve the taxation framework for the not-for-profit sector. While the intention behind increased taxation and compliance requirements may be to ensure transparency and fairness, the long-term effects on charities could be detrimental. It is essential to strike a balance that allows charities to operate efficiently and sustainably while maintaining accountability and transparency.

Current controls already require charities to be transparent and demonstrate that their income is used for charitable purposes. It is ironic that the proposed changes might discourage innovative ways for charities to raise revenue. Instead, we should be encouraging sustainability and innovative revenue generation.

#### **Definition of Unrelated Business Activity**

The definition of unrelated business activity is ambiguous. Perhaps the focus should be more on where the profit goes than what the activity is. Income raised that goes directly to the charitable purpose should remain exempt.

#### **Fringe Benefit Tax**

The rationale for introducing and maintaining this exemption was to support the charitable sector. Specific reasons included enabling charities to offer more competitive salary packages at a lower cost to the charity (thereby increasing funds available for charitable purposes) and reducing compliance costs. We believe this still holds true and do not believe this distorts the labour market as most charitable organisations are not able to meet competitive salary rates currently offered in the profit sector.

#### **Compliance and Administrative Burden**

There will be unintended costs for every charity. We urge consideration of the compliance and administrative burden on charities. Any new tax rules should be designed to minimize additional costs and complexities for these organizations, not increase them.

### **Stakeholder Engagement**

Ongoing engagement with stakeholders, including charities, donors, and tax professionals, is vital.

### **Conclusion**

People who work in charitable organisations, whether in the actual charity or in a related business that supports that charity are predominantly there for a purpose, to make a difference, to give back. So many volunteer in governance roles, advisory roles and operational roles. The cost of doing business has increased for charities as much as other businesses and finding funding is more competitive. Think about charities who support us throughout our lives from those who focus on physical, mental, and spiritual health to those who focus on protection from abuse, support in a crisis, or supporting carers. Those who help people who experience the worst time in their lives, people trying to become free of their addictions, helping vulnerable and marginalised individuals, those who teach us about arts and culture, those who want to help us have a healthy planet, those who care for animals and forests and so many more. We need to value the role of charities in our societies and support them not make it harder to exist.

We believe that with careful consideration of the points raised, a balanced approach can be achieved that supports the sustainability of charities while ensuring a fair tax system.

Thank you for considering our submission.

Wendy Bremner

General Manager

Coeliac New Zealand Incorporated

Charities Service Registration Number [CC27810](#)

M: s 9(2)(a) e: [manager@coeliac.org.nz](mailto:manager@coeliac.org.nz)

## Submission – Taxation and the Not-for-Profit Sector

Kia ora koutou,

My name is Davina Plummer, and I am the Workforce Development Coordinator for our social services at The Salvation Army. I hold a degree in Sociology and Social policy and am currently working towards my Master's in Professional Practice and Leadership. Prior to this role, I managed one of our frontline Community Ministries centres, which at the time included financial mentoring, counselling, social work, tangible welfare response, parenting and family mentoring, positive lifestyle skills, microfinance loans, transitional housing, and other initiatives in collaboration with community providers.

These services all require skilled staff and volunteers who are competent and well-supported. This means investing in their development and skills, as well as in 'caring for the carers' to ensure our workforce remains sustainable and not burnt out from vicarious trauma. I am deeply concerned that with less funding, we will not be able to continue recruiting skilled staff, support their professional competencies, or afford the support mechanisms needed to ensure they are well and can provide service continuity.

Each year, we support over 135,000 people with ripple effects into their whanau, workplaces and communities. I am sure there are many more who are unofficially supported through the benevolence of our extended communities. Those we support have often experienced significant and complex hardship, and trauma. Our services are desperately needed in a world where “cost of living crisis”, “economic recession” “housing crisis”, “mental health crisis”, “natural disasters”, “family violence”, “unemployment” are words that are heard daily.

The services that we offer are funded through fundraising, income from Family Stores (op shops), grants and bequest, and philanthropy. We have been heavily impacted by the loss of government contracts, with many of our Social Work positions being lost. Even when contracts were available, these were generally contributory, and very rarely covered the cost of 1 FTE let alone programme costs or building overheads. The consequence of further reducing our resources will be devastating. Operating family stores and expressions of social enterprise reduces reliance on fluctuating donation levels and government grants, allowing for long-term planning, sustainability and innovative responses to community needs.

Not one of our staff would have money as a motivation for their dedicated service. With reduced funding, our ability to support communities would be significantly limited—shifting the burden back onto government services that are already stretched. Charities such as ours, deliver essential services at a far lower cost than government agencies, thanks to dedicated staff, volunteers, and deep community connections. Imposing further red tape or financial pressure on the sector, such as through proposed tax changes, risks undermining the very partnerships that make this work possible. If

charities are restricted in their capacity, the government will be left to fill the gap—often at greater expense. This is not just about funding; it's about recognising the value of a collaborative, efficient, and community-driven response.

I am deeply concerned about the significant challenges that our organisation and our sector would face should the intended tax proposals go ahead. Even more so I am concerned for those needing our services, who already feel they have nowhere else to go

Please take these concerns seriously. I am happy to speak further if required.

Ngā mihi,

Davina Plummer

Workforce Development Coordinator

## **Summary of Key Points**

### *1) Taxation of Business Revenue*

As an experienced charity trustee and management accountant, I oppose the principle of taxing charity business income, particularly "unrelated" income, as I believe it will reduce simplicity of tax treatment of charities and increase compliance costs.

The cost of tax relief for charities needs to be considered against the financial benefits of charities that outweigh tax subsidies, due to cost-effective and targeted service delivery.

It will be difficult to define 'unrelated business' revenue and to avoid having many boundary cases which are hard for those working in the charity to understand how to treat. Taxing this revenue would increase financial risk for charities, due to reduced income and increase their compliance costs. The risks to charity sustainability are rising due to reduction in funding from government. Business revenue is a type of income that the charity has slightly more ability to control and to grow.

If the proposals go forward, they could be improved by exemptions linked to a proportion of total revenue (I recommend a high threshold of at least 40%) and alignment with the charity reporting tiers (making tier 3 and 4 exempt). In addition, I recommend exemptions for specific types of revenue to reduce the cost of compliance and need for judgement e.g. commercial revenue from arts and sports venues, opportunity shops, ticketed events, merchandise.

I do not recommend an exemption linked to distribution as this will create extra cost and complication. Not all charities have ring fenced vehicles for business income so would need to set up clear structures which would have additional cost e.g. for accounting and audit. There are likely to be valid reasons for not distributing all surpluses such as cash flow management and to replace equipment.

### *2) Donor-controlled Charities*

I potentially support reform in this area; however, I would need to understand whether the problem is large enough to require a policy solution. I am concerned about the risks of unintended consequences and discouraging philanthropy from very wealthy individuals. In NZ we should seek to encourage growth of these charities to increase the grant pool and fill gaps from reduced state funding.

### *3) Other Matters*

I support removal of FBT exemption in principle, however I recommend exempt thresholds per employee e.g. \$1,000 per year per employee as tax-free to reduce complexity and compliance cost. I support the extension of FENZ simplification of honoraria. I also recommend an annual allowance that could have a 0% tax rate which could encourage more volunteering. In addition, I support the donation tax concessions proposals.

**Personal Background**

I am a charity trustee with 17 years' experience of charity governance in the UK and NZ. I use my expertise as a management accountant to provide particular focus on using resources to maximise delivery of purpose, alongside maintaining long-term financial sustainability.

I am currently a trustee for the Auckland Philharmonia Trust and the Auckland Philharmonia Foundation (both enabling the delivery of world class orchestral music and music education in Auckland), and Diabetes Foundation Aotearoa (preventing diabetes and its complications). I am also co-CEO of Sustainable Initiatives Aotearoa (also known as Mindful Money) a charity encouraging ethical investment in NZ. In the UK, I was a trustee for a charity operating a large concert/theatre venue in London.

I am making this submission on my own behalf. My submission does not represent the views of any of these charities.

I am willing to be contacted about this submission [kate.vennell@kopikoconsulting.com](mailto:kate.vennell@kopikoconsulting.com).

**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?**

I do not support a policy to tax charity business income (however defined by policy).

In particular, the proposals to tax 'unrelated' income would not meet the objectives as set out in the paper of simplicity and reducing compliance costs.

The services and benefits from charitable activities need to be considered alongside the cost of tax exemptions. I believe most charities in NZ deliver net positive financial benefit over the cost of the tax subsidy. For instance, a charity with a purpose to reduce drug use will achieve a multiplier over the tax support by reducing costs borne by public health and criminal justice systems.

Charities deliver services that are cost effective (including supported by staff paid less than public sector or volunteers) and without the need to provide dividends to shareholders. In addition, proximity to beneficiaries enables services to be targeted to need and delivered in ways that work for them and increase impact.

I am also concerned about unintended consequences of proposals to tax 'unrelated' business income and the negative effects on charity resilience.

It is important for charities to diversify income sources and not become overly dependent on a 1 or 2 sources of income (especially government grants renewed annually) and to risks of large quantum changes in income. This will become more important as government grants / contracts come under increasing challenge.

Business income on the other hand is more directly controllable by the charity. It can provide more sustainable, and stable revenue to support consistent benefit delivery. Most charities in my experience undertake business in 'related' areas where they have credibility, experience and capability. The business activity can also be a mechanism for delivery of purpose (e.g. training, education services).

However, there can be valid reasons to do business in less related areas. This might arise due to:

- opportunity from a resource not always needed but which can be used by others e.g. space in physical buildings owned / leased by the charity
- assessment of option with best income over effort ratio e.g. charity shop
- complementarity to purpose or activity (e.g. merchandise, events, expertise)
- an alternative route to deliver purpose and impact.

In practice, it will be difficult to define 'unrelated'. Some examples of boundaries that I have seen, where it could be difficult to determine:

- Concert Hall in South London ran a bar and café. These activities did not deliver the purpose of providing arts, entertainment or community cultural experiences for public benefit (albeit the facilities were valued by attendees). However, they provided essential revenue which supported lower hire charges for community and artistic users of the venue and the financial viability of the charity.
- Overseas tours for high income patrons of an arts charity. In addition to profit, the tours deepen relationships with major personal donors. While related to the cultural purpose of the charity, they occur outside the region the charity serves. [This example is not for publication].
- Coaching and capability building for community groups on healthy lifestyles provided by a health charity. This is funded by grants from local boards and charitable foundations. In the future continuing this service could need some contribution from beneficiaries. Making healthy lifestyle choices can support reduced rates of the disease. However, the link to beneficial outcomes is indirect. [This example is not for publication].
- Parking revenue for commuters from unused spaces at a rehearsal venue in a central city location. This provides income to offset operational costs of the space. [This example is not for publication].

I am concerned about the risk of additional compliance costs and practical challenges for officers and trustees in assessing the status of business income. See next question for more on this risk.

**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 major implication is higher financial risk due to the reduction in income from the cost of tax to the charity. Many charities already have high current risk of annual deficits and erosion of any reserves due to not generating material surpluses and the effects of inflation (grant income has not risen in line with inflation but costs have risen) and alongside other risks of reductions from grant funders.

The second major implication is the additional cost e.g. professional advice resource to assess whether the service is related or unrelated and the additional cost of recording and reporting.

Additional compliance requirements do not achieve the objective of simplicity. There is also a high risk of charity officers and trustees not interpreting definitions correctly leading to later fines / penalties / back taxes.

There are other unintended consequences:

- The charity may decide to stop the business activity. A charity trustee may assess if the profit contribution is worth the compliance burden / risk (and the risk to their reputation and effective fulfilment of trustee duties). This would reduce income and resilience.
- This could affect other community users or charities. For instance, many community groups use spaces at affordable rates for events and meetings, provided for hire by charities such as churches.

**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?**

Although I disagree with the principle of taxing 'business' income, I agree that if it is implemented there would need to be a threshold for the % revenue and exemptions for charities with small revenue and aligned with reporting tiers e.g. 3 and 4).

I would welcome some specific exemptions to provide clarity, and which are agree as outside of any definitions and thresholds for 'unrelated business', e.g.

- Business revenue gained by Arts or Sports venues (concert halls, theatres, galleries, community stadiums, life-saving clubs etc.) alongside purpose activities. For example, gallery shops, cafés, bars, vending machines, hire of spaces, parking charges, advertising on billboards / noticeboards. Costs of operating these spaces are very high (maintenance, staff etc.) and often this income simply offsets some fixed cost.
- User / beneficiary part-contributions to services.
- Affinity Marketing revenue and referral fees through promotion of 3<sup>rd</sup> party services / offers to members, or users of the charity service.
- Merchandise sold to supporters
- Opportunity shops, and community cafes (e.g. lower prices and inclusive)
- Ticketed events for Sports, Arts and other events (e.g. talks, stalls at a fair)

**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?**

Assessing by reference to % total revenue would be meaningful. I suggest anything up to 40% or even 50% could be appropriate. The charity sector is very fragile financially and the retreat of the state puts additional requirements on many charities for services. For instance, a community hospice has very high operating costs and may need a high portion of revenue to come from op shops. Loss of this income could potentially lead to closure (due to inability to reduce fixed costs) or the need to get additional funding from government.

Further research into the amounts of business revenue and how much could be defined as unrelated would be needed before deciding on thresholds.



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

I do not agree as I believe this would create complication rather than simplicity and may have unintended consequences.

In my experience many charities do not have separate vehicles, entities or accounts for business income. How would the charity demonstrate which revenue was used for which purpose? Would any surplus in the financial year be the indicator of 'undistributed' business income? If so, this would not be reasonable as a surplus could be valuable in creating or rebuilding reserves or managing future period cashflow needs.

A consequence may be that charities would need to set up clearly ring-fenced vehicles from which it is possible to have clear 'distribution' audit trails. These may then have higher costs or barriers (e.g. finding more trustees to govern these entities, additional audit costs etc.).

Even where there is a ring-fenced entity, there may be very good reasons to keep some surplus within the business entity e.g. to smooth cashflow peaks and troughs, to manage risks, to have reserves for maintenance or asset replacement cycles.

Overall, it may drive some charities to stop the valuable business activity due to additional compliance requirements.

**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?**

NZ does not have any 'Social Enterprise' structures (e.g. the UK's Community Interest Company vehicle). This would be worth NZ considering. These entities can constitutionally define social benefit outcomes (in contrast to limited companies) and access donations / grants (like a charity). However, they can make profit, pay tax and attract capital investment and pay directors. [It could be argued that the major charity 'business activities' which attract criticism in NZ could be structured as Social Enterprises.]

**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 would value seeing evidence of potential abuse to understand how big a problem this may be and the priority for looking at the question. I would welcome efforts to define this category and levels of control. If there is evidence of material misuse of these vehicles, I would welcome efforts to ensure that funds are used to benefit charities in NZ and not associated parties, tax avoidance or other abuses.

I am concerned about unintended consequences. Donor-controlled charities are becoming more important to the funding landscape for NZ charities due to the emergence of a very wealthy class. I have met people who have set up such charities, and they appear motivated by desire for a personal legacy, to improve outcomes for NZ and to see the benefits of the support while they are alive. These philanthropists consider how to deliver effective altruism. For instance, through well designed and multi-year programmes, professional relationships with grantee charities and conditions for use and reporting (similar to major grant funders).

Given NZ has no wealth or inheritance tax, it is valuable to encourage the growth of this type of philanthropy. Growing the size of these charities / foundations could help to create a new source of grants to fill gaps from reduced state funding.

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

Yes, there should be investment restrictions. This would require further work. Restricting investments (e.g. not allowing shares in a business related to the donor / founder even where it is well motivated) could also support longevity and resilience of the donor charity.

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

Whether donor-controlled charities should be required to make a minimum distribution each year depends on how big an issue this is and evidence of any current abuse.

Any change would benefit from lessons from other countries and adopting models that are working effectively. As a trustee of a charity with an investment fund, I have seen that it can be complex for trustees to set a sustainable distribution policy that effectively balances sustainable support versus fiscal responsibility. There are risks of not distributing enough and building surpluses. Investment markets do not perform consistently year on year. A minimum distribution requirement may protect trustees in making a difficult decision to continue to distribute (even if investment performance is negative in a given year). Ideally a minimum distribution rate should be set as an average over 3 to 5 years to enable discretion linked to circumstances and align with longer term investment horizons.

**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?**

I understand the case for removing the FBT exemption for charities and for large Tier 1 charities that it may have a distorting effect on remuneration structures. However, in my experience as a charity trustee in NZ, there are very few fringe benefits provided and with limited financial value. In one, case a basic car is provided to the CEO to enable her to attend meetings efficiently with donors and community beneficiaries across Auckland. Employees of the Auckland Philharmonia also receive a few free tickets each year for themselves and family to attend performances. Another charity I govern provides a small annual Christmas lunch (food and soft drink purchased from supermarkets) for staff and trustees. All these staff are paid less than non-profit market rates and these small fringe benefit support recruitment, retention, and connection to purpose.

I would be concerned about the additional compliance cost of complying with FBT given the small levels of fringe benefits. To mitigate this risk, I recommend there is an exemption threshold e.g. total benefits less than \$1,000 per year per employee is tax free.

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

I agree with the principle of extending the FENZ simplification.

I also recommend an annual tax-free allowance that can be paid as an honorarium by a charity and for there to be a maximum that a single individual can receive from multiple charities. This would encourage volunteering (we are seeing a growing number of healthy older people retiring and seeking to be active in their community) and reduce the costs of compliance. It could be managed via payroll with a 0% tax code with a cap e.g. \$2000 per year per charity and a \$5000 maximum for an individual (from multiple charities).

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

I support all the recommendations. Given the ongoing reduction in availability of funding from government sources, encouraging a culture in NZ of personal giving is very important and has other benefits (e.g. feeling of community connection and legacy). Studies are showing a predicted 'wall of money' flowing in inheritances over the next 10 years. We need to move in NZ to incentivise philanthropy.

In addition, I would welcome the option for donors to select for the IRD to pay the tax credit to the charity (this would be like the UK Gift Aid regime, but less complex).

## **Submission to Inland Revenue Department (IRD) – Review of Not-for-Profit Taxation**

Submitted by: Edward Goldwater

Date: 25 March 2025

Subject: Response to IRD Consultation – Veterinary Service Body Income Tax Exemption

### **Response to Question 12 – Implications of Removing the Veterinary Service Body Income Tax Exemption**

This submission argues for the removal of the veterinary service body income tax exemption due to its impact on competition and industry fairness.

#### **1. Addressing Competitive Disparities in the Veterinary Sector**

Veterinary clubs were initially designed to provide rural veterinary services but have evolved into fully operational commercial businesses. Many now operate tax-free while competing with private veterinary businesses that must pay full corporate tax.

#### **Market Distortions Created by the Tax Exemption**

- Veterinary clubs can set prices lower than private businesses due to their tax-exempt status.
- Financial reserves of tax-free vet clubs grow at a faster rate, leading to market expansion at the expense of tax-paying entities.
- New veterinary clinics established by vet clubs operate without tax constraints, creating unfair advantages over independent veterinary practices.

#### **2. Strengthening the Viability of Rural Veterinary Clinics**

The financial sustainability of private veterinary practices, especially in rural areas, is at risk due to the competitive advantage tax-exempt vet clubs enjoy. Private clinics struggle with recruitment and retention, particularly when competing against businesses that do not bear tax burdens.

#### **Negative Effects of the Current Tax Exemption**

- The exemption suppresses wages within the veterinary sector, limiting growth and career opportunities.
- Many tax-exempt vet clubs extend services beyond their original rural scope, competing with established veterinary businesses.
- If private veterinary practices continue to decline, access to veterinary services in rural areas could be significantly impacted.

### **3. Aligning Tax Policy with Modern Veterinary Industry Conditions**

The veterinary industry has evolved significantly since the tax exemption was introduced in 1955. The original purpose of supporting access to veterinary care is now outdated, as veterinary services are widely available.

### **4. Enhancing Governance and Financial Transparency**

- Some tax-exempt vet clubs have evolved into profit-driven organizations, raising concerns about financial transparency.
- Many vet clubs offer services to non-members, contradicting the original intent of their tax-exempt status.
- Ensuring tax compliance for all veterinary providers would help maintain fairness and accountability.

### **5. Ensuring Minimal Impact on Genuine Non-Profit Veterinary Organisations**

- Vet clubs that engage in charitable work can transition into Charitable or Incorporated Society status to maintain tax benefits.
- Existing tax laws already provide appropriate exemptions for legitimate non-profit activities related to animal health research and education.

### **6. Reinvesting Tax Revenue for Veterinary Industry Support**

- Redirecting tax revenue from previously exempt vet clubs could fund workforce training and rural veterinary support programs.

### **Conclusion & Recommendations**

The removal of the veterinary service body income tax exemption is necessary to ensure financial sustainability, competitive fairness, and transparency within the sector.

I recommend:

1. Repealing CW 42 of the Income Tax Act to ensure all veterinary providers operate under equal taxation.
2. Establishing clear guidelines for non-profit veterinary organizations to transition into appropriate charitable entities.
3. Strengthening IRD enforcement to ensure no misuse of tax exemptions for commercial gain.

By implementing these measures, the veterinary industry in New Zealand can operate in a more equitable and transparent manner.

s 9(2)(a)

**From:** Fr. Rick Loughnan s 9(2)(a)  
**Sent:** Tuesday, 25 March 2025 9:19 am  
**To:** Policy Webmaster  
**Cc:** Wilma Vertogen, s 9(2)(a); Fr. Alister Castillo  
**Subject:** Taxation and not-for-profit sector

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

We are from the Catholic Parish of Christchurch North ( Patronal name Christ the Redeemer).

We wish to make a submission in regard to **Consultation on an Inland Revenue Issues Paper on the taxation of charity and not-for-profits**

We would like to speak to 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?*

This question is suggesting a de minimis threshold whereby small charities would still have the tax exemption. We support this and would recommend that the thresholds are done on the pre-existing tiers. These tiers go from one to four with one being the larger charities and four the smallest.

We would lose some monies if the tax free status of charities is removed.

We suggest that any money you gain from taxing charities you will spend on the things we do already, generally better as it is done at the local level. We as a parish – and all our Catholic parishes are the same - are genuinely a not for profit organisation. We struggle with income. We have a few rentals ourselves and all we gain in rentals goes into the maintenance of our properties and the work of the parish. We are not distributing wealth to anyone. We are thoroughly audited and all our income is clearly for the good of people we minister to in our area.

We provide financial help and counselling. We visit in homes across our parish. We have a team that visits approximately 120 parishioners each week who are sick and homebound or in rest homes/ retirement villages. We provide much appreciated spiritual support and work with events coordinators and managers of the many rest home/ retirement villages in our parish. We employ a small staff but most of our pastoral work is done in many groups and the priests of the parish. As well as visiting the sick and homebound we have friendship groups and groups that support needs in the wider community.

Our income stream from donations ( we do not charge for the use of our facilities but suggest a donation - three centres and a hall) - is all used up in maintenance costs. Our core income stream from donations is dependent on the generosity of our people. Our givers would be upset if they thought they were not giving on a charitable basis/ most of donations come from people who work and are taxed and this is for the benefit of the wider community – if we lost our tax free status people would be effectively taxed twice.

We appreciate that there are bigger Charities than ours that may have different focuses and income streams. Our parishes/ charitable Trusts are tier 3 reporters. If the status quo is not considered satisfactory we would suggest tiers 3 and 4 remain exempted.

Yours Sincerely

s 9(2)(a)

**Monsignor Rick Loughnan**

Parish Priest

26 Cotswold Avenue, Bishopdale, PO Box 20146, Bishopdale 8543  
03 359 1438 | [christchurchnorth.org.nz](http://christchurchnorth.org.nz)

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

25 March 2025

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

## **Submission on behalf of the New Zealand Veterinary Association Te Pae Kīrehe regarding taxation and the not-for-profit sector**

The New Zealand Veterinary Association Te Pae Kīrehe (NZVA) welcomes the opportunity to respond to Inland Revenue's consultation on taxation of the not-for-profit sector. We have served as the representative body for veterinarians in Aotearoa New Zealand for over a century, working to support veterinary professionals while advancing public health, animal welfare and biosecurity.

We are deeply concerned about the potential impact of taxation changes on our ability to fulfill our mission and sustain the veterinary profession in New Zealand. We strongly advocate for the retention of our current tax-exempt status, in alignment with the principles that govern tax exemptions for organisations delivering a broad public benefit.

### **NZVA's status and purpose**

NZVA is registered as an incorporated society under the Incorporated Societies Act 1908 and has existed as a voluntary membership association for over 100 years. The NZVA Constitution defines our core objectives, which align with the principles of public benefit, including:

- advancing veterinary science and medicine through education, training and professional development
- advocating for animal welfare and providing a rational, science-based voice on policy decisions
- supporting the professional and personal wellbeing of veterinarians
- fostering public health initiatives through biosecurity, food safety and zoonotic disease management
- providing professional education to uphold high standards of veterinary practice

Our activities are not designed for profit; instead, all revenue is reinvested into member services, professional development, advocacy and initiatives that benefit both veterinarians and the public.

### **Financial model and limited commercial activities**

NZVA acknowledges Inland Revenue's concerns about not-for-profits engaging in commercial activities, as outlined in the *Taxation and the not-for-profit sector* consultation paper. However, NZVA's financial model demonstrates our alignment with the intent behind tax exemptions:

- NZVA generates a modest annual surplus of 1–3%, which is entirely reinvested into services that benefit veterinarians, the wider community and animal welfare initiatives.
- NZVA's trading activities are core to its mission. Revenue-generating activities, such as conferences, educational programmes and training materials, are designed to enhance the professional development of veterinarians, not to compete with private veterinary businesses.



- NZVA does not operate veterinary clinics or compete with practitioners in providing direct veterinary services.
- All financial activities are conducted transparently, and NZVA maintains strict governance to ensure compliance with its not-for-profit obligations. NZVA's governance procedures, audits and reporting systems will reassure Inland Revenue that NZVA already meets high standards of transparency and public accountability.

Given this structure, NZVA's commercial activities should not be classified as unrelated business income under the proposed policy framework. NZVA's commercial activities (eg conferences, workshops) are directly tied to professional development in veterinary science. These activities are essential to, rather than separate from, NZVA's mission which is why they should remain exempt from tax.

### **Public benefit and reintegration of income**

NZVA's work directly contributes to the wellbeing of both veterinarians and the general public. Our income is reinvested into:

- veterinary advocacy to ensure high standards of animal welfare, food safety and public health
- scientific research and policy development to improve veterinary practices
- workforce support programmes to address the critical veterinarian shortage in New Zealand
- emergency and disaster response efforts to protect animals and agriculture.

The removal of NZVA's tax-exempt status would significantly reduce its ability to fund these essential services, impacting both the veterinary profession and public good.

### **Alignment with tax policy objectives**

The government's broad-base, low-rate tax policy seeks to ensure fairness while maintaining tax concessions for entities that provide clear public benefits. NZVA's operations align with this framework in the following ways:

- Our primary purpose is public good, not profit generation.
- Veterinary support is an essential service, and NZVA plays a critical role in maintaining professional standards.
- Our surplus is reinvested entirely into member services and community initiatives, aligning with the principle that tax-exempt organisations should not accumulate wealth for private benefit.

If NZVA were to lose its tax-exempt status, the cost of membership and education programs would increase, making veterinary support less accessible. This would lead to:

- reduced professional development opportunities for veterinarians
- worsening of an already critical workforce situation, particularly in rural communities
- a negative impact on biosecurity, food safety and animal welfare due to decreased resources for advocacy and policy work.

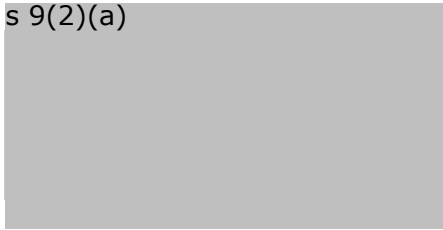
NZVA depends on volunteer committees and experts, or pro bono contributions from members. Any extra compliance overhead would reduce these individuals' willingness or capacity to volunteer.

NZVA strongly urges Inland Revenue to maintain our current tax-exempt status. Our activities are entirely aligned with the public interest, and our financial model ensures that all income directly benefits veterinarians, animal owners and the wider public in animal welfare and public health initiatives. The removal of this status would undermine the veterinary profession's sustainability and ultimately harm New Zealand's agricultural economy, pet care sector and biosecurity efforts.

We welcome further discussions with Inland Revenue to clarify any concerns and provide additional evidence of our alignment with not-for-profit principles.

Nāku iti noa, nā,

s 9(2)(a)



Kevin Bryant  
Chief Executive Officer  
New Zealand Veterinary Association Te Pae Kīrehe

**From:** Kath Conaglen s 9(2)(a)  
**Sent:** Tuesday, 25 March 2025 10:35 am  
**To:** Policy Webmaster  
**Subject:** Taxation and the not-for-profit sector

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

Tena Tatou Katoa

As an employee of The Salvation Army: Bridge Programme, based in Invercargill, I wanted to express my concerns about adding additional costs to our organisation as a whole, who help people who are most disadvantaged in our society.

There is much need out there in the community and The Salvation Army can often be last port of call for people experiencing difficult times, and The Army will endeavour to do its best, at all times, for all people, to provide and meet the need of the vulnerable person or family coming to our door.

We have been here since 1883.. we are here now, we just need government to allow us to keep doing our work, allowing us to keep rolling up our sleeves to do, what we know how to do, with a heart for those in need and caring for people that are not able to be provided with care anywhere else.

Government agencies cannot do our work, as there many people also have a mistrust of government agencies.

There are limits too, on what government agencies will offer, constricted by budgeting measures.

Please do not add taxation to the-not-for- profit organisations, especially do not do this, to the salvation army, I plead you.

Nga Mihi Nui

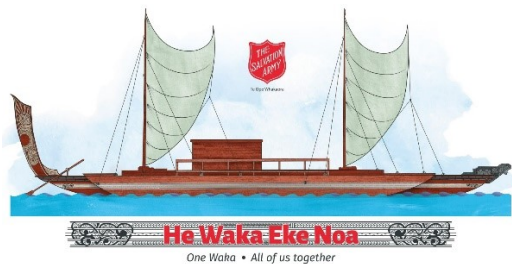
Kath Conaglen  
AOD caseworker  
Bridge community programme  
Invercargill

Ph s 9(2)(a)

Kath Conaglen  
Caseworker/Kaimahi  
Bridge AOD Services  
The Salvation Army  
160 Crawford Street  
Dunedin 9054

P: 03 477 9852 | M: s 9(2)(a) | E: s 9(2)(a)

*The Salvation Army | New Zealand, Fiji, Tonga & Samoa*  
*caring for people | transforming lives | reforming society*



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s 9(2)(a)

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**From:** s 9(2)(a)  
**Sent:** Tuesday, 25 March 2025 10:38 am  
**To:** Policy Webmaster  
**Subject:** Taxation and the not-for-profit sector

<b>External Email CAUTION:</b> Please take <b>CARE</b> when opening any links or attachments.
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Being involved with two not for profit organisations to tax us on any income would probably cause one to fold and the other to lose its effectiveness in the community. Both are helping significantly in community wellbeing and one additionally in the recycling business (Thrift Shop and also E recycling) Somehow the work that both do would need to be picked up by some other organisation.

Kind regards

Jonathan Hooker,  
Projects Manager,  
Wairarapa Resource Centre,  
8 King Street,  
Masterton.  
Ph s 9(2)(a)

s 9(2)(a)

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**From:** Rae Tong s 9(2)(a)  
**Sent:** Tuesday, 25 March 2025 10:38 am  
**To:** Policy Webmaster  
**Subject:** Taxation and the not-for-profit sector

<b>External Email CAUTION:</b> Please take <b>CARE</b> when opening any links or attachments.
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This is one of the worst things that can be done....The Salvation Army helps people all over the world and by making them pay taxes is outrageous. They rely on donations which should not be taxed.

Raewyn Tong  
s 9(2)(a)

# PUBLIC CONSULTATION ON TAXATION AND THE NOT-FOR-PROFIT SECTOR SUBMISSION FROM THE WISE TRUST BOARD

The Wise Trust Board is a charitable trust that, together with its whānau of charitable subsidiaries, is known as the Wise Group.

We welcome the opportunity to offer this submission to inform consideration of taxation and the not-for-profit sector.

The Wise Trust Board charitable trust number is CC41161. The Wise Group charitable trust number is CC41167.

Our charitable purpose is: *Creating new opportunities for the wellbeing of people, vulnerable populations, organisations and communities.*

## SUMMARY OF KEY POINTS

- 1. Conceptual reframing required:** Tax concessions to charities should be viewed as investments that generate significant social returns and reduce government expenditure, not as costs to taxpayers.
- 2. Practical implementation concerns:** The definition of “unrelated business income” would be extremely difficult to implement consistently and would create substantial compliance costs for both charities and IRD.
- 3. Financial impact on mental health and addiction services:** Any reduction in tax concessions would directly impact our ability to deliver essential mental health and addiction services at a time when these services are already under significant pressure.
- 4. Compliance burden:** An implication of the proposals would cause an increase in compliance burden across the sector. Additional tax compliance would divert resources away from frontline services and charitable purposes.
- 5. Employment challenges:** Removing FBT exemptions would exacerbate existing challenges in attracting and retaining qualified staff in the mental health sector, where we already face significant unresolved pay equity issues.
- 6. Support for de minimis threshold:** If changes proceed, we strongly support exemptions for smaller charities to minimise sector-wide disruption.
- 7. Cost vs benefit analysis:** There is no evidence-based analysis provided of any cost benefit analysis of these proposals. This seems in contravention with the Government’s own Statement of Regulation.

## Responses to specific questions

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

We fundamentally disagree with the conceptual framework used in the Issues Paper. Paragraph 1.4 states:

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

This framing fails to recognise the significant social and economic benefits generated by charities. A more accurate framing would be:

“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.”

As a mental health and addiction service provider, the Wise Group delivers essential services that would otherwise require direct government funding at higher cost.

Our tax-exempt status enables us to:

- › deliver services more efficiently and with greater community connection
- › innovate and respond quickly to emerging mental health and addiction needs
- › leverage volunteer contributions and community support
- › reinvest all surpluses into expanding our charitable impact.

The factors in 2.13 and 2.14 do not warrant taxing charity business income because:

- › the alleged competitive advantage is minimal when considering the constraints charities face in accessing capital and our inability to distribute profits to shareholders
- › our mental health and addiction services operate in areas where commercial providers are often unwilling to engage due to limited profitability
- › accumulation of capital, when it occurs, is directed toward expanding charitable services, not private benefit.

### **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?**

All Wise Group income is derived from activity directly related to our charitable purpose. However, depending on how clearly the definitions of unrelated business activity are drafted we may need to invest unproductive time and money in explanations to the IRD of what we do and how it relates to our purpose. This is in addition to the multiplicity of government audits which are already required.



For the Wise Group, the most significant practical implications would be:

- 1. Increased compliance costs:** We may need to invest in additional accounting and legal expertise to navigate complex or unclearly drafted determinations of what constitutes “related” versus “unrelated” business activities. This would also lead to a flow-on increase in our annual financial audit costs.
- 2. Resource diversion:** Staff time and financial resources could be diverted from frontline mental health and addiction services to tax compliance activities. Every dollar we have to spend in compliance is a dollar we cannot apply to our charitable purpose.
- 3. Reduced innovation:** We could become more risk-averse about developing new service models or social enterprises that support our mental health purpose.
- 4. Financial uncertainty:** The ambiguity in defining “unrelated” business would create significant uncertainty in financial planning and potentially expose us to unexpected tax liabilities.
- 5. Reduced service capacity:** Any reduction in our financial resources and financial sustainability would directly impact our ability to provide mental health services to vulnerable New Zealanders.

**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 any attempt to define “unrelated business” would be problematic and create significant uncertainty. For mental health and addiction charities like ours, the connection between activities and our charitable purpose could be complex and multifaceted.

Examples that we have observed in the sector include:

- › a café operated by an organisation that provides employment opportunities for people with mental health challenges can have both commercial and therapeutic elements
- › training programs that generate income while building capacity in the mental health and addiction sector
- › social enterprises that create sustainable funding streams while addressing social determinants of mental health.

Rather than attempting to create complex definitional criteria, we suggest:

- 1.** Maintaining the current exemption for all registered charity business income
- 2.** Addressing any concerns about charitable status through the existing Charities Services regulatory framework
- 3.** If changes are deemed necessary, adopting a principles-based approach that recognises the integrated nature of many charitable activities.

**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 changes proceed despite our concerns, we strongly support a de minimis threshold that exempts smaller charities. We recommend:

1. Exempting all Tier 3 and Tier 4 charities (under \$2 million annual expenses) from any new taxation requirements
2. For larger charities, establishing a threshold of at least \$500,000 of allegedly “unrelated” business income before taxation applies
3. Implementing a graduated system that phases in taxation to avoid cliff-edge effects.

These thresholds would need to be indexed to inflation to prevent bracket creep over time.

**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 income distributed for charitable purposes should remain tax exempt. The most effective way to achieve this would be:

1. Allowing a deduction for all funds applied to charitable purposes within a reasonable timeframe (e.g. within 12-24 months of the end of the financial year)
2. Recognising that some accumulation of funds may be necessary for capital projects, service expansion, or creating financial resilience.

However, we note that this approach would essentially negate the purpose of the proposed changes while creating significant compliance costs. If the objective is to ensure funds are used for charitable purposes, this is already addressed through Charities Services reporting requirements and governance obligations.

**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?**

Several critical issues require consideration:

1. **Impact on mental health and addiction service delivery:** Any reduction in charitable resources will directly impact vulnerable New Zealanders at a time when mental health services are already stretched.

2. **Timing and transition:** Any changes would require a substantial transition period (minimum 3 years) to allow charities to adapt.
3. **Transparency imbalance:** Charities already face higher transparency requirements than for-profit businesses. This creates an uneven playing field that would be exacerbated by additional tax compliance.
4. **Regulatory duplication:** Concerns about charitable status should be addressed through Charities Services rather than creating a parallel assessment system through tax rules.
5. **Sector consultation:** Any significant changes should involve comprehensive consultation with the charitable sector, including impact assessments and pilot programs.

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

Removing or reducing the FBT exemption would have serious implications for the Wise Group and the mental health and addiction sector:

1. **Workforce challenges:** The mental health sector already faces significant challenges in recruiting and retaining qualified staff. The FBT exemption helps partially offset the pay gap between NGO and government/private sector roles.
2. **Pay equity issues:** Recent pay equity settlements and ongoing negotiations have highlighted the historical undervaluation of care and support work. Removing FBT exemptions would exacerbate these inequities.
3. **Vehicle requirements:** Our mental health support workers rely on vehicles to reach clients in the community. The FBT exemption is critical for maintaining this essential service component.
4. **Additional compliance costs:** Even with simplified FBT settings, removing the exemption would create new compliance requirements and costs.
5. **Service reduction:** Any increase in employment costs would potentially necessitate a reduction in service delivery to vulnerable New Zealanders.

We strongly urge maintaining the FBT exemption for charities, particularly those delivering essential health and social services.

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

We support the proposed improvements to the donation tax credit system, particularly:

- › streamlining the claim process to reduce administrative burden
- › exploring digital solutions for donation receipting and claiming
- › improving education and awareness about the DTC system.

Additional suggestions include:

- › increasing the DTC rate to incentivise greater charitable giving
- › extending DTC eligibility to include gifts of services and volunteer time
- › implementing a payroll giving system that provides immediate tax benefits
- › creating targeted incentives for donations to mental health and other priority social services.

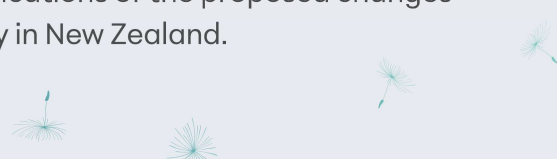
## CONCLUSION

The Wise Trust Board appreciates the opportunity to contribute to this consultation. We urge the Government to:

1. maintain the current tax exemptions for registered charities
2. address any concerns about charitable status through the existing Charities Services framework
3. consider the significant social and economic benefits generated by the charitable sector
4. recognise the critical role of mental health and addiction charities in supporting vulnerable New Zealanders.

Any changes to the tax treatment of charities should be approached with extreme caution, with comprehensive impact assessments and meaningful sector consultation. The primary consideration should be ensuring that essential charitable services can continue to operate effectively and sustainably.

We would welcome the opportunity to discuss our submission further and to provide additional information about the practical implications of the proposed changes for mental health and addiction service delivery in New Zealand.



# Submission to Taxation and the not-for profit sector consultation.

March 2025

From: Wendy Butcher,

On Behalf of: Canterbury Workers' Educational Association Incorporated.

Charity Registration Number: CC25083.

The Canterbury Workers' Educational Association is an independent voluntary organisation and registered Charity with a stated purpose being “ the advancement, encouragement and provision of adult and community education that promotes a just and equitable society, in accordance with Te Tiriti o Waitangi / The Treaty of Waitangi. It is a member of the Federation of Workers' Educational Associations in Aotearoa New Zealand / Te Whetereihana o nga Kaimahi Akoranga o Aotearoa (FWEA).”

We value the support which being a registered Charity and having the related tax exempt status gives us in our work to support our goal as described above.

- We believe that the tax-free exemption is vital for small community not-for-profit organisations such as ours, which work to keep costs low for our users and rely to a large degree on voluntary support in the management of our operation. We are not in a competitive market but in a cooperative one, where we support other community agencies and they support us. We work together to build a better community as we focus on our purpose.
- We understand that calculating and confirming if business income is related to the Charity purpose could be a challenge but there are many examples overseas which indicate that the challenge is not insurmountable.
- While some charities have small businesses such as op shops, craft shops and second hand goods connected to them, those businesses are often run by volunteers and involve the community that the Charity serves. They are probably an active part of the Charity in pursuing its purpose; involving the people it is serving or supporting and building strength in that community.
- If the tax exemption for Charity business income which is unrelated to charitable purposes is removed, the decision as to the amount of that exemption for small scale business activities could follow the English model, as is described in the

Consultation document. Small scale businesses should still be able to rely on a significant tax exemption. In a small organisation, any small financial charges can feel large and impossible to manage. Small organisations do not have the support of large admin teams and are often fundamentally operated by volunteers or part-timers, often non-professionals.

- We feel that Charity business income distributed for charitable purposes should remain tax exempt. The rules defining what is a charity should be actively reviewed and monitored and more detailed financial reporting should be required.
- Investment restrictions should be reviewed and evaluated for Donor controlled charities to ensure tax abuse risks are managed. If we as a nation are openly providing support for the charitable sector and value the work they do, we should be ensuring that the donors to that sector, who may also be benefiting from their own donation, are not gaining benefits unfairly. It is important to ensure that reward from donation tax exemptions reflects an understanding and respect for the communities this country chooses to support.

We strongly support a fair system of tax in New Zealand and understand that the system needs to be reviewed, and any proposed changes discussed fully.

We also know that there are many organisations like our own which rely to a large degree on volunteers and community support to provide the service they do. We do not have large numbers of experts to support us, We cannot afford to buy services or borrow funds to do what we do. We rely on the understanding that we are working to fulfil our purpose in the most cost-effective way, and that we manage tight budgets and are constantly trying to work out ways to make the operation viable as we work to do what we say we will do.

To have changes made to the way our operation is taxed would have a major detrimental impact on what we can do for our members, students and community. Changes to our current tax regime would also have a significant impact on adult and community education in Canterbury. We provide advice and support to other similar organizations around the country, and as we are all of a charity mind we share freely, thus extending the impact of our kaupapa. We aim for a just and equitable society and that means that we support a political and governmental system which supports building a better educated society. The exemption we currently receive supports this.

Thank you for considering this Submission.

We welcome contact with IRD to discuss this submission.

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

The Arts Centre Trust, Te Matatiki Toi Ora The Arts Centre, makes the following submission on the government's Officials' Issues Paper "Taxation and the Not-for-Profit Sector".

March 2025

As a charity, the largest arts centre in Aotearoa and the guardian of the largest collection of heritage buildings in the motu, The Arts Centre is concerned that its operations and existence may become an unintended victim of the current proposals.

Te Matatiki Toi Ora was gifted as an arts centre to the people of Christchurch and its visitors by the Government when Canterbury University left the historic site in 1974. It is a charitable trust governed by the 2015 Arts Centre of Christchurch Trust Act of Parliament.

The vast majority of the Centre's income is derived from business activities: rents, leases, and running enterprises to produce income. These activities include retail shops, providing cleaning services, running tourist tours, selling tickets to events and venue hire. The proceeds of these activities allow the Trust to meet its charitable objectives.

Christchurch City Council, the only recurring funder of The Arts Centre, provides support for the deficit between commercial rents and the operating costs of this heritage precinct. Any reduction in commercial proceeds (i.e. if they became taxable) would fall on government either centrally or locally.

The Arts Centre is currently operating under extreme financial pressure. Further stress may cause it to fail completely.

The Arts Centre Trust is currently under threat. We humbly submit that no further stresses be imposed.

Please contact me for further information: s 9(2)(a)

Philip Aldridge ONZM  
Director

## **Submission to Inland Revenue Department (IRD) – Review of Not-for-Profit Taxation**

Submitted by: Kyle Kannan

Date: 25/3/2025

Subject: Response to IRD Consultation – Veterinary Service Body Income Tax Exemption

### **Response to Question 12 – Implications of Removing the Veterinary Service Body Income Tax Exemption**

The veterinary service body income tax exemption was originally introduced to support rural veterinary access. However, in practice, it has enabled certain veterinary clubs to operate commercially while benefiting from tax exemptions, creating a competitive imbalance in the veterinary sector.

The removal or revision of this exemption would:

- Ensure all veterinary providers operate under equal tax obligations
- Improve financial sustainability for independent rural veterinary businesses
- Encourage responsible financial management and tax compliance
- Enhance competitive fairness within the industry

#### **1. Addressing Competitive Disparities in the Veterinary Sector**

Veterinary clubs were initially created to address rural service needs, but many now operate as full-scale veterinary businesses **while remaining tax-exempt**.

Private veterinary practices pay corporate tax, whereas vet clubs retain and reinvest tax-free earnings, allowing them to expand unfairly.

Tax-exempt vet clubs can underprice services, making it challenging for private clinics to remain competitive.

#### **Market Distortions Created by the Tax Exemption**

1. Suppressed Pricing: Tax-exempt vet clubs offer services below market rates, forcing tax-paying clinics to lower their prices unsustainably.
2. Unrestricted Financial Growth: Vet clubs build tax-free reserves, which enables them to expand aggressively compared to taxed private businesses.
3. Market Expansion Without Tax Burden: Some vet clubs fund new branches using untaxed revenue, while private businesses must plan growth around tax obligations.

Removing this exemption would restore fairness in the veterinary sector and ensure all businesses operate under the same tax laws.



## **2. Strengthening the Viability of Rural Veterinary Clinics**

The sustainability of rural veterinary practices is directly impacted by the unfair tax advantages granted to vet clubs.

Private rural clinics struggle to recruit and retain veterinarians, particularly when vet clubs can offer lower-cost services.

Economic downturns affect private clinics more significantly, while tax-exempt clubs continue to accumulate reserves.

A tax-neutral system ensures fair growth opportunities, safeguarding veterinary service availability in rural communities.

## **3. Aligning Tax Policy with Modern Veterinary Industry Conditions**

- The 1955 tax exemption was introduced under different economic conditions, which no longer reflect the current veterinary landscape.
- Other industries have transitioned to full tax compliance, and veterinary services should align with these modern policies.

## **4. Enhancing Governance and Financial Transparency**

- Some vet clubs engage in financial practices resembling profit-sharing, raising concerns about tax misuse.
- Many vet clubs offer services to non-members, contradicting their tax-exempt purpose.
- Applying uniform tax obligations would ensure financial accountability and regulatory oversight.

## **5. Ensuring Minimal Impact on Genuine Non-Profit Veterinary Organisations**

- Vet clubs that truly reinvest in community-based initiatives (such as scholarships, research, and animal health projects) could transition into Charitable or Incorporated Society status.
- Existing charity tax frameworks provide appropriate solutions for non-profits, ensuring legitimate community contributions continue.

## **6. Reinvesting Tax Revenue for Veterinary Industry Support**

- The removal of this exemption would allow tax revenue to support rural veterinary workforce development, training programs, and animal health research initiatives.

## **Conclusion & Recommendations**

The removal or restructuring of the veterinary service body income tax exemption is necessary to ensure competitive fairness, financial sustainability, and transparency in the veterinary sector.

To achieve this, we propose:

1. Repealing CW 42 of the Income Tax Act, ensuring all veterinary businesses pay tax

equitably.

2. Allowing genuine non-profit veterinary organisations to transition into recognised charitable structures, ensuring financial transparency.

3. Increasing IRD oversight to ensure tax exemptions are not exploited for commercial advantage.

By implementing these changes, IRD can help establish a more sustainable and balanced veterinary industry in New Zealand.



TE ROPU O TE WHUTUPORO O WAIPAPA

EST 1969

25<sup>th</sup> March 2025

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

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

Dear Mr Carrigan,

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

The Diamond Harbour Rugby Club has been a cornerstone of our local community for 56 years, delivering not only rugby but also social and community development. Our mission extends beyond the rugby field. We enrich lives, promote well-being, and drive positive societal change.

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

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

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

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

Beyond playing rugby, we are an integral part of our small community, providing a space for many other sports and functions. These activities bring communities together and generate economic activity for local businesses throughout the year, not just on game day.

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

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

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

Preserving the current income tax exemptions is essential for sustaining the economic and social benefits they provide. The Diamond Harbour Rugby Club 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,

Charlotte Easton  
Treasurer - Chartered Accountant  
Diamond Harbour Rugby Club Inc  
s 9(2)(a)



# PREBBLETON

Rugby Football Club Incorporated  
Est. 1919

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

24 March 2025

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

Dear Mr Carrigan,

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

Prebbleton Rugby Football Club (PRFC) has been a cornerstone of our local community for 106 years, delivering not only rugby but also social and community development. As a registered charity with 450 members, including players, coaches, and volunteers across men's, women's, girls', and boys' grades from Year 1 to Seniors, we play a vital role in fostering community engagement, social connection, and personal development.

While the "Q and As" published by IRD indicate that bodies promoting amateur games and sport are not expected to be affected by the proposals, we wish to formally submit that the existing income tax exemption should be retained in its current form.

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

Rugby is deeply embedded in New Zealand's national identity, contributing significantly to both the economy and society. As one of over 470 grassroots rugby clubs in New Zealand, we provide a space where individuals of all ages and backgrounds can engage in physical activity, contribute to their local community, and form lifelong connections.

Beyond rugby, we actively contribute to community well-being through initiatives such as:

- The Best Life Project – supporting diverse individuals to develop meaningful connections and reach their full potential.
- Tri Rugby – one of only three clubs in the Canterbury region offering an inclusive programme for those with disabilities and vulnerabilities.

Physical Address:  
Postal Address:  
[www.prebbletonrugby.co.nz](http://www.prebbletonrugby.co.nz)

80 Tosswill Road, Prebbleton 7604  
14b Hampsted Lane, Prebbleton 7604



# PREBBLETON

Rugby Football Club Incorporated  
Est. 1919

- Community Engagement – hosting social events, fundraisers, and Thursday night shared kai, where we provide meals for 60-80 players, reinforcing inclusivity and togetherness.
- Charity fundraising – recent initiatives include jersey auctions for I Am Hope and Breast Cancer Foundation NZ.

We are also proactive in addressing important societal issues, including the running of mental health awareness and youth development sessions, ensuring our club remains a positive and impactful force in the community.

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

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

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

Preserving the current income tax exemptions is essential for sustaining the economic and social benefits they provide. PRFC 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,

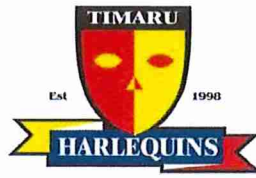
s 9(2)(a)

Chris Scott  
Vice-President  
Prebbleton Rugby Football Club

s 9(2)(a)

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14b Hampsted Lane, Prebbleton 7604



*The Mighty Quins*

Timaru Harlequins Sports Club  
P.O.Box 50, Timaru  
Ph 03 688 9443

25 March 2025

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

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

Dear Mr Carrigan,

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

Timaru Harlequins Sports Club has been a cornerstone of our local community for 27 years, delivering not only rugby but also social and community development. Our mission extends beyond the rugby field. We enrich lives, promote well-being, and drive positive societal change.

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

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

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

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

Beyond playing rugby, we have been actively involved with multiple community events over many years from 'Relay for Life', the CBay and Fraser Park Developments and more recently the Aspect Trust Fundraiser Event of which we are once again involved with this year, while also offering our facilities free of charge to assist with



local community events. Netball too plays a major role in the club with teams competing in the senior division. Timaru Cricket and Timaru Rugby League both situated on Ashbury Park have also benefited, with the club adding more changing rooms and a new shower block to the current cricket pavilion, to gifting rugby league our vacant changing shed originally owned by Star Rugby at the sea end of Ashbury Park. As we are a fully multi-cultural club with numerous Polynesian players and their families residing in Timaru, we assist them to establish a new beginning, while ensuring a warm welcome into the club and the South Canterbury district. These activities bring communities together and generate economic activity for local businesses throughout the year, not just on game day.

Rugby clubs are also at the forefront of addressing important societal issues in our communities. Timaru Harlequins is consistently involved with any/all South Canterbury Rugby initiatives from "Safe Spaces", which ensures all who participate are in a safe environment on and off the paddock, "Be a Hero try Zero" campaign, to this year's awareness focused on wellbeing and the "What about You" campaign.

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

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

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

Preserving the current income tax exemptions is essential for sustaining the economic and social benefits they provide. Timaru Harlequins Sports Club 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)

Howard Peeti  
President  
Timaru Harlequins Sports Club.  
s 9(2)(a)



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kindness



# *GBB Board* submission

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

**Submitted to:** Inland Revenue Department

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

**Submitted by:** Simon Thomas, Board Chair

**Submission Date:** 25 March 2025

**Contact Person:** Jane Treadwell-Hoye, General Manager

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

### 1. Introduction

**Organisation Name:** Good Bitches Trust

**Legal Status:** Charitable Trust

**Primary Purpose:** The purpose of Good Bitches Baking is to spread a bit of sweetness in our community. We aim to give a moment of happiness to people going through a tough time. We do this by providing a home-baked treat via our community-based recipient organisations.

Good Bitches Baking was established in Wellington in 2014 when our founders were discussing the amount of hardship they were seeing around them. They put a call out on Facebook to see who would be keen to bake a treat for people having a tough time, and were astounded by the response. Since then, the organisation has grown to 30 chapters (plus 8 sub-chapters) from Whangārei to Invercargill, with approximately 3,500 baker volunteers and 530 recipient organisations. The HQ team is small, comprising five part-time contractors (2.5FTE) supporting the GBB network so they can focus on spreading kindness.

Our volunteers bake treats in their own homes and deliver boxes of baking to our recipient organisations that support people in the community who are having a tough time. Each box contains enough to share with 10–20 people. Our chapters are led by a small volunteer committee, who manage the day-to-day logistics of rostering volunteer availability against recipient organisation needs, and establishing and nurturing relationships with current and potential recipient organisations.

There is considerable research about the mental and physical benefits of doing small acts of kindness and our volunteers tell us that they choose to participate in our programme because it makes them feel good, it strengthens their sense of community and it helps them teach their children and grandchildren about what it means to be part of a community.

Our recipient organisations tell us that the baking supports their work in a range of ways including stretching tight budgets, opening literal doors for home visitors, supporting tikanga and other cultural practices, putting smiles on children's and stressed parents faces, adding treats to a pack of 'necessities' and many other ways.

## 2. Key Submission Points

### A. Charity Business Income Tax Exemption

- We do support the proposal to tax charity business income unrelated to charitable purposes.
- The impact of this change on our organisation would be limited though may result in reduced funding for charitable activities, reduced financial sustainability and increased compliance costs.
- If a tax exemption is removed, we recommend:
  - An exemption for smaller sized charities undertaking small-scale activities (e.g. Tier 3 and Tier 4 charities).
  - There remains the ability for charities to pursue innovative and entrepreneurial ways to create sustainable funding and revenue streams
  - A transition period to allow charities time to adjust.
  - Clear guidelines to define "unrelated business activity" to avoid unintended consequences.

### B. Donor-Controlled Charities

- We do believe that New Zealand should distinguish donor-controlled charities from other charities for tax purposes.
- If additional regulations are introduced, they should:
  - Ensure transparency without unnecessary compliance burdens.
  - Avoid penalising genuine philanthropy.
  - Consider a reasonable minimum distribution sum requirement for donor-controlled charities.

### C. Tax Simplification and Integrity Measures

- Simplification of tax rules for Not-for-Profits is essential to reduce compliance costs for small organisations.
- We recommend:

- Raising the \$1,000 tax exemption threshold for NFPs.
- Simplifying the income tax return filing requirements for small charities.
- Reviewing the resident withholding tax exemption to ensure charities can retain funds for public benefit.

## D. Impact on Volunteers and Donation Tax Credits


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

## 3. Conclusion and Recommendations

We appreciate the opportunity to contribute to this consultation. While we acknowledge the need for fair tax policies, we urge the Government to carefully consider the potential unintended consequences on small charities and their ability to serve their local communities.

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

s 9(2)(a)



**Simon Thomas**

Board Chair



Waiuku District Rugby Football Club  
34 King Street, Waiuku – PO Box 262, Waiuku  
Chairman: Dominic Olson  
Secretary: Shannen Lyons  
Email: [secretary@waiukudrfc.co.nz](mailto:secretary@waiukudrfc.co.nz)



24 March 2025

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

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

Dear Mr Carrigan,

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

Waiuku Districts Rugby Football Club has been a cornerstone of our local community for 70 years, delivering not only rugby but also social and community development. Our mission extends beyond the rugby field. We enrich lives, promote well-being, and drive positive societal change.

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

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

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

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

Beyond playing rugby, we organise events, such as family, ladies and sponsors days. We also have fund raising evenings and allow our premises to be used for functions, such as birthdays and 21<sup>st</sup>'s. The Diwali festival was held at our premises, last year. These activities bring communities together and generate economic activity for local businesses throughout the year, not just on game day.

Rugby clubs are also at the forefront of addressing important societal issues in our communities. We have invited organisations to facilitate meetings for mental health issues

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

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

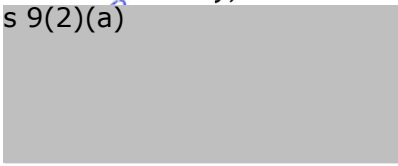
- significantly reduce the funding available for clubs to provide community programs, purchase equipment, maintain facilities, and support player development.
- create an administrative burden for us as a volunteer-run organisation, diverting time and resources away from our core activities; and
- lead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

Preserving the current income tax exemptions is essential for sustaining the economic and social benefits they provide. Waiuku Districts Rugby Football Club 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)



Dominic Olson  
Club Chairman  
Waiuku Districts Rugby Football Club  
committeechair@waiukudrfc.co.nz

Taxation and the Not-for-Profit Sector

c/- Deputy Commissioner, Policy

Inland Revenue Department

PO Box 2198

Wellington 6140

## **Submission on the Taxation and the Not-for-Profit sector consultation**

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### **Overview:**

The Wellington Museums Trust (Wheako Pōneke Experience Wellington) is a charitable trust, running 6 sites to provide art, science and museum experiences to Wellington residents and visitors.

Our sites and exhibitions must consistently achieve high standards in order to attract visitation and provide value to the city of Wellington and NZ more widely through vibrant arts and culture.

In order to remain solvent and to deliver the full-service visitors expect, we also provide retail offerings (through our on-site and on-line shops), venue hire and also raise a small amount of revenue through public programmes which are designed to reflect and enhance our sites and their services.

The ‘surplus’ we achieve in these areas helps us to achieve break-even results and provide future funds for investing in exhibition refreshes and property renewals necessary to continued delivery of our services.

We believe that the proposals to tax these “unrelated” revenue streams would be detrimental to the wider community. Rather, it would impact on the quality of service we are able to deliver and also impact on our solvency.

The wider implications for the charitable sector in NZ and the services they provide are substantial and overall likely to be negative. There appears to be insufficient analysis and consideration given to the unintended consequences of adding compliance costs and removing much-needed income from these entities.

## Summary:

- Any tax regime changes for Not for Profits (NFP) should be about how the funds are used rather than focusing on how they earn their income.
- An evaluation of tax on NFP's should take into account the cost and any benefits lost to the public should funds be diverted from their charitable purpose.
- These proposed changes would significantly erode the part charities play in society.
- Continuing the exemption of Income Tax would mean that the NFP sector is treated similarly to other public benefit entities ie local and central government.
- The definition of "unrelated income" is not clear and is complex in nature, in turn leading to higher compliance costs.
- Accumulation is a necessity in the NFP sector to fund future projects and capital. This can and does take place over many years. Distribution is not always by way of grants and benefits given out in the financial year.
- A substantial number, if not most, of NFP's will not have the inhouse knowledge to administer any new tax regime. Similarly, simplification of a tax regime does not make it free or low cost.
- NFP's are suffering a cost-of-living crisis as well. Any change that increases costs and/or reduces income, even if minor, diverts funds away from the NFP's charitable purpose.
- We believe that blanket tax changes would not deal with any abusers of the current system. Regulatory teeth to investigate and penalise would be more appropriate.
- Secondary effects need to be highlighted. These include insolvency, redundancy, lower PAYE/ACC and GST tax take and supply chain effects, and the impact on the communities benefitting from charitable services which will be reduced.
- There is no evidence that the not-for-profit sector has a competitive advantage.



## Charity Business Income Tax Exemption:

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### **Unrelated Income:**

The definition of business activities for ‘unrelated income’ is not well understood. Clarity around the definition is needed before any practical assessment can be made:

1. There are practical complexities with the management of ‘unrelated income’. What is the line between income related to the purpose of the charity and that which is not? How will NFP’s track this income and the related expenses and what will be the additional costs involved?
2. There is not a “one size fits all” definition for the multitude of charities in New Zealand. We are all different. How will any new tax regime work around this?
3. Assuming a business activity such as a retail store or venue hire supports the funding of the charity, then surely it is related to that charitable activity?
4. At what point does income become “unrelated”?
5. We have an endowment fund. Would income from the endowment be ‘related’ or ‘unrelated’ income?
6. We lease out some of our exhibition space to another NFP and a café. Is this ‘unrelated income’?
7. How would Memberships and Admissions be viewed? We believe they are closely linked to our charitable purpose.
8. Charities must seek opportunities whatever they are to increase funding. It is this sort of creativity and nimbleness which helps them survive and ensure funding for capital and financial sustainability. Treating “unrelated income” as taxable effectively taxes a vital funding source.
9. If for example a social services NFP had a retail shop, what would be the direct relationship of the shop to the services they provided? Would this be nil? However, the shop would support any funding gaps they might have and therefore enable them to fulfil their charitable purpose.
10. Funding gaps limit the services NFP’s can reliably provide.
11. Activities such as retail, cafe and venue hire have important secondary benefits:
  - a. This raises awareness to the public of the services the NFP’s provide, in essence free advertising.
  - b. It is used as a means to raise more funds via donations where our staff ask customers at the till if they would like to make a donation.
  - c. It is part of the overall customer experience (and expected) that they can peruse a shop or go to a café that is attached to a museum, gallery and the like.
  - d. We provide site specific branded merchandise in our stores as a way to build on the experience.
  - e. In the case of lease space, this is twofold – 1. We lease space to another Council Controlled Organisation who we work closely with, and 2. We lease café space as this attracts customers in and is free advertising for our brand/services.
  - f. It allows the NFP an avenue to increase its income diversity and hence reduce its reliance on primary funders and donors who are also affected by economic shocks.



- g. We see our business income ventures as inextricably related to our experiences/sites. What would be IRD's or the Minister's view?
12. NFP's have limited ways to earn income – donations/grants, local/central government contracts for services, passive investments (e.g. term deposit interest, endowment funds) and business operations such as retail stores and venue hire.
- Business operations can offer more stability in a normal operating environment. However, in high-risk periods such as Covid or a cost-of-living crisis, even these avenues can evaporate quickly.
  - In order to weather economic shocks, NFP's must diversify their income streams.
  - Income Tax adds to the plethora of environmental factors acting against NFP's.
  - As our fundraising revenue streams have reduced significantly since Covid, it is our increased reliance on business income such as retail offerings that is currently keeping our organisation solvent.
13. If the tax exemption were removed, this would very quickly make our operation unsustainable and ultimately insolvent. The next steps from there would be to decide which sites to close (reducing services) and staff redundancies. These are decisions we would not take lightly.
14. If the tax charge leads to an overall loss for the organisation (refer above re becoming insolvent), what avenues is IRD offering for offset against losses – i.e. we could be making a taxable surplus on retail activities which enables us to breakeven, whilst all other activities (i.e. delivery of our charitable services) make a loss.

<p><b>Q1 What are the most compelling reasons to tax, or not to tax, charity business income?</b></p>	<p>NFP do not have a profit motive and income does not funnel into private gain. As a result, all profit goes back to the communities they serve.</p>
<p><b>Do the factors described in 2.13 and 2.14 warrant taxing charity business income?</b></p>	<p>Charities create jobs – 196,000 people are employed by NFP entities who in turn pay taxes.</p> <p>This consultation is not adequate – there are 90,000 charities on IRD's books. It is imperative that all are aware of any potential changes. The speed at which the consultation has taken will mean that most NFP will not know what is happening. We think this is unfair to the sector.</p> <p>NFP's do not have a trading advantage and compliance costs for reporting are higher.</p> <p>The Trust tax rate is 39% while the company rate is 28%, an obvious disadvantage to charities.</p> <p>Continuing the exemption of Income &amp; Withholding Tax would mean that the NFP sector is treated similarly to other public benefit entities ie local and central government.</p>

	<p>We do not believe there is a competitive advantage to accumulating profits to enable expansion. NFP's do not have a profit motive, so expansion only relates to increasing services which for-profit entities do not provide and hence there is no competition.</p> <p>All income earned goes towards the charitable purpose. The same cannot be said for for-profit entities. There is therefore no comparing apples with apples in terms of business model or outcomes.</p>
<p><b>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?</b></p>	<p>Solvency.</p> <p>Loss of income – where to recover this from and/or what services to stop providing?</p> <p>Administration and compliance costs will increase. We would need to seek technical advice. We have a small team; we are not resourced for the additional time to manage this potential policy change.</p> <p>2.17 NFP's do not exist to "grow net assets." Their "business" is its charitable purpose.</p> <p>2.18 NFP's take whatever opportunities they can to increase income for their purpose, e.g. passive investments.</p>
<p><b>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?</b></p>	<p>Would recommend keeping the exemptions.</p> <p>The "business" activities would not exist had it not been for the charitable purpose. As a result, the two are inextricably linked.</p>

### **Small scale trading exemption:**

The sums applied in other countries are incredibly low. Even larger NFP's would struggle to purchase the expertise needed to comply with any new tax regime.

1. For our NFP, we operate out of 5 large sites and 6 auxiliary sites. We would have to look seriously at closing sites if we were to lose essential income to tax and compliance costs.
2. Reduced services would negatively affect our relationship with our core funders and the sector.
3. Our primary funders expect that we diversify our income streams.
4. For us it is not a matter of the threshold, it is a matter of the cost to maintain large scale sites that need capital and operating funds to operate these sites as well as the significant cost of offering cultural and scientific experiences and exhibitions to the public.

<b>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?</b>	<p>Would recommend keeping the exemptions as we do not believe there is an appropriate threshold.</p> <p>Regardless of size, any income diverted from an entity's charitable purpose into paying income tax will result in reduced services and negative supply chain effects.</p>
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### **Accumulation:**

There is a need for NFP's to accumulate funds:

1. Many funders will not provide funding to entities unless they are able to make a contribution themselves and are financially sustainable. This means that NFP's must accumulate at least some funds.
2. Funders inherently do not fund the full costs of services. This means the NFP must raise the rest via other means. This may involve accumulated profits for projects or services which may happen in the future.
3. An example would be the funding of capital assets:
  - a. For example, we currently occupy two earthquake prone buildings. This has a legislative time limit for completion of remediation works by the building owner. What this means for our organisation is the requirement to decant the buildings (remove all the furniture, equipment and exhibitions build structure), reinstate the exhibition spaces and offices and then re-home all our equipment, collections and the like. To reinstate the exhibitions, once earthquake remediation has taken place, requires a funding source of at least \$30 million for one of these buildings (a museum). This is a large amount to raise and will require many years to fundraise. This would become an accumulation issue under the proposed tax regime.

- b. Capital funding for NFP's generally happens over many years. In this economic climate it is taking even longer.
- 4. Without the ability to accumulate funds, NFP's will not be able to invest in even basic capital requirements or future proof their services. This is a problem we are currently experiencing.
- 5. Grants usually have strings attached and by their nature lead to accumulation until the purpose has been fulfilled.
- 6. Funders may be less inclined to donate if a portion of their funds is removed as tax and compliance costs.
- 7. The paper has not defined what the limits to accumulation would be – would they be time based, or based on a dollar sum or a combination?
- 8. Memorandum Accounts would require additional compliance costs and knowledge of how to administer them.
- 9. How would “charity business income distributed for charitable purposes” be defined? This is a very narrow view of the reason charities seek to raise income through a business approach. For example, the income may be used to fund additional charitable services, or close a funding/expenditure gap, or may be used to create funds to invest in assets required for their charitable purpose – none of which appear to meet the definition of a “distribution” but nevertheless are purely for the purposes of charitable activities. This indicates that the full gamut of charitable activities and why charity business income is critical to the health and financial sustainability of this sector has not been fully considered or understood.

### **Competitive Advantage:**

- 1. NFP's by their nature do not have a profit motive in terms of returning funds to owners/shareholders and hence would be unlikely to act in a predatory fashion. The paper does not provide a strong argument for this being a sufficiently significant issue that needs to be addressed.
- 2. We have not seen any evidence of any competitive advantage by NFP's.
- 3. For our retail stores, our pricing is based on the suppliers recommended retail price which we believe is a standard approach.
- 4. We do agree with your assessment that taxable entities can carry losses forward and can claim imputation tax credits from dividends, while NFP's do not receive these advantages.
- 5. NFP have greater regulatory standards for reporting to the public, this is not a competitive advantage and in fact increases compliance costs.
- 6. The Trust tax rate is 39% while the company rate is 28% - this would immediately pass any competitive advantage onto companies at the expense of charitable trusts.

## **Second order Imperfections:**

1. **Compliance costs** – NFP's do not typically have specialist tax knowledge, this would have to be purchased. If the NFP does not have the ability to assess the tax required to pay, how would they know if they have paid enough tax or too much? What would be the penalties for getting it wrong?
2. **External capital raising costs** –
  - a. The Consultation document makes the comment that NFP have higher Retained Earnings. We dispute this as many NFP operate close to insolvency.
  - b. Retained Earnings does not mean cash reserves.
  - c. While NFP's could potentially accumulate their tax-free profits to fund capital, this assumes that NFP's are in fact making some kind of meaningful profit. We argue this is unlikely to be the case. Even if this is the case, NFPs may require capital investment to deliver their services, and it can take time to accumulate sufficient reserves.
  - d. With events such as Covid and the cost-of-living crisis, many NFP's (including ourselves) had to rely on their cash reserves to support them through these economic shocks. This very quickly depletes funds to a point where continued solvency becomes an issue.
  - e. Most NFP's cannot afford to raise funds via borrowing as the cost of debt financing can be prohibitive.
3. **Sustainability** - This policy change will create adverse unintended consequences - many NFP's are already at a point where if they do not raise enough funds for their charitable activities, they need to stop providing them or reduce services. As a result, taxing any profit will affect financial sustainability and ultimately services to the public.
4. **Reputation risk for the Government** –
  - a. We currently do not see any appetite for the current Government to fund directly or via contracts the services the 90,000 charities currently provide. This would be a concern for any member of the public who receives services from these charities as well as the many volunteers and employees of NFP's.
  - b. Currently there are approx. 196,000 employed in the NFP sector plus thousands of volunteers. This is far greater than the number currently unemployed. Many of these people would be directly impacted by the reduction of available funds for the services they deliver if this policy change is implemented.
  - c. Social services have already been withdrawn by the current Government. A policy change will further affect the services remaining.
  - d. A reduction of charity services will result in an increase in those asking government for direct help.
5. **Shifting tax burden to other taxpayers** – this thinking ignores the fact that charities provide valuable benefits to the taxpayer which far outweigh any income tax collected on "unrelated" or accumulated income:
  - a. These are services that central government do not provide. Charities plug the gaps left by central government policy. If charities stop providing these services, will the government step up?
  - b. Government increasingly relies on charities for their support and work in communities. The messages are mixed here for the sector that the Government say they want to expand.

- c. Typically, charities provide services to the public that are cheaper than if central government provided them.
  - d. If NFP are no longer able to offer their services, communities would suffer in several ways:
    - i. If the service were removed/downgraded, for social services-based charities for example this would be significant. The public would then look to Government to provide these services directly,
    - ii. Community workforces would shrink as staff would likely lose their jobs. This would impact on PAYE collection (as not all NFP's have volunteers).
    - iii. The Unemployment Benefit numbers would rise in what is already a period of high unemployment. We believe that this adverse effect alone would outweigh any tax collected from NFP's,
  - e. NFP's tend to be agile and can pivot very quickly if circumstance requires. Government departments however are slow to react and lead times for changing services can be very long, sometimes years.
  - f. Reducing the NFP sector's ability to raise business income will squeeze the creativity of the sector to find income in unlikely places. This will in turn restrict the already competitive area of fundraising. Fundraising costs will increase in order to raise more, meaning fewer overall funds for their charitable purpose.
  - g. The consultation document does not talk about how much tax is been "lost" or how much it will cost the government to provide the same level of service.
6. **Statistics** –
- a. There are 90,000 NFP entities on IRD books.
  - b. Charities create jobs - 196,000 people are employed by NFP's. Employees pay PAYE and ACC with many charities also registered for and paying GST.
  - c. There are currently 143,000 unemployed in NZ. This is the highest level since 2020. If NFP staff were to lose their jobs, the rate of unemployment could jump significantly.
7. **Supply Chain affects** – a loss in income due to tax would mean a re-prioritisation of costs. While cost savings are considered positive, they do have an impact on the health of the supply chain. This could mean reductions in business for catering and laundry (for venue hire), cafeteria, stationary, equipment purchases and the like. Suppliers would be affected directly by lower spending by NFP's, and this would translate to lower incomes and hence less income tax payments by suppliers as well as staff redundancies.
8. **Funders** – Funders who are also NFP's will get caught in the changes. This will translate to a reduction in grants and donations in an already competitive funding market.
9. **NZ is an OECD Outlier** – Other countries have bigger populations and hence have more opportunities to earn fundraising income outside business income.

### **Abuse of the tax system:**

1. There is no data or context given about abuses of the tax system. Some idea of scale and type of abuse would be useful.
2. It is assumed that only a small number of entities are abusing the tax system. It therefore seems an overreaction to punish all charities for the acts of a few.
3. Charities Services and the charity registration process would be best placed to deal with any issues that might arise via abuse.

## **Fringe Benefit Tax:**

1. NFP's typically underpay staff due to tight funding. As such, we offer a discount to staff in our retail stores as a recognition of this. If we were to pay FBT on this, it would result in an additional cost on top of the discount and introduce significant compliance costs.
2. In order to make the system simpler and more cost effective, we would recommend a full exemption on all FBT payable by NFP's.
3. We believe that the compliance costs of managing and calculating FBT far outweigh any benefits that the tax may bring to central government.
4. If the current exemptions were removed, we would likely have to remove any discounts offered to staff. This may then become a retention issue.

<p><b>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?</b></p> <p><b>If so, what is the most effective way to achieve this? If not, why not?</b></p>	<p>Yes, it should remain tax exempt, achieved effectively by not changing the current tax settings/policy.</p> <p>To this end we recommend full tax exemptions for all registered charities (ie Income Tax, Resident Withholding Tax &amp; FBT).</p> <p>2.32 "Providing relief when accumulated surpluses are eventually distributed for charitable purposes" appears to be an unnecessary removal of income for NFP's and an administrative nightmare. How would we separate income types in terms of distribution?</p> <p>We do not distribute our income via dividends or provide donations to other entities, rather we provide services. This proposal is a one-dimensional view of how charities operate and provide / distribute their services.</p> <p>NFP's will not understand how Memorandum accounts work. This is an added administrative complexity in an</p> <p>We see our business income ventures as inextricably related to our experiences/sites and ability to remain solvent. Without this income we would be insolvent.</p>
<p><b>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?</b></p>	<p>NFP's need to diversify their revenue streams in order to stay financially sustainable. Business income helps provide this stability.</p> <p>Accumulation of funds is used to provide cushioning to economic shocks, fund capital and future services as well as providing funders with</p>

	<p>information as to the contribution the NFP is able to make and its financial status.</p> <p>We have not seen any evidence of predatory behaviour in the sector. For our part we use the standard ‘recommended retail’ pricing strategy.</p> <p>Adverse unintended consequences:</p> <ul style="list-style-type: none"> <li>• Reduction in services and support provided to NZ communities by charitable entities.</li> <li>• The effect on PAYE/ACC/GST takings if NFP staff lose their jobs due to a reduction in funds and hence services or insolvency. This will lead to more people on unemployment benefits.</li> <li>• Supply chain interdependencies – catering, laundry, cafeteria, stationary, equipment ... All these will be indirectly affected if NFP’s fail or reduce services.</li> </ul> <p>A full cost benefit analysis needs to be done including those related to redundancies, and PAYE/ACC/GST income tax take reductions as well as the effects diminishing the funds available for charitable and NFP services would have on the communities they serve.</p> <p>NFP’s provide services cheaper and more efficiently than central Government. Should central Government need to provide these same services, it will cost the taxpayer more and the services will be slower.</p>
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## Donor Controlled Charities:

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1. There was no data or estimates of abuse relating to Donor Controlled Charities provided, so we cannot comment on an appropriate regime. However, would not the Charities Services be best placed to investigate this and apply regulatory recourse if needed?
2. We believe that business transaction restrictions would be better placed to change behaviour if abuse is an issue. While we do agree that some sort of action needs to be taken on abusers, we do not believe that a blanket approach over all NFP's will solve the problem.

<p><b>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?</b></p> <p><b>If not, why not?</b></p>	<p>Yes, if what your paper suggests is a concern then the entities are not following their charitable purpose and should have restrictions placed on them. However, without any data or estimates, it is difficult to comment meaningfully on this.</p>
<p><b>Q8 Should investment restrictions be introduced for donor-controlled charities for tax purposes, to address the risk of tax abuse?</b></p> <p><b>If so, what restrictions would be appropriate? If not, why not?</b></p>	<p>We agree that donor-controlled charities should not be a vehicle to transfer/cycle income tax-free back to the donors. However, we think transactional restrictions would be more effective. Genuine philanthropy should not be limited by restrictions put in place to address perceived abuse of the system. Rather, the Charities Services or other appropriate authority should be funded to investigate issues.</p>
<p><b>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?</b></p> <p><b>If not, why not?</b></p>	<p>This is worth consideration. However, these needs to be recognition that receiving funds and distributing them in the same tax/financial period is not always in line with the charities purpose or practicable.</p> <p>Charities, including donor-controlled charities need the ability to accumulate funds for special projects and/or future investment into assets if that is part of their charitable purpose.</p>

## Integrity and Simplification:

1. The objective of simplifying the tax rules and reducing compliance costs would not be met if NFP's are - a. taxed on their business income that is unrelated and accumulated income, and b. FBT exemptions are removed. We believe the opposite would occur.
2. Any changes to increase tax revenue for the Government will incur compliance costs, divert income from NFP's charitable purpose and will create adverse unintended consequences.
3. NFP's tend not to have in-house expertise to manage compliance or fully understand the implications of such changes.
4. What will happen to those NFP's that cannot afford specialist advice and/or do not engage with the IRD as they do not understand what is happening? What will the penalties be for non-compliance not because they do not want to but because they cannot afford to? Will the IRD push for de-registration of such NFP's?
5. An immediate simplification would be the full exemption of charities from the FBT regime. As it currently stands, the regime is confusing as well as time consuming, even with partial exemption.
6. Charities Services are best placed to monitor the regime alongside IRD. They need teeth to manage the outliers rather than apply a blanket approach to all NFP's.
7. How do we know if this is simply the first phase in a series of tax changes for the sector?
8. The NFP sector provides valuable services to the New Zealand public. It:
  - a. Is agile and responsive to need as it arises.
  - b. Is efficient at supplying charitable services.
  - c. Operates without the need to pay stakeholders or owners' dividends.
  - d. Is an employer and taxpayer.
  - e. Is best placed to continue these services. By continuing its tax exemptions and creating space for the sector to do provide more services with full FBT, Resident Withholding Tax and Income Tax exemptions.

**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,

The full removal of the FBT regime would reduce compliance costs.

There needs to be less compliance which is time consuming and costly and reduces funding for charitable purposes.

<ul style="list-style-type: none"> <li>• <b>modifying the income tax return filing requirements for NFPs, and</b></li> <li>• <b>modifying the resident withholding tax exemption rules for NFPs.</b></li> </ul>	<p>Increasing the \$1,000 limit would help provide more certainty to smaller NFP's.</p> <p>Resident Withholding Tax should be exempt for all NFP's.</p>
<p><b>Q11 What are the implications of removing the current tax concessions for friendly societies and credit unions?</b></p>	<p>We are not experts on these types of organisations/exemptions. However, all the points previously made are relevant to some extent.</p> <p>Overall, reduced funding through taxation will affect the bottom line and hence services. The consequences of this should be thoroughly assessed before proceeding with any changes.</p>
<p><b>Q12 What are the likely implications if the following exemptions are removed or significantly reduced:</b></p> <ul style="list-style-type: none"> <li>• <b>local and regional promotional body income tax exemption,</b></li> <li>• <b>herd improvement bodies income tax exemption,</b></li> <li>• <b>veterinary service body income tax exemption,</b></li> <li>• <b>bodies promoting scientific or industrial research income tax exemption, and</b></li> <li>• <b>non-resident charity tax exemption?</b></li> </ul>	<p>We are not experts on these types of organisations/exemptions. However, all the points previously made are relevant to some extent. Overall, reduced funding through taxation will affect the bottom line and hence services. The consequences of this should be thoroughly assessed before proceeding with any changes.</p>
<p><b>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?</b></p>	<p>Many NFP's lack the resources or expert knowledge to implement and maintain FBT reporting. Management under a FBT regime does require additional compliance costs, while no-FBT regime would incur no compliance costs freeing up funds for the charitable purpose.</p> <p>Benefits to staff, even though small, go towards recognising the low pay rates paid in the NFP sector and the ability to attract staff. We would have to re-think this if FBT was not exempt.</p> <p>A full exemption from FBT is warranted as the compliance costs and the additional tax to NFP's outweigh any benefit to the Government.</p> <p>The FBT tax rate is extremely high and would outweigh the cost to provide small benefits to staff.</p> <p>We do not believe the exemption distorts the labour market as in the main NFP pay lower rates than for-profit entities.</p> <p>Staff do not negotiate non-cash remuneration – this is a for-profit concept.</p>
<p><b>Q14 What are your views on extending the FENZ simplification as an option for all NFPs?</b></p>	<p>Sounds like a reasonable system.</p>

<b>Do you have any other suggestions on how to reduce tax compliance costs for volunteers?</b>	
<b>Q15 What are your views on the DTC regulatory stewardship review findings and policy initiatives proposed?</b>  <b>Do you have any other suggestions on how to improve the current donation tax concession rules?</b>	Raise the limit of deduction. Expand them to be able to file during the year.

### **Feedback submitted by:**

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31<sup>st</sup> March 2025

## **Taxation and the not-for-profit sector 2025 – IRD Consultation**

### **Feedback from Wheako Pōneke Experience Wellington.**

Wheako Pōneke Experience Wellington is a Council Controlled Organisation/Charitable Trust made up of six large unique visitor experiences within Pōneke. We welcome over 400,000 people to our sites collectively every year. Our iconic sites are welcoming and inclusive, creating distinct environments and focuses for our visitors. From the creative, sensory and digital learning experiences at Nōku te Ao Capital E for the rangatahi of Pōneke, to our telescopes and educational science exhibitions at Space Place, from the taonga and stories celebrated at Wellington Museum, Cable Car Museum and Nairn Street Cottage and the ever-changing art exhibitions at City Gallery Wellington, we are significant contributors to Wellington's economy and its reputation as a centre of excellence for arts, culture, and creativity. Many of our sites are in Council owned heritage buildings. Our partnerships range from Council and central government, mana whenua, philanthropic relationships, creative sector colleagues and artists as well as our fellow CCOs. As a charity, we rely on the generous support of individuals and organisations to deliver world-class arts, heritage, and science accessible and inclusive experiences.

Running these large institutions requires significant investment in maintenance and running costs, just to maintain the buildings to a standard that is suitable to holding and receiving loans from artists and other institutions. We also have 3 storage sites which are required to hold collections and decanted equipment and 2 sites for back-office staff which support these cultural institutions. In addition to the large operating costs to maintain these institutions they require significant costs associated with upgrades and exhibition refreshments which are only possible by accumulating surpluses. We have only recently been in the position to work towards surpluses, this has been due to an increase in retail revenue.

In order to have world class exhibitions in Wellington we require spaces that meet lender requirements, such as the heating, ventilation and air conditioning (HVAC) settings necessary to maintain humidity and temperature control for these collections, and significant investment from sponsors and investors is required to build these exhibitions. It is not unusual for us to make a loss on large exhibitions as costs are high and profit is not our biggest motivating factor. Bringing accessible exhibitions and experiences to Pōneke is our priority.

Wellington City Council is our primary funder with 75% of our income coming from Council, the remainder is made up of trading and fundraising. In the last financial year our trading income made up 14% of our overall income with fundraising only making up 2%. Without retail, bar and venue hire income we would not stay solvent, the economic climate is particularly tough at the moment, especially in the fundraising and grants sector for Arts and Museums.

Should the suggested tax initiative be implemented this would have a significant negative impact for our organisation. We believe that any nominal benefits of this income tax would be far outweighed by adverse compliance costs, a reduction in PAYE/ACC/GST tax take and supply chain effects, and an increase in demand for services to be delivered by Government that affected entities are no longer able to provide, just to name a few.

In this feedback document we will provide our impressions of the Taxation and the not-for-profit consultation document, with specific points for the IRD and Minister to note.

## Discussion Questions and our response

### **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?**

Not-for-profits by their nature don't have a profit motive in terms of returning funds to owners/shareholders and hence would be unlikely to act in a predatory fashion. We have not seen any evidence of any competitive advantage by not-for-profits; however, we do see profits going back into the communities they serve.

We do agree with your assessment that taxable entities can carry losses forward and can claim imputation tax credits from dividends, while non-for-profits do not receive these advantages. This would reduce any advantages, perceived or otherwise.

The tax for Trusts is 39% and the tax for companies is 28%, so an obvious disadvantage for charities.

Not-for-profits have greater standards for reporting to the public, this is not a competitive advantage and in fact increases compliance costs.

The not-for-profit sector provides valuable services to the New Zealand public. It is agile, efficient and responsive to needs as they arise. This sector operates without the need to pay stakeholders or owners' dividends. Currently the wider charities sector creates jobs with approximately 196,000 people employed in the not-for-profit sector. Charities pay employment-related taxes – PAYE and ACC, as well as GST.

With this in mind, the sector needs to be recognised for its value to the public and as an employer by continuing its Income Tax and Withholding Tax exemptions and creating space for the sector to do more charity work with full FBT exemption.

In taxing the charity sector, we expect this would have unintended consequences with potential job losses and charities seeking financial help directly from the government.

There is no competitive advantage in accumulating profits to enable expansion. Expansion is only in relation to sustaining or increasing the charitable services. For-profit entities generally do not provide these services.

In section 2.15 of the Taxation and the not-for-profit sector paper there is mention regarding the significant fiscal cost to not taxing charity business income on unrelated charitable purposes, particularly on income that has been accumulated. There has been no example given on the extent of what an "unrelated business income" may be or what the accumulated earnings tax may look like. This is of significant concern to us as we remain solvent due solely to our trading revenue and need to accumulate funds for future sustainability and capital maintenance and purchasing. We believe the public benefit that not-for-profits provide our communities outweighs any taxable income that may be alluded to in this paper. We would like to see a quantitative cost/benefit analysis of this "lost income".

### **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 most significant implication would be solvency. The removal of the tax exemption would cause significant loss of income which would impact our services and may cause job losses.

Secondary effects such as supply chain effects, a reduction in PAYE, ACC, GST tax take and tourist dollars into the economy could be expected.

Not-for-profits tend not to have in-house expertise to manage compliance or fully understand the implications of such changes, this would certainly lead to an increase in administration and compliance costs. We have a very small team of mostly part-time finance staff; we are not resourced for the additional time or expertise involved to manage this potential policy change.

If not for profits do not engage with the IRD or don't understand what is happening, there is a concern that penalties for non-compliance could force the IRD to push for de-registration of such not-for-profits.

Any changes to increase tax payments will divert income from the not-for-profits charitable purpose. Unlike for-profit entities, not-for-profits do not exist to "grow net assets". The charitable purpose is the not-for-profit's "business".

**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 would recommend the exemption remains.

Use of the term “unrelated business” is vague and open to interpretation at this stage.

Our charitable purpose is to manage a number of galleries and museums for the benefit of the public, as part of this we have retail outlets, paid events and food available for sale to the public. This is part of the whole experience, and we believe related to our charitable purpose. While clarity needs to be provided around what “unrelated business income” means, we expect many charities would require external tax advice which would incur additional costs.

For not-for-profits, the business income does not exist without the charitable purpose. Regardless of how the funds are earned, they are linked.

**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 believe there is no appropriate threshold. We would recommend the exemption remains for all not-for-profits.

We believe that removal of the exemption would have a detrimental effect on all not-for-profits, regardless of size, and having a threshold would encourage charitable entities to remain small, regardless of whether that suits their purpose or affects their ability to be sustainable in the future. This would obviously mean that not-for-profits would be encouraged not to grow their services to the public.

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

Yes, it should remain tax exempt. Make Income Tax, Resident Withholding Tax and Fringe Benefit fully exempt from tax for all Registered Charities.

How would “charity business income distributed for charitable purposes” be defined? This is a very narrow view of the reason why charities seek to raise income through a business approach. For example, the income may be used to fund additional charitable services, or close a funding/expenditure gap, or may be used to create funds to invest in assets required for their charitable purpose – none of which appear to meet the definition of a “distribution” but nevertheless are purely for the purposes of charitable activities. This indicates that the full gamut of charitable activities and why charity business income is critical to the health and financial sustainability of this sector has not been fully considered or understood.

In our circumstances, we see our business income ventures as inextricably related to our experiences/sites. Currently, this income is keeping us solvent.



**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?**

Not-for-profits have limited ways to earn income; donations/grants, local/central government contracts for services, passive investments (e.g. term deposit interest, endowment funds) and business operations such as retail stores and venue hire. These alternative business operations currently keep us solvent.

Business operations can offer more stability in a normal operating environment. However, in high-risk periods such as Covid or a cost-of-living crisis, even these areas can evaporate quickly. This means that in order to weather economic shocks, not-for-profits must diversify their income.

Income tax adds to the plethora of environmental factors acting against not-for-profits in terms of loss of assets through compliance costs and income tax to be paid.

Consideration should be made around the effect on PAYE takings if not-for-profit staff lose their jobs due to reduced income or insolvency. The sector currently employs approximately 193,000 staff.

Many not-for-profits do their work on behalf of the government. The removal of this tax exemption and implementation of taxes on accumulated earnings could lead to the requirement for direct funding from the government or pulling back on critical services.

There is a high likelihood that should this tax exemption be removed, our not-for-profit would have to significantly cut offerings/employees or become insolvent.

Charities must seek opportunities whatever they are to increase funding. It's this sort of creativity and nimbleness which helps them survive and ensure funding for capital and/or financial sustainability.

Due to the way Charities are run we are often able to provide services to the community at a far cheaper rate than if the government was to deliver these services themselves.

Further clarification regarding what an 'unrelated business' is required. We think all income made from passive investments, retail shops, cafés and venue hire (for example) should be exempt from income taxes as these often make up funding shortfalls for Registered Charities.

Activities such as retail and venue hire have important secondary outcomes such as raising awareness to the public of the services the not-for-profits provide, in essence free advertising. It is also used to raise more funds via donations where our staff ask customers at the till if they would like to make a donation.

The Trust tax rate of 39% and a company tax rate of 28% is clearly an advantage for companies and for-profit entities.

Grant funders are also concerned with an organisation's financial sustainability and solvency and often require that organisations show other sources of funding before they will commit funding to a project. Should an Income Tax be implemented this will severely constrict these earnings which would make it much harder for Charities to seek grant funding. Other issues with taxing accumulated surpluses are that holding investments allows investment income to be used to maintain solvency through periods of economic uncertainty and allow a buffer in times of funding uncertainty.

Charities are already required to report on their accumulated surpluses and there are very good reasons why charities, and consequently the public, would benefit from charities being able to continue to hold accumulated surpluses without the burden of these being taxed. As an entity who manages museums and galleries, much of our equity is held in exhibitions and Collections – when we purchase Collection items, major exhibition upgrades and equipment, which is available for public benefit, this appears as accumulated equity on our balance sheet until they are depreciated, noting that Collection items are not depreciated.

We recommend Chairty Services and the IRD work closely together to ensure the integrity of Registered Charities, so that if there is fraud happening in the sector, it is important that regulatory bodies are sufficiently funded and resourced to act on this behaviour. Taking this approach - to better fund compliance and investigation activities which can target the areas/entities considered to be taking advantage of the current settings would be a more appropriate approach than implementing a blanket and significantly detrimental approach across the sector.



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

Yes, if what your paper suggests is a concern then the entities are not following their charitable purpose and should have restrictions placed on them by Charity Services who would investigate these concerns.

However, there are no cost estimates in the paper about how much of an issue this is – cost benefit analysis should be carried out to determine if this issue of sufficient consequence to warrant changes.

In addition, consideration should be given to philanthropic organisations which are often donor-controlled but which provide significant contributions to charitable purposes and in no way benefit the donors. Again, investment into compliance and investigation would be more appropriate than penalising such arrangements as a one-size approach.

**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?**

Refer to the response above.

We think transactional restrictions would be more effective. Charities Services would need to be adequately funded to investigate issues.

**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?**

This requires more analysis and information to determine the nature of such entities. Significant philanthropy may take place which targets investment in assets (e.g. charity hospitals, ambulances) which are funded through the build-up of retained earnings, rather than donations during a specific year. Requiring a minimum distribution each year would be detrimental in these cases.

**Q10. What policy changes, if any, should be considered to reduce the impact of the Commissioner's updated view on not-for-profits, particularly smaller not-for-profits?**

**For example:**

- increasing and/or redesigning the current \$1,000 deduction to remove small scale not-for-profits from the tax system,
- modifying the income tax return filing requirements for not-for-profits, and
- modifying the resident withholding tax exemption rules for not-for-profits.

Increasing the \$1,000 limit would help provide more certainty to smaller not-for-profits.

There needs to be less paperwork/administration which is time consuming and costly. Not-for-profits should be exempt from Resident Withholding Tax as this would be a further reduction in income available for charitable purposes.

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

The same as other non-for-profits entities, reduced funding will affect the bottom line and hence services.

**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 are not familiar with these areas and have no comments to make.

**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?**

Currently we have adopted a conservative approach to FBT and monitor the fringe benefits to staff (largely discounts for staff in our retail outlets) carefully to ensure that they are under the FBT filing threshold for businesses. We have adopted this policy because it is unclear whether our commercial activities (retail outlets on site and venue hire) or administrative staff currently fall under the exemption for employees carrying out a business within our charitable purpose or not. If it was made more clear what business activities fell under the organisation's specified purposes then this would reduce our compliance costs as we wouldn't have to monitor this, however we would be unlikely to offer other fringe benefits to staff.

Ultimately, a full FBT exemption would be more cost effective.

**Q14. What are your views on extending the FENZ simplification as an option for all not-for-profits? Do you have any other suggestions on how to reduce tax compliance costs for volunteers?**

We do not currently have any volunteers though we imagine this would be helpful for volunteers for this to be extended.

**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?**

Expand them to be able to file during the year.

## Closing Summary

- We believe that any tax regime or regulation changes for not-for-profits should be about how the funds are used rather than focused on how they are earned.
- Further consideration regarding the compliance costs should be given. Any new tax rules would reduce any profit earned for not-for-profits which in turn would reduce services across the sector.
- Any evaluation of tax on not-for-profits should take into account the costs and benefits lost to the public should funds be diverted from their charitable purpose and how these proposed changes would erode the part charities play in society, with serious consideration from the government on how they would fund this shortfall.
- The continuation of the tax exemption of Income Tax would mean that the not-for-profit sector is treated similarly to other public benefit entities i.e., local and central government.
- Not-for-profits are suffering the impact of the current cost-of-living crisis. This translates to lower donations and grant funding as donors feel the pinch of the cost-of-living crisis themselves. Any change that increases costs, even if minor, diverts funds away from the not-for-profit's charitable purpose.
- It is critical for not-for-profit survival to have the ability to explore and implement alternative funding options such as retail, venue hire and memberships.
- If the tax exemption were removed on unrelated business income and accumulation, our not-for-profit would report deficits. This would very quickly make the operation unsustainable and ultimately insolvent. The next steps from there would be to decide which sites to close and staff redundancies.
- An immediate simplification would be the full exemption of registered charities from the FBT regime. As it currently stands, the regime is confusing as well as time consuming even with partial exemption.

Feedback submitted on behalf of;

**Diana Marsh**

**Tumu Whakarae | Chief Executive**

Wheako Pōneke Experience Wellington,

Level 8, 342 Lambton Quay, PO Box 893, Wellington, New Zealand

M: s 9(2)(a)

E: s 9(2)(a)

Canterbury Rugby Football Union

Phone 03 379 8300 Fax 03 365 3565

Rugby Park, Cnr Malvern & Rutland Streets, St Albans

PO Box 755, Christchurch 8140

New Zealand

[www.crfu.co.nz](http://www.crfu.co.nz)

25 March 2025

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

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

Dear Mr Carrigan,

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

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

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

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

Rugby is not just a sport in New Zealand – it is part of our national identity and contributes significantly to the economy and society. As a provincial union, overseeing 45 of the more than 470 grassroots rugby clubs in New Zealand, we play a crucial role in fostering community engagement, social connection, and personal development.

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

Beyond playing rugby, we deliver education, wellbeing, social, cultural and diversity inclusion amongst other initiatives. These activities bring communities together and generate economic activity for local businesses throughout the year, not just on game day.

Canterbury Rugby Football Union

Phone 03 379 8300 Fax 03 365 3565

Rugby Park, Cnr Malvern & Rutland Streets, St Albans

PO Box 755, Christchurch 8140

New Zealand

[www.crfu.co.nz](http://www.crfu.co.nz)

Rugby unions are also at the forefront of addressing important societal issues in our communities. Mental health awareness, safe kids, brain injury programs are amongst the initiatives on a regular basis.

### 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 union would:

- significantly reduce the funding available for the union to assist 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. Canterbury 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 Smail  
Chief Executive Officer  
Canterbury Rugby Football Union  
s 9(2)(a)

**From:** Paul Bushnell s 9(2)(a)  
**Sent:** Tuesday, 25 March 2025 1:18 pm  
**To:** Policy Webmaster  
**Subject:** Taxation and the not-for-profit sector: feedback

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

I wish to make a personal submission about the proposed changes to NFP taxation, focused on the charitable nature of churches.

I think there is certainly an issue with the likes, say, of Sanitarium, a trading company which is acting under the protective cloak of its church origins to avoid paying tax. This is unfair, and any moves to remove this anomaly are reasonable.

However, in making changes to effect this, I think that the government needs to be very careful not to unwittingly scoop up other genuine charitable activity undertaken by churches. I am on the governing council of an Auckland church which is often used as a venue for public events - and the money raised by this activity gets ploughed back into the upkeep of the buildings, and the support of the public-good activity undertaken by the church.

If this income were reduced, it would have a very significant impact on the viability of the buildings, the institution and the operation of the church and its varied programmes of public support and engagement.

**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 the income made by a church genuinely acting as a charity would significantly reduce the amount of income events and venue hire generates. This would have a negative impact not only on the institution, but also the varied communities the church serves. If a shortfall were to result from the proposed tax changes, the government would become subject to calls to provide funding - something which would, I'm sure, not be welcomed by any governing party or coalition.

Please ensure that in catching the likes of Sanitarium, you do not unwittingly damage the genuine charitable activity which my church, and many others, undertakes to the benefit of society.

Paul Bushnell

s 9(2)(a)

s 9(2)(a) [REDACTED]

s 9(2)(a) [REDACTED]

**From:** Paul Reeve s 9(2)(a)  
**Sent:** Tuesday, 25 March 2025 1:21 pm  
**To:** Policy Webmaster  
**Subject:** Fwd: Taxation and the not-for-profit sector

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

## **Submission on Taxation and the Not-for-Profit Sector: Concerns Regarding Businesses in the Building Materials Supply Sector**

### **Introduction**

We appreciate the opportunity to provide feedback on the "Taxation and the Not-for-Profit Sector - Officials' Issues Paper" issued on 24 February 2025. Our submission focuses on the concerns that many businesses in the building materials supply sector are owned and operated by entities with close links to various charities. These businesses benefit from tax deductions for donations to these charities, raising questions about the arm's length nature of these transactions and whether value is being provided in a non-taxable form in return. We believe that closer scrutiny is necessary to ensure a level playing field for all market participants.

### **Concerns and Issues**

#### **1. Tax Deductions and Arm's Length Transactions**

- Businesses in the building materials supply sector often donate to charities they are closely linked with, obtaining tax deductions for these donations. However, it is unclear whether these transactions are conducted at arm's length, as required by tax regulations. The lack of transparency and potential for non-arm's length transactions can lead to tax avoidance and unfair competitive advantages.

#### **2. Competitive Advantage**

- The current tax exemption framework allows businesses linked to charities to accumulate tax-free profits, which can be reinvested into their operations, giving them a competitive edge over tax-paying competitors. This advantage is particularly pronounced in the building materials supply sector, where margins are often tight, and any cost savings can significantly impact market dynamics.

#### **3. Integrity and Simplification**

- The issues paper highlights the need for integrity and simplification in the tax system for not-for-profits. We support this initiative and believe that stricter regulations and clearer guidelines on transactions between businesses and their associated charities are essential to prevent abuse and ensure fairness.

### **Recommendations**



## **1. Enhanced Scrutiny and Reporting Requirements**

- We recommend that the Inland Revenue Department (IRD) implement enhanced scrutiny and reporting requirements for businesses with close links to charities. This could include mandatory disclosure of all transactions between the business, its officers, and the charity, with a clear demonstration of arm's length pricing.

## **2. Regular Audits and Compliance Checks**

- Regular audits and compliance checks should be conducted to ensure that businesses and charities adhere to tax regulations. These audits should focus on identifying non-arm's length transactions and non-taxable value provisions.

## **3. Clear Guidelines and Definitions**

- The IRD should provide clear guidelines and definitions for what constitutes an arm's length transaction and non-taxable value provision. This will help businesses and charities understand their obligations and reduce the risk of non-compliance.

## **4. Review of Tax Exemptions**

- A review of the current tax exemptions for businesses linked to charities should be undertaken to assess their impact on market competition. Consideration should be given to limiting exemptions to ensure that they do not create unfair advantages.

In making the above recommendations we are mindful that there needs to be a balance in any compliance regime to ensure the costs of complying do not add significant financial burden, especially for smaller charities. An overly burdensome regime would have the perverse effect of reducing the funding these charities have available for their charitable purposes. To that end it would be appropriate to have a minimum threshold for reporting which could be based on the income of the charity.

## **Conclusion**

In conclusion, we believe that closer scrutiny of businesses with close links to charities is essential to maintain a fair and competitive market in the building materials supply sector. By implementing enhanced reporting requirements, regular audits, clear guidelines, and reviewing tax exemptions, the IRD can address the concerns raised and ensure a level playing field for all market participants.

Best Regards,

Paul

## **“Taxation and the not-for-profit sector”**

**Submission by The CatWalk Spinal Cord Injury Trust**

**(CC27170)**

**Dated 25 March 2025**

### Executive Summary

The CatWalk Trust is curing spinal cord injury by retaining the best and brightest research minds here in New Zealand and keeping them focussed on the task.

- We are concerned about many of the discussion questions, especially those around the definition of business income as many of our activities generate ‘profit’ through an exchange, but all for delivering on our purpose.
- We refute that there is any business activity that is unrelated to charitable purpose, as no matter what we do we are accountable to our donors on whose ongoing support we depend.
- We need to be able to retain earnings both to save for major projects and trials, and to provide ongoing income through investments. All is critical to our performance.
- Taxing us on any of our income generating activities will reduce the amount of money available to curing spinal cord injury paralysis, which currently costs the country \$700million a year.

### General Response

The CatWalk Trust’s charitable purpose is to cure paralysis from spinal cord injury by targeted funding of medical and health research of the highest order. Currently there is no cure for spinal Cord injury which costs the New Zealand Government around \$700 million a year and severely impacts the independence of those living with it.

Over 20 years CatWalk has taken local research from infancy to developing a world-renowned multidisciplinary team. They are an elite we have been lucky to retain. They have individually shown results and have demonstrated that we get results faster when our New Zealand researchers are driving the pace. The only thing holding them back has been the structure of research funding.

Cures for spinal cord injury will not come from the commercial world as there will be no miracle drug or injury specific ‘widget’ that will be the answer. Therefore, we are competing in an expensive world for talent and most spinal cord programmes are ineligible for venture capital.

Almost all our impact is from providing funds. Medical programmes are expensive so our outgoings are relatively large chunks of money that must first be accumulated and held. It also means that we need to be able to retain and invest what we hold to minimise the impact of inflation on our spending potential.

One of the underpinning statements of the review is contained as paragraph 4.1 “Every tax concession has a ‘cost’, that is, it reduces government revenue and therefore shifts the tax burden to other taxpayers.” We submit that this is a false premise. We are overwhelmingly supported by selfless donors who want to see their donations making an impact. There is nothing to suggest that this money would be available to the Government were donors not be able to direct it to specific community impact.

Our donors hold us accountable in a way that shareholders, customers or voters can’t. We have to earn and retain trust at a very personal level and anything that undermines that trust will markedly

reduce our community impact. The idea that charities are a burden to taxpayers or not worthy of trust is potentially damaging to us and the whole sector.

It is our contention that the work we do would not be done unless by charity. It does not have a commercial return and is low on Government priorities. Therefore, anything that is done to distract our focus or reduce our income potential or ability to hold funds will have a direct impact on all New Zealanders.

### **Review Questions**

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

Our biggest concern is the definition of 'business income'. One of our largest income sources are high-end events, many of which could be considered to be competing with commercial event hosting organisations, although usually they are only commercially viable for us due to donated venues, equipment and/or prizes.

If profits from these were taxed, it would have significant impact on our ability to advance our purpose which is almost exclusively dollar based.

Further, the nature of our charitable purpose means that we sometimes need to retain significant earnings that we invest. We need the freedom to diversify our portfolio to ensure we do not lose value and thus betray the trust of those who have given us money to cure spinal cord injury. Were these investments deemed to be business income, taxing would impact our ability to accelerate finding cures.

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

Again, what would be the definition of 'business income unrelated to charitable purposes'? Almost all of our income derived from activities is unrelated to spinal cord injury research. It is our experience that donors like to be creative with their giving. We would not like to restrict them from giving us, for instance, a short-term going concern for us to earn from.

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

Charities have a moral obligation to follow their donor's wishes with any investment they make with their capital. They are also compelled to invest conservatively so as not to put that value at risk. Should they betray that trust it will impact on their future ability to fundraise – an existential issue for trustees. Therefore, there is no such thing as an unrelated business.

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

The size of our annual expenses can vary significantly depending on the work being funded. A clinical trial can cost \$30 million over five years so is likely to be funded through a combination of retained earnings and partnership donations. Although this may be outside the scope of the question, our experience is that expensive services can push charities to fluctuate between thresholds over

financial years. Therefore any threshold must consider the boom-and-bust nature of such funding and measure accordingly.

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

Yes. How will 'unrelated to charitable purposes' be determined? It would seem that the situation at present – that a deduction is allowed for a donation of dividends to a parent charity – could equally apply to activities within a charity without having to split the entities and create extra work.

Question 6: If the tax exemption is removed for charity business income that is unrelated to charitable purposes, what policy settings or issues not already mentioned in this paper do you think should be considered?

Given the nature of our mission and the current intergenerational transfer of wealth, we plan to encourage people to leave us bequests. For larger bequests we will offer 'restricted funds' status whereby the capital is held in trust to provide income into the future – our quest is a long one. At which point of holdings will these become categorised as retained earnings that we 'should be spending'? Forcing us to spend down to an outside policy agenda would:

1. Reduce the attractiveness of the proposition to donors
2. Force us to betray the trust put into us by our donors, impacting our ability to raise money
3. Slow down the journey towards cures, impacting thousands and costing the Government millions.

Due to the nature of the specialist equipment used particularly in clinical trials, we may be required to own expensive items of equipment. Although it will be used for free by those involved in our work, we may be able to offer it to commercial operators when we do not need it, to offset its cost. The tax proposal would complicate and compromise our ability to do this.

Questions 7-11: Not applicable.

Question 12: What are the likely implications if the following exemptions are removed or significantly reduced: bodies promoting scientific or industrial research income tax exemption.

The briefing document states: "The context in which scientific and industrial research is conducted has changed significantly since the introduction of the exemption. Advances have been made in technology, changes in funding models have occurred, and research has become increasing commercialised."

This is not true of the whole sector. Not everything advancing human understanding of science has a commercial application. In healthcare, in particular, scientific advances that do not involve a miracle drug or piece of equipment have little commercial return on investment, yet what is learned through research can be a major benefit for society.

The impact of removing the exemption will mean it will be more difficult to attract and afford the high calibre researchers we need, as we will be competing with deep-pocket corporations. In the wider context, this would impact those living with all medical conditions overlooked by commercially funded research.

Questions 13-14: Not applicable.

Question 15: 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?

Generally we support the ideas mooted for making tax credits easier to access.

Many charities aim their donation asks at an impulse-buy level so it is not surprising that such donors have a low uptake of taking tax credits. CatWalk has an average 'regular' donation level of just over \$320 which does not include six and seven figure special gifts for our programmes. This means more of our donors take factors such as the tax credit potential into consideration when making a donation.

We suggest that rather than seeing low uptake of tax credits as a failure, consider it an opportunity for charities to further connect and educate donors, should they choose to consider the potential. If the Government seeks to promote philanthropy, this is one of the ways they could work alongside charities.

### Conclusion

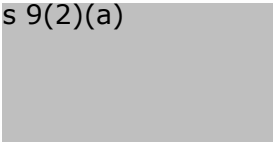
The CatWalk Spinal Cord Injury Trust has grave concerns about the scope and proposals in the review as they have the potential to impact our mission by:

1. Reducing our income
2. Increasing our costs, both through compliance and tax
3. Forcing us to spend retained earnings we need to accumulate
4. Undermining the trust our donors have in us.
5. Depriving us of access to the research experts we need to fulfil our purpose.

Should any of these come to pass, it will slow down our mission and therefore cost New Zealand millions of dollars.

Please contact me for any clarification.

s 9(2)(a)



Meg Speirs  
Executive Director

## Taxation and the not-for-profit sector

### Submission from South Canterbury Hospice Inc

This submission is a narrative summary to the questions posed in the IRD issues paper. We know others are providing detailed feedback on a point-by-point basis, including the Hospice New Zealand submission which we support.

In essence, we believe the real issue for Government is defining what is or isn't a charity, rather than changing tax laws. An unintended consequence of tax law change is that hospices are captured by changes not meant for them. Unless it is your intention to tax hospices.

Our budget this year is for expenditure of \$3.4million, while our Government contract is only \$1.5million.

Our staff and volunteers are working extremely hard to raise the \$1.9million shortfall, but we won't make it. We're budgeting a \$300,000 deficit for the year.

Despite this, we will continue to provide the highest quality end-of-life care to South Canterbury patients and support for their families. And we will do this free of charge.

This is not sustainable.

So at a time when we are crying out for more money from Government, this review potentially takes money away from us.

Eventually, hospices will have to make severe cutbacks to services or close, putting more pressure on public health services. We save money for the Government every day by keeping people out of the public health system.

Our income comes from our two op shops (30%), our events (19%), donations (19%) and grants (17%). The balance is our deficit.

All income goes directly to our charitable purpose of providing end of life care. Any bequests we receive go to our investment trust, the Community Trust Hospice Foundation. The Foundation's Trust deed stipulates all its funds are for the sole benefit of Hospice South Canterbury Inc.

Not one cent of our money goes to anything other than our charitable purpose.

Taxing op shop income could also have the unintended consequence of reducing donations and our customer base if these groups perceive that all profits are not going to Hospice. Many people donate and shop with us because they know these funds go directly to our services.

By all means target those businesses you perceive are making money for non-charitable purposes. Don't make complicated changes to the tax system though. **Just don't allow those businesses charitable status.**

PS: Actually, there is one tax law you could change. Remove GST on ticket sales (at events, raffles) for charities. It grates.

s 9(2)(a)

Ant Ford  
Chairman  
South Canterbury Hospice Inc

s 9(2)(a)

Peter O'Neill  
General Manager  
South Canterbury Hospice Inc  
[gm@hospicesc.org.nz](mailto:gm@hospicesc.org.nz)



## Drury & Districts Rugby Football & Recreation Club Inc

25<sup>th</sup> March 2025

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

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

Dear Mr Carrigan,

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

Drury & Districts Rugby Football & Recreation Club has been a cornerstone of our local community for 103 years, delivering not only rugby but also social and community development. Our mission extends beyond the rugby field. We enrich lives, promote well-being, and drive positive societal change.

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

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

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

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

Beyond playing rugby (junior and senior), we provide other services such as touch rugby (junior and senior), school sports, family events, recreational events and



other social events dedicated to the Drury population. These activities bring communities together and generate economic activity for local businesses throughout the year, not just on game day.

Rugby clubs are also at the forefront of addressing important societal issues in our communities.

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

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

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

Preserving the current income tax exemptions is essential for sustaining the economic and social benefits they provide. Drury & Districts Rugby Football & Recreation Club 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,

Cornell Allen  
Vice President  
Drury Rugby Club  
s 9(2)(a)



24 March 2025

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

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

Dear sir

## **Submission on the IRD's Proposal to Tax Incorporated Societies**

### **Introduction to Omanu Community Gardens Incorporated**

Omanu Community Gardens Incorporated (OCG) is a non-profit incorporated society representing 47 plot-holder members in Mount Maunganui. Our community gardens provide a space for individuals and families to grow their own produce, foster community spirit, and contribute to local food security by donating excess harvest to local food banks.

OCG operates solely for the collective benefit of its members and the wider community. We provide our members resources, gardening tools, soil, compost, and expert guidance to support sustainable, organic gardening practices. As a non-commercial entity, our financial sustainability relies on membership contributions, sponsorships, and community support.

### **Our Opposition to the IRD Proposal**

OCG strongly opposes the IRD's proposal to tax incorporated societies by removing the current exemption on funds received from members, including membership fees and subscriptions.

This exemption recognises that incorporated societies exist to serve their members and the broader community, rather than generate profit. Removing this provision will create unnecessary financial and operational burdens on small community entirely volunteer run organisations like OCG, threatening their ability to operate effectively.

## **Impact of Taxing Membership Contributions**

If the IRD proceeds with this taxation change, the effects on OCG would be severe:

- **Reduced Community Impact:** Membership fees are essential to maintaining our gardens and providing resources to members. Taxing these funds would reduce our ability to maintain infrastructure, purchase supplies, and support local food banks.
- **Increased Costs for Members:** To offset tax obligations, we may be forced to increase membership fees, potentially making participation unaffordable for some community members.
- **Administrative and Compliance Burdens:** As a volunteer-driven organization, OCG does not have the resources to handle additional tax compliance and reporting obligations. The financial and time burden would divert efforts from our core mission.

## **Alternative Solutions**

Instead of removing the membership contribution exemption, we urge the government to consider:

1. Retaining the tax exemption for membership fees and subscriptions for non-commercial incorporated societies like OCG.
2. Introducing tax exemption thresholds for small to medium-sized incorporated societies with no commercial activities.
3. Strengthening oversight of larger, commercially oriented societies while ensuring community-based organisations are not penalized.

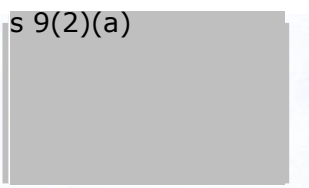
## **Conclusion**

We urge the government to reconsider this proposal, as it undermines the ability of community organisations like OCG to fulfil their social and environmental missions. Our society and similar community gardens contribute significantly to New Zealand's well-being, sustainability, and local food resilience. Taxing member contributions would be counterproductive to these efforts.


We appreciate the opportunity to submit our concerns and welcome further discussion on this matter.

Yours sincerely,

s 9(2)(a)



Mike Chapman  
Treasurer Omanu Community Gardens Incorporated  
s 9(2)(a)



# **Submission by Dress for Success Auckland Incorporated (“DfSA”)**

## **Taxation and the not-for-profit sector**

### **General Comments**

Generally, charities are extremely efficient at providing services that benefit the community and New Zealanders on the “smell of an oily rag” provide services that for-profit businesses and the government are not prepared to provide or cannot provide as efficiently. Therefore, we believe that the current tax concessions for charities are a reasonable and effective way to incentivise this efficient (and caring, tailored, culturally appropriate!) provision of charitable services.

A key concern we have about these tax policy proposals by the IRD is that they seem to be driven by a desire to tackle some problematic charities or problematic practices by charities, but there is zero information from the IRD on the size or extent of this problem. How much money is involved? How many charities? Where is the cost / benefit analysis of this proposed policy change? Would this change in tax policy catch out 20 “bad” charities, and cause 200 good ones to go under?

The IRD paper seems to be out of touch with the perspectives of those who work in the sector. For example, the use of the word “competitors” and how many of the points are framed in terms of business competition feels out of odds with Dress for Success Auckland’s operational experience. At DfSA we do not have competitors and we are not striving to have a “competitive advantage” or “expand more rapidly” than other similar organisations. All of these perspectives sit firmly within the for profit sector. There are not lots of organisations competing to do the charitable work we are doing. In fact, we do not know of a single for-profit competitor. Like most charities, we would be thrilled if there was no longer a need for our services and we could cease to exist.

We would suggest that organisations that are working in this way to have a competitive advantage, or expand rapidly, or are focussed on a lower cost of doing business are not true charities following their charitable purpose. So this should be dealt with by the Charities Commission – and more resources should be put into the Commission to allow for these types of investigations.

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

The most compelling reasons not to tax charity business income are:

- **It adds significant complexity to the NZ tax system as it relates to charities.** Instead of being able to rely on the clarity of the “destination of the income” approach (ie. if the income goes to a charity it is not taxable), judgement calls will need to be made by charities (which are already very stretched for resources) about whether income will be related or unrelated in the eyes of the IRD.

- **It contradicts, or at best ignores the recent direction of the philanthropic and public sector to encourage charities to be sustainable and not rely on grant income and donations.** Funders have pushed charities to come up with their own income streams. A lack of multi-year philanthropic funding, grants where DfSA only receives a percentage of the total amount applied for, rules around not re-applying for grants have combined with increased competition for grants to ensure that DfSA has worked strenuously to generate alternative different income streams to be able to continue to meet its charitable purpose.
- **It will increase competition for grants which are already far too limited to support the amazing work charities do for New Zealanders.** We have noticed competition increase year on year for grants and the percentage of our revenue coming from grants drop. We are concerned that a change in policy which makes it harder for charities to generate business income will lead to even more competition for grants.

In relation to 2.13 – DfSA generally feels like it faces increasingly onerous compliance requirements. One example has been the burden of reregistration and additional reporting required for charities. Finding and affording auditors is also challenging. DfSA has never been able to successfully raise external capital and it is our view that for most charities this is a nigh-on impossible task – as much of our income (namely philanthropic income, or government contracts for service) is not guaranteed.

Finally, we should note that although your question is framed in terms of simply “business income” this is inaccurate. You seem to be talking only about active business income. Is this an oversight? Did you mean to not include passive business income such as interest income, dividends etc? If so, what is the policy reason for excluding this?

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

Our key concern here is the complexity it would add to charities who are attempting to be sustainable and manage their revenue streams. We think the most significant practical implications of this would be:

- DfSA (management and Board) not knowing or having to pay for expert opinions on whether active business income is considered “related” or not?
- Increased accounting compliance costs
- Reduction in revenue will impact on DfSA being able to offer its services to all vulnerable women who need them

**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?**

As set out in our answer to question 2, how “unrelated” will be defined and applied by the IRD is a major concern for us. So we were very disappointed that you do not propose a single point of clarity here apart from talking about a de minimis exemption (which we do agree with). We expect that IRD would need to provide a very detailed and clear set of criteria of how they will define “unrelated” before making this significant change.

In regards to the de minimis criteria, we agree with the suggestion in 2.29 that it be extended to cover Tier 3 and 4 charities. Not only would this limit the impact of the policy change to those larger charities with paid staff, it would also be a good way to see the impact of the policy change before rolling it out to smaller charities which rely mostly on volunteers.

**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 do believe this. Like many charities, DfSA has accumulated funds to ensure its future survival and sustainability. This has proven only recently to be critical as during Covid our income dropped hugely and suddenly – and we are still recovering to this day. If it were not for some savings we would have been in a precarious situation.

We think it is reasonable for a charity to keep accumulated funds in reserve that cover 6 months of operating expenses. We understand this is considered good practice. So this should be covered by an exemption. We should also note that many philanthropic funders require a charity to have significant accumulated funds (such as operating reserves of 6-12 months) before they will make grants to a charity. This also needs to be taken into account.

Further, directors of charities, who are mostly volunteers, are liable for ensuring that charities do not trade whilst insolvent, and having some level of accumulated funds is essential to directors being able to ensure this is the case.

**From:** Shane Casey s 9(2)(a)  
**Sent:** Tuesday, 25 March 2025 3:20 pm  
**To:** Policy Webmaster  
**Subject:** Taxation and the not-for profit sector proposed changes March 2025

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

To whom it may concern,

On behalf of Youthline Central North Island Inc we are opposed in principle to the proposed changes in the charity space for the following reasons:

- Like ourselves most Not for Profits in the charity (social services sector) rely on donations and volunteer labour to remain sustainable and effective in the community. While at this stage Youthline Central North Island doesn't have a secondary income derived from a 'charity second hand store' or similar we could in the future develop this as a source of income to cover the gap in donations and or 3<sup>rd</sup> party contestable funding. Any changes to income tax and or now having to pay income tax will decimate the Not-for-Profit charity sector overnight. Organizations like Youthline Central North Island Inc don't pay high wages or have direct access to Central Government funding, we rely on volunteers fundraising to meet our needs, and passionate kaimahi that love their mahi and often go well beyond what is expected of them in out local communities.
- According to the Not-for Profit and Charities landscape report dated July 2020 (IRD) stated the following:
  - There are 115,000 listed charities in NZ
  - Combined value of \$9.4B
  - 4.4% of GDP
  - 10.6% of the current work force.
  - So, the impact on local and national economies would be considerable
- Changes to the mechanisms of taxing Not for Profits that Central Government relies on concerning policy/funding outcomes and measurables will cause serious harm to organisations financially. Without this vital sector many more members of our communities will be a further risk of harm, therefore placing more stress of already overburdened hospitals and food banks. Taxing income concerning a Not for Profit with Charity status will ultimately cause direct harm to vulnerable communities that we operate in.
- While opposed to the proposed changes in principle Youthline Central North Island recognises the need for a general review considering the national economic difficulties, Youthline Central North Island Inc, would suggest in the consultation process that consideration is giving to a tier approach to taxation on income. So, for example a small Not for profit that produces an annual before tax revenue of \$2m wouldn't pay income on sales (charity shop or similar) this could also include a virtual online store (Drop Shipping).
- Youthline Central North Island is thankful for the opportunity to speak into this consultation process

Nga mihi

Shane Casey JP  
CEO

Youthline Central North Island Inc  
MinstD

P: 06 357 3067

Cell: s 9(2)(a)

E: s 9(2)(a)

**youthline** **te ara taiohi**  
whakatapua kia ora ai





March 25, 2025

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

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

Dear Mr Carrigan,

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

Ohaupo Rugby Sports Club has been a cornerstone of our local community for 137 years, delivering not only rugby but also social and community development.

Our mission extends beyond the rugby field. We enrich lives, promote well-being, and drive positive societal change.

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

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

Rugby is not just a sport in New Zealand – it is part of our national identity and contributes significantly to the economy and society.

As one of the more than 470 grassroots rugby clubs in New Zealand, we play a crucial role in fostering community engagement, social connection, and personal development.

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

Beyond playing rugby, we host sporting events to connect with the community and have a netball sector.

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

Rugby clubs are also at the forefront of addressing important societal issues in our communities e.g. speaking about mental health, being inclusive of all members, promoting positive vibes.

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

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

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

Preserving the current income tax exemptions is essential for sustaining the economic and social benefits they provide.

Ohaupo Rugby Sports Club 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,

**Jesse Wood**

*Secretary*

*Ohaupo Rugby Sports Club*

s 9(2)(a)

Inland Revenue Review of Not for Profit Sector

# JEHOVAH'S WITNESSES | OTHER ISSUES TO CONSIDER

Submission by s 9(2)(a) and  
s 9(2)(a)

| March 2025

Taxation and the not-for-profit sector

C/- Deputy Commissioner, Policy

Inland Revenue Department

via: policy.webmaster@ird.govt.nz

### **Submission to Inland Revenue Department's 'Taxation and the not-for-profit sector' Consultation**

Thank you Inland Revenue Department for the opportunity to provide a submission. We regret that we were not able to respond directly to questions posed in the consultation paper, as it was a very complicated document. Instead, we chose to respond to "other issues to consider".

This submission advises the government on over-arching charity concerns as they relate to the Jehovah's Witnesses institution, and by extension other similarly structured religious-corporate entities; and it builds on concerns raised previously, including Charity complaints, some of which are referred to in this submission. The **major points** we make in this submission are:

1. Charitable labour is often performed by children;
2. Complaints to Charities Services regarding the Jehovah's Witnesses have produced no tangible results to protect congregants;
3. Charitable money appears to be off-shored; and
4. Jehovah's Witnesses as an institution are no longer charitable as they have out-sourced their religious practice to congregants, by calling it "your personal ministry".
5. The Jehovah's Witness leaders appear to have recently deceived the high court with a decoy entity.

Under the Jehovah's Witnesses charity structure, they enjoy tax benefits, concessions (e.g., stamp duty, payroll tax or land tax) and/or exemptions unabated, without effective regulation of their charities adverse treatment of congregants, such as their shunning policy (social ostracism) of minors as a long-term disciplinary measure.

Please make our submission public, except for our names, contact details and "Appendix 2 - Our Backgrounds".

**The government must prevent unethical and potentially unlawful institutions from masquerading as philanthropic corporations, not-for-profits, and charities while claiming charitable works that are no longer in existence, or that are not their own.**

Yours sincerely,

s 9(2)(a)

Former Jehovah's Witnesses

*“All of us must take responsibility for starting to repair the damage and distress that family violence does to our society. We need everyone knowing about, and beginning to think about, what we can do collectively about family violence. It’s everyone’s responsibility to reject and prevent violence,”<sup>1</sup>*

- Dr Ian Lambie, Chief Science Advisor to the Justice Sector.

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<sup>1</sup> <<https://www.justice.govt.nz/about/news-and-media/news/every-4-minutes/>>

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## Introduction

Whilst we do not know the estimated number of religious charities in New Zealand, in Australia there are approximately 15,000 religious charities, with over 5% (~756) of those being exclusively Jehovah's Witnesses charities.

This large number of charities and related bare trusts demands further investigation, especially considering that all charities operate individually, but collectively are for the hierarchical benefit of the primary beneficiaries, a secretive and evasive group of men residing in the State of New York, USA.

When put into perspective the following figures (rounded) are quite sobering:

- There are 15,000 religious charities registered with the ACNC in Australia. This equates to **1 charity per 1,148** religious persons in Australia.
- By contrast the ~756 Jehovah's Witnesses charities registered with the ACNC, had a total congregation membership in Australia of 71,355 a few years ago.<sup>2</sup> This equates to **1 charity per 94 individual** Jehovah's Witnesses in Australia.

Jehovah's Witnesses operate **12 times** more religious charities, than all other religious groups put together, factoring in the Australian Bureau of Statistics (ABS) data on religious affiliation. In addition, with each of the charities requiring one or more Responsible Persons (or "Officers" in New Zealand), and the Jehovah's Witnesses averaging three per charity, there is a potential of 2,526 male Jehovah's Witnesses being registered with the ACNC as a 'Responsible Person' and needing to be trained and managed.

This could be scaled to New Zealand - probably 229<sup>3</sup> exclusively Jehovah's Witnesses charities - as there are that many congregations. It should be noted that the head office for the Jehovah's Witnesses in New Zealand is now based in Sydney, Australia.

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<sup>2</sup> <<https://www.jw.org/en/library/books/2022-Service-Year-Report-of-Jehovahs-Witnesses-Worldwide/2022-Country-and-Territory-Reports/>>

<sup>3</sup>

<<https://register.charities.govt.nz/CharitiesRegister/Search?Submitted=True&CharityNameSearchType=Contains&CharityName=jehovah>>



## Charitable labour is often performed by children

Like most other families in the Jehovah's Witnesses religion, we were dragged around the community as children by congregations of ordained ministers, going door-to-door preaching their unique bible beliefs and the so-called "Good news of God's kingdom". We were told this was an expression of our 'love for neighbour' through our public volunteer preaching. But this wasn't the truth.

We were highly trained literature salespeople for the Watch Tower Bible and Tract Society of Pennsylvania, Inc., (Watch Tower Society). We were not really volunteers, as that term is understood, because it was mandatory within the religion. Many of our children and ourselves were subjected to religiously-endorsed corporal punishment and psychological abuse if they baulked at participating in door-to-door preaching work. It was all so normal to us. As indoctrinated members, at any time we questioned it we were told words to the effect of "Don't worry about it, Jehovah will sort it out".

We did not grow up in wealthy families. If we could not afford to buy the books and magazines from our Jehovah's Witnesses Kingdom Hall church, to re-sell them door-to-door to the public, then we could fill out and sign a "Publisher's Credit Slip" (form S-23) and obtain the literature on credit. (Refer Figure 1 below.)

The Jehovah's Witnesses religion claimed our preaching work, and our baby-sitting, catering, cleaning, construction labouring, facilities maintenance work, gardening and free training time as its own charitable work. Meanwhile, the parent corporation, the Watch Tower Society, and all its related legal entities, engaged in no genuine 'charitable' or philanthropic work whatsoever.

The Jehovah's Witnesses magazine, *Awake!*, published an article in its May 8, 2008, edition, entitled "Is Philanthropy the Answer?" explaining the religion's viewpoint of philanthropy. The article stated:

[R]ather than set up philanthropic organizations, Jehovah's Witnesses . . . prefer to devote their time and financial resources to announcing the "good news of [God's] kingdom."<sup>4</sup>

We don't believe that anyone in our former community feels our religion was actually charitable; they struggle to see how 'advancing religion' could be an independent charitable purpose - it makes no sense in our context.

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<sup>4</sup> <Awake! magazine. May 8, 2008, p. 21. Published by Jehovah's Witnesses. <https://wol.jw.org/en/wol/d/r1/lp-e/102008167?q=philanthropy&p=par#h=20>>

**Publisher's Credit Slip**  
For Literature to be supplied from Cong. stock

Name \_\_\_\_\_ Date \_\_\_\_\_

Write in name of language following publication  
if other than English

QUAN- TITY	ITEM	COST

Total Cost of Literature \_\_\_\_\_

I received the above-noted items, for which I will remit as soon as possible, or as placed with the people and contributions received. I understand additional credit will not be extended until this literature is paid for.

\_\_\_\_\_  
(Signature)  
(Make out in duplicate, giving publisher a copy)

S-23 10/55 Watchtower Print, Ingleburn, N.S.W.

Figure 1

It's concerning that all charities of the Jehovah's Witnesses organisation in New Zealand, since the *Royal Commission into Abuse in State Care* and its damning report on the Jehovah's Witnesses<sup>5</sup>, are currently and aggressively undertaking an extensive denial of the historical role of children within the religious institution. By denying the existence of children they attempt to deny that child sexual abuse could have ever happened, but it did.

*The Christian Congregation of Jehovah's Witnesses has repeatedly sought, and failed, to be exempted from the Royal Commission of Inquiry into Abuse in Care, arguing it did not have children in its care so was out of the inquiry's scope.*<sup>6</sup>

We are concerned that the government may not fully appreciate the harmful and wasteful impact that some 'charitable' organisations have on the philanthropic community, and the adverse effects this leaves on the entire community.

## Complaints to Charities Services have no result

<sup>5</sup> <<https://www.abuseincare.org.nz/reports/whanaketia/case-studies/case-study-jehovahs-witnesses/executive-summary>>

<sup>6</sup> <<https://www.rnz.co.nz/news/national/528110/supreme-court-dismisses-jehovah-s-witnesses-final-appeal-for-abuse-in-care-exemption>>

## Reported harms

Over the course of many years, our community has raised numerous concerns with the charities commissions globally on the harms of the Jehovah's Witnesses institution. For example, in 2024 complaint reference CAS-1153514-J1D0K4 was raised. Some examples of relevant complaints either by the institution or covered up by the institution are:

- Aiding and abetting crimes;
- Child sexual abuse;
- High incidence of domestic violence;
- High incidence of poverty;
- Document forgery, evidence and records destruction;
- Financial misconduct (Legal entity switching, perpetually circulating donations, and phoenixing);
- Low education rates;
- Manipulating privacy provisions;
- Modern slavery;
- Perverting the course of justice; and
- Shunning.

However there has been no effective outcome. By virtue of the lack of visible accountability, the knowledge, powers and/or resources of Charities Services are not fit-for-purpose and may require enhanced legislation and scrutiny to counter the reported concerns.

In addition, awareness that the government is highly unlikely to revoke the charity status of a religion underpins bad corporate behaviour and undermines philanthropy.

## Charities privacy and secrecy provisions

Charities Services has been prohibited from providing any effective feedback on reported harms due to their privacy and secrecy provisions. The public needs to know on what basis Charities Services is able to consider such complaints and open an investigation. Yet, there is a case where Charities Services has revoked charitable registration for failure to provide benefit (as it was outweighed by detriment).

The court also rejected Family First’s alternative argument that it had a charitable purpose of the community benefiting from supporting family and marriage as foundation for a strong society.<sup>7</sup>

This means our community remains unaware of the reasons for allowing the organisation to retain charitable status or how the Officers (Committee Members) are, in fact, responsible. It also means that we are unable to advise or even guide Charities Services on how to take action.

## Charity money appears to be off-shored

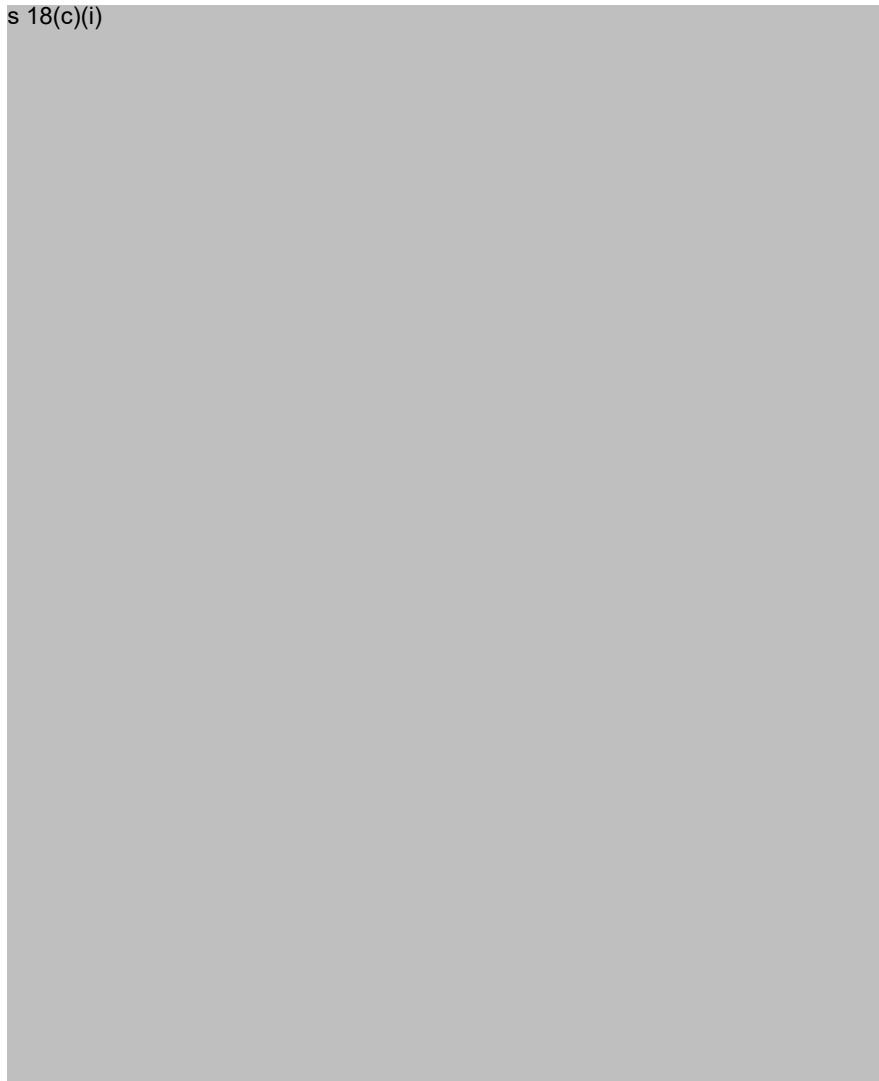
When examining the structure of the Jehovah’s Witnesses charities in New Zealand, we should also look to Australia as their head office is located there. In the Antipodes, one is left with the impression, in reading the governance documentation and internal policies and procedures of the religion, that each charity is operating under a franchise model. The internal policies and procedures require both donated monies, and monies generated from real estate sales, to be transferred offshore on a regular basis to related entities and corporations, often under the guise of ‘Payments related to providing goods and services’ and ‘Grants and donations paid’ to a worldwide fund.

s 18(c)(i)

By the time the Jehovah’s Witnesses appeared before the Australian Royal Commission<sup>8</sup> in July and August, 2015, their funds were literally empty. We allege that similar corporate behaviour is likely to be occurring in New Zealand.

<sup>7</sup> <<https://www.stuff.co.nz/national/politics/129099323/traditional-values-advocate-family-first-loses-argument-that-it-should-be-a-registered-charity>>

<sup>8</sup> Case Study 29. <<https://www.childabuseroyalcommission.gov.au/case-studies/case-study-29-jehovahs-witnesses>>



The use of donated funds for building and construction by the Jehovah's Witnesses is well known. On this subject the religion has stated:

Jehovah's Witnesses cheerfully make voluntary donations to build and maintain meeting places and to support true worship.<sup>9</sup>

By maintaining such a large number of religious charities all across Australia, individual Jehovah's Witnesses are unaware of the extent of the financial drain of their congregation assets and the shifting of their donations to other entities outside of Australia. And we say buy extension, New Zealand.

Figure 3 below is a hand-drawn flow chart, also received from Mr Bill Hahn, detailing how the charity funds exit Australia. We suspect this is similar in New Zealand:

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<sup>9</sup> <<https://wol.jw.org/en/wol/d/r1/lp-e/1992043?q=%22Jehovah's+Witnesses+cheerfully+make+voluntary+donations+to+build+and+maintain+meeting+places+and+to+support+true+worship%22&p=par>>



It is our submission, that in undertaking these actions, alleged corporate financial abuse is committed towards Jehovah's Witnesses rank-and-file congregants and their families, including former members of the religion who may be adversely affected by coercive philanthropic decisions made by family members within the religion. We are aware, from a Philanthropy submission made in Australia, that two case studies evidence corporate financial abuse. Firstly, a Queensland congregation that voted to 'donate' the proceeds of their church sale to the 'Brisbane Congregation' (which does not exist), and secondly, an Australian Capital Territory congregation that had its funds drained. A member of this second congregation called an extraordinary meeting of the congregation charity; he was abruptly excommunicated. Separate to this, we have observed over many years the petty things for which former members are disfellowshipped and shunned to keep them in line.

If ~14,732 potentially vulnerable people were not coerced into giving to the Jehovah's Witnesses, who do not give back to their own congregants, then their congregants would have more to donate to actual benevolent charities in times of need.

It is not the religious beliefs we are focussed on in this submission but rather the corporate policies and financial extraction activities operating under the guise of religious charitable giving/taking.

In his book *Crisis of Conscience*, former member of the Governing Body of the Jehovah's Witnesses, Raymond Franz, in writing about the various subjects that he and other members of the governing body discussed during their meetings, wrote that one of the many issues was:

...about the [Watch Tower] Society's then-existing practice of using irregular channels to funnel money into certain channels (Indonesia as one example) in a way that would gain greater value for the American dollars involved, doing this even though the particular country had laws ruling this illegal.<sup>10</sup>

It is our opinion, based on the documents and records that Jehovah's Witness whistleblowers have collected and shared over many years, and our own lived experience, that the large number of Jehovah's Witnesses charities exist to hide the extent of the real estate and financial siphoning, from private philanthropic donations by New Zealanders, to overseas accounts operated under the umbrella control of the Watch Tower Bible and Tract Society of Pennsylvania, Inc., and its controlling governing body.

In summary of our reply to the consultation paper response for private philanthropy, involving non-tax-deductible donations to charities, **the New Zealand public needs to know where the money is ultimately going, not just the identification of the first 'beneficiaries' in a not-for-profit's governing document.**

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<sup>10</sup> Franz, R. (2018 Edition). *Crisis of Conscience*. Nulife Press.

## No longer charitable as it's now “your personal ministry”

In 2001, The Australian Treasury published its report on the *Inquiry into the Definition of Charities and Related Organisations*.<sup>11</sup>

A submission was made to the inquiry by the Watchtower Bible and Tract Society of Australia on behalf of Jehovah's Witnesses there.<sup>12</sup> There was a main point worth noting in their submission:

**The main point** was their definition of “charity” and a reference to the word ‘charity’ in 1 Corinthians 13:13 of the King James Bible, as the basis of the Bible’s command to engage in charitable works. The King James Bible stated: *“And now abideth faith, hope, charity, these three; but the greatest of these is charity.”*

But it is not without irony that the Jehovah's Witnesses did not quote from their own authorised translation of the Bible. Why? Their very own bible, the New World Translation of the Holy Scriptures, has completely removed the word “charity” from the scriptures. From our lived experience we noticed that they believe that charity means that donations of time and money should be given to the religion, not to the public or even their own congregants. Granted, Jehovah's Witnesses preach door-to-door, but this has now been changed into one's own personal capacity, not as a volunteer or representative of the religion. In fact they have gone so far as to even stop calling congregants “members”.

**By adopting this change in language, the religion is attempting to insulate itself from legal incidents, including potential vicarious liability, in relation to this preaching work. This was the real ‘public benefit’, that is ‘advancing religion’ was the charitable purpose provided, so now its 229 congregation charities should no longer be claiming this as their charitable community work.**

## Deceiving the courts

Our ongoing concern is the level of false and misleading information that was provided to the Royal Commission into State Care by the religion of Jehovah's Witnesses since 2019, and of which information found its way into the Applicant's Statement of Claim and brief in the proceedings which were before the High Court of New Zealand (CIV-2023-404-525) and which commence on 9 October 2023<sup>13 14</sup>. This requires investigation for possible perjury.

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<sup>11</sup> <<https://catalogue.nla.gov.au/Record/2630199>>

<sup>12</sup> <<https://jwleaks.files.wordpress.com/2012/06/357-watchtower-bible-and-tract-society-of-australia.pdf>>

<sup>13</sup> <<https://saysorry.org/2023/10/01/open-letter-to-the-new-zealand-abuse-in-care-royal-commission-of-inquiry-part-1/>>

<sup>14</sup> <<https://saysorry.org/2023/10/05/open-letter-to-the-new-zealand-abuse-in-care-royal-commission-of-inquiry-part-2/>>



## Conclusion

We are concerned that the government may not fully appreciate the harmful and wasteful impact that some 'charitable' organisations have on the not-for-profit sector. We reiterate:

1. Charitable labour is often performed by children;
2. Complaints to Charities Services regarding the Jehovah's Witnesses have produced no tangible results to protect congregants;
3. Charitable money appears to be off-shored; and
4. Jehovah's Witnesses as an institution are no longer charitable as they have out-sourced their religious practice to congregants, by calling it "your personal ministry".
5. Jehovah's Witness leaders have been found to deliberately deceive courts of law, and may have done so in Wellington<sup>15 16</sup>

According to the Jehovah's Witnesses 2018, 2019 and 2020 submitted Progress Reports published by the Australian National Office for Child Safety (NOCS), the Jehovah's Witnesses claim:

our congregations do not provide or sponsor orphanages, Sunday schools, sports clubs, day-care centers, youth groups.<sup>17 18 19</sup>

In addition, according to them, the Jehovah's Witnesses do not provide:

- Creches,
- Hospitals,
- Schools, or
- Soup kitchens.

Note: The Jehovah's Witnesses 2021 Progress Report, published by NOCS was removed after a defamation complaint by a child sexual abuse survivor.<sup>20</sup>

According to the Australian-based website JWfacts.com, the Jehovah's Witnesses organisation:

- has five main pillars supporting its growth into a multibillion-dollar financial empire
- Literature sales
  - Financial Donations
  - Volunteer Labour

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<sup>15</sup> <<https://revealnews.org/article/jehovahs-witnesses-can-hide-the-truth-in-court-to-protect-religion/>>

<sup>16</sup> <<https://avoidjw.org/news/philip-brumley-sustained-effort-to-deceive/>>

<sup>17</sup> <<https://www.childsafety.gov.au/system/files/2022-10/jehovahs-witnesses-annual-progress-report-2020.pdf>>

<sup>18</sup> <<https://www.childsafety.gov.au/system/files/2022-10/jehovahs-witnesses-annual-progress-report-oct-2019.pdf>>

<sup>19</sup> <<https://www.childsafety.gov.au/resources/jehovahs-witnesses-2018-progress-report>>

<sup>20</sup> JW News | *Watching the World* newsletter. (2023). Subheading "Other notable events after the 'Bearing Witness' program aired". <<https://wtwnnewsletter.substack.com/p/jw-news-watching-the-world>>

- Real Estate
- Corporate investment schemes<sup>21</sup>

The primary charitable work of Jehovah's Witnesses is preaching which the religion has distanced itself from in recent years by claiming the preaching is undertaken as part of an individual's own personal ministry, not the charity's or corporation's ministry or philanthropy.<sup>22</sup> They have abandoned their collective 'Public Ministry'.

As a consequence, the Jehovah's Witnesses are structured unlike any other organisation and are not based on giving, but primarily now on property development and sales. The idea of the Jehovah's Witnesses being charitable in public opinion is tokenistic at best.

There are no activities that Jehovah's Witnesses charities engage in that would require the government to take over, and the government cannot assume this responsibility due to there being no such requirement in the Treaty of Waitangi.

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<sup>21</sup> <<https://jwfacts.com/watchtower/donations-money-solicitation.php>>

<sup>22</sup> *Awake!* magazine. May 8, 2008, p. 21. Published by Jehovah's Witnesses. <<https://wol.jw.org/en/wol/d/r1/lp-e/102008167?q=philanthropy&p=par#h=20>>

## Recommendations

These common sense recommendations are made for consideration by the Inland Revenue Department:

### **Recommendation 1**

Create greater financial transparency of religious charities so that philanthropic donors can make an informed decision.

### **Recommendation 2**

Prohibit or restrict small charities, and religious charities, to operate as collection agencies for larger charities or institutions.

### **Recommendation 3**

Increase accountability for religious charities registered with Charities Services. Religious Charities which qualify for charity status solely on 'advancing religion' should be required to lodge financial details and comply with all governance standards required of other charities.

### **Recommendation 4**

To remove the sole charitable purpose of "advancing religion", unless it is used as a subtype with other charitable purposes.

### **Recommendation 5**

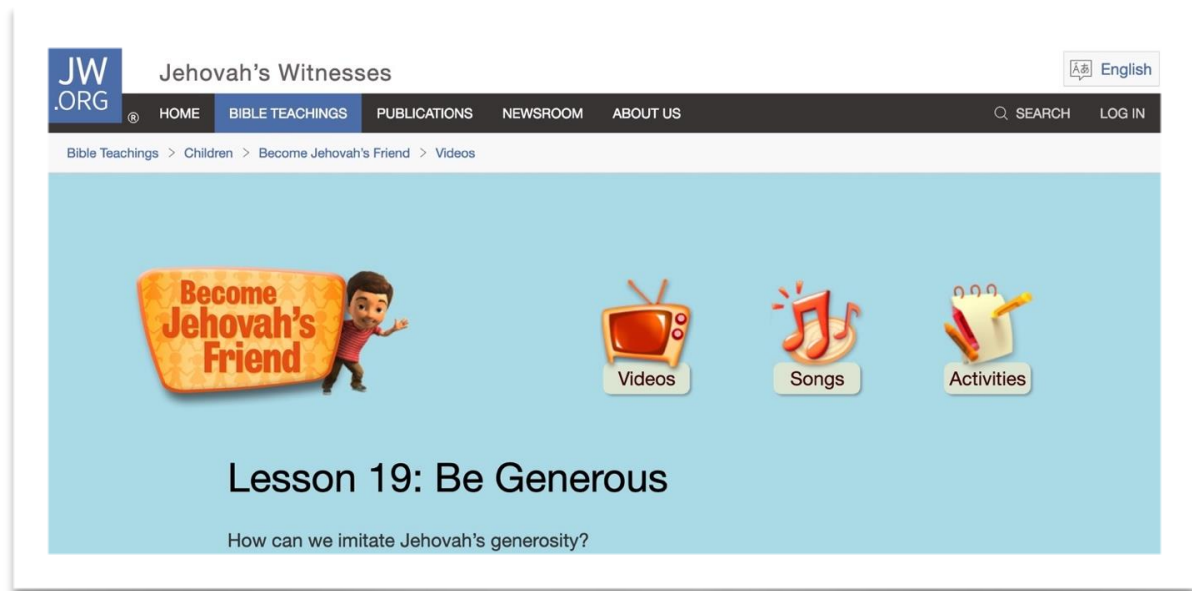
To refer the Jehovah's Witnesses for the consideration of a multi-agency taskforce.

## Appendix 1 – Donations and Watchtower Finances

The following has been included as an appendix because the Jehovah's Witness solicit donations, including using fear, obligation, and guilt (FOG) to indoctrinate and coerce young children into giving money to the religion. This may be contrary to New Zealand's education system and the appropriate use of safe language in teaching. Here are some examples from the Australian-based website JW Facts and the page "Donations and Watchtower Finances"<sup>23</sup>:

Jehovah's Witnesses training activities teaching children to give money to the religion

In Lesson 19, young Sophia gives up her ice-cream money for the religion.



<sup>23</sup> <<https://jwfacts.com/watchtower/donations-money-solicitation.php>>

Link to Lesson 19: <https://www.jw.org/en/bible-teachings/children/become-jehovahs-friend/videos/be-generous/>

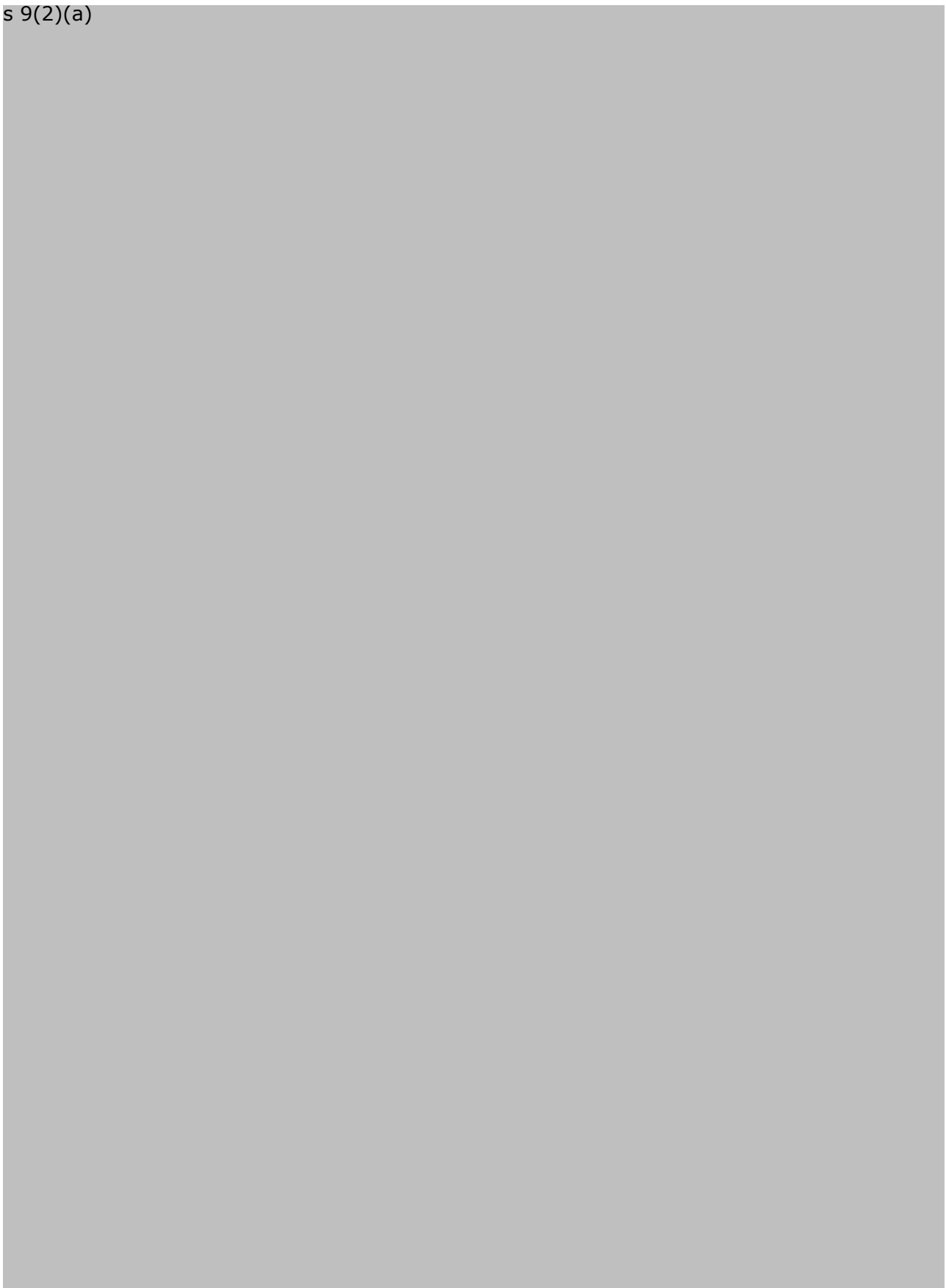
In the below activity young children are indoctrinated to support the corporate activities of Jehovah's Witnesses, including building and construction.



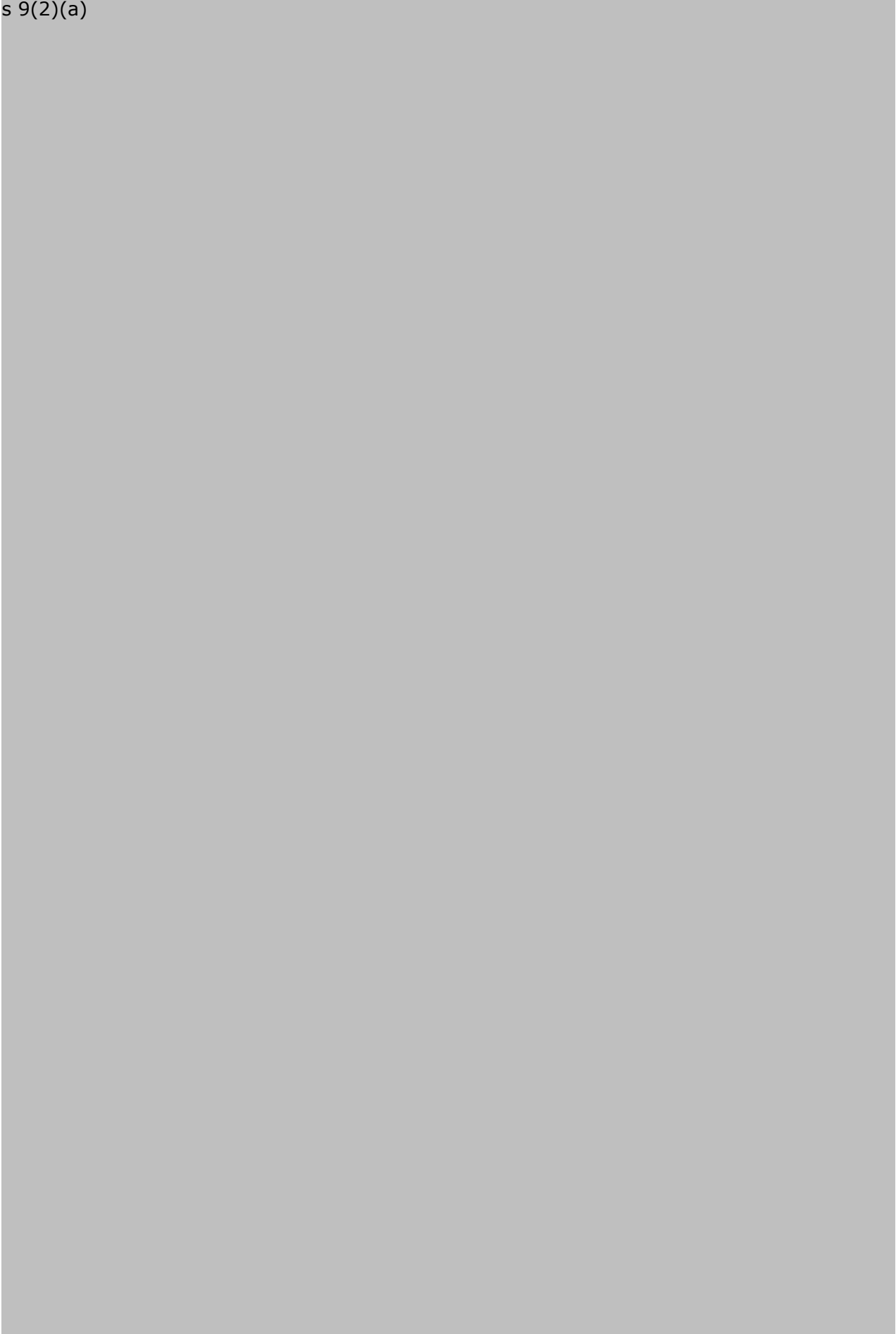
Link to Activity: <https://www.jw.org/en/bible-teachings/children/become-jehovahs-friend/activities/be-generous-toward-jehovah/>

## Appendix 2 – Our Backgrounds

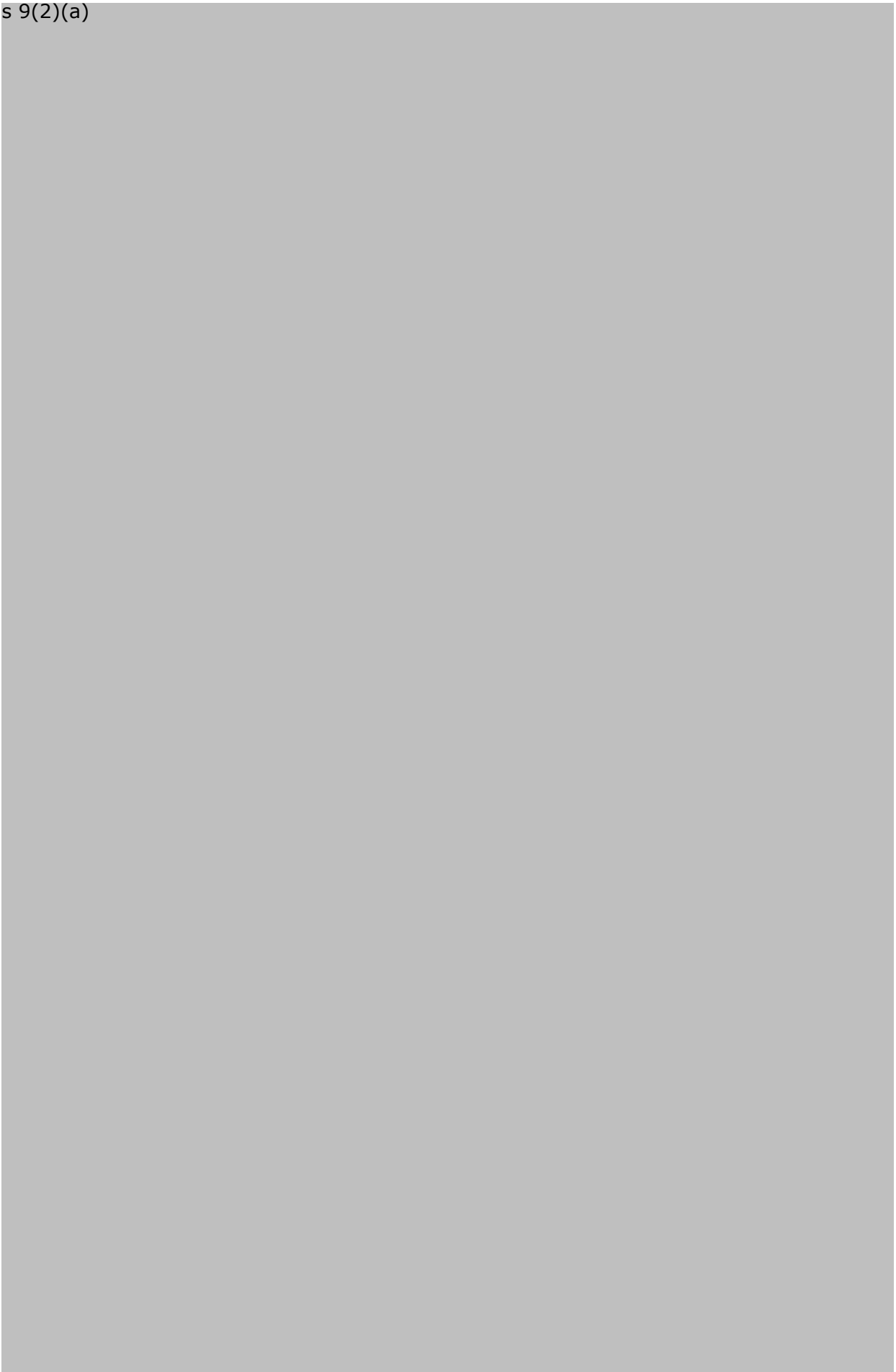
s 9(2)(a)



s 9(2)(a)



s 9(2)(a)





26 March 2025

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

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

**CC:** s 9(2)(a) s 9(2)(a)

Dear Mr Carrigan

**Submission on question 11 of the officials' issues paper "Taxation and the not-for-profit sector" (24 February 2025)**

Southern Cross Medical Care Society (**Society**) is New Zealand's largest private health insurer, this submission being sent on behalf of our membership, being 955,000 New Zealanders, who would be impacted by the proposed changes. We take our unique and important role in the health industry ecosystem of New Zealand very seriously, as we do our role as a leader in the financial services industry.

We thank the Inland Revenue Department (**IRD**) for their engagement during this consultation process and for the opportunity to provide our submissions on question 11 (implications of removing the current tax concessions for friendly societies) of the officials' issues paper "Taxation and the not-for-profit sector" (24 February 2025).

We welcome further engagement and discussion regarding this consultation and our submission. Please let us know if you have questions or if you would like to discuss Society's position as outlined in our submission.

Thank you.

Yours sincerely,

s 9(2)(a)

**Laura Valiant**

Chief Risk Officer & General Counsel  
Southern Cross Medical Care Society

**M** s 9(2)(a)

**DD** s 9(2)(a)

Email: s 9(2)(a)

## EXECUTIVE SUMMARY

The proposal to tax subscription and other income of not-for-profits, including friendly societies came as a surprise. In our view, this proposed change is a significant departure from established principles, potentially undermining the core purpose of friendly societies. This proposed change will also have a detrimental impact on the public health system as outlined below. Our submission is focused on responding to question 11 in the issues paper, namely:

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

Southern Cross Medical Care Society (Society) utilises the income tax exemption as a for-purpose entity that aims to provide a public benefit through supporting 955,000 New Zealanders who are our members. Our submission highlights the significant positive impact that Society has for its members and for the public health system, the unique public benefit that friendly societies provide, and the distinctive challenges that would be faced by Society, its members and the public health system if the tax exemption was removed.

In the 2024 financial year, Society paid out \$1.498 billion in claims for its members' medical care (approximately \$6 million every business day, being an extra \$326 million<sup>1</sup> paid in claims compared to what it would have paid if it operated at the industry-average profit margin). In doing so Society funded 3.2 million medical claims, including about 316,700 surgical procedures, 609,500 specialist consultations, and 810,000 GP visits for New Zealanders. Each of these procedures and appointments represents a patient who received timely treatment privately, rather than adding to the workload of the public health system.

If required to pay the standard 28% corporate tax on any surplus, Society (as a prudent insurer needing to meet the RBNZ's capital requirements) would need to increase surpluses by about 39% so that the after-tax surplus is the same as it would have been if the income tax exemption for friendly societies remained. Restrictions on raising capital means Society relies almost exclusively on making surpluses to grow its capital reserve.

Society will be required to increase its slim margin to offset any taxation of surpluses by:

- a) increasing the premiums it charges members;
- b) reducing what policies cover; or
- c) doing a mixture of (a) and (b).

The most obvious consequence of an increase in premiums and/or a reduction in coverage is that a material number of the 955,000 New Zealanders that Society supports will either cancel their policy or reduce their coverage. They will instead turn to the public health system for some or all of their medical needs that were previously covered by health insurance, thereby adding patient cost and load to a system already under pressure. It is our position that a modest boost in tax receipts will come at the expense of higher healthcare costs and greater public health expenditure down the line.

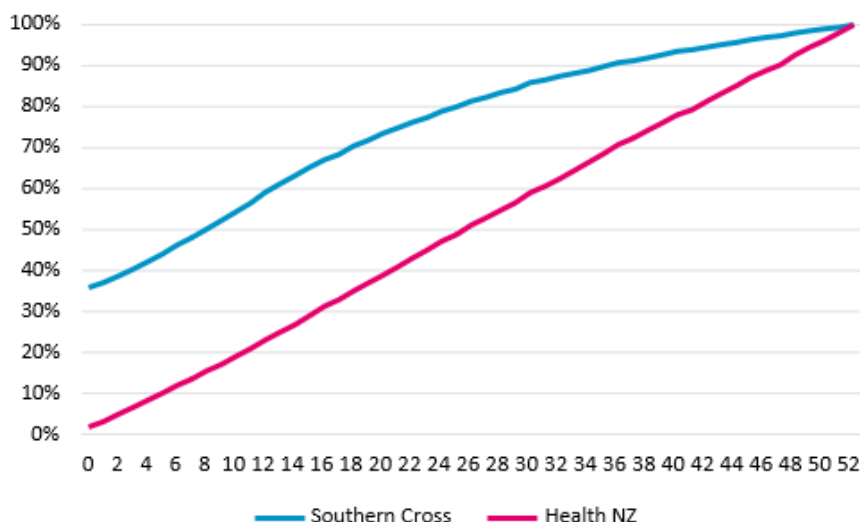
## 1. PUBLIC BENEFIT AND HEALTHCARE CONTRIBUTION

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<sup>1</sup> \$326 million is the difference between the value of total claims paid by Society at its current 93% loss ratio and the value of total claims Society would have paid if it was paying out at the industry's average (excluding Society) loss ratio of 73%. Based on data provided by the Financial Services Council (FSC).

- 1.1 Society provides significant public benefit by supplementing and supporting New Zealand's health services. As New Zealand's leading health insurance provider, Society has over 955,000 members (about 60% of all Kiwis with health insurance) and accounts for 71% of the value of all health insurance claims nationwide.
- 1.2 The New Zealand health sector provides universal health coverage through a mostly publicly funded and publicly provided delivery system. Access to public hospital care is free for the resident population, while primary care is subsidised. Patients make co-payments for some services and products. The private health sector operates in parallel, providing a limited range of diagnostic and surgical services, including services provided by private hospitals. Some of these services are commissioned by the public health system.
- 1.3 Society's business model channels virtually all revenue into care for members, meaning more health benefits are delivered per premium dollar than by for-profit insurers. This high return to members underscores how the tax exemption directly benefits the public: it helps keep premiums lower and allows more claims to be paid, effectively expanding the amount of healthcare that the private sector can provide which in turn reduces pressure on the public health care system.
- 1.4 In the 2024 financial year, Society paid out \$1.498 billion in claims for its members' medical care (approximately \$6 million every business day). This equated to 93.4 cents of every premium dollar being returned to members in healthcare payments, far higher than the industry average of 73 cents.
- 1.5 Those claims funded 3.2 million medical claims, including about 316,700 surgical procedures, 609,500 specialist consultations, and 810,000 GP visits for New Zealanders. Society also provided its members free access to 4,016 online mental health sessions with Raise, 4,635 annual health checks with MedPro, and 39,326 standard online GP consultations delivered via CareHQ.
- 1.6 Each of these procedures and appointments represents a patient who received timely treatment privately, rather than adding to the workload and wait lists of the public health system.
- 1.7 The New Zealand public health system is challenged in being able to achieve timely specialist and elective surgery treatment. These services are often displaced by acute demand, resulting in cancelled and delayed surgeries and long waits for planned care.
- 1.8 Although private healthcare is not a complete substitute for the public hospital system (because acute or emergency services are not currently provided by the private healthcare system in New Zealand), it helps alleviate pressure on the public health system. Private healthcare often provides care in a timelier manner than the public healthcare system.
- 1.9 Society commissioned independent economic research that showed how the usage of private health insurance provides direct benefit to the public health system in the form of fewer users and shorter wait times. Due to shorter average wait times in the private system, private health insurance also delivers indirect benefits which include lower absenteeism, presenteeism, and amounts of people working fewer hours.
- 1.10 The diagram below was generated as part of the research outcome. It shows the difference in waitlist times between Society and Health NZ across a wide variety of procedure groups in 2023:

### Cumulative percentage of waitlist events by the number of weeks on waitlist at exit



Source: Southern Cross, Health NZ, NZIER

- 1.11 The above graph shows that a large number of people are receiving their procedure on the same day in the private health system through Society, compared to the public health system. For identified procedure groups Society patients made up 66,780 compared to the 56,101 of public health patients. Despite more Society patients being on the waitlist for procedures, they spent an average of 31 days on the waitlist in 2023, while people in the public health system spent an average of 82 days on the waiting list for comparable procedures.
- 1.12 Private health insurers, including Society, often pay a higher rate than Health NZ when using private hospitals for elective surgeries. This effectively subsidises the rate the public health sector pays to use these private hospitals. Consequently, if Society's payments to these private hospitals decrease (due to fewer members or members with lower coverage), this subsidising effect will reduce.
- 1.13 It is also important to note that Society benefits New Zealand by being NZ-owned and operated, working for New Zealanders, and keeping surpluses within Society to help reduce future premium increases, and meet prudential capital requirements. If the tax exemption is removed, Society might have to convert to a company structure, thereby increasing the risk of takeover and foreign ownership, which could lead to higher profit margins at the expense of lower claims ratios, which would be overall detrimental to Society's members.

## 2. FISCAL IMPLICATIONS OF TAXATION

- 2.1 Imposing income tax on friendly societies would likely have negative fiscal and economic consequences that outweigh any nominal revenue gained. Taxing these organisations is not a free windfall of revenue – it would come directly out of funds currently used for member benefits or maintaining reserves to satisfy regulatory capital and prudential requirements.
- 2.2 Society, as a mutual member-owned organisation, deliberately targets to operate on slim margins and typically aims just to break even or generate a modest surplus of 1-3% to satisfy

regulatory solvency and prudential requirements<sup>2</sup>. Therefore, an income tax cost cannot simply be absorbed without impact.

- 2.3 If required to pay the standard 28% corporate tax on any surplus, Society (as a prudent insurer needing meet the RBNZ's capital requirements) would need to increase surpluses by about 39% so that the after-tax surplus is the same as it would have been if the income tax exemption for friendly societies remained. Restrictions on raising capital means Society relies almost exclusively on making surpluses to increase its capital reserve to satisfy regulatory solvency and prudential requirements. Higher premiums are the most likely outcome, as a tax is a cost increase on providing insurance.
- 2.4 When the cost of insurance rises, membership tends to drop. Historically, rising premiums force many people to forgo private insurance and rely more on the public health system. In the late 1990s, the proportion of Kiwis with health insurance fell markedly as premiums increased, with many cancelling policies and turning to the public sector for care.
- 2.5 In New Zealand, health insurance has three possible functions. Not all people who have private health insurance have a policy that provides for all of these:
- 1) access to private providers, who offer a private alternative to public provision; complementary role
  - 2) where it reimburses co-payments, such as for GP visits;
  - 3) supplementary role, where it covers health services that are not covered by the public system, such as dental visits.

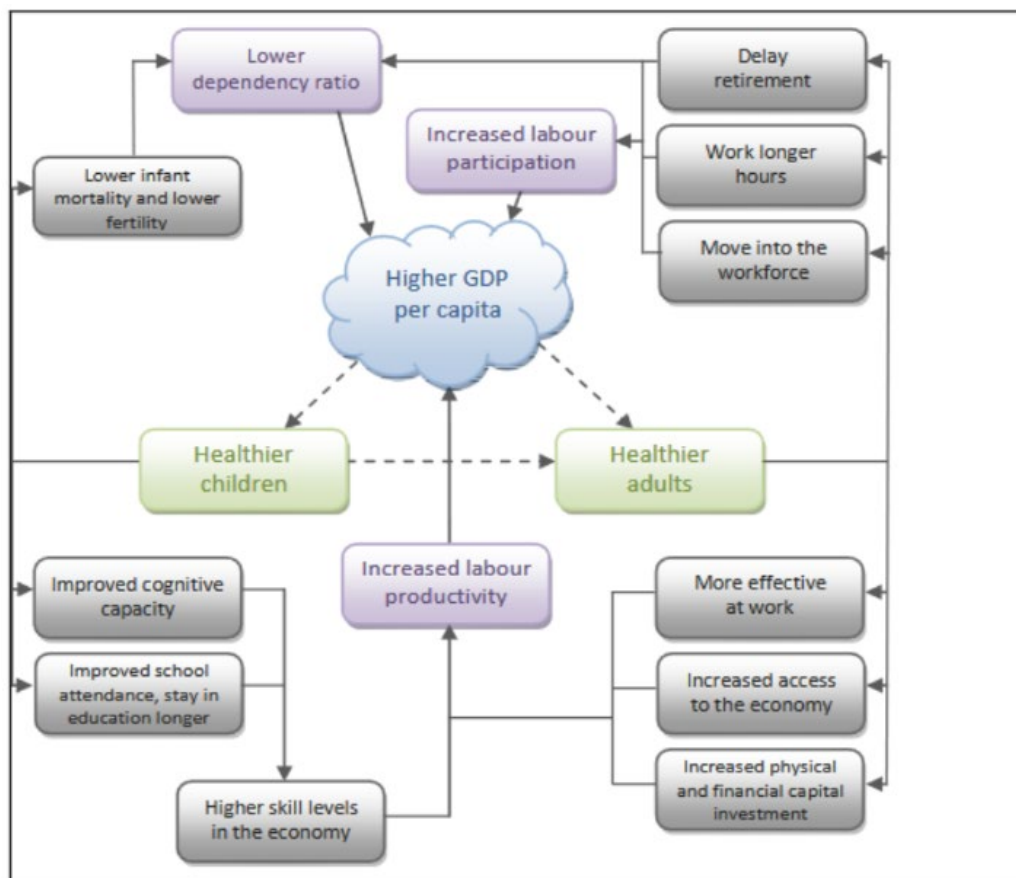
Our policies offer a combination of 1, 2 and 3 depending on the policy.

- 2.6 Removing the income tax exemption for Society could lead to thousands dropping their cover altogether due to cost, or downgrading cover (i.e. moving from policy type 1 to policy type 2 or 3), resulting in more patients crowding public hospitals and longer wait times. The public system, and the wider economy, would bear the hidden costs of this shift, outweighing any minor income tax revenue gained. A modest boost in income tax receipts would be offset by higher healthcare costs and greater public health expenditure if even a small percentage of the 1.6 million New Zealanders with private insurance had to rely on the public system.
- 2.7 Good health across the population contributes to human capital, the quality of the workforce and overall productivity, which in turn drives economic growth. Ill health across the population increases the pressure on the health care system, but it also affects labour market outcomes. For example, it reduces labour force participation rates and hours worked, which in turn can reduce household incomes. Ill health also affects retirement decisions, leading to early retirement, which also has an impact on savings and income. As noted above, ill health affects an individual's ability to develop their skills and knowledge, i.e. increase their human capital. This impacts on productivity at the individual and national level, as demonstrated below.

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<sup>2</sup> Indeed, some years Society posts a deficit as was the case in the financial year ended 30 June 2024 where, it incurred a deficit of \$99.1M.

*Productivity and economic implications of improved population health*



Source: Buchanan, Blick and Isaac (forthcoming)

Note: Increased labour productivity is for all adults (including those who would have had poorer health and their dependants). It includes increased productivity as a result of less time off work (absenteeism); working more; and working more efficiently (ie, owing to less pain or distractions).

### 3. LEGAL STRUCTURE OF FRIENDLY SOCIETIES

- 3.1 Friendly Societies in New Zealand are member-based mutual entities governed by the Friendly Societies and Credit Unions Act 1982. They are not companies, but associations formed to provide for the “relief or maintenance” of their members for specific purposes, including for medical or surgical attendances, during sickness, or old age – a role distinct from recreational associations. The public benefit of friendly societies has long been recognised through tax exemptions (see Part 1 above).
- 3.2 Friendly Societies can be distinguished from other mutual associations, in that they generally go beyond mutual benefit by delivering tangible public welfare services. It is also a factor that distinguishes Friendly Societies from other forms of mutual associations such as members clubs (which only exist for the entertainment of members and do not provide a public benefit). Friendly Societies reduce pressure on government services, encourage personal responsibility, and support community welfare.



- 3.3 The concept of providing a benefit to members and reducing the burdens on the public sector has always been at the core of why friendly societies exist and this is reflected in the specific income tax exemption contained in current legislation. For this reason, we consider that the income tax exemption for friendly societies should not be conflated with the tax treatment of mutual associations generally.
- 3.4 Friendly societies cannot raise equity capital, must rely on retained earnings for to reinvest in the organisation and solvency, and cannot issue shares or borrow from outside of its membership. As a result, Society relies almost exclusively on member premiums as its primary source of income to fund member claims.
- 3.5 Unlike most other health insurers, Society (as a registered friendly society) has no shareholders, does not pay dividends or seek profits for external owners. Society is effectively prevented from distributing surpluses except by returning value to our members through improved benefits or increased reserves, reinforcing that our purpose is service, not profit.
- 3.6 Society aims to generate a modest 1-3% surplus each financial year and is limited in what it can use this surplus for, i.e. to maintain financial stability and deliver value to our members. As a regulated insurer, Society is subject to the Reserve Bank of New Zealand's solvency standards, which include capital requirements. Taxation would directly sap the funds that Society uses to maintain its members' benefits and build its capital reserves for the reasons stated above.
- 3.7 This fundamental difference in structure and purpose from ordinary companies justifies the distinct income tax treatment and underscores our role as a community-focused, member-owned organisation rather than a profit-driven business.

#### **4. HISTORICAL AND POLICY JUSTIFICATION**

- 4.1 New Zealand has a long tradition of granting income tax concessions to mutual and non-profit organisations that serve a public good. The underlying rationale has always been that such organisations return benefits to society that justify foregone tax revenue. This policy rationale has deep roots, particularly in relation to friendly societies, whose history in New Zealand stretches back to the mid-19th century.
- 4.2 Under the Income Tax Act 2007, certain entities are exempted from income tax. For example, funeral trusts, sports clubs and universities. The exact policy rationale for why these entities have been exempted from income tax varies, but generally they are reflective of the fact that the exempted entities provide a public good.
- 4.3 The common law "mutuality principle" reinforces this logic. It holds that an entity cannot profit from trading with itself. In mutual associations, any surplus arising from member contributions is effectively the members' own funds returned. However, this principle only partially explains the special treatment of friendly societies, which historically go beyond mutual benefit by delivering tangible public welfare services.
- 4.4 Friendly societies in New Zealand have historically functioned as self-help welfare organisations – providing medical care, life and pension insurance, and other forms of social support well before the emergence of state welfare. The first Friendly Societies Act was passed in 1856, just two years after the first New Zealand Parliament convened. Its preamble explicitly recognised that friendly societies promote individual happiness while easing the burden on public services – an early expression of the very policy rationale that underpins their continued tax-exempt status.

- 4.5 The enactment of the Social Security Act 1938, providing for unemployment support and state medical benefits, fundamentally challenged the role of friendly societies in providing welfare and in response a number of friendly societies moved into life and pension insurance, home finance and holiday cottages. However, in providing medical care insurance to its members Society still plays a role that is similar to the original purpose of friendly societies and within the scope of the original intent behind income tax exemptions for friendly societies.

#### *History of tax exemptions for friendly societies*

- 4.6 From as early as 1875 the public benefit provided by friendly societies has been recognised and encouraged by New Zealand Governments by providing certain tax exemptions for friendly societies.<sup>3</sup> While the legislative process in 1875 was not as transparent as it is today, it is self-evident that the rationale for exempting friendly societies from stamp duties in 1875 was that friendly societies provided a public benefit and diminished public burdens.
- 4.7 The tax exemption in section CW 44 of the Income Tax Act 2007 seemingly has its origin in the Land and Income Tax Act 1916 which provided at section 84 that:

*The following incomes shall be exempt from taxation:*

*(j) the income of a friendly society, except so far as derived from business carried on beyond the circle of its membership.*

- 4.8 This wording appears unchanged in the Land and Income Tax Act 1923, the Land and Income Tax Act 1954, the Income Tax Act 1976 and the Income Tax Act 1994. The exemption was modified in the Income Tax Act 2004 limiting the exemption from applying to an amount derived from a company registered as an insurer under the Accident Insurance Act 1998.
- 4.9 It would have been self-evident to those drafting and legislating for the income tax exemption for friendly societies in the Land and Income Tax Act 1916 that friendly societies provided and continue to provide a public benefit, noting that at that time friendly societies effectively provided a proto-social security in New Zealand. It follows that this must have been part of the rationale for exempting friendly societies from income tax.
- 4.10 The current Income Tax Act 2007 (section CW 44) continues this recognition, exempting from tax “any income derived by a friendly society,” other than income from a business outside its circle of membership. This provision has historical precedent and reflects an unbroken legislative lineage that acknowledges the societal contributions of friendly societies. The exemption is distinct from that applied to mutual associations, which generally do not deliver the same level of public benefit.
- 4.11 The policy logic remains as relevant today as ever: friendly societies reduce pressure on government services, encourage personal responsibility, and support community welfare – all without generating profit for private investors.
- 4.12 While some friendly societies may have shifted focus in the post-welfare state era, organisations such as Society continue to provide public benefit by supporting 955,000 New Zealanders and offering medical and healthcare-related services. Society’s own rules further reinforce its not-for-profit character by mandating the distribution of residual assets to health or charitable causes upon dissolution.

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<sup>3</sup> See the Stamp Act 1875.



- 4.13 In the issues paper officials have linked this upcoming operational statement on the common law principle of mutuality to the income tax exemption that applies to friendly societies. Friendly societies are only mentioned once in this discussion at paragraph 4.8:

*The general policy settings for member transactions, outlined above, are inconsistent with the rules that apply to friendly societies and credit unions. These entities have a specific legislative tax exemption for all income except income that is derived from a business carried on beyond their membership. This means that income from member trading transactions and all non-business income is currently tax exempt.*

- 4.14 Aside from the discussion of whether this point has merit, we do not feel that officials have adequately explained the link between the income tax exemption for friendly societies and the general policy settings for member transactions or justified on policy grounds the removal of the income tax exemption for friendly societies. At the very least we consider that a full consultation should be conducted on the potential removal of this exemption with these points more fully explained by officials.
- 4.15 In our view, and as explained above, the income tax exemption for friendly societies came about historically because of the obvious and clear public benefit that friendly societies provided and continue to provide.
- 4.16 Rather than using blunt tax-and-spend mechanisms, the income tax exemption offers a targeted and efficient means for the government to support community-driven welfare. It leverages voluntary collective action to achieve public good and lessening public burdens. Far from being outdated, this fiscal approach remains a principled and pragmatic way to advance public welfare outcomes.

## 5. ALTERNATIVES

- 5.1 We believe the friendly society exemption should be fully retained. Concerns about mutual associations exploiting the exemption are minimal due to the limited purposes allowed under the Friendly Societies and Credit Unions Act 1982.
- 5.2 However, some alternative options that we think could be pursued are:
- (a) Retaining the current income tax exemption only for currently registered friendly societies (as of a specified date), which is a common approach in tax law.
  - (b) Adding criteria to ensure the exemption applies only to entities providing a public benefit, thereby excluding mutual associations and friendly societies that do not offer significant public benefits.

## CONCLUSION

The case for continuing the income tax exemption for friendly societies in New Zealand is compelling and supported by both their unique legal structure and significant public benefits. Friendly societies are member-based mutual entities, distinct from for-profit corporations. Their purpose is to provide for members welfare, particularly in healthcare, and are obligated to reinvest any surplus generated to benefit members rather than distribute it to external shareholders.

Organisations such as Society, play a crucial role in the healthcare system by financing a significant portion of medical services and reducing the burden on public healthcare. Taxing friendly societies would therefore force them to divert funds from member services to cover income tax liabilities,

increasing costs for both members and the public healthcare system. The revenue gained from imposing income tax on these entities would likely be dis-proportionate in comparison to the increased costs it would create and negative effects that would result, such as higher premiums and an even greater strain on the public health system.

Friendly societies' tax-exempt status has long been justified by their public welfare contributions, and the risk of destabilising these organisations by removing their exemption is real. The mutual structure, which prevents the distribution of profits to external shareholders and prioritises member well-being, is a key reason why existing friendly societies should continue to be exempt from income tax. The policy framework that has historically recognised the public value of friendly societies remains relevant today.

In conclusion, preserving the income tax exemption for friendly societies is essential to ensuring they can continue to deliver healthcare benefits to their members without unduly burdening the public system. Any potential short-term fiscal gain from taxing these organisations would be outweighed by the long-term risks of higher healthcare costs, reduced private insurance coverage, and increased reliance on the public health system.

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**From:** Kathryn Harford-Nielsen s 9(2)(a)  
**Sent:** Tuesday, 25 March 2025 6:14 pm  
**To:** Policy Webmaster  
**Subject:** Taxation and the not-for-profit sector

<b>External Email CAUTION:</b> Please take <b>CARE</b> when opening any links or attachments.
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If the Salvation Army experiences further government funding cuts, in the form of tax exemption loss, it will be severely affected in its ability to deliver welfare services which our communities are in dire need of. They are great stewards of any income they get, their employees and officers are paid way below commercial rates and they do not make a profit.

Kathryn Harford Nielsen

25 March 2025

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

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

Dear Mr Carrigan,

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

Halswell Wigram Rugby Inc. has been a cornerstone of our local community for 10 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. We are a young Club in comparison to many other Clubs in Christchurch but we are providing the opportunity to play sport to a relatively new residential area in our city.

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

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

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

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

Every year the Committee seeks sponsorship and grants to enable the Halswell Wigram Rugby Club Inc. to provide opportunities for our community. We endeavour to provide at no cost the uniform to support all the players to have fun playing rugby and socialising with others.

Beyond playing rugby, we provide opportunities for the members of our community, both young and old to participate in 'have a go' rugby registration day, monthly player functions to socialise and support each other, and a fundraising event during the season. These activities bring communities together and generate economic activity for local businesses throughout the year, not just on game day.

Rugby clubs are also at the forefront of addressing important societal issues in our communities. Our club have special playing days including supporting various health issues facing our community in particular mental health and breast cancer.

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

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

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

Preserving the current income tax exemptions is essential for sustaining the economic and social benefits they provide. Halswell Wigram Rugby Inc. 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,

Liz Hubbard  
Treasurer

s 9(2)(a)  
Halswell Wigram Rugby Inc.  
PO Box 925  
Christchurch

**From:** Karen Manson  
**Sent:** Tuesday, 25 March 2025 9:50 pm  
**To:** Policy Webmaster  
**Subject:** Taxation and the not-for-profit sector

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

### [Taxation and the not-for-profit sector my feedback](#)

If it is true that there are 29, 000 registered charities that seems an awful lot for a population of approx 5m people - one charity for every 172 people, we are so richly served - someone is pulling something.

The most obvious need for legislative change is the fact that Iwi operate commercially, make millions of dollars in the 7 billion dollar "Māori economy", pass on dividends to their members, yet are still regarded as charities and avoid paying tax.

These Iwi "charities" operate much more like family trusts, not charities. They don't benefit "the" community, they benefit "their" community, and even then unevenly.

A lot of business's provides a public benefit. Otherwise, no one would pay for what they produce. However, it is taxed because they also derive a personal income from it. Iwi do the same, but they are not taxed. Why? Because they are Māori.

So yes, there needs to be changes.

Regards

Karen Manson

## Questions and Answers

Q and As - Taxation and the not-for-profit sector - V3 – updated 18/03/2025 Page 1 of 3 Questions and Answers Taxation and the not-for-profit sector Inland Revenue has been asked some common questions on our issues paper "Taxation and the

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# Submission on the Taxation of Charities in New Zealand

## RST Network submission to the Inland Revenue Department

**Date:** 26 March 2025

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### Introduction: The Role of Regional Sports Trusts and the Impact of Proposed Tax Changes

Regional Sports Trusts (RSTs) are charitable, not-for-profit organisations dedicated to increasing sport and physical activity and improving community wellbeing across New Zealand. There are 18 RSTs nationwide, each serving a designated geographic region and working alongside government agencies, iwi, community organisations, and sporting bodies to promote sport and recreation for all.

RSTs play a crucial role in ensuring equitable access to physical activity, particularly in underserved communities. Their work includes delivering school and community sports programmes, supporting volunteer development, running equity-focused initiatives, and promoting health and wellbeing through movement.

To sustain these services, RSTs rely on a mix of revenue sources, including central and local government funding, philanthropic grants, commercial partnerships and business activities. These business activities are for profit and include operation of sport and recreation facilities and providing back office shared service operations for sport and recreational organisations. In the last financial year RSTs earned \$11.5m (or 16% of their income) from these activities with a further \$1.2m of commercial sponsorship. Importantly, all RST operations—whether funded through grants, sponsorships, or commercial income—are undertaken under a single legal entity and operational structure. This makes it difficult, if not impossible, to separate business activity that is related to charitable purposes and that which is not related to the charitable purpose in a way that is administratively practical.

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#### REGIONAL SPORTS TRUST NETWORK MEMBERS

Active Southland | Aktive | CLM Community Sport | Harbour Sport | Nuku Ora | Sport Auckland | Sport Bay of Plenty | Sport Canterbury  
Sport Hawke's Bay | Sport Manawatū | Sport Otago | Sport Northland | Sport Taranaki | Sport Tasman | Sport Waitākere  
Sport Whanganui | Whiti Ora Tairāwhiti

The proposed taxation changes would have several unintended consequences for RSTs, including:

- **Reduced ability to reinvest in charitable services** because taxation would divert funds away from community programmes.
- **Increased administrative complexity** due to the need to artificially allocate shared overheads (e.g., staff time, office costs) between taxable and non-taxable activities.
- **Penalising prudent financial management**, as RSTs that build reserves to ensure financial sustainability would still face tax liabilities even if income is eventually used for charitable purposes.
- **Additional staff remuneration costs** due to potential changes to Fringe Benefit Tax (FBT). Many RSTs rely on non-salary benefits, such as the private use of RST motor vehicles, to help match remuneration levels in other sectors. If these benefits are taxed, RSTs would either need to pay the FBT or increase salaries to remain competitive, further straining budgets and limiting service delivery.

These changes also threaten to impose cost and complexity on clubs and other charities within the sport and recreation sector in New Zealand, undermining the goal of all RSTs of increasing sport and physical activity, as clubs earn a significant portion of their revenues (29% or \$272m in 2022) (NZIER, 2023)<sup>1</sup> from business type activities such as operating a bar or hiring facilities. These clubs already normally operate on very tight budgets with limited reserves so any reduction in the funds available to them will reduce their activities.

For these reasons, we strongly oppose the proposals in this consultation that would remove tax exemptions for business income earned by charities and increase FBT liabilities for organisations like RSTs.

Set out below are our specific responses to questions 1 to 6 and question 13 contained within the Inland Revenue Department's Officials' Issues Paper "Taxation and the not-for-profit sector" issued on 24 February 2025.

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<sup>1</sup> NZIER. 2023. An analysis of the funding of the play, active recreation and sport sector in New Zealand. A report for Sport New Zealand.



## **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 strongly oppose taxing charity business income because of the negative practical implications of the change.

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

- **Taxation will directly reduce the funding of charitable activities** – RSTs reinvest all revenue into community programmes. Any taxation paid by the RSTs, either on the profits of business activities or FBT will act as a direct reduction in the funding of the RSTs and therefore result in a reduction in the societal wellbeing outcomes the RSTs achieve.
- **Taxation will introduce excessive compliance burden and cost** – All RST activities are delivered within the same legal structure, making taxation distinctions between "related" and "unrelated" business activities artificial and impractical. Overhead costs, such as executive administrative salaries, rentals and other administrative expenses incurred by the RSTs as a whole will have to be allocated between taxable and non-taxable activity to arrive at the tax liability for the taxable business activity. This will increase compliance costs, audit costs and likely require external taxation consultancy support, further increasing the cost burden on RSTs and reducing the funds that they can provide to their charitable activities.
- **Create financial instability** – The consultation paper discusses the possibility of deductions for distributions of business income for charitable purposes. If deductions are only allowed when income is immediately spent on charitable purposes, it would discourage RSTs from building financial reserves, despite this being a best-practice approach for financial sustainability.
- **Impact on the broader sport and recreation sector** – Sport and recreation clubs play a vital role in increasing the physical activity and therefore wellbeing of New Zealanders. We note that Inland Revenue state in their question and answers document accompanying the consultation paper that they do not expect bodies promoting amateur sport and games to be affected by these changes unless they are registered as charities (although we do not have information on the number of clubs that would be affected). The concerns

outlined above therefore also have the potential to impact sport and recreation clubs. The NZIER study referenced above found that sports clubs in total earn approximately 30% of their revenues from activities that could be deemed business activities and usually carry out their activities within a single legal structure. Any impact on sport and recreation clubs would therefore cause them to reduce their activities and undermining the goals of RSTs to improve sport and physical activity.

The concerns outlined in Sections 2.13 and 2.14 of the consultation paper fail to acknowledge the fundamental differences between charities and for-profit businesses. While some charities may generate income through business-like activities, their core purpose is reinvesting in social good—not wealth accumulation or shareholder returns.

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## **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 have identified the practical implications of removing the tax exemption in answering question 1 above.

## **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 critical issue for the RSTs. While we oppose the removal of tax exemptions, if the tax exemption was removed any definition of unrelated income must:

- **Recognise the interconnected nature of charitable activities** – Many revenue-generating activities directly support charitable work, even if they appear unrelated at first glance. For example, it may be simple to demonstrate that operating a recreational facility is closely related to the charitable purpose of

RSTs in increasing sport and physical activity and therefore any income derived should be exempt. However, if revenue is earned by that facility renting rooms to community groups for meetings or to families for birthday parties, it becomes much more difficult to determine if that revenue is related to the charitable activities of the RST. Similarly, it will be of a question of judgement as to whether operating a shared service for the provision of accounting and other back-office services to organisations in the sport and recreation sector is related to the charitable purpose of the RSTs to increasing sport and physical activity.

- **Be administratively practical** –Complex definitions of "unrelated" income would create disproportionate compliance costs through necessitating use of professional advisors and possibly structural change to ensure RSTs comply with the taxation legislation. This is in addition to the complexities identified above in practically allocating revenue and expenditure in line with any definition that result from RSTs having a single legal structure.
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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?**

Income from business activities varies significantly across the 18 RSTs from \$10k to \$2.5m and less than 1% to 38% of total revenues. Any threshold amount therefore potentially results in different RSTs being treated differently depending on how they are funded, regardless of the fact that their charitable activities are the same. This in turn will lead to the charitable activities being funded in some regions of New Zealand being reduced simply because of how the RST earns its revenue, which would be inequitable.

We do however acknowledge there are some advantages to the RSTs to the legislation having a de minimis level of unrelated income if it is set sufficiently high, either in a dollar or percentage amount, to exempt a significant proportion of sport and recreation clubs that would otherwise be taxed on their unrelated income.

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## **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?**

We agree with this approach but it remains problematic.

- **It penalises responsible financial management** – RSTs that build financial reserves to ensure long-term sustainability would be subject to tax on the amount they retain. This is at odds with a need to ensure the financial sustainability of organisations like RSTs.
- **It does not account for the realities of cash flow management** – RSTs may earn funds in one year to fund activities in future years or have a mismatch between their timings of earning funds and distributing funds. This will require them to pay tax in one year before claiming it back in a future year. It is also not clear from the consultation paper whether taxation credits could be carried forward to future years in years where RSTs distribute more than they earn.
- **It still imposes compliance burdens** – Allowing a deduction for business income distributed for charitable purposes will still require RSTs to incur additional compliance burden and cost as outlined above.

The consultation paper suggests that Inland Revenue believe that charities are incentivised to have larger retained earnings as a result of the non-taxation of their business income currently (paragraph 2.13). A review of the financial statements of the RSTs and sport and recreation clubs would reveal that not to be the case. Often these organisations have reserves of less than six month's operating expenses as they constantly struggle for funding and what funding they get is used up in providing their charitable activities. This leaves them with insufficient reserves to withstand unexpected shocks as was evidenced by the impact of Cyclone Gabrielle and the Auckland floods of 2023, which left many sport and recreation clubs struggling to repair and rebuild facilities or cope with the consequent loss of income. Taxation of undistributed income will exacerbate this situation and the financial fragility of these organisations.

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## **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 have set out above the policy issues that we believe need to be considered if the tax exemption for unrelated business income is removed from charities. We ask that policy settings recognise these issues and if this tax exemption is removed, legislation incorporates measures that

- **Reduce the compliance and administrative burden** – The law should address how this burden is reduced for organisations such as RSTs that cannot easily separate the revenue from taxable and non-taxable activities and the costs incurred in producing this revenue as they operate under a single legal and operational structure.
- **Flexibility for financial reserves** – Charities should not be forced to spend income immediately to avoid taxation as this will undermine their financial sustainability and does not recognise the nature of how income is received and charitable activities funded.
- **Provide certainty on what is defined as unrelated business income** – The definition of what is unrelated business income is critical to the impact that any law change removing the tax exemption has on RSTs. This must be sufficiently well defined to avoid uncertainty but recognise that activities may generate both related and unrelated business income that is not easily separated.

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

Removing or reducing the FBT exemptions for charities will have a detrimental effect on RSTs and directly reduce the funds they devote to their charitable activities. RSTs run large fleets of vehicles as their activities require them to have staff in the community delivering charitable activities. A recent survey of RSTs by the RST National Network showed that across the 18 RSTs, there are currently approximately 300 vehicles in the collective fleet. Salaries within the RSTs tend to be less than those paid for equivalent roles within the private sector. RSTs make use of the provision of their vehicles to their employees for private use as a means of better matching private sector salaries. Therefore, any removal or reduction of the FBT exemption for charities will have the following impacts on RSTs:

- **Increased costs for RSTs** – Given the size of the collective fleet, the cost of FBT to the RSTs is likely to be around \$900k per annum. In addition, the RSTs will incur compliance costs that they do not currently incur as they will need to start providing FBT returns.
- **Diversion of funds from community programmes** – If RSTs choose to continue to provide vehicles for private use, the cost of the FBT will need to be covered by reducing the funds available for their charitable activities.
- **Increased difficulty to retain staff** – If the RSTs choose to remove the provision of vehicles for private use as part of their employment contracts it will be more difficult to retain staff given the salary differential that exists with the private sector. In any event, for existing staff, the provision of vehicles for private use will have to be “bought out” from their contracts or implemented as these employees leave the employment of the RSTs, meaning the RSTs continue to incur additional cost.

The rationale for removing/reducing FBT exemption for charities appears to be predicated on the fact that it is leading to a distortion of the labour market that charities can use to gain some sort of competitive advantage over their private sector competitors as they incur lower staff costs. In the case of RSTs this argument does not hold for the simple fact that the RSTs do not have private sector competitors in general.

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## Conclusion

The proposed changes to charity taxation would undermine the financial stability of RSTs, increase administrative burdens, and reduce funding available for community

programmes. We strongly urge the IRD to retain current exemptions so RSTs, and other charities, can continue delivering valuable services to improve the wellbeing of New Zealanders.



26 March 2025

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

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

Dear Mr Carrigan,

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

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

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

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

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

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

Beyond providing junior rugby to over 200 girls and boys, we have woman's rugby, 7's, community touch we have over 100 netball players, we have school holiday programs, a special needs program and 4 senior squads. These activities bring communities together and generate economic activity for local businesses throughout the year, not just on game day. Our club is a facility that is a hub for large events and celebrations within the community.





Rugby clubs are also at the forefront of addressing important societal issues in our communities. Our club has been active in promoting the involvement of Māori players to support Iwi Rugby competitions, this has seen many players not only become active, when they had not been, but it has also helped with social issues and has led to better employment opportunities. Our work with Special needs Waikato has been very well received over recent years and amongst our members is seen as standout events of the year.

We are currently embarking on the development of a Sports Hub, this will reach out into our wider community and provide a safe place for so many more sports and activities that will benefit our rural community.

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

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

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

Preserving the current income tax exemptions is essential for sustaining the economic and social benefits they provide. Morrinsville Sports 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,

Dan Peach  
Chairman  
Morrinsville Sports  
s 9(2)(a)

**From:** Mitch Shaw, Upstream s 9(2)(a)  
**Sent:** Wednesday, 26 March 2025 8:36 am  
**To:** Policy Webmaster  
**Subject:** Taxation and the not-for-profit sector Submission

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Hi, see my submission - I AM AGAINST THE BILL  
Thank you

## **Why the Proposed Taxation Policy Would Undermine the Social Sector in Aotearoa**

The proposed changes under the "Taxation and the not-for-profit sector" consultation risk causing significant harm to the very communities they aim to serve. At a time when New Zealand's social sector is already under immense strain, this policy threatens to reduce charitable impact, stifle innovation, and create downstream costs that the government — and ultimately taxpayers — will be forced to absorb.

### **1. Funding Charities Is Already Incredibly Challenging**

At the moment, charities and not-for-profits across Aotearoa face a harsh financial reality: funding is inconsistent, competitive, and often restricted to short-term project grants. With inflation driving up operating costs and donor fatigue growing, organisations are already struggling to stay afloat. Introducing further taxation or tightening rules around business activities and charitable income will squeeze an already stretched sector.

Rather than surplus being reinvested into communities, these policy changes could force charitable organisations to redirect funds toward compliance, legal advice, or taxation — directly taking away from frontline services. In some cases, many organisations will have to shut down completely.

### **2. This Policy Would Cripple Innovation**

To meet rising needs with limited resources, charities have turned to social enterprise models — blending business acumen with social good. These models are inherently innovative, creating sustainable revenue streams that reduce reliance on government or grants. Under the new policy, these hybrid models could be penalised or disqualified from charitable status if a portion of their work is considered "too commercial."

This is counterintuitive. If anything, the government should be encouraging this kind of entrepreneurship in the sector — not punishing it.

### 3. Government Will Be Forced to Pick Up the Pieces

Charities and not-for-profits are often the first responders to social issues: homelessness, mental health, addiction, youth development, food insecurity, domestic violence — the list goes on. When these organisations can't operate, their absence creates a vacuum the government must fill — at a much higher cost and often with less agility and local trust.

By weakening the sector's financial resilience and curbing its independence, this policy risks creating a chain reaction that ends with higher demand for public services and a ballooning social deficit.

### 4. We Should Be Supporting, Not Undermining, the Sector's Work

New Zealand's charities are an essential part of our social fabric. They employ thousands, mobilise volunteers, and reach corners of society that government agencies often can't. Rather than introducing policies that make their survival harder, we should be strengthening them — offering tax clarity that supports their operations, and policies that reflect the complexity of their work and value to our nation.

In summary, the proposed taxation changes will disproportionately harm the not-for-profit sector, undermine innovation, and shift social burdens back onto the state. At a time when we need a stronger, more resilient social sector, this policy does the opposite — and New Zealanders will ultimately pay the price.

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**Mitch  
Shaw** ||  
s 9(2)(a)  
Director  
/ Co-founder  
[upstream.co.nz](http://upstream.co.nz)

*"Empowering  
companies to create social & sustainable  
impact & tell your story"*

**From:** Michelle Nunes-Vaz s 9(2)(a)  
**Sent:** Wednesday, 26 March 2025 9:00 am  
**To:** Policy Webmaster  
**Subject:** Charties & Taxation

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To whom it concerns,

I am the accountant for about 35 charities. Funding is a big topic for every charity I have ever helped and I have yet to meet a charity that I felt "wasted" their funding.

### Question One

For many years the conversation about having a taxable activity so that they can be GST registered - has resulted in charities running many little "business- like ideas" from cafes, second-hand shops, selling honey, organising festivals and food fairs, selling books, renting out rooms, charging for exercise classes or retreats, running children workshops, in all the charities I am involved with do try to do some kind of taxable activity if they can to justify the GST refund that they become eligible for. There are too many different types of business activities to make a list here.

I have been always been extremely encouraging of these initiatives and the way they contribute especially to the admin and accountancy costs of running the charity as well as sometimes help the reason that the charity exists. I have seen that funders prefer to give to charities making an impact than for admin costs or governance courses, yet these costs are necessary for a charity to be managed well.

### Question Two

I think if business income became taxable, the expenses to run these micro businesses would increase as accountants like me would try to apportion more of the admin costs on to the business income and lesson the profit and thus tax paid. I believe for all the extra compliance cost the tax take would be absolutely minimal.

### Question three

Most of the micro business ideas are related to the charity. Eg a church that owns but is not using it's building a few nights a week can rent it out to the community - it gets the extra income and the community gets extra facilities. Is this related income for the church or unrelated - this is so difficult to define. All the businesses that my charities run are some how related to their main purpose. Eg a youth program that teaches youths how to garden also sell fruit trees - is that a related or unrelated income? It would be so confusing to administer.

**Question four**

I do hope that the tax exception is not removed because in my experience bigger charities are able to benefit more people - so a change to this policy could end up with multiple structures so as to remain under the tier two status - this is meaningless and more costly admin again.

**Question five**

All charity income however it is derived is distributed for the benefit of the charity - that is what the rules of the charity expect. Sometimes a charity will retain a surplus which is helpfully used if it doesn't receive the funding in any one year and it can fall back on previous windfalls. I just find question five confusing to understand and so my answer might not fit.

**Question six**

Charities in NZ already have the burden of very extensive annual reporting and adding to this the complexity of further issues that is contemplated in this question horrifies me. Even now many boards employ professional help at great cost to comply with the existing rules these costs would only go up if additional disclosures were requested for charities.

**Question seven**

If an organisation sets itself up as a charitable organisation for tax purposes - it needs to comply with the rules of charities that the distributions it makes must be to genuine charities that fall within the purposes of the charitable organisation. Perhaps the IR could check that the donations said to be distributed were actually received by the charity a bit more. I don't often see this audited and did come across a charitable family trust that said it distributed all proceeds to a specific charity - but actually forgot to distribute the full amount for several years in a row. On my watch I will make sure that the family trust does indeed pay out all it says it will pay out.

**Question eight**

This makes no sense to me. Why does anyone start an investment fund, for passive income to help run the charity over a longer term. I can think of an old church in Nelson that has investments and from the interest pays for the upkeep and maintenance of the beautiful buildings that needs every bit of interest that those investments earn. The church also rents out some rooms and ran a homeless shelter from its grounds. Investment income like business income is used for the purposes of sustainability of charity income.

**Question nine**

I think it should be the trustees of the charity that make the decision about distributions not the government. There are very valid reasons for this to change year to year depending upon the upcoming costs that are facing a charity.

**Question ten**

I don't know any charity that could run for under \$1000 and so yes absolutely this should increase to at least \$10000 - thereby reducing the compliance costs for a charity that is just starting out - before it has a full board, full accounting systems and full accountability requirements currently in place for charities over \$1000.00.

**Questions 11**

Changing tax implications for friendly societies and credit unions will lead to the disestablish these types of bodies and the accompanying benefits that they have.

### Question 12

I am not involved in any of these types of charities but again it would lead to the disestablishment of these type of bodies and in their place government would need to pay for them to benefit the community and social lives of citizens and that would cost a lot more.

### Question 13

If the fbt exception is removed, less charities would help their managers into vehicles. Why tax a charity that has a van to pick up and drop off disabled children to various activities. It would add inconvenience and extra cost which undoubtedly would affect those who are benefiting from the fbt exceptions.

### Question 14

I don't understand the question?


### Question 15

I quite like the current system, many of my clients do donation rebates - it's worked for a very long time - however being able to digitise the receipts so that the charity can submit them to the IR on behalf of donors - with the benefit going back to the donors. I guess there's a lot that could go wrong with this - with incorrect bank accounts etc.





Maybe creating blockchain receipts that can't be duplicated or modified would help. I know a start up company Unbox <https://www.unboxuniverse.com/>. which has issued these kind of digital coupons using blockchain to prevent fraud in donations, I studied this company when I tried to understand the full advantages of blockchain.


If you have any questions about any of my comments please feel free to contact me again.

Kind Regards  
Michelle




**MICHELLE NUNES-VAZ**  
Accountant and Business Advisor  
CA & PBTA  
*A referral is the best compliment I can receive.*







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s 9(2)(a)



Habitat Hub 166 Tahunanui Road  
Nelson

Our office currently closes at 12.30pm on Friday afternoons.

**From:** Jenni Hill s 9(2)(a)  
**Sent:** Wednesday, 26 March 2025 9:17 am  
**To:** Policy Webmaster  
**Subject:** Taxation and the not-for-profit sector - Veterinary Service body tax exemption

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### **Response to Question 12 – Implications of Removing the Veterinary Service Body Income Tax Exemption**

Veterinary Clubs operate in New Zealand alongside privately owned veterinary practices providing the same products and services but enjoying the financial benefit of paying no tax on surpluses.

For example, in Taupo there are three veterinary practices operating with just one being privately owned and the other two being Clubs. This provides an unfair advantage to the two veterinary 'clubs' as they have the opportunity to price their services cheaper, and retain any surpluses to use at their discretion (investing in improved infrastructure or paying better wages/salaries/bonuses for example). Private practices do not have this option.

The 'club' system was created in the mid-1900s to provide rural veterinary services in places where it may have been difficult to recruit veterinarians and/or establish veterinary practices. This has evolved to the point where we see 'clubs' and 'private practices' operating in the same areas (as is the case in Reporoa) but with one enjoying tax exemptions and the other/s not. Additionally, veterinary clubs offer services and products to non-rural clients (cat & dog owners) which is wholly outside the original intent of the Veterinary Club system.

### **Conclusion & Recommendation:**

Veterinary Clubs should have their tax exemption removed

- Businesses that operate commercially in NZ should not be tax exempt.
- New Zealand should not enable a competitive advantage to any business operating commercially by providing tax exemptions to some and not others.
- All businesses operating commercially in New Zealand should be contributing, by way of tax, to the cost of running NZ Inc.

**Jenni Hill**

General Manager



p. 07 376 2800

dd. s 9(2)(a)

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## Taxation and the not-for-profit sector

**From:** Queen Margaret College Incorporated  
**To:** Inland Revenue

Wednesday, 26 March 2025

### Introduction

Thank you for the opportunity to provide feedback on the consultation document "Taxation and the not-for-profit sector" published on 24 February 2025.

Queen Margaret College (QMC) is an independent Presbyterian school for girls in Wellington, providing education from Preschool to Year 13 with boarding options from Year 7. As a registered charity, we operate to provide girls with a solid academic education while developing strong personal character on a broadly religious foundation.

Our submission focuses primarily on Questions 4, 5 and 13 from the consultation document, addressing the taxation of minor unrelated business income and the potential removal of the Fringe Benefit Tax (FBT) exemption for not-for-profit organisations.

### Responses to questions

**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 strongly support a de minimis threshold if the tax exemption is removed for charity business income that is unrelated to charitable purpose.

QMC occasionally generates small amounts of revenue from activities that could potentially be classified as unrelated business income, such as:

- Hiring out school facilities to community groups during non-school hours.
- Short-term holiday accommodation in our boarding facility during school holidays.

These activities represent a very small percentage of our overall operations, yet including them in a tax base would create significant administrative burden. In our view:

- 1. The compliance costs would outweigh tax revenue**  
The administrative processes required to separate, track, and report on this income would be disproportionate to any tax that might be collected.
- 2. No clear surplus after allocation of overheads**  
When proper allocation of depreciation, staff time, utilities, and maintenance costs are factored in, these activities rarely generate a meaningful surplus.
- 3. All income supports educational purposes**  
Any income generated from these activities is spent entirely on delivering educational services in the same year.

We recommend a de minimis threshold based on either:

- A percentage of total revenue (suggested 5%), or
- A fixed dollar amount (suggested \$500,000 in total).

Either approach would exempt genuinely minor trading activities while ensuring significant commercial operations remain subject to appropriate taxation.

**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 believe charity business income distributed for charitable purposes should remain tax exempt, even if the exemption is removed for accumulated unrelated income. For QMC and similar educational institutions:

1. **All income supports our educational mission**  
Every dollar of surplus generated from our activities, whether related or unrelated to our charitable purposes, is reinvested directly into delivering quality education to our students. This includes facility maintenance, educational resources, and programmes that enrich our students' learning experiences.
2. **Taxing distributed income would directly impact educational quality**  
If income that is already being used for charitable purposes were to be taxed, this would reduce the resources available for our core educational mission, ultimately impacting the quality of education we can provide.
3. **Implementation through annual distribution requirements**  
The most effective implementation would be to exempt income that is distributed for charitable purposes within the same financial year or within a reasonable timeframe (e.g., within 12 months of the end of the financial year).

**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 should be retained for the education sector.

The potential removal of the FBT exemption would have significant implications for QMC and other independent schools. We rely on certain non-salary benefits to attract and retain quality teaching staff in an increasingly competitive market. These benefits include:

1. **Discounted tuition fees for children of staff members**  
This benefit:
  - Allows QMC to attract quality teachers who might otherwise seek higher-paying positions.
  - Helps teachers remain on-site longer during the day, increasing availability to students.
  - Supports diversity within our school by enabling teachers from various socioeconomic backgrounds to have their children attend.
  - Provides public benefit by reducing pressure on the state education system.
2. **Free after-school care for children of staff**  
This benefit is currently exempt as an on-premises benefit because children do not take any benefit with them when they leave. It enables teachers to fulfil their professional duties (including after-school activities, parent meetings, and marking) without incurring additional childcare costs.
3. **Staff parking**  
Our current unallocated parking arrangement with an off-site parking provider would become subject to FBT if the exemption were removed, creating additional costs and administrative burden.

If the FBT exemption were removed:

- QMC would face higher employment costs.
- Our ability to attract and retain quality teachers would be diminished.

- The independent school sector would require clear guidance and additional funding to offset these costs.
- Families may face increased tuition fees as schools attempt to recover these additional costs.

It's worth noting that per-student Government funding for independent schools has consistently fallen in recent years, as shown in the table below:

Group	2025\$ (excl. GST)	Change	2024\$ (excl. GST)	Change	2023\$ (excl. GST)	Change	2022\$ (excl. GST)
Years 1 - 6	849	(2.4%)	869	(1.3%)	881	(3.5%)	912
Years 7 - 8	929	(2.4%)	952	(3.6%)	964	(3.5%)	999
Years 9 - 10	1189	(2.4%)	1218	(3.6%)	1,234	(3.5%)	1,278
Years 11 - 13	1806	(2.4%)	1850	(3.6%)	1,874	(3.5%)	1,942

This funding decline makes non-salary benefits even more crucial for attracting quality staff.

## Additional Considerations

### Educational purpose and public benefit

Our school provides significant public benefit by:

- Delivering quality education to our students.
- Reducing pressure on the state education system.
- Promoting diversity and inclusion in education.
- Supporting the wider community through various initiatives.

### Compliance burden

As a Tier 2 charity with limited administrative resources, any changes to the current tax framework should consider the compliance burden placed on organisations like ours. Additional reporting requirements would divert resources away from our core educational mission.

### Connection to broader education policy

Maintaining these exemptions allows independent schools to align with national educational objectives, such as teacher recruitment and retention in a competitive market.

## Conclusion

We respectfully submit that:

1. A de minimis threshold should be established for minor unrelated business income to avoid excessive compliance costs that would outweigh any potential tax revenue.
2. Income distributed for charitable purposes should remain tax exempt, even if the exemption for unrelated business income is removed. This recognises that these funds directly support our charitable mission of providing quality education.
3. The FBT exemption for not-for-profits should be retained, particularly for the education sector, where these benefits are crucial for attracting and retaining quality staff.
4. If any changes are implemented, the sector would require:
  - Clear guidance on how to comply with new requirements.
  - A reasonable transition period to adapt systems and processes.
  - Consideration of potential funding adjustments to offset increased costs.

Thank you for considering our submission. We would welcome the opportunity to discuss these matters further if additional information would be helpful.

Yours faithfully,

Director Finance and Operations