

From: The Friends of Mangemangeroa <thefriendsofmangemangeroa@gmail.com>
Sent: Thursday, 27 March 2025 11:19 am
To: Policy Webmaster
Subject: Submission on Proposed Charity Tax Changes

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Submission on Proposed Charity Tax Changes

On behalf of The Friends of Mangemangeroa, we appreciate the opportunity to provide feedback on the proposed changes to the taxation of charities, not-for-profits, and voluntary organisations in New Zealand.

We wish to highlight the following key points:

1. **Taxation on Business Income:** Any taxation on business income should not apply to funds that are used solely for the charitable purposes for which the organisation exists. For example, income generated from the sale of seedlings grown by the charity should remain tax-exempt, even if retained over multiple years for future charitable use.
2. **Reporting Requirements:** Any associated reporting obligations should remain as simple as possible to avoid placing undue administrative burdens on charities.
3. **Clarification on Tax Exemption for Local Reserve Restoration:** There must be clear differentiation between "beautification" and "restoration" in natural reserves. Restoration work, which is essential for environmental conservation, should not lose its tax-exempt status. Beautification is typically associated with parks, whereas reserves focus on ecological restoration and preservation.

Our Recommendations:

- Ensure that non-trading charities remain tax-exempt and are not subjected to excessive reporting requirements.
- Maintain the current system for donation tax credits on an annual basis.
- Confirm that taxation does not apply to income used exclusively for charitable purposes.

We appreciate your consideration of these points and urge that any changes support the vital work that charities undertake in our communities.

Sincerely,

Marion Skelton

Marion Skelton

Chairperson
The Friends of Mangemangeroa

From: Keith Tyson s 9(2)(a)
Sent: Thursday, 27 March 2025 11:30 am
To: Policy Webmaster
Subject: Submission – Taxation and the Not-for-Profit Sector

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Kia Ora,

My name is Keith Tyson, and I work with The Salvation Army at the Newtown Centre and Bridge Program. I have been working in Newtown for 15 years and have been an officer of the Salvation Army for 33 years. I'm writing to share my thoughts on the proposed tax changes affecting charities and not-for-profits.

At our centre here in the heart of Newtown, Wellington we journey with many people going through hard periods of life. Often, they just want someone to talk to like a social worker, but sometimes they need to address deeper trauma with our trained counsellor. Many times, their budget is in a mess with debt, then our financial mentor helps them unravel their money problems. Many, many times they just need help with food because a bill has blown their tight budget. Sometimes alcohol or other drug addiction causes them to desperately reach out and our Bridge residential rehabilitation program can be arranged. A lot of this work is supported by fundraising and income raised from our Family Stores.

We journeyed with one mum who presented pregnant at our Bridge program wanting to address addiction issues. When her child was born, we were able to provide housing in our Salvation Army social housing 2-bedroom unit in Newtown. When her second child was born the Newtown Salvation Army became part of her extended whanau. As well as housing we provided food, clothing, financial mentoring, counselling and early childhood education in our centre.

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

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

I'm happy to talk more if needed.

Ngā mihi,

Keith Tyson (Major)
Mission Officer, Wellington Bridge | Corps Officer, Wellington South Corps
The Salvation Army Newtown Centre
4 Normanby St, Newtown, Wellington 6021
P: s 9(2)(a) | Wellington Bridge Reception: (04) 389 6566
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Kia Ora

My name is Zosia Wegrzyn and I work with The Salvation Army as an administrator in their THQ property department. I took on this role nearly six years ago because I want to make a difference. My eyes were opened to the huge role The Salvation Army plays in supporting people in the community. I am writing to share my thoughts on the impact the proposed tax changes would have on charities and not-for-profits.

Poverty and hardship is real for a high number of people in Aotearoa — whether that's needing food, help with bills and finding a roof over their head. A lot of this work is supported by the income we receive through our Family Stores or fundraising.

We were able to provide food, clothing, and connect people with housing support and financial mentoring. This kind of support is only possible because of the resources we have — and that includes the money our stores earn and generous donations we receive from the public.

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

Please keep these kinds of charities tax-free where the money is clearly being used for good.

We're not here to make profit — we're here to make a difference

Ngā mihi
Zosia Wegrzyn
Property Administrator
s 9(2)(a)

From: James Christopher s 9(2)(a)
Sent: Thursday, 27 March 2025 11:40 am
To: Policy Webmaster
Subject: Submission – Taxation and the Not-for-Profit Sector

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Kia Ora,

My name is James Christopher, and I work and worship with The Salvation Army at Waitakere Transitional Housing and Waitakere Church for 5 years working, an +30 years worshipping. I'm writing to share my thoughts on the proposed tax changes affecting charities and not-for-profits.

At our centre, we walk alongside people going through really tough times — whether that's needing food, help with bills, finding housing, or just someone to talk to. A lot of this work is supported by the income we receive through our Family Store or fundraising.

We have 38 houses that we support families who are facing homelessness. These families will often have nothing to their names, other than the clothes on their backs. What we do is get them back onto their feet through a variety of programs such as financial mentoring, parenting programs, and healthy eating programs.

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

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

I'm happy to talk more if needed.

Nga Mihi Nui

James Christopher

Transitional Housing Team Leader Waitakere/Kaiarahi Papori

Northern Area

The Salvation Army Waitakere Community Ministries

7-9 View Road, Henderson, Waitakere

Mob: S 9(2)(a) Email: S 9(2)(a)



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s 9(2)(a)

From: John Mawdsley s 9(2)(a)
Sent: Thursday, 27 March 2025 12:04 pm
To: Policy Webmaster
Subject: Taxation and the not-for-profit sector

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Kia ora

If the ideas in the Inland Revenue's consultation paper were introduced, The Salvation Army would have significantly reduced funds, and we would not be able to provide the services we do meaning the people we serve would suffer. Please consider as part of your deliberations how these ideas could negatively impact the most vulnerable people in NZ society.

Ngā mihi nui

John Mawdsley | Corporate Partnerships Manager

Supporter Engagement and Fundraising

The Salvation Army New Zealand, Fiji, Tonga & Samoa Territory

M: s 9(2)(a)

E: s 9(2)(a) | W: www.salvationarmy.org.nz

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From: Donna Hedley s 9(2)(a)
Sent: Thursday, 27 March 2025 12:12 pm
To: Policy Webmaster
Subject: "Submission – Taxation and the Not-for-Profit Sector"

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Kia ora,

My name is Donna Hedley, and I have worked with The Salvation Army for over five years, raising funds to support frontline services that assist people affected by poverty, homelessness, addiction, and other complex challenges. I am writing to share my concerns about the proposed tax changes affecting charities and not-for-profits.

Our Family Stores play a crucial role in funding our services, with all profits directly reinvested into frontline support. However, these profits do not cover the full cost of service provision—my role exists to bridge that funding gap. Finding sufficient funds is already a significant challenge, and taxing this income stream would severely impact our ability to continue delivering the many essential services we deliver.

Additionally, securing grants and foundation funding is becoming increasingly difficult. Many funding bodies report being overwhelmed with applications, making it harder for organisations like ours to access support. The administrative burden of applying for grants already takes considerable time and resources—if additional tax or compliance requirements are introduced, even more time, money, and energy will be diverted away from the people who need us most. We already operate with limited resources and cannot afford to spend more on red tape.

To illustrate the impact of our work, I'd like to share s 9(2)(a) story.

s 9(2)(a) lost his father at an early age and was recruited into a gang by the time he was 14. Now a father himself, he became homeless and struggled to find direction. Seeking help, he came to The Salvation Army for food and addiction support. Determined to break the cycle for his children, he engaged in our positive lifestyle and parenting programs, making significant life changes. Today, he has secured transitional housing and is meeting with Oranga Tamariki to work towards regaining custody of his children, supported by the skills and certifications he gained through our programs. We will continue to walk alongside him as he builds a better future for himself and his children.

These are the kinds of life-changing services that tax-free charitable funding makes possible. Charities like ours are not here to make a profit—we are here to make a difference.

I urge the Government to keep charities tax-exempt where it is clear that funds are being used for good. I would be happy to discuss this further if needed.

Ngā mihi,

Donna

Nāu te rourou, nāku te rourou, ka ora ai te iwi (With your food basket and my food basket the people will thrive)

Donna Hedley - Regional Relationships Manager

Mobile s 9(2)(a)

Web: www.salvationarmy.org.nz

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Submission from Arts Access Aotearoa: IRD consultation on taxation and the Not-for-Profit Sector, March 2025

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Executive Summary

Arts Access Aotearoa welcomes this opportunity to respond to the IRD consultation on taxation of the not-for-profit sector.

We appreciate that from time to time, it is useful to review the policy settings in place for gathering revenue for the public good. However, we wish to respectfully note our concern about the framing used in this consultation to describe the role and contribution of the Not-for-Profit sector to New Zealand's economy and social fabric. We are also unclear whether the paper clearly defines the nature or extent of the problems it seeks to address.

Registered charities serve the public good. By and large, they are not abusers of the current tax settings, and they do not enjoy a competitive advantage over business. On the contrary, Not-for-Profit sector organisations, by and large, work extremely hard with limited resources to meet high standards of disclosure and reporting. The requirement for registered charities to report on their Service Performance is a case in point. If the perceived bad behaviour of charitable entities is the primary issue, then we would suggest that a better approach than the current proposal would be to empower and resource the regulator, Charities Services, to investigate and act.

In terms of the issue of taxing business income raised by charities, we note that in the current financial environment, many registered charities, including ours, are exploring new ways to achieve financial sustainability, including charging for some services. Attempting to discern whether income is "business-related" or "non-business related" ignores the fact that charities are set up to serve their mission and so by definition, all income is ultimately business-related. We respectfully suggest that, in the current fiscal environment, now is the time to support Not-for-Profits in our endeavours to achieve financial sustainability, rather than constrain our ability to innovate and find cost-effective solutions to address social needs.

1. Arts Access Aotearoa: who we are and what we do

Arts Access Aotearoa Pūtanga Toi ki Aotearoa's purpose is to increase access to the arts for people who experience barriers to participation, whether as artists or as audience members and visitors. Our vision, supported by our enduring values of mōhiotanga, rangatiratanga, whanaungatanga, kotahitanga and kaitiakitanga, is that all people in Aotearoa can access and participate in the arts. In our key strategic documents and our day-to-day work, we actively seek to honour and uphold the culture and rights of Tāngata Turi and Tāngata Whaikaha Māori as enshrined in te Tiriti o Waitangi.

Research shows that the more people engage in the arts in their everyday lives, the better their health outcomes (Davies et al, 2016). The arts also play a role in addressing complex social issues, such as social isolation and mental wellbeing, in strengthening community connection, and in opening up employment pathways.

We believe that universal access to arts and culture is a human right. Accessibility is a key driver of social inclusion and innovation, and key to our purpose. We play a role in the wider sector in advocating for Deaf and disabled artists not just to participate but to play a leadership role in the arts sector.

We have four main programme areas:

- **Taha Hotu**, a Deaf and disabled artists' initiative supporting artists to create work, develop their creative practice and advocate for their right to access the arts.
- **Arts For All Network**, which provides support and advice to arts organisations working to improve their accessibility.
- **Arts in Corrections**, where we advise Te Ara Poutama Department of Corrections on its arts programmes and activities, and advocate for the arts as a tool to support the rehabilitative process of prisoners and their reintegration back into the community.
- **Creative Spaces Network**, where we support and connect a range of arts organisations working in local communities to provide access to creative opportunities for people who face barriers to inclusion.

We also provide a national advisory and advocacy service, providing information, resources and research about accessibility to the arts.

2. Our response to the consultation

There are a number of specific technical modifications to the current tax exemption settings the IRD is proposing in Parts 2 and 3 which are not applicable to our organisation. We will leave organisations potentially affected by those modifications to speak to those parts of the paper.

In terms of the thematic issues raised in Part 1, there are two particular areas we would like to address, in addition to the substantive topic of the taxation of charities' business income.

2.1. Charities exist to serve the public good

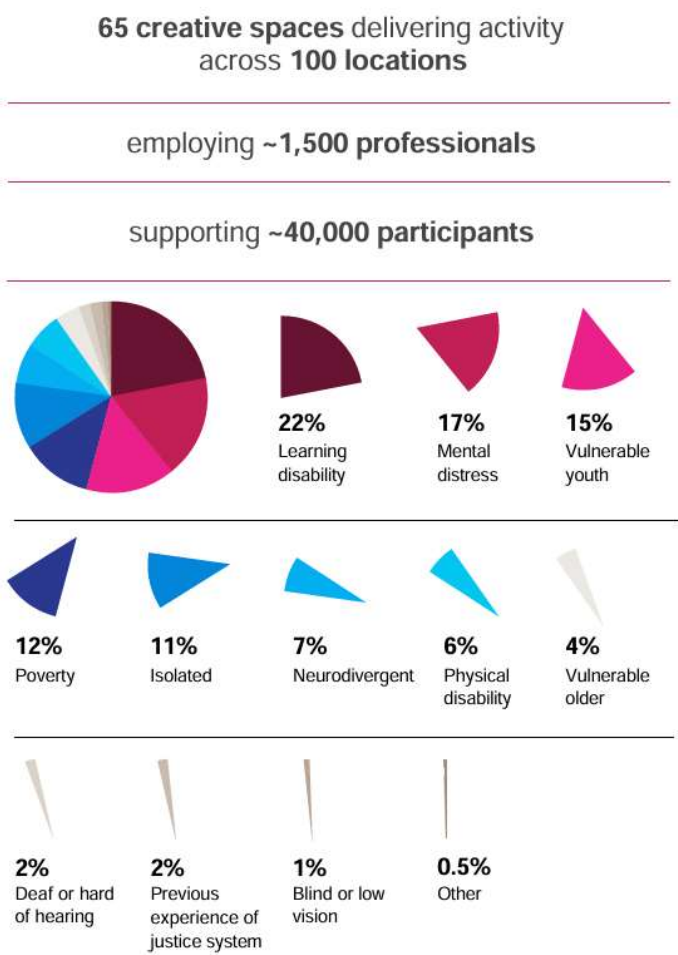
First, the paper implies that there is a widespread problem of charities taking advantage of loopholes in the taxation system. However, the problem appears to be ill-defined both in nature and extent.

It is important to remember that Not-for-Profit organisations are established not for individual gain but rather, to serve the public good. They are granted income tax exemptions in recognition of this. These exemptions do not benefit any one individual, but instead enable charities to stretch their finances further in pursuit of their mission.

Not-for-Profit organisations have strong and enduring networks into often hard to reach communities, and we generally achieve transformative results with very little. Our recent report, [Te Kaha o ā tātou mahi, / The Power of our work](#), on the social

return on investment provided by members of our Creative Spaces Network, showcases evidence of these results.

A snapshot of the Arts Access Aotearoa Creative Spaces Network and its impacts/outreach



By supporting charities through tax exemptions, governments achieve great returns on their “investment”. If there are instances of bad behaviour, we suggest a better approach would be to empower and resource the regulator, Charities Services, to investigate and take appropriate action.

2.2. Charities do not have a competitive advantage over business

The consultation paper also states that charities have a competitive advantage over business due to the current tax exemption settings. This assertion is flawed. By definition, Not-for-Profit organisations have limited access to capital. We often struggle to balance the books from one year to the next with little in reserve.

We also struggle to retain our skilled, experienced people, who generally work for considerably less than they would otherwise be paid in the private or public sectors.

This gap has for years averaged at about 15-20%, according to successive Strategic Pay surveys, and has been termed the [“Love Factor”](#).

However, [aroha doesn't pay the bills](#) forever. Not-for-Profits regularly lose highly valued employees to the public and private sectors because of their valuable skillsets and experience, and because we can't afford to pay the rates they can command elsewhere. As a result, Not-for-Profit organisations' institutional memory and capacity undergoes constant flux and is constantly having to be rebuilt.

In terms of the framing of the current income tax rebate on donations to registered charities as a “cost” to the taxpayer, we would suggest instead that the residual 66 cents-in-the-dollar donation from taxpayers to the charity of their choice is a *saving* to the government. The tax rebate on donations simultaneously provides an incentive to individuals to donate while providing government with an efficient mechanism to support the delivery of some of our most essential social services.

The IRD's own insights document from 2020, [Not-for-Profits and Charities Landscape](#), states that: "Raising funds is our customers' biggest challenge, they need income generation to be optimal" and that "Furthering their cause is at the centre of our customers' world, they need capacity to achieve their purpose." This seems to be directly at odds with the messaging coming from the current IRD consultation, that charities somehow have a competitive advantage over for-profit businesses.

2.3. Taxing charities' business income

We now come to the substantive issue raised in Part 1 of the consultation. In brief, a key uncertainty we have in this area is around the definition of related versus unrelated business income. Arguably, all income charities generate from any business ventures they undertake is related – because any profits will, by definition, be required to be funnelled back into achieving the mission.

Again, it is important to remember that charities do not exist to make a profit. In the current constrained environment, many charities, including ours, are working creatively to identify new ways of generating income, such as charging for some services and establishing social enterprises. Achieving financial sustainability is one of the four pillars of our strategic plan - because we recognise that without a diversified, sustainable income base, we cannot achieve our mission. It takes resource to explore these new options, and it will also take some time until we begin to see the returns.

In our view, taxing charitable business income would discourage the kind of innovation we are exploring now, right at the time when we need that flexibility.

Thank you for the opportunity to contribute to this consultation.

From: Saad Mahmoud s 9(2)(a)
Sent: Thursday, 27 March 2025 12:43 pm
To: Policy Webmaster
Subject: Submission – Taxation and the Not-for-Profit Sector

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Kia ora Whanau,

My name is Saad, and I have been working with The Salvation Army's Transitional Housing services in Hamilton for just over two years. I am writing to share my thoughts on the proposed tax changes affecting charities and not-for-profits.

The Salvation Army has been serving communities across New Zealand for over 140 years, providing essential support to those in need. In my role, I see the direct impact of our work every day. Transitional Housing is more than just accommodation—it's a pathway to stability. Families moving through our service benefit from wraparound support, including access to food banks, affordable and donated clothing through our Family Stores, household essentials, financial mentoring, and community programmes. This holistic approach helps whānau move from crisis to independence.

For example, we recently supported a whānau who came to us with very little. Through our services, they received food, donated clothing for their children, and household items to help set up their new home. This kind of support is made possible by the income we generate through our Family Stores and fundraising efforts, which go directly back into the community.

The proposed taxation changes could have a direct impact on these services. If revenue from our Family Stores or fundraising is taxed, it would mean fewer resources available to help whānau transition into stable housing. Additionally, as part of our duty of care, we travel across our regions the country to support whānau, ensure their safety, and respond to urgent needs. If the use of vehicles is taxed, this could reduce our ability to provide this level of hands-on care and make it harder to reach those who need us most.

The Salvation Army exists to serve, not to profit. Any changes that affect the way we generate and manage funds should consider the real impact on those who rely on our services. I appreciate the opportunity to provide this feedback and trust that the review process will take into account the role charities play in strengthening communities across New Zealand.

I am happy to discuss this further and can be contacted at s 9(2)(a) or s 9(2)(a).

Saad Mahmoud | Team Leader Transitional Housing - Hamilton
The Salvation Army

m: s 9(2)(a)
105 Rostrevor Street, Hamilton CBD, Waikato
email: s 9(2)(a)



Supportive Housing

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27th March 2025

David Carrigan
Deputy Commissioner, Policy
Inland Revenue
C/- policy.webmaster@ird.govt.nz

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

Dear Mr Carrigan,

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

Collingwood Rugby Football Club Inc has been a cornerstone of our local community for 136 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 rugby club is important in providing a structured environment for young men to develop and grow. As they transition from adolescence to adult hood it is important to provide new role models in addition to parents or teachers. Provision

of situations where they are encouraged, mentored, given direction and parameters by equals, not those in positions of superiority. The club believes this is perhaps its most significant rule in an isolated rural setting.

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.

Our club's grounds and clubrooms are not owned by the local council authority, as many sports grounds are, but by the club itself. Much of our fundraising goes towards simply maintaining and insuring the facilities, paying rates, etc.

Beyond playing rugby, our facilities are used by the community for personal events like birthdays, engagements, weddings and even funerals. The grounds are also used by the local volunteer fire brigade for training purposes. The clubrooms are used for training for dairy farmers (e.g. Fonterra) and deer farmers. They have also been used for functions addressing mental health aspects of farming and rural life. Fundraisers for food banks are a recent usage. Until recently the grounds were also site of the annual Collingwood Summer Food Fair. 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. Collingwood Rugby Football Club 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,

Pete Watkins

Treasurer

The Collingwood Rugby Football Club Incorporated

s 9(2)(a)

CRFC1889@gmail.com

President: Mark Strange Treasurer: Pete Watkins
Secretary: Shelley Pomeroy, Pah Road, Rockville, Golden Bay
T 03 524 8056 M s 9(2)(a)



Submission to Consultation on Taxation and the not-for-profit sector officials issue paper 2025

The Salvation Army Te Ope Whakaora New Zealand, Fiji, Tonga and Samoa Territory
28 March 2025

Summary

The Salvation Army (TSA) welcomes the opportunity to comment on this paper.

From our reading of the paper, it is light on detail about many of the issues raised, including critical definitions of terms such as 'business income' and 'business income unrelated to charitable purposes'. Without this detail it is difficult for TSA to specify and quantify the impact this may have on our ability to continue to deliver our level of service to the communities we serve. We are concerned there will be significant negative consequences for TSA, government and our nation, if our income is taxed and if FBT is applied. These consequences include:

- Costly complexity added to the tax system.
- Reduced service delivery by TSA due to reduced income/increased costs.
- Increased cost to government that will need to meet service delivery gaps and increased costs to areas of health, justice and social welfare.
- Significant compliance costs for charities and for government.

We suggest that if government has concerns about how business income is being used by some charities, that they utilise the Charities Act and Charity Services to investigate these charities.

Introduction

This submission is in two parts: first, we make some general comments on the overarching issues raised by the consultation document; second, we address the questions asked in the document. Where we do not comment on a clause, statement or section of the consultation document this does not imply that we agree or disagree with it, but that we have chosen not to comment.

Background

1. The mission of TSA is to care for people, transform lives and reform society by God's power. TSA is a Christian church and social services organisation that has worked in New Zealand for 140 years. It provides a wide range of practical social, community and faith-based services around the country.
2. TSA employs almost 2000 people in New Zealand, and the combined services support around 135,000 people annually. In the year to June 2024, these services included providing around 88,000 food parcels and vouchers to families and individuals; assisting 2300 people

TERRITORIAL HEADQUARTERS

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Founders of The Salvation Army Catherine and William Booth. General Lyndon Buckingham.

www.salvationarmy.org.nz



with short- or long-term housing; supporting 400 families and individuals with social work or counselling; supporting 5300 people to deal with alcohol, drug or gambling addictions; helping 3500 families and individuals with budgeting; and court and prison chaplains helping 4000 people.

3. This submission has been prepared by the Social Policy and Parliamentary Unit (SPPU) of TSA. SPPU works towards the eradication of poverty by advocating for policies and practices that strengthen the social framework of New Zealand. This submission has been approved by Commissioner Janine Donaldson, territorial commander of The Salvation Army New Zealand, Fiji, Tonga and Samoa Territory.

General Comments

1. *The paper lacks detail for TSA to be able to fully understand the implications, however, as stated, the proposals look likely to add costly complexity to the tax system and therefore to charities. Details and further consultation are essential if any of these proposals are to proceed.*

The discussion document talks about the issues in general and there are few specifics about key concepts; for example, what might be defined as business income? Without the details, it is difficult for us to quantify and be specific about the impact on TSA. If any of these proposals go ahead, it is vital that we make further submissions, pointing out the detailed implications before any changes are implemented. Failure to do this will lead to unintended negative consequences.

TSA, like all/most charities, does not have the capacity or capability to manage a rapid change to our taxation situation. If any change is to occur, it needs to be done with plenty of lead-in time. It should also be noted that many charities will struggle to afford and/or locate appropriate skills to undertake the work that will be required.

New Zealand currently has a reasonably simple taxation system, including the straightforward exemption for charities. The proposed changes would likely add considerable complexity that will be costly for everyone, including the government, to navigate. The cost-effectiveness of introducing such complexity needs to be interrogated.

We also note that the burden of any change might not be applied fairly and evenly, given the suggestion that this only applies to Tier 1 and Tier 2 organisations. Organisations may be similar in terms of total revenue/size but because of the legal structure may not come under Tier 1 or 2. TSA is a single entity, a disadvantage under the proposals. Other similar sized charities are not single entities.

Currently, the higher you are in the tier system, the higher the requirement to report and the more in-depth the auditing requirements; therefore, the bigger charities are already providing higher

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levels of transparency and accountability. Implementing taxation on Tiers 1 and 2 would increase their already higher compliance costs.

2. *Any reduction in TSA's income will result in reduced charitable services delivered into the community. This will result in increasing and continuing costs for government, who will have to meet the gap, and increased social distress when vulnerable people and communities cannot access services.*

TSA exists to fulfil its charitable purposes. All our financial resources are put towards these purposes. Any reduction in our income, through either the imposition of tax and/or compliance costs associated with a new tax regime, will reduce our ability to deliver our charitable purposes and therefore negatively impact on some of New Zealand's most vulnerable people.

Our audited Statement of Service Performance for FY 24 shows the impact that TSA has in New Zealand.

- 135,000 people assisted across all our services
 - 88,808 received food parcels/vouchers/hampers
 - 4333 people helped with transitional housing
 - 4543 received support for harmful use of alcohol and drugs
 - 6657 regular attenders at our 88 faith communities, including alcohol and drug recovery churches
 - 3033 families helped through our social work
 - 3388 clients receiving financial mentoring
 - 92.1% of clients satisfied with the service received.

The services we deliver make a positive impact on individual, community and societal wellbeing. If TSA must reduce its services, this will push cost onto government, either directly via government needing to fund and deliver the services we can no longer provide and/or through downstream costs in health, welfare, justice, etc. We suggest that IRD needs to carefully consider the net benefit to the government of any tax on charities, including the total downstream costs, before any decisions are made.

3. *The issues paper does not appear to consider that charities such as TSA must fundraise to subsidise government funding for core social services.*

The discussion document does not consider that TSA must fundraise, not only to provide services it chooses to deliver for community good, but also to subsidise services that we provide under contract to the government. Government contracts do not provide a surplus and often do not cover the full cost of delivery. On-going contracts that are rolled over year on year are not negotiated in terms of price and often do not keep up with CPI; therefore, TSA must make up the shortfall from other sources of income. The only other alternative to this would be to provide less service and/or

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change our approach to service delivery and not take on the more complex, difficult and therefore more expensive clients.

Examples of services that TSA must subsidise per annum are:

- Bridge addiction services—\$1 million
 - Foodbanks—\$1 million
 - Early Childhood Centres—\$600,000.
4. *Accumulated Funds are there to enable TSA's charitable purposes in perpetuity. Taxation or requirements to distribute would limit our ability to deliver charitable services both now and in the future.*

Every dollar that TSA has, either raised each year or in accumulated funds, will be used for a charitable purpose. Accumulated funds are held for specific and/or future charitable purposes. As a faith-based organisation, we work on the assumption that we will be around in perpetuity. However, if TSA was ever to wind up, then our constitution requires that the funds be gifted to other similar charitable organisations. No funds are ever distributed to individuals.

Funds are accumulated by TSA for several reasons:

- Funds have been donated or acquired for a specific charitable activity that has not yet occurred but will in the future.
- Funds are accumulated to pay for replacement and upgrading of infrastructure, such as buildings, that are required to deliver our charitable purposes. Many of the services TSA operates, such as residential addiction programmes, foodbanks, financial mentoring, social work support, reintegration, transitional/social housing and our religious communities, require buildings to operate from.
- Funds are accumulated as a way of providing regular income to support the charitable work, including subsidising government contracts (see above). Income generated by accumulated funds assist TSA to plan for and ride out years in which other funding sources are reduced, ensuring we can sustain our level of service delivery over time, giving certainty to clients and communities.

If TSA was taxed on income from accumulated funds or required to distribute a certain percentage of funds per year, this would limit our ability to consistently deliver services and make us a less strategic and sustainable organisation.

5. *If there is a problem with charities not fulfilling charitable purposes, then the most effective remedy would be to use and strengthen the Charities Act.*

The paper hints, without giving any specifics, that there is a potential problem with charities not applying funds to charitable purposes. Without specifics, TSA cannot know the size and nature of the

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issues and whether using taxation is an appropriate response. TSA can only assume that the IRD has concerns about certain charities and their businesses. If this is the case, then we suggest the most beneficial approach is to ask Charities Services to investigate these charities. If necessary, the Charities Act could be clarified, and/or Charities Services capacity and capability increased to enable appropriate investigation.

Comments on specific questions

Question	TSA comment
Q1. What are the most compelling reasons to tax, or not to tax, charity business income? Do the factors described in 2.13 and 2.14 warrant taxing charity business Income?	<p>If all funds of a charity are being used to meet their charitable purpose, then we can see no reason for taxing a charity. Charities are exempt from tax as a way of supporting and recognising their charitable contribution to society. Therefore, if charities are fulfilling their charitable purpose, there should be no tax. To tax charities undermines the whole concept and purpose of the Charities Act.</p> <p>We do support the enforcement of the Charities Act to investigate and deal with any charity that is not fulfilling its charitable purposes or the requirements of the Act. If this is the case, then the charity should be de-registered. To tax charities is an ineffective way to enforce charitable purpose.</p> <p>The discussion paper does not really give a compelling reason to tax charities apart from revenue raising for government. As noted above in general comments, we believe the benefit provided by TSA, including our subsidisation of government contracted services, will far outweigh any possible revenue from tax.</p> <p>The government and philanthropic funders have for many years been encouraging charities to identify alternative revenue streams because they could not meet all the funding needs. It seems counterproductive and unfair to tax charities that have been successful in doing this, via business and other means.</p> <p>Additionally, the paper acknowledges the costs associated for businesses with raising external capital. Charities do not have that option. TSA, like most other charities, has significant fundraising costs as we try to gain donations in a tight economy. Investors would normally invest because they anticipate a benefit to themselves at some point. Donors give without any expectation of</p>

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Question	TSA comment
	a benefit to themselves, but instead to benefit others. Their expectation is that their donation is used for charitable purposes and not to pay tax.
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?	<p>Without detail around definition of 'business income' that is unrelated to charitable purposes it is difficult to comment. However, we envisage the following issues:</p> <ul style="list-style-type: none"> • compliance costs, likely to be significant • difficulty in coming to a definition and way of measuring these that would be practical and equitable • loss of income for charitable purposes • litigation when new rules inappropriately applied, etc • complexity added to the tax system • there will be incentive for tax minimisation.
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?	<p>TSA considers that the question fails to understand the nature of the charitable sector. Charities exist to fulfil their charitable purposes, as defined under the Charities Act. To do this they need to raise funds to meet the costs involved, both current and future, therefore, there should be no tax on any revenue. If the organisation meets the charitable purpose tests and all revenue, no matter how it is generated, is spent on charitable purposes, then there should be no tax. Where charities have diversified revenue, such as businesses, they are effectively donating to themselves, and the income should be tax free as it is for any donation.</p> <p>TSA considers that any attempt to define key concepts such as 'business income' and 'unrelated to charitable purposes' will be fraught with difficulty and lead inevitably to compliance costs, litigation and unintended negative consequences.</p> <p>TSA also considers the territorial restriction on business income applied overseas should be removed, or at the very least a safe harbour approach used, as there is with donation income.</p>
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?	<p>As stated above we do not consider that there should be tax.</p> <p>We do not consider that the use of some kind of threshold or tier would be fair and equitable as a way of determining who might be subject to tax. Setting a financial limit or using the tier system would give an unfair advantage to charities whose structure means that individual entities are small but the whole is large. TSA is one legal unit but would be no bigger than some other charities who have gone down a different legal organisational structure.</p>

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Question	TSA comment
	Using a threshold of some kind may encourage larger charities to split up. NZ already has a very high number of charities. In recent years, government and the philanthropic sector have been suggesting to the charitable sector that for efficiency and cost effectiveness, charities should consider combining. Taxing charities is likely to drive charities away from doing so, resulting in inefficiencies and more charitable money being lost to compliance.
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?	<p>While of course we would agree that charity business income distributed for charitable purposes should remain tax exempt, we consider that it will be conceptually and practically very difficult to define 'business income unrelated to charitable purposes'.</p> <p>As stated above, any taxation of income will reduce TSA's ability to deliver charitable services. TSA uses all its income for charitable purposes and therefore we assume that we would be exempt from tax. However, whether this occurs or not, would depend on the definition/criteria used and it is therefore a considerable risk for TSA that the definition/criteria might inadvertently include some of TSA's income. The compliance costs in reporting on income to show whether it meets the definition/criteria are likely to be high.</p> <p>If IRD considers that a charity is operating outside the Charities Act, then it should seek to have that charity investigated by Charity Services.</p>
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?	<p>Issues to be considered here include the following:</p> <ul style="list-style-type: none"> • The removal of taxation exemption will add cost to government due to charities having to reduce their level of service delivery. • The removal of the exemption will add significant compliance costs both to government and charities. • The currently unvalued amount of free (volunteer/pro bono) work undertaken within TSA would need to be valued and be claimed as the true cost of the business. • TSA and other charities who have government contracts will require the government to fully fund these contracts or withdraw service if we cannot fund the shortfall from our business income. • Charities may ask that their current higher level of transparency, as compared to a for-profit business, be reduced.

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Question	TSA comment
	<ul style="list-style-type: none"> Tax may discourage the public from purchasing from charity businesses. For example, when the public shop at a Family Store, part of their choice is that they are supporting a charity. The public do this as they know all funds go to the charitable purpose. If they think money goes to tax, they may be discouraged from shopping or donating.
Q13. If the compliance costs are reduced following the current review of FBT settings, what are the likely implications of removing or reducing the exemption for charities?	<p>There are already some restrictions to the current FBT exemption for charities, particularly around short-term charge facilities (including fuel charge cards and vouchers) provided to employees, any further removal or reduction of the exemption for charities will have a large impact on TSA, and simplification of the rules has just made that clearer.</p> <p>As we do not currently pay FBT we cannot quantify what the complex costs to TSA would be, however we would definitely incur increased cost.</p>
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?	TSA thinks this FENZ simplification will be beneficial.
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?	<p>TSA appreciates the review of the DTC regime and the desire to improve ease of use and take-up of the regime. The objectives of the regime are worth repeating here in this context:</p> <ul style="list-style-type: none"> Helps governments to further social objectives Provides wider benefits to society over and above benefits to recipients Supports people to use their knowledge for what extra goods and services are needed Encourages efficient ways of providing social assistance Supports organisations who may be more responsive to social needs than government programmes <p>We support efforts to improve public engagement and develop targeted education materials.</p> <p>We consider any implementation of real-time payments will only be beneficial for one-off gifts rather than regular giving.</p> <p>We support the expansion of DTC law to accommodate household/family giving, as well as reconsideration of overseas funding rules for Pacific countries, as well as aligning with New Zealand's Official Development Assistance to the Pacific.</p> <p>TSA, like other churches, is closely connected with others in our Pacific whānau and think there is a good case for revising some of</p>

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Question	TSA comment
	the rules around funds going to our Pacific neighbours. We are disappointed that none of the recommendations around cultural practices, except for education, were taken up by the IR response to the DTC review.

Recommendations

In response to the discussion paper TSA recommends that IRD:

- Continue with tax exemption for all funds, from whatever source, that are applied to charitable purposes.
- Provide more detail on key issues in the paper and enable further consultation once this detail is available.
- Undertake a cost-benefit analysis of the proposals in relation to the potential downstream costs to government of any changes compared with any potential tax revenue.
- Provide clear definitions/criteria around key concepts such as 'business income' and 'business income unrelated to charitable purpose' and consult on these.
- Ensure that any proposed changes are fit for purpose and are not so broad as to capture and cause financial harm to charities who are fulfilling their charitable purposes.
- Explores with Charity Services using the Charities Act as a more appropriate way to investigate and deal with any charity that is not fulfilling their responsibilities under the Act regarding their charitable purpose.

We would welcome the opportunity to talk with you about the issues paper and our responses to it.

Signed by

s 9(2)(a)

Commissioner Janine Donaldson

Territorial Commander for The Salvation Army New Zealand, Fiji, Tonga and Samoa

Contact person

Captain Bryant Richards

Territorial Secretary for Business Administration

s 9(2)(a)

Mob: s 9(2)(a)

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From: Susan Gibson s 9(2)(a)
Sent: Thursday, 27 March 2025 12:50 pm
To: Policy Webmaster
Subject: "Taxation and the non-for -profit sector"

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

My name is Susan Gibson.

I work as a receptionist at The Salvation Army Community Ministries in Invercargill.

This is my fourth Year. I have seen huge increases in demand for our services, especially the Food Bank.

Some services are on contract and get funding which has been reduced recently, seeing the loss one of our valuable staff members.

However, The food bank relies on the generosity of the community and the Money generated by The family Stores, and donations collected during Red Sheild day.

If The Government, or IRD decides to tax The Salvation Army and their businesses, this will have a huge impact on the services we provide. It might even eventually lead to the closure of some services.

When people get declined by Work and Income for assistance they are sent to a choice of Food Banks, including ours.

If they cannot receive the food they need this will certainly put more strain on the Work and Income department. There will also be more people in need of The benefit when they lose their jobs that cannot be funded any longer.

Health issues are likely to rise, including Mental Health. This will put a further strain on the Hospitals and Mental Health teams.

Ultimately this will cause more issues for the Government to deal with.

The Salvation Army does an amazing amount of work and we wish to continue doing so.

Please consider all of this when making a decision about taxing charities.

Thank you for considering my Submission.

Susan Gibson

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s 9(2)(a)

From: Michael Lobb s 9(2)(a)
Sent: Thursday, 27 March 2025 12:56 pm
To: Policy Webmaster
Subject: Taxation and the not-for-profit sector

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

To whom it may concern,

The biggest implication if this is changed is that it will mean we (The Salvation Army and other like charities), have less money to support our communities.

In real terms this means more people going hungry, more people made homeless, more people struggling with addiction, more people under pressure financially, more sick people, more people struggling to re-enter society after leaving prison and likely to fall back into old ways etc.

The services The Salvation Army delivers make a positive impact on individual, community and societal well-being. If we have to reduce our services, this will push the cost onto government, either directly, with government needing to fund and deliver the services we can no longer provide and/or downstream due to increased costs in health, welfare, justice etc.

Please consider this very carefully.

Kind Regards

Michael

Michael Lobb | Gifts In Wills Manager | Supporter Engagement & Fundraising

Mobiles s 9(2)(a)

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PO Box 934, Dunedin, 9054

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From: Wendy Lobb s 9(2)(a)
Sent: Thursday, 27 March 2025 1:03 pm
To: Policy Webmaster
Subject: Submission – Taxation and the Not-for-Profit Sector

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

Good afternoon,

My name is Wendy Lobb, s 9(2)(a) and I have been a part of The Salvation Army all my life. The Salvation Army, for me, is a place to belong, a place of warmth and care and a place that activity promotes the love of Jesus to others through practical life assistance, and genuine care and compassion. I work for The Salvation Army in their fundraising department, which is vital for the continued work we strive to do to help others. Raising funds to support necessary and vital frontline services that assist people affected by poverty, homelessness, addiction, and other complex challenges. I am writing to share my concerns about the proposed tax changes affecting charities and not-for-profits.

Our Family Stores play a crucial role in funding our services, with all profits directly reinvested into our frontline work to support others. Our stores are run by both paid and volunteer staff, but all workers are there because they passionately believe in helping others and offering a hand up – not just a hand out. However, these profits do not cover the full cost of service provision—and our fundraising team exists to bridge that funding gap. Finding sufficient funds is already a significant challenge, and taxing this income stream would **severely impact our ability to continue delivering the many essential services we deliver**. In fact, we simply couldn't provide the service we currently do should taxing this income stream be applied. People would simply not have access to vital, life-changing, and transformative work. My heart aches to consider the lives of families, adults, children and the aged who simply will have nowhere else to turn in their vulnerability.

Whilst we have a very dedicated team, securing grants and foundation funding is becoming increasingly difficult. Many funding bodies report being overwhelmed with applications, making it harder for organisations like ours to access support. The administrative burden of applying for grants already takes considerable time and resources—if additional tax or compliance requirements are introduced, even more time, money, and energy will be diverted away from the people who need us most. We already operate with limited resources and cannot afford to spend more on red tape.

To illustrate the impact of our work, I'd like to share s 9(2)(a) story.

s 9(2)(a), after a marriage breakup, moved with her three children to a new town. Absolutely defeated with bills piling up, and friend suggested she try The Salvation Army for some help. s 9(2)(a) recalls that finding The Salvation Army was **like finding a lifeline**. She was in a bad space emotionally and

financially. The history of alcohol abuse was strong in her family and she didn't want to go down the same road. The Salvation Army provided a food parcel – “so much more generous than I was expecting” s 9(2)(a) says. s 9(2)(a) says she thought it would be a one off kind of assistance and she would have to return to struggling again, but instead, she received further support and care and assistance that by the fourth week, she felt she was getting back on her feet again. Along with the practical help in the form of food parcels also came the emotional support of feeling loved and cared for – something money can't buy. But it was through the work of The Salvation Army that s 9(2)(a) found a new sense of community where she was welcomed and accepted, supported and loved. Six months later s 9(2)(a) is now working in a role as a wellbeing worker and supporting others. She says her future is so bright because of the support and care The Salvation Army gave through its wraparound services that has brought long-lasting change for s 9(2)(a) and her children.

These are the kinds of life-changing services that tax-free charitable funding makes possible. Charities like ours are not here to make money, let alone, a profit—***we are here to make a difference in the lives of our most vulnerable kiwis who need help the most.***

I urge, in fact, I beg, the Government **to keep charities tax-exempt where it is clear that funds are being used for good.** I would be happy to discuss this further if needed.

Ma te Atua e manaaki

Wendy

Wendy M Lobb | Supporter Engagement and Fundraising Department - Territorial Gifting and Philanthropy Manager

Mobile: s 9(2)(a)

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27 March 2025

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

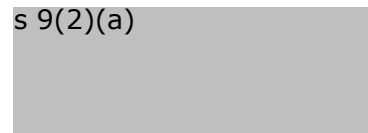
RE: Taxation and the not-for-profit sector submission

Tēnā koe Deputy Commissioner,

Please find enclosed Hawke's Bay Foundation's submission on the taxation and the not-for-profit sector consultation paper.

Officials from Inland Revenue can contact Alesha Hope to discuss the points raised, if required.

Ngā mihi nui,
s 9(2)(a)



Alesha Hope
Executive Officer
Hawke's Bay Foundation

s 9(2)(a)



General position

Overarching principle:

As a matter of principle, we consider that charities should be tax exempt. The decision whether or not to tax a charity's business income should be based on an assessment of income and the level of charitable outputs and outcomes. This is because of the difficulties in defining and measuring the relationship between income generation and the expenditure of this income on charitable purposes.

There is already a mechanism under the Charities Act 2005 for the government to establish whether a charity is entitled to tax exemption or not. The resulting requirement for such charities is to clearly state in their financial statements their charitable outputs and outcomes.

If a charity is not meeting the required charitable outputs and outcomes, there is already a remedy in place, which is for Charities Services to deny the charity's future registered charity status, and subsequent tax exemptions.

Given that there is already a government body overseeing this, then if the outputs and outcomes do not warrant ongoing tax exemption, the remedy already in place is to deny the charity's future tax exemption.

Rather than changing the tax rules, there should be further scrutiny by Charities Services to ensure they are proactively assessing charities that are not demonstrating sufficient charitable outputs and outcomes, which would lead to the removal of their charity's registration. This could be achieved through proactive auditing to ensure compliance and to protect the sector's integrity.

The Government's tax and social policy work programme is outlined in paragraph 1.6 of the Consultation paper, and states the "programme's objectives include simplifying tax rules, reducing compliance costs and addressing integrity risks." We are of the view that the proposal to tax the business income of charities runs counter to these objectives, in that it will:

- Increase the complexity of tax rules (due to the inherent difficulties in defining taxable business income of charities),
 - Increase compliance costs (by increasing the tax obligations on charities in addition to their obligations under the Charities Act, and increasing the burden on the Government by having effectively a dual system under the Income Tax Act and the Charities Act)
 - Result in a dual system to assess the integrity of a charity
-

This submission document covers the following general position points of Hawke's Bay Foundation on the taxation and the not-for-profit sector consultation paper:

- Rather than being penalised for diversification and growth of income, **the charity sector needs to be supported to become more sustainable and grow our impact.**
- If the government really want a thriving, healthy, charitable sector then **reducing our ability to be financially sustainable by taxing business income seems to be counterproductive.**
- Community Foundations play a critical role in supporting charities to secure ongoing, sustainable income to help increase their impact on the community. To encourage the growth of **Community Foundations, it is critical that our model is not included in any criteria for a yet to be defined 'donor-controlled' charity.** This would significantly restrict our ability to grow our capital base and limit the amount available to distribute to charitable purposes in our community.
- The **problem that needs to be addressed has not been clearly defined** in the consultation document. Therefore, this submission only covers Hawke's Bay Foundation's general comments on the potential increased tax implications on the sector, rather than recommending solutions.

Background on Hawke's Bay Foundation

Hawke's Bay Foundation is fostering healthy, thriving, and resilient communities across Hawke's Bay, from Wairoa in the North to Takapau in the South.

For some of us Hawke's Bay provides a wonderful lifestyle with unlimited opportunities, but this isn't the case for all in our community. Hawke's Bay has some of the toughest social conditions in the country and life is a struggle for many with low incomes, poor housing, high health needs and complex social issues.

Our mission is to work with locals to inspire a culture of giving and sharing. Together, we are building enduring long-term funding streams to support the people and places of our region – today, tomorrow and forever.

We achieve this through a globally proven smarter giving model, where donations are pooled and prudently invested for greater impact, distributing the investment returns earned, so that a donation will keep giving now and forever.

Hawke's Bay Foundation was established in 2012 when 10 visionary locals each donated \$100,000 to start a fund to give back to the region they love, and to inspire others to do the same. They wanted Hawke's Bay to prosper for generations to come. They believed if the community could be drawn together with a common purpose, we could achieve something much greater than if everyone simply 'did their own thing'.

Our fund continues to grow as more and more individuals, families, and organisations learn about our smarter giving model, and want to join us to build a thriving Hawke's Bay. Hawke's Bay Foundation has been granted registered charitable status¹.

By the close of 2024, Hawke's Bay Foundation was honoured to be the guardian of over \$12 million that has been invested to support communities forever. Because of our visionary donors, in 2024 we were able to support 65 charitable causes addressing many of the biggest challenges facing our region. In 2025 the amount available for distribution will be over \$475,000.

Community foundations are about place-based giving - giving back for the long-term benefit and enhancement of a place and its communities.

Hawke's Bay Foundation is a member of Community Foundations of Aotearoa New Zealand (CFANZ). While community foundations have only been in Aotearoa New Zealand since 2003, the concept - pooling and investing charitable donations for the good of a local area - has been a growing global movement for over a hundred years. Across the country, community foundations are here to help generous people make a lasting, transformative difference in our local communities.

¹ Charities Services registration number: CC28009

Submission points

1. Sustainability of the charity sector. *Relating Topic; Chapter 2: Charities' business income tax exemption*

A charity cannot exist and be effective unless it has a sustainable source of income.

We have witnessed an increasing need for funding from the charity sector in Hawke's Bay, alongside an increasingly difficult landscape to secure funding and generate revenue. The increasing hurdles to generating revenue include:

- Reduced capacity of individual donors due to an increase in the cost-of-living. As well as limited resources to acquire and retain donors.
- Reduced capacity of philanthropic funders (trust, foundations, and businesses)
- Reduction in government (or private) contracts for service
- Ability to attract capital or allocate reserves to direct to investments
- Risks associated with and capital required to establish a business to generate income.

During Hawke's Bay Foundation's 2024 funding round, we received a record number of applications from charitable organisations – 104 applications requesting a total of \$1.1 million in funding. This is only a snapshot of the funding needs of charities operating in Hawke's Bay (organisations can only apply for a maximum of \$15,000 per application, and we do not allow applications from some organisations (e.g. schools) given our current funding capacity).

Rather than removing the business income tax exemption, should we not instead be encouraging the diversification of income, the sustainability of the charitable sector, and celebrating those that are generating the most income possible to have the largest and most scalable impact on our communities?

Indeed, in the 1990's, government policy was to actively encourage charities to reduce their reliance on government grants and other assistance, and to generate their own income through business activities which income would then support the charities' charitable purposes. This led many in the charitable sector to commence business activities, with varying degrees of success.

The reality is that charities exist as a result of there being a social need. Society finds these needs unacceptable and so the private sector responds. Taxing business income of charities will inevitably reduce the private charitable sector's ability to meet those needs which will still exist. If the private charitable sector cannot meet the needs, then pressure will increase on the government to meet those needs, as society will still find the needs to be unacceptable.

It is well argued that the private sector, in touch with their community, can respond more effectively than large bureaucratic government agencies, and so it is economically more effective for government to support the private charitable sector as much as possible (by not taxing its business income) rather than taxing them and then be left with societal pressure to address the unmet social needs.

2. Negative perception of the charity sector. *Relating Topic; Chapter 2: Charities business income tax exemption*

The charity sector is under increased scrutiny by the public. The perception that charities should run on 'the smell of an oily rag' can often limit a charity's ability to scale to increase impact in the fear of negative public perception and a loss of donations. Anything seen to be outside of the traditional way a charity should operate often generates a distrust in the community of the charity sector, and a scrutiny of how every dollar is spent.

Taxing charity business income, could further fuel this limiting public perception of charities and add to the distrust of the charitable sector. This could have further detrimental impacts on the sector including a decrease in charitable giving, further limiting a charities ability to increase service provision.

Given the growing public scrutiny of charities, any policy that limits the sectors financial sustainability could negatively impact public trust, reduce donations, and ultimately compromise the sector's ability to deliver essential services.

3. Impact on service delivery. *Relating Topic; Chapter 2: Charities business income tax exemption*

Hawke's Bay scores low across many social indicators including unemployment, food insecurity, unaffordable housing, crime and inequalities for Māori. This includes some of the highest methamphetamine availability in the country, which has major societal impact and a significant economical cost².

The charity sector plays a critical role in addressing these challenges. Charities play a critical role in filling the gap between the needs of communities and services that the Government is able to provide. Government will never be able to meet all community needs due to the expertise, cost, and resource required to address these issues.

Charities in Hawke's Bay, are providing vital support to address pressing issues like food insecurity, mental health, and housing affordability, which the government cannot address alone.

Taxing charity business income will reduce the funds available to deliver the services required to meet these needs.

² The Salvation Army State of the Nation 2025 report

4. Definition of a 'donor controlled' charity. *Relating Topic; Chapter 3: Donor-controlled charities*

We do not define community foundations as 'donor-controlled'. Community foundations are place-based and locally led community funders. Community foundations work with donors and community to create positive community impact.

Our decisions are driven by local needs and made through transparent governance processes.

Community Foundations are providing diversified income streams to provide long-term sustainability for the charity sector. Our model has allowed us to fund a wide range of initiatives and meet an increasing and dynamic demand for services in Hawke's Bay.

If the decision was made to include community foundations within the criteria of a 'donor-controlled' charity, and any subsequent investment restrictions or minimum distribution requirements, there would be significant impact on our ability to fulfil our purpose. This would limit our ability to grow philanthropic giving in NZ and our ability to provide sustainable and perpetual support to the charity sector.

Conclusion

In conclusion, we believe that rather than introducing new taxes on charity business income, the focus should be on strengthening the existing framework under the Charities Act 2005. By ensuring that tax exemptions are only granted to organisations genuinely delivering charitable outputs and outcomes, the charity sector will be supported to grow sustainably. This approach will allow charities to maintain their ability to serve our communities effectively and responsibly, without adding unnecessary complexity or compliance burdens. It is economically more effective for government to support the charitable sector as much as possible, rather than increasing difficulties to secure income and then be left with societal pressure to address the unmet social needs.

Community Foundations play a critical role in supporting charities to secure ongoing, sustainable income to help increase their impact on the community. Community foundations are already driving sustainability by pooling and investing donations, generating long-term returns to reinvest in the community, and reducing the reliance on external funding.

To encourage the growth of Community Foundations it is critical that our model is not included in any criteria for a yet to be defined 'donor-controlled' charity. This would significantly restrict our ability to grow our capital base and limit the amount available to distribute to charitable purposes in our community.

s 9(2)(a)

From: Sharyn Olds s 9(2)(a)
Sent: Thursday, 27 March 2025 1:18 pm
To: Policy Webmaster
Subject: Submission - tax and the not for profit sector

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Kia ora

I would like to add my voice to submissions on the consultation paper regarding the taxation & not for profit sector.

My concern is that, if the views expressed in the Inland Revenue's consultation paper were introduced, The Salvation Army would have hugely reduced funds, and would not be able to provide the services we do. This would inevitably mean the people we serve would suffer.

I urge the government to consider the wide ranging implications for our most vulnerable, and for the significant work that the TSA does in our communities - work that I am involved with on a daily basis in our countries largest court.

Ngā mihi

Sharyn

Sharyn Olds | Chaplain

The Salvation Army Te Ope Whakaora | Auckland District Court

M: s 9(2)(a)

E: s 9(2)(a)

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

From: Kelly Reid – General Manager – Radio Hawke's Bay

Date: 25/3/25

Subject: The value and challenges of Community Access Media in Aotearoa

Introduction

Radio Hawke's Bay as part of Community Access Media in Aotearoa provides essential public services, ensuring diverse communities can access media platforms that reflect their voices, languages, and cultures. The Community Access Media Alliance (CAMA) represents 12 not-for-profit Community Access Media radio stations operating under the principles of section 36(c) of the Broadcasting Act 1989. These stations are funded primarily by NZ On Air and serve as a critical communication tool for underrepresented communities, including ethnic minorities, youth, persons with disabilities, and local organisations.

The Inland Revenue proposals to revise taxation policies affecting not-for-profit organisations pose potential risks to Radio Hawke's Bay and Community Access Media. If business income from unrelated activities were to be taxed, it could compromise our ability to sustain essential services. We strongly urge Inland Revenue to recognise the distinct public value of community broadcasting and to ensure that taxation changes do not undermine our sector.

The local and international value of Community Access Media

Radio Hawke's Bay broadcasts in 6 languages – English, Cook Islands, Mandarin, Punjabi, Philippines, and Dutch to ensure linguistic diversity. CAMA broadcasts in over 50 languages.

We provide training and opportunities for marginalised groups including youth and persons with disabilities.

We facilitate critical emergency broadcasting in times of crisis. Our response to the HB floods in Feb 2023 was extremely importance due to our AM reach as far as Wairoa who were cut off from Hawke's Bay. We provided a lifeline to those locals in need.

Radio Hawke's Bay offers civic value by connecting communities and promoting public debate on important local issues.

We also function as an archive, ensuring regional histories and cultures are preserved for future generations.

Resourcing challenges facing Community Access Media

We have considerable ongoing financial and operational challenges:

- Rising operational costs, including transmission fees and staffing, have placed increasing pressure on Radio HB.
- Declining non-NZ On Air revenue sources, such as grants and sponsorships, make Radio HB more reliant on public funding.
- Increased content and compliance demand from funding agencies require additional administrative capacity, stretching already limited resources.
- Varying infrastructure and reporting processes due to limited funding and capacity, make streamlining sector-wide financial sustainability strategies difficult.

Concerns and views about the proposed tax changes

If the proposed taxation changes result in new tax obligations for unrelated business income, this could severely impact Radio Hawke's Bay and Community Access Media stations that rely on (and already struggle to generate) alternative revenue sources. For example:

- The small amount of airtime fees and sponsorships, which help supplement funding gaps, could become taxable, further limiting financial sustainability.
- Studio hire and training programmes, which provide community education, may be categorised as business activities, despite their alignment with sector goals.
- Administrative burdens associated with tracking and reporting taxable and non-taxable income would strain already limited staffing resources.

Recommendations

1. Ensure income generated to support core Community Access Media content distribution and dissemination remains tax-exempt.
2. Recognise sponsorships, grants, and alternative funding sources as integral to charitable activities rather than unrelated business income.
3. Provide exemptions or allowances for small-scale revenue-generating activities that directly support operational costs.

Radio Hawke's Bay and Community Access Media play a vital role in Aotearoa's diverse media landscape, ensuring all communities have access to representation, training, and civic engagement. The taxation changes under consideration should not inadvertently weaken this critical sector. We urge Inland Revenue to carefully consider the unique value and challenges of Community Access Media and to implement policies that safeguard its financial sustainability.

Ngā mihi nui,

Kelly Reid - s 9(2)(a)

General Manager

Radio Hawke's Bay

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

Submitted by: Matthew Fitzgerald

Date: 26/03/25

Subject: Response to IRD Consultation

This submission is made in response to the Inland Revenue's officials' issues paper on "Taxation and the Not-For-Profit Sector," released on 24 February 2025. The submission addresses the questions posed by officials in the issues paper and argues that tax exemptions for charities and Not-For-Profit (NFP) should be significantly altered when their income is derived from business activities unrelated to their charitable purpose. Furthermore, it argues that special rules should be introduced for donor-controlled charities to prevent abuse and unfair tax advantages.

Chapter 2: Charities Business Income Tax Exemption

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

The most compelling reason to tax charity business income is fairness. Tax-exempt charity businesses operating unrelated commercial activities are not paying their fair share towards the country's revenue, effectively shifting the tax burden to other taxpayers. Allowing large-scale charities to accumulate tax-free income from unrelated business activities provides them with a significant advantage over tax-paying competitors and undermines the principle of a broad-base, low-rate tax system.

The points made in sections 2.13 and 2.14 support taxing charity business income. The accumulation of tax-free funds enables charities to expand rapidly and unfairly compete with tax-paying entities. Furthermore, exempting such income from tax contradicts the principle of fairness in New Zealand's tax system.

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

Removing the tax exemption would encourage charities to refocus on activities directly related to their charitable purpose. It would also result in higher compliance costs for affected charities, particularly those engaged in unrelated business activities. However, this burden can be justified by the need for equity within the tax system. Additionally, charities may choose to invest more in passive income-generating activities if those remain untaxed, which may require further review.

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

An unrelated business should be defined as any trading or commercial activity that does not directly support or further the charitable purpose of the entity. For example, if a charity owns and operates a dairy farm or other commercial enterprise that primarily generates revenue

rather than serving the charitable purpose, this should be classified as unrelated business income. Things like theatre and social groups that may run a play house or a rugby club that runs their club rooms should be exempt from any tax implications. But businesses that drive to absorb and buy large farms and other businesses should be taxed.

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?

An appropriate threshold could be based on revenue levels similar to the UK model, such as an exemption where the charity's annual turnover from unrelated business activity does not exceed a certain limit (e.g., \$100,000). This would reduce the compliance burden on small charities while ensuring larger entities do not avoid tax obligations. Alongside this, funding in terms of out sourced funds to use within in the charity or club/society should not be included in the yearly income, if funds are used for the repair or improvement of the club/societies facilities.

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, if a charity distributes business income for charitable purposes within a specified timeframe (e.g., within the same financial year), this income should remain tax-exempt. This can be effectively implemented by providing deductions for distributions paid to the parent charity of a trading subsidiary. A memorandum account similar to an imputation credit account could be established to ensure that tax-exempt income is properly accounted for.

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?

A key issue to address is how charities that accumulate significant tax-free funds over time should be taxed. Additionally, anti-avoidance rules must be strengthened to prevent charities from reinvesting tax-exempt income back into unrelated business activities without distributing it for charitable purposes. Making sure to take into consideration the potential impacts for small sports clubs, theatre societies and other non for profit charities, that need to still be exempt from these changes.

Chapter 4: Integrity and Simplification

Q 12 – Implications of Removing the Veterinary Service Body Income Tax Exemption

Ensuring tax fairness across all veterinary service providers is essential for maintaining the viability of independent veterinary practices.

12.1. Addressing Competitive Disparities in the Veterinary Sector

Veterinary clubs were initially designed to provide rural veterinary services in remote areas but these 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.

12.2. 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.

12.3. 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.

12.4. 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.

12.5. 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.

12.6. Reinvesting Tax Revenue for Veterinary Industry Support

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

Q12 - 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.

Recommendations for Q12:

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.

Regards,

Matthew Fitzgerald

s 9(2)(a)

From: Damien Hazlewood s 9(2)(a)
Sent: Thursday, 27 March 2025 1:57 pm
To: Policy Webmaster
Subject: "Taxation and the not-forprofit sector"

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

Hi there,

I am making a submission for this paper.

My name is Damien Hazlewood and I am a Financial Mentor here at the Salvation Army. I work out of the Porirua centre and have been in my role for 15 years now serving the community in my space.

Times are tough for everyone and now is not the time to be making things tougher. What I mean by this is that I see the struggles in the community and people are finding it really hard to afford food each week and stay of top of their bills.

I am often seeing people wanting to access their KiwiSaver money to clear arrears and to live. This year is particular has been the worse I have seen in my time. The year is still new but I have seen a spike in people who are need help.

The people I see rely on our service to help them get help and get on top of their finances. We are already struggling ourselves to provide this service, we are under funded and over worked. I would love to have another 2 Financial Mentors working with me here at Porirua so we could see more people.

This is a bite about me and the service so you understand where my submission is coming from.

The Salvation Army relies on Government funding to provide my service and my colleague is covered by the donations we receive and other money that comes in. My Colleague works 10 hours here at the Porirua centre and 10 hours at Newtown Salvation Army.

If the Government was to implement tax's to charities it would have a massive impact on the services we can provide and we will lose some of those services. s 9(2)(a)

We would not have the money to support having him work and this would have a massive impact of the communities we operate in.

The Government relies heavily of charities to help New Zealander's who are struggling and if we lose money to tax's we will not be able to continue to provide the level of service we currently have. That will mean that the Government will need to step in to provide more money to charities to continue.

In real terms this means more people going hungry, more people made homeless, more people struggling with addiction, more people under pressure financially, more sick people, more people struggling to re-enter society after leaving prison and likely to fall back into old ways etc.

The services we deliver make a positive impact on individuals, community and societal well-being. If we have to reduce our services, this will push the cost onto government, either directly, with government needing to fund and deliver the services we can no longer provide and/or downstream due to increased costs in health, welfare, justice etc.

Why would the Government consider this as an option?

We need to be able to help New Zealanders now more than ever! I see people in my office crying and stressed out each week and they want that help and hope that things will get better.

Don't add tax's to charities, we are here helping New Zealander's. We need to continue to do what we do with the Governments help.

Please feel free to contact me directly.

Ngā mihi nui,

Damien Hazlewood
Financial Mentor

The Salvation Army |
89 Warspite Avenue, Cannons Creek, Porirua
P: +64 (04) 235 6266 | s 9(2)(a) | W: <http://www.salvationarmy.org.nz>

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From: San Morin s 9(2)(a)
Sent: Thursday, 27 March 2025 2:02 pm
To: Policy Webmaster
Subject: Taxation and the not-for-profit sector

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Kia Ora,

My name is Sandra Morin, I have been in Invercargill NZ for almost 2 years now.
During this time, I have been working with the Salvation Army as a Community Ministries Navigator.

Without the roles we take on as part of The Salvation Army people will struggle more to put kai on the table.

If IRD or the government tax NGO's this will have a huge impact on the community with the support, we currently provide. We too have had cutbacks, this impacts in many ways. We struggle to keep up with demand as it stands, incomes have reduced as cost of living goes up. If taxing charities becomes a norm, there unfortunately will be more people affected, out of work, we have already experienced this losing a valued colleague.

The Salvation Army does a great load of work in the community, without our support many will suffer and struggle more.

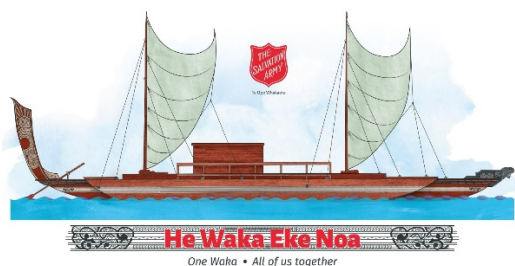
Please consider us when deciding about the charitable taxing and the roll-on effect this may cause

Thank you for taking the time to read my submission.

Ngā Mihi

San Morin
Nga Kaiwhakatere/Community Ministries Navigator
The Salvation Army
110 Leven Street, Invercargill
M: s 9(2)(a) P: 03 218 3094
E: s 9(2)(a)

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

27 March 2025

Dear Sir/Madam,

Subject: Submission in Response to Consultation on “Taxation and the Not-for-Profit Sector” Dated 24 February 2025

I am writing on behalf of Rotorua Districts Veterinary Club Inc to provide a submission in response to the consultation process regarding taxation and the not-for-profit sector. Specifically, I wish to advocate for the retention of the existing income tax-exempt status for veterinary service bodies operating under the not-for-profit model as stated in Section CW50 of the Income Tax Act 2007 which exempts veterinary service bodies from income tax.

Section CW 50 of the Income Tax Act 2007 States;

CW 50 Veterinary services bodies

Exempt income: veterinary clubs

(1)

An amount of income derived by a veterinary association, club, or society is exempt income if—

(a)

the association, club, or society was established mainly to promote efficient veterinary services in New Zealand; and

(b)

none of its funds is used or available to be used for the private pecuniary profit of a member, proprietor, shareholder, or associate of any of them.

Veterinary clubs play a crucial role in supporting animal welfare, animal health, rural communities, and professional development, and removing their tax exemption would have significant negative consequences on the services offered and communities in which they operate.

About Vetora: www.vetora.co.nz

Rotorua Districts Veterinary Club Inc, (Trading as Vetora Bay of Plenty) is one of New Zealand's longest-standing, farmer-owned veterinary clubs and operates as a not-for-profit Incorporated Society. Established in 1945 by leading farmers of the time who wanted their rural community to have access to efficient and cost-effective veterinarian services that provide critical support to their farming operations.

Vetora BOP currently employs 15 veterinarians across four clinics (Galatea, Reporoa, Taupo and Rotorua) with 25 full time support staff, increasing up to 50 throughout the peak dairy season.

Vetora BOP is governed by a board of 7 directors consisting of 6 farmer club members and 1 independent. In addition, up to three board observer roles are offered to club members biennially to provide a "taste of governance" to those aspiring into rural leadership roles. This structure ensures our focus remains steadfast in providing exemplary, cost-effective veterinary services to clients, a financially sustainable business, support to rural communities and development of rural leadership skillset.

The rural communities in which we live and work remain at the heart of what we do. We believe that being rural should not compromise the level of care and service received.

Benefits of Maintaining the Tax-Exempt Status for Not-for-Profit Veterinary Services**1. Ensuring Access to Veterinary Care in Remote Rural Areas**

Tax-exempt veterinary services provide clinical veterinary care in geographical locations where private practices might find the return on investment insufficient. This ensures that animal welfare standards, and national biosecurity requirements are upheld in rural and remote communities where veterinary care would otherwise be difficult to access, unavailable, or unaffordable.

2. Reinvestment into Community Initiatives

The financial surplus generated by not-for-profit veterinary clubs, which would otherwise be directed to either shareholder return or income tax, is instead reinvested into projects that directly benefit local communities. Examples of such initiatives include:

- Subsidised or free, pet vaccination programs in underprivileged areas.
- Financial support of community-oriented events and services
- Financial support for rural schools and educational initiatives.

3. Educational Support for Farmers and People in Charge of Animals.

Veterinary clubs play an integral role in providing educational technical workshops and field days, which enhance farmers' ability to manage livestock effectively. This increased capability and self-reliance in animal husbandry contribute to better overall animal health and welfare outcomes for New Zealand.

4. Sustainable, Community-Oriented Veterinary Services

As not-for-profit entities, veterinary clubs are structured to serve the interests of their members and communities rather than investors. The absence of shareholders seeking financial returns ensures that veterinary advice remains objective and focused on animal welfare as opposed to profit generation. This model promotes the sustainability of trusted and cost-effective veterinary services throughout the communities in which they operate.

5. Encouraging Fair Pricing and Industry Sustainability

The presence of tax-exempt veterinary services fosters competitive, sustainable, industry pricing, ensuring that veterinary care remains affordable while maintaining financial viability. This balance helps prevent monopolisation by corporate entities that may prioritise profit over affordability and best-practice animal welfare.

6. Support for Veterinary Staff Development and Retention

Veterinary medicine remains on New Zealand's skilled labour shortage list. The not-for-profit veterinary club model provides a supportive environment for new graduates, offering essential mentorship and training without the pressure on individuals to generate profit for the business. This structure is vital in retaining skilled professionals within the sector and mitigating early career burnout which is a recognised concern within the industry.

7. Development of Rural Leaders

The veterinary club model provides a pathway into governance for aspiring rural leaders through its directorships, associate directorships and board training opportunities. Club directors are elected by their peers and are typically heavily engaged in the communities in which they reside. Many progress through to represent their community in many forms. For example, Dairy Women's Network, Federated Farmers, local councils, school boards of trustees, sporting clubs, farming

cooperatives and industry good bodies. There are many examples of successful leaders across New Zealand who have started their governance journey in the vet club environment.

Risks of Removing the Tax Exemption for Veterinary Services

If the tax-exempt status for not-for-profit veterinary clubs is removed, several negative consequences are likely to follow, including:

- 1. Consolidation and Centralisation of Clinics**

Veterinary services would become increasingly centralised, reducing access to animal care in remote rural areas where private practices may find operations financially unviable to service.

- 2. Reduction in Community Investments**

Funds currently used for community-oriented projects may be redirected to tax obligations, potentially leading to the discontinuation of valued community services.

- 3. Bias in Veterinary Recommendations**

A shift towards a profit-driven model could influence veterinary recommendations with clients being directed toward more profitable treatments for the veterinary practice rather than those most appropriate for the animal's welfare.

- 4. Corporate Influence on Pricing and affordability of services**

Large corporate veterinary chains could dominate the market, leading to increased prices and reduced affordability of essential animal care services. Private veterinary practices are typically governed by veterinarians, or individuals with a corporate style mentality, often driven by an interest in financial return to primarily benefit their respective shareholders.

- 5. Increased Staff Burnout and Attrition**

The pressures of increased financial demands and profitability expectations could exacerbate early career burnout among veterinary professionals, leading to further staff shortages and a decline in the quality of care available.

6. Reduced opportunity for Rural Leadership Development

To offset tax obligations, governance structures and costs are likely to be reviewed if the tax exempt status is removed. Vet clubs, as a source of community leadership talent for rural communities will be depleted.

Summary

The retention of income tax exemption for not-for-profit veterinary clubs is essential to sustaining accessible and affordable veterinary care, especially in rural and underserved areas. The current model provides significant community benefits, ensures fair industry pricing, supports veterinary staff development, and promotes unbiased, high-quality veterinary care and community leadership. The removal of this exemption would jeopardise these benefits, leading to undesirable economic and social consequences.

I urge this consultation process to recognise the invaluable contribution of not-for-profit veterinary services and to maintain their existing tax-exempt status to continue fostering animal welfare and community well-being across New Zealand.

Thank you for considering this submission, and I am available for contact from Inland revenue officials should further discussion be required.

Sincerely,

s 9(2)(a)

Andrew Reid

Chief Executive Officer
Vetora Bay of Plenty

s 9(2)(a)

27 March 2025

Taxation and the Not-for-Profit Sector
C/- Deputy Commissioner, Policy
Inland Revenue
via email: policy.webmaster@ird.govt.nz

Dear David Carrigan

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

Thank you for the opportunity to provide our feedback on the Taxation and the Not-for-Profit Sector consultation paper.

By way of background, The Selwyn Foundation (TSF) is an unincorporated society that has elected to be a registered charity under the Charities Act 2005. Our Mission is: Oranga Mātua, Oranga Tangata | Respectful Ageing for All, within Thriving Communities, which directly reflects our Constitution and 70 year history as a Christian faith-based organisation, focused on vulnerable older people in Tāmaki Makaurau Auckland and Te Tai Tokerau Northland.

In pursuit of our Mission, we have two core activities:

- **Our sizeable charitable distributions** from our perpetual managed fund so we can enable 'social impact and mission' at scale to enhance the Orangatanga/Wellbeing of vulnerable kaumātua/older people, primarily in Tāmaki Makaurau Auckland and Te Tai Tokerau Northland; and
- **Our retirement village and aged care operations** at Selwyn Village, Pt Chevalier, Auckland, which provide credibility, knowledge and a dynamic learning environment for us to test our social impact and mission (SIM) work. Any surplus from running the village is available to support our charitable work.

We have reviewed the document and elected to respond specifically to the questions in the charity-based income tax exemption section only. Upfront, however, we do wish to make the following overall comments for your consideration:

- We stand in support of the wider charitable and philanthropic sectors and their concerns to ensure a fair, simple and clear taxation regime is in place, that supports the continuation and growth of most-needed services and supports for those in our communities that experience hardship or disadvantage.
- It is pleasing to see the acknowledgement that the common misconception that charities having tax-exemption leads to undercutting tax-paying entities or predatory pricing is not true and as such is not a consideration as to whether charitable business income should be taxed.
- However, with changes of this nature, it is important to be alert to 'unintended consequences'. We believe there is potential for the proposed changes to result in a number, with the most significant being that if charitable business income is taxed, it would reduce the amount of charitable funds to be used for core social service delivery to those in need of support in our communities. This in turn would mean the government or another entity would need to step in to fund those – or that these services would cease to be available. From our discussions with the philanthropic sector, there is little appetite for them to fill this potential funding gap as the demands on philanthropic funds already outstrip the supply of those funds by a factor of 8:1. This would negatively impact on the long-term 'social return on investment' available from Crown and community services.

Our specific responses to the charity-based income tax exemption section follow.

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

As noted above, the basis of a charity is to perform social services. Undertaking this activity effectively saves the government the cost of performing the service. If charities were required to pay tax on their business income they would have less money to undertake these services. This could lead to the government having additional costs to cover the reduction in services or if this did not occur it would have a negative impact on society. Arguably charities can provide these services more directly and efficiently and this could therefore mean it could cost the government more to perform them than the charity. As such the net impact could be the dilution of any tax received from charities business income as government expenditure could increase (and potentially this could exceed the tax take).

While charities currently do not have the same compliance costs related to tax obligations, they do have other compliance costs associated with being a charity that a taxable business would not incur. Adding tax compliance costs would make their overall compliance cost higher than taxable businesses.

It is noted in the paper that retained earnings could be the most cost-effective form of financing. While this could be true, the reality is most taxable businesses use a combination of retained earnings, debt funding and shareholder capital raising to undertake expansion and large projects. If an entity was to only rely on retained earnings to undertake expansion it would significantly slow down their ability to grow. Taxable businesses have the advantage of being able to undertake capital raising that charities do not and generally are able to access debt funding easier. As such it could be argued that even with the tax exemption, charities are still disadvantaged in raising additional funding for growth.

Statistics provided by the Retirement Village Association shows that the charitable sector's market share of retirement village units has remained consistent over the last five years at 11.5%. This suggests that charities have not had any advantage that has helped them grow faster than taxable businesses.

Overall, charities should be encouraged to find additional sources of income so they can increase the social good they undertake.

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

As mentioned in the response to the previous question, the most significant implication would be a reduction in services provided by the charities. This would not only be due to the reduced cash flow from paying tax but also the additional compliance costs. It is also possible that any change would require charities to consider their structure and engage consultants to ensure that there were no unintended consequences of their current set up.

It is also likely that adding complexity to a charity's operations will discourage officers from volunteering their time and new charities being formed. It would also discourage innovation in finding additional funding sources.

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

The definition of an unrelated business is going to be critical and difficult to clearly define without leaving plenty of "grey" areas. A large number of charities undertake businesses which are a combination of activities that are both related and unrelated to their charitable purposes, with the unrelated helping to fund the cost of the related activities.

We also note that there are references to foreign jurisdictions where this tax regime is in place (UK, Canada) however it is not clear if they have the same rigour in the rules that we have in New Zealand with restrictions around charitable activities and registration as a charity.

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

The tiers under the current not-for-profit reporting standards would seem an appropriate way to determine a threshold for providing any exemption for small-scale business activities.

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, business income distributed for charitable purposes should remain tax exempt. This would ensure consistency with individuals who can get tax relief on their income from giving donations.

The application of this could be complicated if charities have multiple funding sources, i.e. what source of funds is being used to pay for the charity.

Where a charity's structure has the unrelated business in a separate entity it could receive exemptions by making donations to a related charity-delivering entity.

Also timing differences would need to be considered as sometimes a charity requires an accumulation of funding before a certain charitable activity can be undertaken.

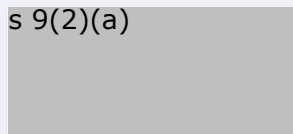
Q6. If the tax exemption is removed for charity business income that is unrelated to charitable purposes, what policy settings or issues not already mentioned in this paper do you think should be considered?

We have no further comments in this area.

Once again thank you for the opportunity to submit our feedback on the consultation paper. If you require any further information regarding the comments we have made please feel free to contact us.

Yours sincerely

s 9(2)(a)



Denise Cosgrove | **Chief Executive**
The Selwyn Foundation

27 March 2025

IRD Consultation Committee
NZ Government

Response to: IRD Consultation Paper -Taxation and the not-for-profit sector

Who we are

The Nelson Diocese covers the top of the South Island from Kaikoura-Marlborough-Nelson-Golden Bay-Buller.

It has 24 church parishes, all of which connect with their local communities to enhance people and community wellbeing.

The work of the diocese and subsequent benefit to the community is grounded upon donations, charitable funds and altruistic support.

The stated objectives of 'simplifying tax rules, reducing compliance costs, and addressing integrity risks' are commendable however there are a number of concerns we want to raise from the current Consultation Paper:

1. Taxation changes are likely to incur an overall reduction in support for our sector
2. It appears these tax changes could move us further away from a simple tax system – which has been a strength of our system in Aotearoa New Zealand.
3. Any tax changes are likely to make it harder for charities like ours to achieve financial self-sustainability if their 'business' income is to be taxed.
4. There is an absence of a cost benefit analysis from any changes proposed in this Paper
5. Taking a blanket approach via taxation concessions, when it appears the core concern is abuse of charitable status under the Charities Act, is likely to cause more damage than benefit due to flow-on unintended consequences.

Charities in Aotearoa New Zealand are part of our DNA

NZ has more charities (not-for-profits) per head of population than most of our international peers. It is something we should feel very proud and want to protect.

4% of New Zealanders are employed by charities and kiwis also volunteer a staggering 1.4million hours every week. ['Charities and Tax Report' -Steven Moe and Craig Fisher, Parry Field Lawyers, 2025]

Charities are usually highly efficient deliverers of services.

They are close to their communities and due to constrained resources are commonly forced by necessity to be incredibly efficient making them generally effective service providers.

Frailty of our Charity Sector

The sector, and our Diocese is financially fragile.

Its common knowledge that the 'not-for-profit' is generally the poor cousin compared to the private and public sectors. Our sector 'runs on the smell of an oily rag'.

There are only 6 mains ways our Diocese raise funds to support our charitable purposes.

These are:

1. Donations from parishioners
2. Any bequests we may receive (unreliable)
3. Small grants from external Funding Agencies we may apply for
4. Income from our investments
5. Small revenues from our community business operations
6. Goodwill support from donated volunteer time, goods and services, or professional expertise

The financial mindset we strive towards is to develop sustainable income streams which move our parishes from dependence to independence over time.

To introduce tax for charities business income goes against what should be a desire to encourage innovation and growth.

Our Recommendation

We humbly ask that decision-makers do not disturb a fragile but highly valued sector, where so many Kiwis generously donate their time and resources for the betterment of our nation.

This consultation paper in its intentions will seriously undermine the intrinsic fabric and importance of charities throughout NZ.

In summary, we believe that charities are hugely important to a well-functioning society, but due to their nature and focus they are also often financially fragile.

We must be very careful not to damage this sector by revenue-driven decisions causing unintended consequences that will ultimately only weaken charities and the role they play in our society.

s 9(2)(a)

The Right Reverend Steve Maina
Bishop of the Anglican Diocese of Nelson

s 9(2)(a)

Graeme Mitchell
Diocesan Manager



Submission: Charities Business Income Tax Exemption

Author: Jill Bond, Chief Executive Officer, New Zealand Kindergartens
s 9(2)(a)

Date: 27 March 2025

Overview – New Zealand Kindergartens

Kindergarten in Aotearoa New Zealand is steeped in the history of pioneers who sought to provide education and care for children within their local communities. Dunedin is the “Home of Kindergarten”, established in 1889. Christchurch followed in 1899, Wellington in 1905, Auckland in 1908, and Invercargill in 1919. By 1975, there were 75 Kindergarten Associations operating 384 Kindergartens.

Our pioneering foremothers/fathers focused their efforts and resources on teacher training, policy and funding. They were pivotal in improving the standards of programmes, staffing, qualifications, and buildings and equipment.

New Zealand Kindergartens (NZK) as we are known today was established as the New Zealand Free Kindergarten Union in 1912/13, and was legally constituted in 1926.

New Zealand Kindergartens is a For-Purpose Charitable Peak Body. It represents nineteen of the twenty six local Kindergarten Associations across Aotearoa. Collectively we have provision to education and care for more than 14,000 tamariki, we employ a minimum of 1,785 registered teachers, and a minimum additional 380 professionals to support our teaching teams.

Our purpose is to support for-purpose trailblazers to thrive in the provision of fit-for-purpose, teacher-led, quality education that enhances social, emotional, economic and environmental impact.

The Importance of Maintaining Tax-Free Status for Legitimate Not-for-Profit Charities, Including Kindergarten Associations

1. Introduction

Legitimate not-for-profit charities, such as Kindergartens, have played a fundamental role in providing essential services to New Zealand communities, particularly remote and rural communities since the late 1800’s. Our Kindergarten Associations exist solely to benefit

the public and deliver public good, particularly for vulnerable, at risk, and under-served tamariki. The continuation of tax-free status for our Associations ensures that they can operate effectively, maintain affordability, and reinvest in their services to maximise public benefit. Removing or reducing their tax-exempt status would not only hinder their ability to deliver these services but could also create unintended consequences, including increased costs for families and reduced access to teacher-led, quality early childhood education across Aotearoa, New Zealand.

- 2. Public Benefit and Essential Services** - One of the primary justifications for maintaining tax-exempt status for not-for-profit Kindergartens is the significant public benefit they provide. Our Associations ensure access to teacher-led, quality early childhood education regardless of a family's financial situation. Research consistently shows that quality early childhood education is crucial in shaping a child's long-term learning and social development, as well as their productivity as a citizen. By maintaining tax exemptions, the government is supporting an investment in the future generations of New Zealand.
- 3. Reinforcing Affordability and Accessibility** - Kindergartens and other not-for-profit early childhood community-based services operate within tight fiscal constraints, relying heavily on government funding, donations, grants and wider community support. Taxing these organisations would increase operational costs, forcing them to either reduce services, close services, or pass costs on to families. Many families already struggle with the cost of living, and the cost of early childhood education. Introducing new financial barriers would disproportionately impact low-income households, potentially reducing the ability of adults, in particular women, to actively engage in paid employment, and widening educational inequalities.
- 4. Reinforcing a Non-Competitive Advantage** - A key argument for taxing charity business income is that it may provide an unfair competitive advantage over for-profit businesses. However, not-for-profit Kindergarten Associations are not operating to generate profit but to deliver public good. Unlike commercial childcare services, the community is the shareholder of Kindergarten. Kindergarten Associations reinvest the majority of their income into delivering quality teaching by employing one hundred percent qualified teaching teams, providing training and development, providing fit-for-purpose facilities that comply with all regulations, and enhancing educational outcomes for tamariki. Their primary focus is the investment in education and well-being of children, not financial gain. Taxing our Kindergarten Associations would undermine their ability to fulfil this mission.
- 5. Compliance Costs and Administrative Burden** - Introducing tax obligations for not-for-profit Kindergartens would impose significant compliance costs and administrative burdens. The majority of Kindergarten Associations are governed by community volunteer boards. Requiring them to navigate complex tax laws would divert valuable resources away from enhancing educational outcomes for tamariki towards administrative overhead, reducing overall efficiency, effectiveness, and sustainability.
- 6. Supporting Government Social Policy Objectives** - The New Zealand Government has consistently emphasised the importance of quality early childhood education in

improving social outcomes. Providing tax exemptions to Kindergartens aligns with broader social policy goals by enabling access to quality education, fostering equity, and reducing long-term government expenditure additional education support and social support services. This is being tested currently with the woeful progress being made in relation to reducing child poverty. Any further move to hinder the tangible support for tamariki like removing the tax-free status, further contradicts these established policy objectives and will undermine government efforts to improve child welfare and social mobility.

- 7. When Should a Not-for-Profit Entity Be Subject to Tax?** - While tax exemptions for not-for-profits serve a crucial public interest and enable the delivery of public good, there are circumstances where taxation may be appropriate. Not-for-profit entities should be subject to tax when they engage in substantial commercial activities that are unrelated to their core charitable mission. If a charity operates a business that competes directly with for-profit enterprises, such as property holdings, subsidiary companies, contracting services, and retains significant earnings without reinvesting them into its charitable purpose, taxation may be warranted to ensure a level playing field. Additionally, donor-controlled charities that engage in circular transactions or accumulate excessive funds without distribution should face scrutiny to prevent potential tax avoidance.

8. Conclusion

Maintaining tax-free status for not-for-profit charities, including Kindergarten Associations, is essential for sustaining the accessibility, affordability, and quality of early childhood education in New Zealand. The benefits of these institutions extend beyond individual tamariki to families and the broader community, contributing to a stronger, more educated society. Taxing these organisations would introduce unnecessary financial strain, reduce ability to deliver essential services, and ultimately work against the government's social and educational priorities.

New Zealand Kindergartens strongly urge the Government to continue supporting legitimate not-for-profit charities by preserving their tax-free status to ensure that they can continue to deliver public good and serve their vital public function effectively for decades to come.

Specific Questions - Charities Business Income Tax Exemption and Related Issues

Chapter Two – Charity Business Income Tax Exemption

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

Charitable organisations provide significant public benefits, often filling gaps left by the government and private sectors. Tax exemptions on business income generated by charities ensure that more resources are directed toward their missions. However, taxing unrelated business income could prevent unfair competition with for-profit businesses. The factors described in 2.13 and 2.14 do raise concerns about tax fairness, but the broader social benefits of tax-exempt status should be weighed against these concerns.

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 implications would include:

- Reduced funding for charitable activities.
- Increased administrative burden for charities to separate related and unrelated income.
- Potential reduction in the number of services provided by charities due to decreased financial resources.
- Possible changes in charitable structures, such as setting up for-profit subsidiaries.

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

An unrelated business should be defined as one that:

- Does not directly further the charity's stated mission.
- Operates in a commercial manner similar to a for-profit entity.
- Competes with taxable businesses in the same market without a charitable purpose.

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?

An appropriate threshold could be:

- A de minimis exemption, such as a percentage of total income (e.g., 5–10%).
- A fixed dollar threshold (e.g., \$50,000–\$100,000 annually).
- A phase-out mechanism where tax is applied progressively beyond a certain level.

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, if a charity reinvests business income into its charitable activities, that income should remain tax-exempt. This could be achieved through:

- A reinvestment rule requiring charities to spend a specified percentage of business income on charitable programs within a set period.
- Allowing deductions for charitable distributions before applying tax to the remaining business income.

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

Additional considerations:

- Clear guidelines on record-keeping and reporting to prevent undue compliance burdens.
- Transitional arrangements to help charities adjust to new tax obligations.
- The impact on donor behaviour if charities have reduced tax-free revenue sources.

Chapter Three – Donor-Controlled Charities

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

Yes, distinctions should be made to ensure transparency and prevent tax avoidance. Criteria should include:

- Significant donor influence over governance or resource allocation.
- A high proportion of assets sourced from a single donor or family.

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

Yes, restrictions should be introduced to prevent undue influence. Suitable restrictions might include:

- Limits on investments in related parties.
- Minimum thresholds for distributions to charitable activities.

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

Yes, a minimum distribution rate (e.g., 5% of assets annually) should be required to ensure funds benefit charitable purposes. Exceptions should be allowed for:

- Start-up charities in their initial years.
- Organisations with substantial long-term endowments.

Chapter Four – Integrity and Simplification

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

- Increase the small-scale NFP tax deduction to \$5,000.
- Simplify income tax return filing requirements for NFPs with revenue under \$50,000.
- Modify resident withholding tax exemption rules for small NFPs.

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

- Higher costs for members, potentially reducing financial accessibility.
- Possible consolidation or closure of smaller entities.
- Reduced community financial services for lower-income individuals.

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

- Local and regional promotional bodies: Reduced tourism and economic promotion.
- Herd improvement bodies: Higher costs for farmers, potentially impacting productivity.
- Veterinary service bodies: Increased veterinary costs, affecting animal welfare.
- Bodies promoting scientific/industrial research: Decline in innovation and R&D.
- Non-resident charity exemption: Potential withdrawal of international charitable aid.

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?

- Increased financial burden on charities.
- Potential reduction in non-cash benefits for charity employees and volunteers.
- Increased reliance on government grants to cover additional costs.

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?

Extending the FENZ simplification could reduce compliance burdens. Additional measures could include:

- A simplified tax return for small charities.
- Exempting volunteer honoraria from income tax up to a reasonable threshold.

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

The review's findings align with the need for greater transparency. Additional improvements:

- Allowing real-time donation tax credits.
- Streamlining claim processes for donors and charities.

26 March 2025

David Carrigan
Deputy Commissioner, Policy
Inland Revenue Department
Via email policy.webmaster@ird.govt.nz

Teena koe David,

Taxation and the not-for-profit sector

Trust Waikato appreciates the opportunity to submit on Inland Revenue's Official Issues Paper: *Taxation and the not-for-profit sector*. As a community trust that distributes funds to many charitable organisations, we have a vested interest in ensuring the continued strength of the sector.

Submission Summary

Trust Waikato's submission is concerned with the following general issues:

- Mismatch in the cost benefit analysis of introducing additional tax compliance obligations for charities when compared with any potential revenue increase for the Government. The financial burden of compliance costs may lead to decreased funds available for distribution by charities; and
- Failure to utilise the current regulatory framework for charitable entities.

We recommend Officials do not make any changes to the current tax concessions provided to charitable entities but instead strengthen the existing regulatory framework for charities.

Mismatch in the cost benefit analysis

Trust Waikato acknowledge that there may be instances of abuse in the system where there are missed opportunities for revenue collection and therefore changes are required.

However, we question whether introducing a new tax framework will provide the financial benefit the Government / Inland Revenue is anticipating. The target for the proposed changes appears to be the very top end of charitable entities who make up a small portion of the sector.

We note there has so far been an absence of the costing of the issues and no estimates of the compliance cost impact of any proposed changes. However, any new compliance regulations will impose costs on all charitable entities, not solely those perceived to be exploiting the

system. Consequently, many organisations may need to reduce the amount of funds available for distribution to meet their tax requirements. Many for-profit organisations already pay to outsource their tax compliance due to the complex nature and expertise required and the expectation seems to be that charities will have to do the same, but with far shallower pockets. Is the revenue the government is expecting to gain sufficient to cover the additional services required if and when charities become unsustainable due to increased compliance costs?

New Zealand is fortunate to operate in a relatively simple tax system but every time new rules are introduced, we move further away from simplicity.

Applying broad sweeping tax rules to address a small number of entities potentially abusing their charitable status will generate far larger costs to the system than any possible financial benefit to be gained.

Failures to utilise the current framework

The sector has over 29,000 registered charities, many of whom already operate with stretched resources, so any changes must be considered in light of this. Given that the fundamental issues relate to the abuse of the tax concessions afforded to an entity with *charitable* status, we question whether the appropriate system to manage those compliance issues is the tax system. The vast majority of charities do not have the current resources to manage tax compliance in addition to their other operations, and even those that do will require external expertise (at a cost) to understand any new rules.

Additionally, we see that the current regulatory system charities operate in already has the means to address the issues raised. These have just not been utilised to their full potential.

The current Charities Act outlines its purpose as (*emphasis added*)¹:

- a) to promote public trust and confidence in the charitable sector:
- b) to encourage and promote the effective use of charitable resources:
- c) to provide for the registration of societies, institutions, and trustees of trusts as charitable entities:
- d) **to require charitable entities and certain other persons to comply with certain obligations:**
- e) **to provide for the Board to make decisions about the registration and deregistration of charitable entities and to meet requirements imposed in relation to those functions:**
- f) to provide for the chief executive to carry out functions under this Act and to meet requirements imposed in relation to those functions.

¹ Section 3 of the Charities Act 2005

Paragraphs (d) and (e) in particular require charitable entities to comply with certain obligations and provide the Board the power to register or deregister charities that do not meet the standard to be a charitable entity. The Board may also direct a charity to be removed from the Charities register if they no longer qualify for registration or if there has been a “significant or persistent failure by the entity to meet its obligations under this Act”.²

We submit that stronger administration of the powers of enforcement that already exist within the Charities sector would be a better use of Government resources than creating a new tax framework to capture issues that fundamentally arise in the charitable sector.

There are also sections in the Charities Act that could be amended to strengthen the sector, for example requiring charities to confirm they meet the requirements of a charity as part of their annual return or in their governance procedures (sections 41 or 42G).

Lastly the Chief Executive has the power to inquire into the following matters in connection with the charitable entity in any instances of breaches or wrongdoing³:

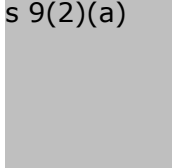
- a) the activities and proposed activities of the charitable entity or person:
- b) the nature, objects, and purposes of the charitable entity:
- c) the management and administration of the charitable entity:
- d) the results and outcomes achieved by the charitable entity or person:
- e) the value, condition, management, and application of the property and income belonging to the charitable entity or person.

It appears that although the above powers exist there has so far not been the resources or motivation available to utilise these in a way that addresses the issues of abuse of a charitable status.

Trust Waikato submits that better enabling the current regulator will provide the requisite safeguards and strengthen the charities sector integrity without needing to create a new, complex tax system that most existing charities will struggle to comply with.

Thank you for the opportunity to comment on this consultation paper and for considering our submission. If you would like to discuss our submission further, please contact Dennis Turton below on s 9(2)(a)

Yours sincerely,
s 9(2)(a)



ton

Chief Executive

² Section 32 of the Charities Act 2005.

³ Section 50 of the Charities Act 2005.

Thursday, 27 March 2025

Taxation and the not-for-profit sector

C/- Deputy Commissioner, Policy Inland Revenue Department

PO Box 2198 Wellington 6140

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

To whom it may concern:

1. Proposal to Tax Charity Business Income Unrelated to Charitable Purposes

(Chapter 2 – Charity business income tax exemption)

Description:

Inland Revenue is considering removing the income tax exemption for business income *unrelated* to a charity's core charitable purpose.

This includes introducing tests to determine whether a business activity is “related” or “unrelated” to the charity's mission.

Relevance to the NZ Rugby Foundation (NZRF)

Since approximately one-third of our income was derived from investment returns (passive income) in FY24, if any part of this investment income is deemed *business income unrelated to charitable purposes* (for example, if actively managed), it could be subject to tax under the reform.

Potential Impact:

- Reduced income due to tax liability on returns that are currently fully reinvested to support beneficiaries.
- Administrative burden to assess and justify whether income is “related”.
- Potential incentive to shift investments to safer, passive assets to retain tax exemption — reducing overall returns.

Why we Oppose:

- The NZRF's investment income, even if not directly tied to its services (e.g., SCI / TBI support), is essential to its long-term sustainability and direct support of charitable beneficiaries.
- Taxing these earnings would reduce the funds available for injury response, Near Miss family support, and the commitment to partner with our (PTD) permanently and totally disabled players forever. This includes education, professional development, personal development, Counselling, home and garden maintenance, and accessibility support, which impact vulnerable individuals.
- The purpose of the investments is clearly charitable — to provide stable funding to an under-resourced, high-need cohort.

- Creating a new “relatedness” test will introduce complexity and uncertainty in an already highly compliant sector.

2. Removal of FBT Exemption for Charities

(Chapter 4 – FBT exemption)

Description:

Inland Revenue proposes reconsidering the Fringe Benefits Tax (FBT) exemption that applies to charitable organisations.

Relevance to the NZRF Charity:

If your foundation provides non-cash benefits to employees (e.g., mobile phones, laptops, home office gear), these could become taxable fringe benefits.

Potential Impact:

- Increased operating costs.
- Disincentivises offering support or incentives to employees — potentially affecting retention and morale in a sensitive and emotionally demanding support environment.

Why Oppose:

- Charities often provide non-cash benefits in lieu of higher salaries.
- The exemption supports the efficient use of charitable funds to attract and retain skilled staff who work in challenging environments.
- Removing it would reduce available funds for charitable purposes.

Summary of Key Arguments for Submission:

1. Taxing unrelated business income would significantly reduce the funds available to support spinal cord injury victims and their whānau. Investment income is central to fulfilling the foundation’s purpose, even if not directly “related” to service delivery.
2. Investment restrictions undermine prudent financial management and board governance and do not reflect the dynamic nature of injury response charities.
3. The proposed FBT changes would reduce flexibility and efficiency in providing staff support, without clear benefit to the tax system or public.
4. These proposals risk undermining financial sustainability, responsiveness, and community impact, which is contrary to the charitable sector’s goals and public expectations.

In closing, the NZ Rugby Foundation’s entire purpose is to support and partner with those who have been most unlucky in our game.

Our Purpose is to see “Thriving futures for rugby’s seriously injured and their whanau.” We Support, Champion, and Collaborate, and this is underpinned by having the resources and expertise to do the best possible job for rugby’s unluckiest.

Kind regards

s 9(2)(a)

Andrew Golightly
Chair

s 9(2)(a)

Lisa Kingi-Bon
Chief Executive

My name is Kathleen Merrick. I reside in Pleasant Point, South Canterbury and am a member of the Opihi Mother McKillop Parish. I am a member of the Parish council and the safeguarding representative for the parish.

Our parish are actively involved in providing care and comfort to the sick of our parish and through St Vincent de Paul provide emotional and well being support to anyone in our area. This includes meals and well-being support which could include anything (firewood, furniture, clothes, bedding) to assist with improving people's lives.

I do not support changes to the income tax exemption for not-for-profits as outlined:

1. Compliance costs that will be imposed on small not for profit organisations. It is knowledge and experience that most will not have so will need to acquire. Both time and financial costs.
2. For many not-for-profit organisations this will be the last straw. They are struggling now, to keep going with reduced government and community support and with the additional costs will test the variability of the organisation.
3. Facilities that many of these organisations have like halls/venues will not be made available to other community group for hire because of the compliance costs that rents will attract. Meaning it's just not worth it.
4. Clarity around the definition of "business income" needs to be obtained and sorted so informed decisions can be made. Currently there appears to be a lot of uncertainty.
5. This is like to be just another step to undermine the not-for-profit sector. Under this government we have seen previous avenues of support significantly reduced and now removing the tax exemption status will be another blow and more attracts likely to the immediate future. An easy target.
6. The value and community contribution of the not-for-profit does need to be assessed so the true impact is fully understood. Public does need to be fully informed of the overall impact.

s 9(2)(a)

From: Jo Morrow s 9(2)(a)
Sent: Thursday, 27 March 2025 3:01 pm
To: Policy Webmaster
Subject: Taxation and the not-for-profit sector

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

To Whom it may concern,

I'm concerned at the thought of Not for Profit organizations such as ours having to go through the taxing process. We are helping sooo many people now dealing with homelessness sand hunger and addictions. You are going to be putting extra strain on us as an organization.

The country is experiencing enough hardship with even hard-working single parents like myself. Come on Parliament Leave the not for profit alone, to be able to get on with the supporting the country .

Nga Mihi,

Jo Morrow

*Property Coordinator Administrator
Addictions, Supportive Housing and Reintegration Services
105 Rostrevor Street, Hamilton Central, Hamilton 3204
M: s 9(2)(a)*

W: <http://www.salvationarmy.org.nz/>

The Salvation Army | New Zealand, Fiji & Tonga
caring for people | transforming lives | reforming society
Caring for people, transforming lives and reforming society by God's power



**Supportive
Housing**

ASARS National office: 09 6391135
salvationarmy.org.nz



Kia kaha, Kia maia, Kia manawanui
Be Strong, Be Brave, Be Steadfast

The email message may contain information which is confidential. If you are not the intended recipient, you must not peruse, use, disseminate, distribute or copy this email or attachments. If you have received this message in error, please notify us immediately by return email, facsimile or telephone and delete this email. Thank you.

Kia ora

My name is Carolyn Smith and I work for The Salvation Army as the National Programme Facilitation Co-ordinator for NZ. I am writing to share my thoughts on the proposed tax changes affecting charities and not-for-profits.

At The Salvation Army we walk alongside people going through really hard times, and support them with a variety of developmental programmes. It is imperative that the link between our Charities Business Income Tax Exemption status and the charitable work we do continues to be recognised.

In the last 9 months, our programme facilitators have delivered the individual or group Positive Lifestyle Programme, Living Skills programmes and Parenting programmes to 1040 people. Those attending these 6-8 week courses identify in the 7-10 range for experiencing Increased capability, Increased resilience, Actively working to improve their situation and Increased self awareness. Alongside this feedback, 68% also recognised that they had achieved greater than 80% of their goals. This is real people making real changes in their lives for themselves and potentially the next generation.

Funding to deliver these programmes continues to be a challenge, especially with recent cutbacks in government contracts. We rely on funding from within our organisation eg. Family Stores income, donations from corporate funders, donated and invested property that generates income, and from generous donations from the public. If the government starts taxing our charitable business income then our reach into communities will be reduced and vulnerable families will again be disadvantaged.

Please keep in mind that The Salvation Army as a tax-free charity organisation, intentionally and clearly uses money earned and donated, for charity purposes and the necessary mechanisms to deliver these services.



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New Life Churches submission on Taxation and the not-for-profit sector paper

Contact

Stephen Miller
Chairperson New Life Executive
Mobile: s 9(2)(a)

Background

New Life Churches includes 72 Tier 3 & 4 charities in 9 regions in New Zealand. The charities have about 10,000 members, are longstanding in New Zealand and do considerable good for the communities they serve. <https://www.newlifechurches.nz/>

On any given week the members and their wider communities will benefit from the charitable work of these churches including but not limited to:

- Youth work including mentoring, training, and counselling at risk youth
- Hosting weddings, funerals and a variety of other community events
- Marriage, parenting, budgeting and other courses
- Recovery from addiction, emotional healing, trauma recovery courses
- Weekly the majority of these charitable trusts hold worship gatherings where prayer support and training call people to live out their Christian values. Many who have come have abandoned crime/abuse and turned their lives around for the good. Others who come are dealing with mental health issues and find in those gatherings the support they need for their wellbeing.
- Practical support from soup kitchens, recycled clothing supplies and food banks

Brief Summary

Section 2

We strongly oppose taxing charitable business income, as it would reduce charity effectiveness, cut vital services, increase unemployment, and force government departments to fill service gaps at a higher cost. Taxing these ventures could lead to closures, further limiting community support. However, if taxation is unavoidable, we recommend exemptions for: fundraising activities benefiting charities, businesses run largely by volunteers, those selling donated goods (e.g., op-shops), and income under 33% of a charity's total revenue, which applies to most small charitable businesses.

Section 3

This largely falls outside of our area of charitable activity.

Section 4

Fringe Benefit Tax (FBT) exemptions are vital for our charities, enabling affordable employment of skilled staff despite limited finances. Its removal would increase costs, reduce services to New Zealand communities, and hinder staff recruitment and retention. The current honoraria system is effective and should remain unchanged, with a recommended weekly/annual tax-free threshold for small koha to volunteers, akin to School Board of Trustees payments. While we generally support the DTC regime review's findings, the IR's proposed changes could impose significant administrative burdens. The existing system functions well, and any updates should be gradual and carefully considered.



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Detailed responses in bold below to the questions raised.

Chapter 2: Charities business income tax exemption

Q1. What are the most compelling reasons to tax, or not to tax, charity business income?
Charitable business income from our charities is reinvested into highly efficient and valuable community work. Taxing or removing this income would undermine charity effectiveness, cut essential services, and create gaps that government departments would need to fill at a higher cost. The 2021 NAYBA case study in Frankston City, Victoria, Australia, highlights the substantial contributions charities make to local communities. <https://www.nayba.org/resources/frankston> Tap [here](#) to read the full report. Screenshot of results provided below.

Key Results

27

Survey responses

(over 60% of all faith-based organisations in Frankston)

53

Community service activities

(addressing 12 of the greatest social needs)



31,191

People in need served
in the past year

(almost a quarter of the population
of Frankston)

\$4,281,789

Social impact value

(to the City of Frankston each year)



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In New Zealand the study completed by Dr Juliet Chevalier-Watts concluded that “without churches, New Zealand would plunge into irreversible poverty and chaos overnight”.

The article linked below goes on to say:

The Hidden Value of Churches

The reason charities, including more than 3000 churches in NZ, don't pay income tax is because the public benefit they provide reduces the burden on the government. Simply put, without charities, our taxes go up, and disproportionately. This is especially the case with churches, because churches help people in far greater ways than the Government could for a lot less money.

https://www.waikatotimes.co.nz/nz-news/360623004/why-atheist-academic-changed-her-mind-churches-tax-status?fbclid=IwY2xjawJRWedleHRuA2FlbQIxMAABHXo1ybc4JjggJqxbkOKNYc5jFwQlaWRlw2KqdCusTQM0A2ADi95-MRv0HA_aem_VgR_rU3WA5oUs1ULTeXNNw

Soft Care: In addition to the research above there are many people with mental disabilities that attend churches all across this nation and in those places find the support they need for their mental health and well-being. If charities/churches services are reduced, then the government needs to budget for an increase in mental health support.

Often the charities business income is broadly connected to charitable purpose and the general well-being of the community.

1. A coffee shop serves as a meeting place where pastoral staff help people navigate life challenges.
2. An op shop facilitates clothing recycling and provides support for those in need.
3. Leasing office space to a counseling service extends a charity's community impact.

For these reasons, we strongly oppose taxing charitable business income.

Do the factors described in 2.13 and 2.14 warrant taxing charity business income?
These second-order imperfections do not warrant taxing charitable business 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?

In many cases, taxing charitable business ventures would likely force them to close, resulting in the loss of vital community services and unemployment for staff. This reduction in funding would also compel charities to scale back the services they provide to their communities.



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

Our primary stance is that charity business income should remain tax-exempt. However, if the government insists on taxing charities to boost its revenue, specific criteria must apply. The following should be exempt:

- Fundraising activities primarily aimed at raising funds for a charity's benefit.
- Charitable businesses substantially operated by unpaid volunteers.
- Businesses, such as charity op-shops, primarily selling donated goods or services.
- Charity business income that constitutes less than 33% of a charity's total income, covering most charities running small businesses as part of their charitable work.

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

We list our preferences below:

1. All Charities should be exempt.
2. Charities in Tier 3 & 4 should be exempt.
3. Charities with unrelated charitable income under \$200,000 or under 33% of their income should be exempt.

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

The most pressing concern in this section is the accumulation of funds. Many charities undertake long-term building projects, requiring years to complete. A mechanism is needed to ensure that funds accumulated from charitable business income for these projects remain tax-exempt.

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

The territorial rule requires review. New Zealand charities should be allowed to support overseas causes, such as an orphanage in Ukraine or tsunami relief in Samoa. We propose permitting up to 10% of funds to be allocated to charitable purposes outside New Zealand.



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Chapter 3: Donor-controlled charities

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

Not relevant to our charities

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?

Not relevant to our charities

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

Not relevant to our charities

Chapter 4: Integrity and simplification

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

For example:

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

While not directly relevant to our charities, we recognize the community value of small not-for-profits (NFPs), especially in sport and recreation, which promote health and well-being. We support increasing the current \$1,000 deduction for these organizations.

Q11. What are the implications of removing the current tax concessions for friendly societies and credit unions? Page 23 of 24 Income tax exemptions

This proposal risks adding complexity to small not-for-profits (NFPs), potentially forcing some to close and depriving communities of valuable services.

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

- local and regional promotional body income tax exemption
Though not directly relevant to our charities, we've observed the positive impact of regional groups in various communities. Their efforts to beautify areas through graffiti removal and tree planting enhance community hope, and we support these initiatives.
- herd improvement bodies income tax exemption
Not relevant to our charities
- veterinary service body income tax exemption
Not relevant to our charities



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- bodies promoting scientific or industrial research income tax exemption
Not relevant to our charities
- non-resident charity tax exemption?
Not relevant to our charities

FBT exemption

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

FBT exemptions are highly valuable to our charities. Many skilled individuals want to work in the charitable sector, but limited finances often make it challenging to offer competitive salaries. FBT exemptions play a crucial role in bridging this gap, enabling us to employ good staff affordably. Eliminating FBT exemptions for charities would raise costs, making it harder to attract and retain talent.

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

The current system works well and requires no changes.

Where a payment is given in exchange for a service then the schedular payment system works.

When volunteers are given a small koha as a thankyou and in no way covers the hours they have worked then it would seem cruel and unreasonable to impose a tax on this. In a similar way to payments for School Board of Trustees meetings we recommend a weekly or annual threshold under which these koha can be tax free.



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

The DTC regime regulatory stewardship review had some valuable findings we would in general support. See table below.

DTC improvements from the review

Packages of options based on level of ambition

Incremental improvements	Significant enhancements	Structural reform
<ul style="list-style-type: none">• Improve OCR and decision maker tool for receipt processing• Look at paper receipts (decline, or improve OCR tool to read)• Include donee status on charities register• Develop culturally specific education materials for Māori and Pacific communities• Implement 3-month grace period for charity reregistration	<ul style="list-style-type: none">• Make Incremental improvements, and• Improve collaboration with Charities Services through improved data sharing protocols• Introduce receipt numbering system• s 9(2)(f)(iv)• Look at overseas funding rules for Pacific countries	<ul style="list-style-type: none">• Fully integrate with intermediaries and donee organisations• Delink DTC from income tax system• Make real-time payments

However the IR response suggests the implementation of these would involve significant process and system changes and potentially increase administration to charities. The current system works relatively well and any changes should be incremental and carefully planned.



27 March 2025

Inland Revenue Department
Wellington

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

Taxation and the Not-for-Profit Sector

Response Summary

The United Fire Brigades Association of New Zealand (UFBA) has 661 volunteer fire brigade and operational support unit members made up of various forms of incorporation. Incorporation of volunteer fire brigades varies including registered charities, incorporated societies or entities that are informal in status. The latest proposed tax changes affecting the volunteer fire sector will have three significant impacts on volunteer fire brigades.

- Potential taxation of brigade business income not related to the brigade's charitable purpose.
- Increasing brigade tax compliance obligations.
- Taking charitable funds from the volunteer fire brigade sector reducing the ability of brigades to respond in times of emergency need in the community.

In terms of future tax law, it is important there is a clear definition of business income not related to a charities purpose. At present it is not clear if fund raising for fire brigades using community assets are included or excluded from the business income definition?

We recommend setting the De-minimis for small scale trading activities amount for entities with expenditure of up to \$5.0 million. The imposition of further tax compliance would then only affect Tier 1 and Tier 2 registered charities.

The compliance cost in terms of volunteer time and accounting costs would add no value to the operation of a volunteer fire brigade. The main purpose of our volunteer fire brigades is to protect life, property and the environment, not complete income tax returns. Community-based volunteer fire brigades serve the combined communities of New Zealand through Fire and Emergency New Zealand (FENZ). The volunteers comprise 86% of the FENZ frontline workforce and their annual financial contribution to New Zealand if monetised is over \$800 million.



United Fire Brigades Association's questions responses [in bold]:

Chapter 2: Charities business income tax exemption

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

Taxing business income used for charitable purposes will reduce the pool of funds available for the charities sector. This is at a time when funds available for the charities sector have been reduced significantly due to difficult economic conditions.

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?

Less funding in the economy for charitable purposes. This will reduce the ability of charities to fill the increasing community welfare/services gap created due to poor economic conditions and reduced government expenditure.

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?

Business income generated

- outside the circle of charity membership (mutuality principle)
- in competition with other non-charitable organizations/ businesses

Excluded business income

- One off community fund raising activities using community assets.

Volunteer fire brigades often use community assets to fundraise to purchase new brigade equipment. If it can be shown that income is directly used for charitable purposes, then that income is not taxable.

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?

Tier 3 and Tier 4 charitable entities are exempted from accounting for business income unrelated to its charitable operations. Entities with annual expenditure below \$5 million.

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?

Treat the distributed income as a tax-deductible expense.



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?

None.

Chapter 3: Donor-controlled charities

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

N/A to the volunteer fire brigade sector.

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?

N/A to the volunteer fire brigade sector.

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?

N/A to the volunteer fire brigade sector.

Chapter 4: Integrity and simplification

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

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

The current \$1,000 deduction limit should be revised to exempt all charitable entities that have annual expenditure up to \$5 million. The limit for other not for profit entities for example sports clubs, the limit should be increased to \$10,000.

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

N/A to the volunteer fire brigade sector.



Income tax exemptions

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

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

N/A to the volunteer fire brigade sector.

FBT exemption

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

There will be less funding in the charities sector which will impact the ability of charities to contribute to their areas of charitable purpose.

Tax simplification

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

We agree extending the FENZ simplification as an option for Charities. The current tax rules treating honorarium payments as schedular income complicates tax for volunteers who often do not understand why they receive an ACC invoice after paying withholding tax on the honorarium/schedular income.

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

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

No.

s 9(2)(a)

W.A. Butzbach
CEO



27 March 2025



Inland Revenue Department, New Zealand

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To Deputy Commissioner, Policy Inland Revenue Department

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

1. Introduction

Trust Horizon is a local (Eastern Bay of Plenty) Charitable Trust with investments that include 100% ownership of Horizon Networks (Horizon Energy Distribution Limited).

Trust Horizon was established in 1994. Originally named the Bay of Plenty Electricity Consumer Trust, it was formed with the goal of keeping a portion of the local electricity company under community ownership.

In 2000, the Trust was renamed Eastern Bay Energy Trust (EBET) and in 2008 became a Charity recognising its ongoing charitable support for the community. In 2015, the Trust obtained 100% ownership of Horizon Energy Group, which includes the lines company that distributes electricity to homes and businesses throughout the Eastern Bay of Plenty (population 52,000). Since its inception with \$5M in capital the Trust has distributed over \$50M to worthwhile energy-related causes in this District (one of the most deprived in New Zealand) to assist the community with energy use, hardship, efficiency and transition.

Trust Horizon owns one of the twenty New Zealand Electricity Distribution Businesses that are Trust owned – either in part or full. It is the dominant ownership model but rather than simply providing a discount to consumers' power bills as a charity the Trust can support impactful initiatives.

The financial returns from the Trust's investments including the Horizon Energy Group are crucial to our ability to grant funds and increasingly to engage in local impact investing such as Whakatōhea Mussels Ōpōtiki Limited and Lodestone Energy Limited, which in turn results in long-term strengthening and sustainability of the community through local jobs and economic activity.

The Trust's perpetual nature means it needs to balance the current needs of the community with future needs. To do this requires a level of investment and accumulation of funds (anything to the left of traditional philanthropy in the chart below would be considered an accumulation from an accounting perspective) to provide intergenerational equity and a broad view of how we can have impact in the community across the spectrum of granting, impact investing/lending and commercial investing. It is also evident with the changing environment and more frequent severe weather events it is sensible to hold reserves to enable much larger funding amounts to be drawn down post an event.

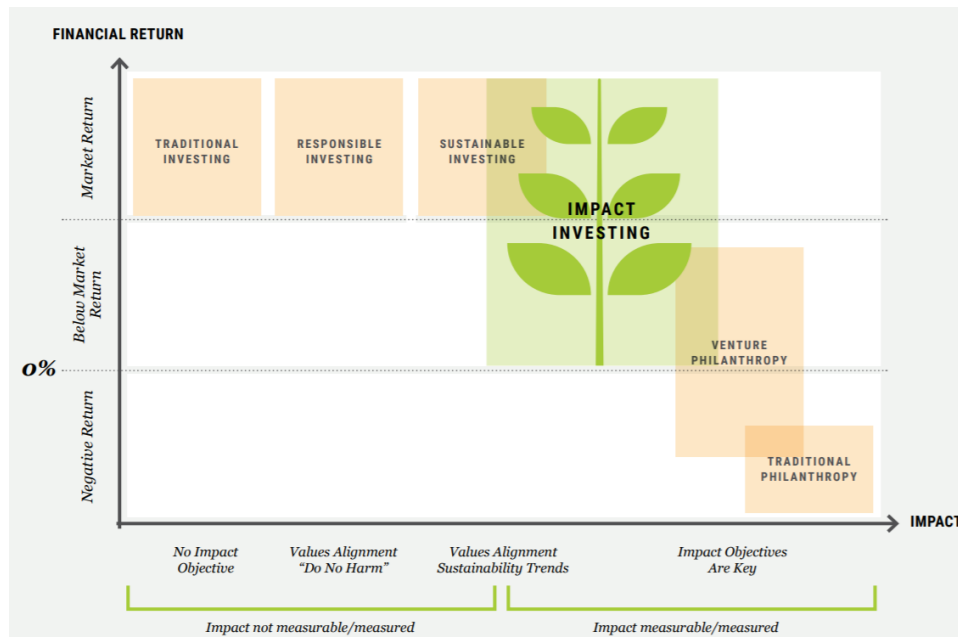


Figure 1 - Investment spectrum (Source: Overview of Impact Investing in Aotearoa <https://www.centreforsocialimpact.org.nz/>)

We have submitted in good faith on the consultation document however we are concerned the issues paper does not follow the Government's Statement On Regulation by:

- not setting out a clear problem definition,
- taking a very narrow and one-sided view positing the "tax-concession" to Charities as a cost,
- not providing evidence and assessment of the overall net benefit/cost to society of the policy options.

We support the detailed submissions made by Philanthropy New Zealand and Sue Barker Charities Law.

2. Key Submission Points

Overall, we support:

- The Government encouraging private charity by continuing to recognise Charities for their broad public benefit/impact and absence of private ownership with a 0% marginal tax rate on income received or surpluses generated, similar to other public benefit entities such as local government.
- The tax system continuing to work towards Fairness and Integrity:
 - Fairness - where entities pay their marginal tax rate on income received
 - Integrity - where opportunities for entities to avoid paying their marginal tax rate on income received is minimised
- Any changes required to maintain the social licence and public confidence of the Charitable sector, however we are of the view these should be made in Charity Law. Tax law should not be used as a proxy for defining what entities are Charities or whether they continue to meet their charitable purpose.

- Any changes proposed being objectively tested against and meeting one or more of the IRD's tax principles including efficiency, equity, revenue integrity, minimisation of compliance and administration cost, and certainty and predictability.
- The simplification of tax rules where it can be demonstrated this will reduce compliance costs for the Charitable sector, which in turn reduces IRD's costs and provides more money for charitable purposes.

However, there are a number of reasons a carve-out to business income tax exemptions are ill-advised and damaging to the Charitable sector including:

- They are unlikely to materially generate any net tax as ultimately the destination of funds remains the same. For example, a company can simply donate its profits (if it is considered a tax-paying company) to its Charitable owner.
- They have the potential to be overly complex and burden (in terms of resources and cost) the 29,000 or so good charities to address a few perceived bad actors.
- They are distortionary and could stifle charities from being innovative, independent of Government, self-sufficient, efficient in their delivery of impact, and contributing meaningfully to our local communities and more broadly the NZ economy.

A. Charity Business Income Tax Exemption

We do not support the proposal to tax charity business income unrelated to charitable purposes for the following reasons:

- If business income is considered unrelated by a Charity it will be part of a portfolio of commercial investments that provide the Charity with funding for their charitable purpose, and in keeping with the principles of horizontal equity it should not be tax disadvantaged compared to other investments such as term deposits, PIEs etc.
- It is unclear whether this proposal would raise any tax, or instead simply result in increased compliance costs for Charities and the IRD, as business net income can be donated to Charities pre-tax. Charities already face additional compliance costs associated with financial disclosure and service reporting when compared to other for-profit entities.
- Income accumulated tax-free can only be destined for charitable purposes, with many charities putting accumulated funds to work through impact investments (where there is both a financial and environmental, social, governance return) and can be required to accumulate funds to maintain intergenerational equity under their Deed. Taxing these accumulations could stifle innovation in this developing investment sector (largely supported and funded by philanthropy) and will result in less public good being achieved by charities. There are existing disclosure rules to allow the public at large (as well as Charities Services) to question the need for accumulations and to hold charities to account.

Policy design considerations if tax exemptions were reviewed for unrelated business income and accumulations the IRD should consider the following:

Impact on Charitable Sector

- If tax exemptions were removed for unrelated (or related for that matter) business income the change is likely to have a chilling effect in the sector on both appetite for investment in riskier business activity and money cycling through local economies (with more of it being held in lower risk lower return tax-free vehicles, and the lower yields resulting in less cash to put towards charitable purposes) or eroded by the tax and additional compliance costs. The policy changes should follow the [Government's Statement On Regulation](#) and *only proceed where the benefits of the preferred option not only exceed the costs (taking account of all relevant considerations) but will deliver the highest level of net benefit of the practical regulatory options available*. Consideration should be given to other policy options such as whether changes to the Charity Law would be a better approach.

Fairness, Equity and Integrity

- Fairness and equity need to be objectively quantified, and changes to the tax system tested against these measures. Horizontal equity should be carefully considered as a for-profit shareholder *is not* in a similar tax position to a charity when it comes to tax treatment of their respective shareholding returns. Existing horizontal equity issues should also be rectified under any proposed changes such as Charities being unable to receive dividends pre-tax when other tax-exempt entities such as Local Government can.
- For the overall Integrity of the tax system the proposals should not be looking to fix “second-order” imperfections when there are still “first-order” integrity issues to be addressed such as dividends/imputation credits for Charities. Nor should the proposals seek to introduce overly complex, ill-defined or arbitrary thresholds that can distort decision making and increase costs for both Charities and the IRD as this puts the efficiency of the system at risk.
- The paper considers two policy option examples to restore the Charity's income tax position – pre-tax dividend deductions and imputation credit refundability accounts. Both of these would need careful review before implementing to ensure that a Charity's income tax position is not eroded over time ie when in the future accumulations are distributed. Related to this is the concept that there would need to be restrictions to prevent the parent charity investing those funds back into the Charity Business. It is not clear why this should be the case, since the parent charity would in any event be required to invest the distributed funds in accordance with its founding documents. If those founding documents permit the funds in question to be invested into the Charitable Business, then it would be a strange outcome if tax law prevented that investment:
 - as denying access to its only source of capital would lead to capital unnecessarily being retained in the business rather than being distributed back to the Charity, or
 - put the business and its directors at risk of trading insolvent, or
 - prevent the business pursuing economic value adding opportunities (which in turn increase the tax base by generating PAYE, GST etc).
- The consultation document refers to overseas jurisdictions without clearly setting out their overall system and principles of taxation. A tax system needs to work as a whole and cherry-picking policies as comparisons risks creating a biased international view on the

treatment of charities for tax purposes. And if implemented an incoherent tax system. Also, it is not clear as to the purpose of any international comparisons as our overall tax system is materially different to the comparison jurisdictions (see Sue Barker's submission for details), charities' capital is less mobile than private capital and donor tax-concessions only apply to their New Zealand income.

Stakeholder support

- The consultation appears to have been rushed with little time to meaningfully engage with the sector and has been issued:
 - without setting out a clear problem definition,
 - taking a very narrow and one-sided view positing the “tax-concession” to Charities as a cost,
 - without providing evidence and assessment of the overall net benefit/cost to society of the policy options.
- Without the above it is difficult for the sector to respond with specific examples and any changes following this consultation risk unintended consequences and lack of stakeholder support. If policy options are progressed greater detail and analysis is required to enable meaningful critique and evidence-based submissions.

3. Conclusion and Recommendations

We appreciate the opportunity to contribute to this consultation. While we acknowledge the need to continually refine the tax system, we urge the Government to carefully consider the potential unintended consequences on charities and their ability to serve communities.

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

Yours sincerely

s 9(2)(a)

Derek Caudwell
Chief Executive on behalf of Trustees

TAURANGA WOMEN'S COLLECTIVE INCORPORATED SOCIETY

Te Whakaruruhau O Tauranga Moana
PO Box 8068, Cherrywood 3145, Tauranga
Crisis Ph: 0800 86 7338
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27 March 2025

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

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

Dear Deputy Commissioner

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

Tauranga Women's Collective Incorporated Society Te Whakaruruhau o Tauranga Moana (TWR) is an independent women's refuge founded in 1980. We provide a safe place for women, children and whānau experiencing family and whānau violence in Tauranga Moana and the Western Bay of Plenty. TWR is a charitable incorporated society that operates with an annual income of less than \$2 million, primarily funded through government contracts, donations, and volunteer support.

We appreciate the opportunity to provide feedback on the Inland Revenue Department's (IRD) consultation paper, *Taxation and the Not-for-Profit Sector* (February 2025). After reviewing the consultation paper, we provide our thoughts below. We also provide direct responses to the questions posed within the paper as an Appendix.

General Comments

TWR opposes the general taxation of charity business income, as many charities in Aotearoa rely on business operations to sustain their charitable work. Given the significant financial strain already faced by charities, especially those providing critical social services, introducing additional tax burdens could jeopardize their ability to continue operating. This is particularly concerning for organisations like ours, who support communities facing societal issues that are chronically underfunded and under resourced.

Rather than implementing broad changes to tax exemptions that may negatively impact the entire charities sector, we urge IRD to collaborate with the Department of Internal Affairs and the Charities Registrar to address concerns regarding a small number of entities that may be misusing their charitable status for tax avoidance. A targeted approach would more effectively uphold the integrity of the sector without compromising the essential services provided by genuine charities.

Streamlined Processes

As a charity with regular donors, TWR supports any measures that streamline compliance for donation tax credits, making it easier for donors to claim their entitlements. We also have a strong volunteer community, and therefore support the simplification of volunteer-related expenses to reduce administrative burdens on both charities and volunteers.

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Request for Clarification on "Accumulation of Funds" Definition and Timeframe

TWR seek clarification on the proposed approach to the taxation of accumulated funds, particularly in relation to international examples and best practice.

The consultation paper does not specify what qualifies as "accumulated funds" for taxation purposes or how long funds must remain unspent before they are considered subject to taxation.

Our charity delivers government-funded services, some of which are bulk funded, meaning we receive funding upfront but must allocate it over time as expenses arise. In some cases, the government department may require us to return unspent funds, and there have been instances where the government has clawed back funding from providers.

Non-charitable businesses are able to more easily capital raise to expand their businesses, whereas charities face significant restrictions in raising capital. Unlike commercial enterprises, charities rely on donations and grants, which do not typically support long-term growth or expansion. This means, when we are looking at future growth and opportunities, we are strategic about how we collect, save and accumulate our funds to be able to deliver and pay for those opportunities.

We encourage IRD to recognise these challenges when considering imposing a tax on "accumulation of funds" to ensure charities are not unfairly taxed on funds that are difficult to raise through conventional business means and may be ultimately be subject to the government reclaiming them.

Compliance Obligations

There appears to be a misconception about the compliance requirements and perceived competitive advantages of charities compared to non-charitable businesses. In reality, charities must adhere to extensive tax and reporting obligations, including PAYE and GST, and undertake reporting requirements such as annual audited financial statements, which are publicly available.

Conclusion

We support efforts to promote transparency and fairness in charity taxation. However, we urge IRD to consider whether the focus on tax reform is the appropriate approach. Rather than introducing broad tax measures that may hinder charities' ability to serve their communities, the focus should be on upholding and strengthening existing charitable frameworks.

We welcome the opportunity to discuss this further and provide additional input.

Nā mātou

Tauranga Women's Collective Incorporated Society Te Whakaruruhau o Tauranga Moana



Appendix: Responses to Consultation Paper Questions

Chapter 2: Charities business income tax exemption

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

TWR does not support the general taxing of charity business income. Many charities in Aotearoa run businesses to support their charitable purposes and it is unclear how IRD propose to properly identify 'business income' v 'income applied to charitable purposes'. The administrative burden and cost of imposing this change in policy may outweigh any additional tax IRD receives from this change.

We have identified some inaccuracies and presumptions made in the factors described in 2.13 and 2.14, including:

- (a) *Charitable trading entities do not face the compliance costs associated with a tax obligation, lowering their relative costs of doing business.*

As a charity, we comply with multiple tax obligations, including PAYE, GST and KiwiSaver, and are also required to prepare and file annual audited accounts with the Charities Registrar. The only tax compliance difference between charitable and non-charitable organisations is the requirement to file annual tax returns.

However, charitable organisations face additional compliance burdens that non-charitable entities do not. These include requirements to have publicly available annual accounts and governance documents as well as being subject to the complaints and compliance processes of the Charities Registrar. Charities must also adhere to a range of legislative obligations including the Charities Act 2005 and Incorporated Societies Act 2024 among others. These additional regulatory requirements ensure transparency and accountability but also impose significant administrative responsibilities on charitable entities and shouldn't be understated.

- (b) *The non-refundability of losses for taxable businesses can result in a disadvantage for such business relative to tax-exempt businesses resulting in a higher relative rate of return for non-tax paying businesses over time when there has been a loss in one year.*

While non-charitable organisations cannot claim refunds on losses, they can carry those losses forward to offset future earnings, reducing taxable income and liabilities over time. The concern raised here seems to reflect broader grievances from non-charitable organisations about their tax treatment rather than the issues directly related to the tax-exempt status of charities. Ultimately, every entity must consider these factors when choosing the most suitable legal structure for their operations.

- (c) *The costs of raising external capital can be significant resulting in a potential unfair advantage for charitable organisations, however charities generally cannot raise equity as investors cannot receive a return.*

Raising external capital can be costly, and while charitable organisations typically cannot raise capital due to the lack of return and equity, it is important to recognise that charities still face significant costs in securing funding. For organisations like TWR, fundraising is a key component of operations, as service provision contracts alone are not sufficient to sustain the work we do. We depend on donations, fundraising events and philanthropic and community grants to keep our programmes running, all of which must be solicited and/or applied for. These efforts are necessary on an annual basis to keep the doors open



and mainly cover operational costs. These funds do not typically allow for growth or expansion of the organisation.

Service provision contracts delivered by charities are typically funded by government agencies, which must adhere to strict procurement rules and processes to ensure fair market engagement and cost efficiency. The application process for these contracts is highly complex and demanding. Furthermore, funding from service provision contracts is typically restricted, meaning it cannot be used to support the organisation's growth or development.

- (d) *A charity could gain an unfair advantage if it accumulates tax-free profits back into the capital structure of its trading activities allowing it to expand more rapidly from its competitors.*

While TWR acknowledges that some businesses may operate as charities to reduce their tax obligations, we believe that the majority of charities in Aotearoa are not focused on making a profit but are dedicated to advancing their charitable purposes and expanding their impact.

As outlined in our cover letter and our response to Q1(c), charities face significant challenges in raising external funds for growth and expansion. Accumulating funds is often the only means available to safeguard future growth and ensure the sustainability of core services that are not fully funded by service contracts or external support. Additionally, at times we are required to hold funds for service delivery which are subject to service provision requirements and clawback. Taxing accumulated funds would hinder our ability to expand and could jeopardise the financial stability required to keep our charity operational.

TWR challenge the assertion that charities have a competitive advantage over non-charitable entities. Previous reviews of charity taxation in Aotearoa have refuted this claim, highlighting the unique financial constraints and responsibilities that charities must navigate.¹

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.*

TWR does not support the removal of tax exemptions for charity business income.

The most significant practical implication of this proposed change would be the administrative burden of processing charitable and non-charitable income within the same entity. Charities would be required to carefully segregate income sources, leading to increased compliance costs and resource allocation for accounting and reporting. This could detract from the charity's ability to focus on its core mission and services, as more time and effort would be spent on managing tax-related complexities rather than advancing its charitable purposes. This change could create confusion and uncertainty about what constitutes "unrelated" income, further complicating the operational environment for charities.

¹ Tax Working Group. (2018). *Charities and the not-for-profit sector. Background Paper for Session 13 of the Tax Working Group.* <https://taxworkinggroup.govt.nz/sites/default/files/2018-09/twg-bq-3996875-charities-and-the-not-for-profit-sector.pdf>

Inland Revenue Department. (2001). *Tax and charities. A government discussion document on taxation issues relating to charities and non-profit bodies.* <https://www.taxpolicy.ird.govt.nz/-/media/project/ir/tp/publications/2001/2001-dd-charities/2001-dd-charities-pdf.pdf?modified=20200910101336&modified=20200910101336>



Additionally, charities who provide critical services which are underfunded, such as family and whānau violence, would be adversely affected by the introduction of tax on any of their funds which could jeopardize their ability to continue operating.

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.

TWR does not support the removal of tax exemptions for charity business income.

While the intent of this law may be to target charities focused on making a profit, it is likely that this proposed change will inadvertently affect many charities whose primary focus is on their charitable purpose. Some of these charities have established businesses with a long-term goal of becoming self-sufficient, reducing their reliance on donations, charitable funding and service provision.

If the tax exemption is removed, IRD should provide clear, direct guidance on what constitutes “business income that is unrelated to charitable purposes” and ensure that any income falling under this definition is not being used for charitable purposes. It is important for IRD to have a consistent and well-defined approach to enforcement.

We also recommend that a specialist team be established to work with charities in Aotearoa to ensure the law is applied correctly. A phased implementation period should be introduced where compliance is monitored but not penalised, allowing charities sufficient time to adjust their practices and comply with the new policy.

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?

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?

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?

TWR does not support the removal of tax exemptions for charity business income.

These three questions suggest potential exemptions to the removal of tax exemptions for small-scale business activities or income distributed for charitable purposes. Rather than pursuing a complex system of exceptions, we urge IRD to focus on assessing whether businesses are currently operating within the existing charitable frameworks. The priority should be identifying and excluding those businesses that are abusing their charitable status.

We recommend that IRD collaborate with the Department of Internal Affairs and the Charities Registrar to address this issue, ensuring that only organisations that truly meet charitable criteria remain within the charitable framework. This approach would be more effective in targeting misuse of charitable status than introducing additional layers of exemptions and exceptions.



Chapter 3: Donor-controlled charities

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

TWR supports transparency and accountability for charitable organisations but does not have a view on whether donor-controlled charities should be treated separately from other charitable organisations.

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?

Charitable status should not be misused to avoid tax or accumulate wealth and TWR supports any restrictions or processes that prevent organisations to be able to do this. Organisations that do so undermine the integrity of the sector and take resources away from vulnerable communities. Any misconduct within the sector impacts all legitimate charities, diminishing public confidence and support.

IRD's primary focus should be on preserving public trust in the charitable sector rather than prioritising tax collection. While ensuring compliance is important, any legal changes or restrictions should be designed to uphold the transparency and accountability of charities, rather than simply increasing tax revenue. We encourage IRD to work closely with the Department of Internal Affairs and the Charities Registrar to achieve this.

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?

TWR supports the responsible application and distribution of charitable income and assets in alignment with their intended charitable purposes and would expect that most of the income and assets within a charitable organisation are applied likewise.

As a charitable organisation, TWR typically distribute between 70 – 90% (and at times over 100%) of our annual income to our charitable purposes, ensuring that most of our resources directly support women, children and whānau in need.

Chapter 4: Integrity and simplification

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

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

TWR has no submission to make on this question.



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

TWR has no submission to make on this question.

Income Tax Exemptions

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

- d. Local and regional promotional body income tax exemption.*
- e. Herd improvement bodies income tax exemption.*
- f. Veterinary service body income tax exemption.*
- g. Bodies promoting scientific or industrial research income tax exemption.*
- h. Non-resident charity tax exemption.*

TWR has no submission to make on this question.

FBT exemption

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

For small charities like TWR, offering employee benefits is crucial to maintaining competitive salary packages and attracting highly skilled staff. Employee benefits also help small charities retain staff by supporting their professional development and allowing them to grow within their roles. Without these benefits, experienced employees may be drawn to larger organisations or government agencies that can offer more comprehensive compensation packages, leading to high turnover and loss of valuable institutional knowledge.

Allowing these benefits to remain tax-free reduces costs for charities like TWR, ensuring that we can continue providing competitive salary packages despite financial constraints. By enabling small charities to offer meaningful salary packages, employees are better supported in their personal lives, allowing them to focus on the critical work of protecting and supporting women, children, and whānau in need when they come to work. Without such incentives, small charities risk losing talented professionals, limiting our ability to deliver high-quality care and support to the communities that rely on us.

Tax simplification

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

TWR has a long history of volunteer support and initially operated entirely through volunteers to protect women and children experiencing violence. While TWR does not use honoraria payments and cannot provide specific feedback on this matter, we strongly support measures that reduce tax compliance costs for volunteers.

However, we urge IRD to carefully consider the broader implications of treating volunteer payments as salary or wages, particularly regarding the potential application of employment laws. Any changes should ensure that volunteers are not unintentionally classified as

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employees, which could create legal and administrative obligations, responsibilities and complexities for charities who continue to heavily rely on volunteers to operate.

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.

As a charity that receives donations from both regular and occasional donors, TWR supports initiatives that simplify compliance for donation tax credits, making it easier for donors to claim their entitlements. We encourage IRD to provide clear, user-friendly instructions and processes that charities can share with donors.

From: Manager of Hamilton Budgeting <manager@budgeting.co.nz>
Sent: Thursday, 27 March 2025 3:38 pm
To: Policy Webmaster
Subject: Taxation and the not-for-profit sector

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

27 March 2025

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

Inland Revenue
Wellington

Re: Taxation and the not-for-profit sector; Official's Issues Paper

Hamilton Budgeting Advisory Trust supports the Community Networks Aotearoa submission. We are deeply concerned about the proposed changes to charities tax regulations, as they could significantly impact our ability to continue providing essential financial mentoring and budgeting services to the Hamilton community. These changes could place additional financial and administrative burdens on not-for-profit organisations like ours, potentially reducing our capacity to support those most in need.

Introducing our organisation and community

Hamilton Budgeting Advisory Trust has been serving the Hamilton community for several decades, providing free and confidential financial mentoring services to individuals and families facing financial hardship. Our team of dedicated financial mentors works with clients to develop sustainable financial management skills, prevent financial crises, and promote long-term financial well-being.

Each year, we support hundreds of individuals and families in Hamilton, offering guidance on budgeting, debt management, and financial literacy. Our services are particularly crucial for low-income households, beneficiaries, and those facing unexpected financial difficulties. The need for our support has only grown in recent years due to rising living costs and economic uncertainty.

Hamilton is a diverse and growing city with a mix of urban and rural communities. Many of our clients are struggling with housing affordability, food insecurity, and mounting debt. As a trusted organisation in the community, we provide not only financial advice but also emotional support and connections to other vital social services.

We are concerned that additional tax obligations on charities could divert limited resources away from direct client services, making it harder for us to fulfill our mission. As outlined in the Master Submission – Discussion Paper on Taxation and the Not-for-Profit sector, these proposed changes

could result in financial strain on charities and significantly impact their ability to deliver services effectively. The submission highlights that the introduction of taxation measures may disproportionately affect small and medium-sized charities, which already operate under tight financial constraints. Increased compliance costs and potential tax liabilities could lead to service reductions, negatively impacting those who rely on our support the most.

Conclusion

Thank you for considering our submission. We urge the government to carefully assess the impact of these proposed changes on the not-for-profit sector and to ensure that charities like Hamilton Budgeting Advisory Trust can continue to provide essential services without undue financial strain. As noted in the Master Submission, a fair and sustainable approach is necessary to support the ongoing work of charities in addressing critical social issues.

Please contact [Name] on [Phone Number] or at [Email Address] to discuss any aspect of this submission further.

Ngā mihi,

Ngā mihi

Tony Agar

Manager

Hamilton Budgeting Advisory Trust

87 Clarence Street

Hamilton

Phone: 07-838 1339



www.budgeting.co.nz

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Thankyou.

27 March 2025

C/- Deputy Commissioner, Policy

Inland Revenue Department

PO Box 2198

Wellington 6140

By email policy.webmaster@ird.govt.nz

Dear Commissioner

Taxation and the not-for-profit sector

Thank you for the opportunity to comment on Inland Revenue's consultation on charities and the not-for-profit sector. The New Zealand Law Librarians Association (NZLLA) wishes to comment on the Taxation and the not-for-profit issues paper chapter 4 and question 10. Our submission is set out below.

1. NZLLA Background

- 1.1. The NZLLA is a not-for-profit incorporated society. We have approximately 100 members across New Zealand. We were registered as an incorporated society in 1997, but the group has existed in some form since 1977.
- 1.2. The purpose of the NZLLA is to promote law librarianship, to educate and to advocate and support our members who work in this sector. Our sector includes universities, government departments and professional services firms.
- 1.3. Our income comes from membership fees and sponsorships from publishers. This enables us to pay our administrative costs, host events and training sessions, organize conferences for the benefit of our members and pay grants for members to attend national and overseas conferences.
- 1.4. We are a fully voluntary organisation. No payments are made to the national executive or members except for reimbursement of expenses.
- 1.5. We do not have an intention to make a profit. All our income ultimately goes back to providing services to our members and to pay necessary expenses such as accountancy fees and website maintenance.
- 1.6. Our constitution does not provide for distribution of surpluses to members.

2. Submission on Issues Paper Chapter 4

- 2.1. We currently pay tax on income from doing business with non-members and RWT on bank account interest.
- 2.2. Any increased tax burden, such as paying tax on membership fees, will affect what we currently offer to our members.
- 2.3. Our association maintains low membership fees. Fee increases are considered only sporadically (increased only twice over the last decade). We do this so that anyone will be able to join and not be restricted by their personal financial circumstances such as students and retirees.
- 2.4. Should membership fees become taxable income there are two possible outcomes for us. We would need to increase our membership fees to absorb the increased tax cost or reduce the quality of offerings to members. Either scenario could result in a drop in membership numbers and threaten the ability of the association to continue.
- 2.5. There may be increased administration costs and additional time demands.

- 2.6. All income received from member's fees goes back into providing services to members and necessary administration costs. Income is not used to pay salaries or provide any personal benefits.

3. Submission on Issues Paper Question 10

3.1. Increasing or redesigning the current \$1000 deduction to remove small scale NFPs from the tax system.

- 3.1.1. We consider that a \$1000 profit threshold too low and is not fit for purpose. It appears to have been set at this amount for over two decades. We submit that a \$5000 threshold would be more reasonable and would enable us to plan for and consider other small profit-generating activities to stabilise our finances.
- 3.1.2. Our income varies year to year. In a good year we could go over the \$1000 threshold but for other years we might not. We might also incur additional expenses in any given year which would offset any profits. For example, this year we are investing significant funds on our website for data security and enhanced usability reasons. This year we anticipate that our outgoings will surpass our income.
- 3.1.3. We engage best spending behaviour for managing our budget and it does not necessarily fit that we would want to spend all our income received within a single year as our expenses vary year to year as does our income.

3.2. Modifying the income tax return filing requirements for NFPs

- 3.2.1. We would like the process to be as simple and clear as possible. At present we engage an accountant to assist us with the filing process. If we are not able to afford their services in the future, then the time commitment should not become a burden to our volunteer members.

3.3. Modifying the resident withholding tax exemption rules for NFPs

- 3.3.1. We are not exempt from RWT as our income is over the threshold.
- 3.3.2. We would like some clarity on IRD commentary and advice around the impact of bank account interest and how that counts as profit.

Sincerely,

Louise Bailey

President

New Zealand Law Librarians Association

president@NZLLA.org.nz

Ian Trotter

Wellsford

26 March 2025

Subject: Submission in Response to Consultation on "Taxation and the Not-for-Profit Sector" (24 February 2025)

Dear Sir/Madam,

This letter is submitted in response to the consultation on taxation and the not-for-profit sector. We strongly oppose the withdrawal of the income tax exemption for Veterinary Clubs for the reasons below.

Veterinary clubs ("Vet Clubs") are currently exempt from income tax. Profits in Vet Clubs should not really be viewed as profits as it will always be locked up in the Club to be utilised for infrastructure at a later stage. Profits that remain in Vet Clubs are re-invested in the club to provide for the necessary infrastructure and build a buffer to counter economic downturns. Given the time required to accumulate sufficient reserves for infrastructure improvements, maintaining this exemption is critical.

As income tax is levied on profits without deductions allowed for essential infrastructure costs—such as buildings—any taxation imposed would directly reduce these reserves. This would significantly impact the Vet Clubs' operating model, potentially leading to increased costs for the community, which ultimately benefits from these services. Vet Clubs often serve large, geographically dispersed areas that would otherwise be uneconomical to support due to extensive travel requirements. A profit driven business will have no interest.

Over time, taxation could lead to decreased access to veterinary care, particularly threatening the availability of 24/7 emergency services in rural areas.

Additionally, new legislation is being introduced for Incorporated Societies to replace the existing legal framework governing Vet Clubs. This legislation upholds the principle that Vet Clubs remain tax-exempt, especially since, upon dissolution, any surplus assets must be transferred to another not-for-profit entity. This ensures that all profits and assets continue to serve the community, distinguishing Vet Clubs from profit-driven businesses where shareholders benefit financially.

The impact on how vet clubs operate

Due to the absence of a profit incentive, Vet Club management prioritises decisions in the best interest of the community. Since neither profits nor assets can be distributed outside the community, Vet Clubs align with the characteristics of charitable and non-profit entities—both of which are traditionally exempt from taxation.

Maintaining this tax-exempt status is essential to ensuring continued veterinary services, particularly in rural areas where access is already limited.

Conclusion

Given the vital role Veterinary Clubs play in providing accessible and essential animal care—particularly in rural areas—their tax-exempt status must be preserved. Taxation would directly reduce the reserves necessary for infrastructure and emergency services, ultimately burdening the communities that rely on these services. Furthermore, Vet Clubs operate as not-for-profit entities, reinvesting all funds into the community rather than generating profits for private gain. The new Incorporated Societies legislation reinforces this structure, ensuring that surplus assets remain within the not-for-profit sector.

Removing the income tax exemption for Vet Clubs would not only undermine their ability to operate effectively but also risk diminishing veterinary services in underserved regions. We strongly urge that the current tax-exempt status be maintained to support the continued provision of veterinary care, particularly for rural communities.

Thank you for considering this submission.

Sincerely,
Ian Trotter

Wellsford District Veterinary Club

Taxation and the Not-for-Profit Sector
David Carrigan
C/- Deputy Commissioner, Policy
Inland Revenue Department
PO Box 2198 Wellington 6140



27 March 2025

Dear David,

RE: Taxation and the Not-for-Profit Sector Issues Paper

Thank you for the opportunity to provide feedback on the Taxation and the Not-for-Profit (NFP) Sector issues paper. While we support a fair and transparent taxation system which operates as a 'level playing field', we remain concerned that the paper itself fails to outline what problem the department is trying to fix or the scope and scale of this problem.

If indeed there are issues with certain charitable entities and the businesses they operate, we believe there are already tailored options available to the department and we make suggestions around these in our responses below.

Overall, we are of the view that much of what is suggested in the paper will do little in the way of raising revenue but would rather significantly increase and shift the compliance burden on to charities, the majority of which run leanly and incredibly efficiently. The result being reduced funds for charitable purposes. We would also note on the macro level this Government created the Ministry of Regulation to ensure unnecessary red tape was removed. Increased, and we would argue unnecessary compliance costs for charities, seems to contradict the current coalition government's desire to reduce red tape and remove costs from the system.

Prior to any changes in the advice provided by the Commissioner we suggest a comprehensive review which clearly identifies the scope and scale of any perceived issues. Any paper could then look at differing methodologies to resolve these issues. Ones which are tailored and provide precision solutions, thereby reducing the risk of significant unintended consequences which lead to a decline in purposeful use of fundraised revenue for those most in need of charitable services.

Once again thank you for the opportunity to respond to this paper.

Yours Sincerely

s 9(2)(a)

Monica Briggs MNZM
Chief Executive Officer,
Child Cancer Foundation

Submission to the Inland Revenue Department on the "Taxation and the Not-for-Profit Sector" Issues Paper from the Child Cancer Foundation

March 2025

1. Introduction

- 1.1 The Child Cancer Foundation ('the Foundation') is a tier two charitable membership organisation which provides support to families and children experiencing a childhood cancer diagnosis. Our vision is to walk alongside and support all children and their families on their cancer journey and advocate improvements to child cancer care. In the 2023/2024-year CCF supported 309 families undertaking this journey from Te Kao in the north to Invercargill in the south, and more broadly provided peer support services to 1,254 families. The Foundation has been operating for nearly 50 years, having been Incorporated in May of 1978. The Foundation receives no government funding.
- 1.2 The Foundation appreciates the opportunity to provide feedback on the 'Taxation and the Not-for-Profit (NFP) Sector' issues paper. As a registered charity, we are concerned about the proposed changes, particularly the taxation of indirect income by a charity and the compliance burden of any changes to Fringe Benefit Tax (FBT) collection could create. We are also concerned that the paper while clearly setting out the principles of a fair taxation system, does not quantify the problem any changes to the existing tax regime is seeking to correct. Indeed, we would suggest changes to the current taxation system could lead to a range of significant unintended consequences detrimentally impacting beneficiaries of charities while not materially impacting the crown accounts. Given this lack of problem definition, we are of the view that the proposals to change the tax system as suggested in the issues paper are best described as blunt instruments to fix unidentified problems where targeted or precision solutions (such as charity registration and de-registration processes) would reduce the risk of significant unintended consequences to potentially a large cohort of well-run charities.
- 1.3 Finally, this paper should be read in conjunction with the officials' issues paper "Taxation and the Not-for-Profit Sector" issued 24th February 2025.

2 Response to Discussion Questions

- 2.1 Question One: What are the most compelling reasons to tax, or not to tax, charity business income. Do the factors describe in 2.13 and 2.14 warrant taxing charity business income?

We believe that income generated by charities should remain tax-exempt. While we acknowledge that some organisations may be using charitable status in a way that provides them with an unfair competitive advantage, we believe this issue is best addressed through tax avoidance provisions and stricter enforcement of charitable status rather than taxing charity income.

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

If the tax exemption for unrelated business income were removed, compliance costs would increase, forcing charities to:

- Explore alternative ways to generate income that would not be subject to tax.
- Increase fundraising costs to generate additional fundraised revenue to fill gaps in an increasingly competitive charitable funding environment.
- Ultimately limit services commensurate with the increased tax burden.
- Overall, a potential reduction in the efficiency of some service provision as the crown may need to take over some provision of services from comparatively low cost-efficient charitable providers if this change makes them unsustainable.

This means that any intended increase in government revenue may not be realised. Indeed, changes may see higher costs to the crown, as pressure increases on health and social services. Ultimately, we would be concerned for the negative impacts to child morbidity and mortality in Aotearoa/New Zealand. We also note that the Ministry of Regulations was created to ensure unnecessary red tape was removed increasing compliance costs for charities seems to contradict the current coalition government's desire to reduce regulation which exponentially increase the compliance burden on, in this case the charity sector.

2.3 Question Three: 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?

Our response reflects our perspective rather than any entire sector view. Any criteria for defining unrelated business income should consider:

- Fundraising activities specifically aimed at supporting the purpose of the organisation
- Property rental income: any income derived from renting excess accommodation where the income is reinvested in respite, holiday (for charity beneficiaries) or housing support provided free of charge to service users should also avoid taxation.

Perhaps of equal importance alongside the criteria itself, is where the burden of proof sits with regards to who determines what qualifies as related or unrelated charity business income and the consequent liabilities this creates for charities. Will charities have to retain reserves against an adverse tax finding from IRD with regards to different interpretations of the criteria?

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

As a Tier 2 charity, we are unable to comment on an appropriate threshold, noting that those charities that do have business trading activity tend to be larger charities. It therefore can be argued that larger charities have created scale due to their trading income and financial sustainability, that are of benefit to society. We would also argue that while not directly related to the question, the crown has previously encouraged NFPs to develop social enterprises to limit the costs on government and to make the sector more sustainable. Removing tax exemptions for revenue generated to support charitable activities seems punitive and counterproductive.

2.5 Question Five: 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 strongly believe that income from charity-run businesses, when distributed for charitable purposes, should remain tax-exempt enabling the full value of funds raised or income earned to be dispersed for the reasons for which it is collected. With specific regards to note 2.31 and 2.32 of the consultation paper we would like to reiterate that accumulated funds are both necessary and prudent given a boards fiduciary responsibility. As an organisation we have a policy of holding two years' worth of operating expenditure to ensure continuity of service to children and families. We have also had to call on these reserves in recent times as Covid 19 greatly impacted our and other charity's ability to generate funds. We relied on reserves through three years of deficit during and after the Covid years. The suggestion of taxing surpluses and then only providing tax relief when it was distributed seems punitive, would increase charity compliance costs considerably and would seem to run counter to good governance models.

While we are of the view that the increased compliance costs system wide would mitigate any benefits, we question whether the crown would return funds via new investment to cover system gaps. For example, the Child Cancer Foundation fills a critical gap in funding for families dealing with a childhood cancer diagnosis. We provide a range of initiatives to support all families to fully engage in the national treatment model irrespective of family situation or geographic location where the 'system' does not fully meet these needs. For example, we provide flights for all (nuclear) family members to reach treatment centres in Auckland and Christchurch, where New Zealand's specialist child oncology hospitals are located. This contributes to evidence informed best practice, where research indicates that engagement in the care of children with a cancer diagnosis by not only parents, but also siblings, improves outcomes for both siblings and the child with a childhood cancer. This is not something currently provided for by government via the National Travel Assistance programme (NTA). Efforts to improve the NTA through advocacy, which does not fully cover costs and can be difficult to access has had limited results, the Foundation however can respond efficiently and with agility.

2.6 Question Six: 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 (note this question relates to territorial restrictions and/or limited partnerships?)

We cannot provide detailed comment on other consideration as per note 2.36 of the discussion document paper as we would not be impacted by the territorial rule, nor do we engage in limited partnerships— all our support is provided to families within New Zealand. We do not have any special structures and have no intention of deregistering.

2.7 Questions Seven to Twelve.

We have no comment on these questions as we are not a donor-controlled charity, a category three or four not for profit (NFP) or a friendly society and therefore we do not believe we are qualified to provide a perspective on these specific issues, but we note this could impact the amount of philanthropic funds in the wider charity sector and impact grants received from funder charities that may be impacted by any proposed changes.

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

We understand the importance of simplifying FBT. This is an area where we would be significantly impacted if changes were to be made. The paper and the question assume a reduction in compliance costs, but there is a threshold below which this is not the case and in fact the inverse is true. As a general principle, we as a charitable entity do not provide benefits that would be considered taxable under fringe benefit tax laws. While total remuneration in the charity sector is generally already low when compared with the private or government sectors, we do not divert charitable funds to provide benefits to employees, although historically we have, in one or two cases where a vehicle was deemed industry standard. We are of the view that donors would not be particularly receptive to this type of expenditure.

Notwithstanding this we estimate that FBT 'compliance costs' alone would be \$14,000 per year, in terms of compliance for us, our resources are limited—we have only one accounts person for a charity of our size. The cost of compliance would, we estimate only generate an additional possible FBT liability of up to \$4,200, bringing the potential total cost to \$18,200 annually. Put another way we would be required to spend \$14,000 to generate revenue for the crown accounts of \$4,200. From a cost benefit perspective this does not seem sensible and places the burden on already stretched and stressed charities. We have calculated this given the high level of compliance we would need to implement for our fleet which are pooled and part of our tools of trade.

To mitigate this, we would need to reduce our FBT liability; while doing little to reduce compliance costs it would reduce our liability as a crown revenue source. While the discussion provides no evidence that charities are misusing FBT or structuring benefits for personal gain, as a general principle we believe if a charity or any entity engages in abuse or avoidance of FBT that this should be addressed through tax avoidance provisions rather than blanket changes that increase the compliance burden and regulations on all other entities.

3 Summary of Key Points and Recommendations

The Child Cancer Foundation supports the Government's efforts to ensure a fair and effective tax system. However, the proposed changes could have unintended consequences that hinder charities' ability to operate efficiently and serve their communities. We recommend:

1. Clearly defining unrelated business income and thereby eliminating definitional uncertainty and potential liability and thereby ensure charitable activities are not unfairly taxed and that new structures or approaches do not come into play to compensate for any change.
2. Retaining a simple tax system for charities across New Zealand which has been a strength and create systems to identify any who operate outside of the parameters already defined in legislation. This also ensures sustainability for many charities and ensures charities can continue to meet social needs.
3. Retain the current FBT rules to avoid excessive compliance costs that divert funds from charitable purposes.
4. Support donation tax concession suggested changes as they could help increase donations.

We appreciate the opportunity to contribute to this consultation and welcome further discussions on these matters. Please do not hesitate to contact us if clarification or additional information is required.

Submission by Epilepsy New Zealand on the Issues Paper: Taxation and the Not-for-Profit Sector

Date: 30th March 2025

Submitted to: Inland Revenue Policy, Wellington

Submitted by: Epilepsy Association of New Zealand Incorporated (Epilepsy NZ or ENZ)

Website: www.epilepsy.org.nz

Contact: Epilepsy House, 6 Vialou Street, Hamilton Central, Hamilton 3204; Phone: (07) 834 3556

Introduction (Refer: Chapter 1)

Epilepsy New Zealand (ENZ) supports the education of people living with epilepsy, as well as the wider community. Even though epilepsy is one of the most common brain disorders worldwide, there is still a great deal of misunderstanding about what epilepsy is and what it's like to live with.

At ENZ, we believe that understanding is the key to promoting a better quality of life for people living with epilepsy — by reducing stigma and discrimination, providing stronger support for individuals and their families, and encouraging research to prevent unnecessary deaths and, ultimately, find a cure.

Epilepsy is one of the most common brain disorders affecting New Zealanders, impacting thousands of individuals and their whānau across the country. Any reduction in funding or increased compliance requirements would have a detrimental effect on the services and support available to this already vulnerable population. People living with epilepsy face significant daily challenges, including widespread stigma and discrimination, making it critical that support systems remain accessible, well-resourced, and responsive to their needs.

Epilepsy NZ appreciates the opportunity to provide feedback on the Inland Revenue's issues paper *Taxation and the Not-for-Profit Sector*, released on 24 February 2025. As a registered charity, ENZ is committed to supporting individuals and whānau affected by epilepsy through education, advocacy, and tailored support services across Aotearoa. We welcome the government's efforts to improve integrity and transparency in the not-for-profit (NFP) sector and offer the following comments on key proposals.

1. Charity Business Income Tax Exemption (Refer: Chapter 2)

Current Activities:

ENZ primarily relies on tagged funding (e.g. from grants and contracts) for specific programmes, with limited revenue generated from general donations and fundraising. We do not currently operate significant unrelated business activities.

Feedback on Section 2.1–2.19 (Rationale and Implications):

We support the general direction of ensuring clarity and fairness in the tax treatment of business income. We agree that income from business activities unrelated to a charity’s mission may justifiably be taxed, provided the distinction between “related” and “unrelated” activities is clearly defined (see 2.21–2.24).

We support the concept of retaining the exemption for distributed income (2.30–2.35), particularly where funds are used to directly advance charitable purposes. We also support the introduction of a de minimis threshold based on reporting tiers (2.25–2.29) to protect small and medium-sized charities from undue compliance burdens.

However, many charities, including ENZ, face structural funding challenges. Most of our revenue is tagged to specific services, leaving us dependent on a limited pool of untagged funding to meet general operating costs and respond to emerging community needs. Our organisation frequently faces deficits in our profit and loss statements, and we rely on accumulated untagged funds to cover shortfalls at year-end. Removing the current exemption without providing relief for accumulated funds that are used for core charitable purposes would risk destabilising organisations like ours.

Responses to Consultation Questions:

- Q1–Q2: The practical implications for charities like ours would be significant if the exemption were removed without safeguards. It could redirect limited resources from service delivery to tax compliance.
- Q3–Q5: We support taxing only genuinely unrelated and accumulated surplus income, with exemptions for income distributed for charitable purposes within a reasonable timeframe.
- Q6: We urge further consultation with the sector to ensure policy changes do not disproportionately impact disability support organisations with volatile and limited income sources.

2. Donor-Controlled Charities (Refer: Chapter 3)**Current Structure:**

ENZ is governed by a diverse board of trustees appointed by our membership, and we operate independently of our donors in our operations and governance.

Feedback on 3.1–3.6 (Policy Framework and Concerns):

We support the principle of greater accountability and transparency in donor-controlled entities, as outlined in sections 3.7–3.16. While ENZ is not a donor-controlled charity, we recognise the reputational risks that arise from tax avoidance and circular arrangements. Any conflicts of interests with trustees are managed accordingly.

Responses to Consultation Questions:

- Q7–Q9: We support a proportionate regulatory framework that requires such entities to maintain governance independence, enforce arm’s length transactions, and make regular charitable distributions.

3. Integrity and Simplification (Refer: Chapter 4)

Fringe Benefit Tax (FBT) Exemption:

ENZ currently uses the FBT exemption to provide modest non-cash benefits to employees, which assists with retention and staff morale. Removing this exemption, particularly without reducing compliance costs (4.27–4.29), would create operational strain, likely reducing our capacity to deliver services.

Feedback on Section 4.25–4.29:

We acknowledge the intent to simplify tax policy, but caution that the removal of FBT exemptions may disproportionately affect smaller charities unable to offer competitive salaries.

Responses to Consultation Questions:

- **Q13: Retaining the FBT exemption is critical for supporting workforce sustainability in underfunded social service organisations.**

Volunteers and Simplification Measures (4.30–4.33):

We support extending simplified tax arrangements for volunteers (such as the FENZ model) to all NFPs. Many of our regional support networks rely on volunteer input, and streamlining tax compliance for honoraria or reimbursements would reduce administrative overheads.

Donation Tax Concessions (4.34–4.37):

We welcome the proposed changes to make donation tax credits more accessible and efficient. Low awareness and complex filing discourage many of our donors from claiming their credits, potentially undermining charitable giving.

Conclusion

Epilepsy New Zealand supports the review's objectives of improving transparency, fairness, and tax integrity in the not-for-profit sector. However, we caution that any reforms must consider the operational realities of community-based charities with limited funding flexibility. Clear definitions, transitional support, and safeguards for accumulated unrestricted funds are essential to protect vital services delivered to vulnerable populations.

We are happy to engage further or provide additional insights as needed.

Taxation and the not-for-profit sector

Submission by World Vision New Zealand

31 March 2025

Introduction

- World Vision of New Zealand Trust Board (WVNZ) is a registered charitable trust. We are a part of the World Vision International Partnership.
- WVNZ is an international Christian emergency relief, community development and advocacy organisation dedicated to working with children, families and communities to overcome poverty and injustice. We have programmes operating in nearly 100 countries around the world.
- As the largest international non-governmental organisation (INGO) in New Zealand, WVNZ appreciates the opportunity to provide feedback on the Issues Paper on “Taxation and the not-for-profit sector” (the Paper).
- Charities play an important role in delivering public benefit. WVNZ delivers public benefit both locally and globally – not only through the direct impact of our programmes, but also by mobilising the goodwill and generosity of New Zealanders. This model of private giving for public good reduces the burden on government while increasing community engagement and resilience.
- WVNZ acknowledges Inland Revenue’s intent to maintain the integrity and effectiveness of the tax system. However, the proposals outlined in the Issues Paper could unintentionally compromise the operational and financial sustainability of the charitable sector. We therefore recommend that the proposals in this issues paper not proceed.

Summary of recommendations

WVNZ makes the following recommendations in response to the proposals outlined in the Officials’ Issues Paper on “Taxation and the Not-for-Profit Sector”:

- Retain the current tax exemption for charitable business income.
 - Introducing tax on “unrelated” business income would create unnecessary complexity, increase compliance costs, and divert essential resources away from charitable work.
 - International experience shows that distinguishing between “related” and “unrelated” income is difficult in practice and yields little fiscal benefit.
- Do not proceed with proposals to introduce a category of “donor-controlled charities.”
 - Instead, apply targeted anti-avoidance measures to address any identified risks.

- Broad regulations risk capturing legitimate philanthropic structures and could undermine funding partnerships essential to WVNZ and other charities.
- Avoid broad investment restrictions or mandatory minimum distribution rules.
 - Charities should retain flexibility to invest sustainably and allocate resources over time to maximise long-term impact, particularly in humanitarian and development contexts.
 - Conduct comprehensive impact assessments before altering existing tax exemptions.
 - Many small and medium-sized charities cannot manage increased compliance burdens. Maintaining simplicity supports greater participation and public benefit.
- Retain the Fringe Benefit Tax (FBT) exemption for charities.
 - The exemption supports recruitment and retention by allowing charities to offer modest, essential benefits in a competitive labour market.
- Support simplification of the Donation Tax Credit (DTC) process.
 - Improvements should prioritise accessibility and awareness. Real-time receipt requirements would disproportionately impact smaller charities and regular monthly donors.
 - Engage meaningfully with the charitable sector before implementing reforms.
- Sustainable and effective tax policy should be developed in partnership with the sector through genuine consultation and co-design.

Chapter 2: Charity Business Income Tax Exemption – Questions 1 to 6.

- WVNZ strongly recommends that the current broad tax exemption for charity business income is retained. Tax exemptions for charities are not concessions but acknowledgements of the public good they provide; far from being an international outlier, New Zealand leads in enabling charitable work, and concerns about profit accumulation or taxpayer burden overlook both the structural funding challenges charities face and the significant positive benefits they deliver.
- Many charities, including WVNZ, rely on a mix of fundraising activities to support their charitable work. This fundraising mix is vital in funding the work that we do, especially when donor funding does not fully cover operation costs or cannot be used for operational costs. This fundraising contributes to charities being able to operate with financial self-sustainability.
- The proposed introduction of an “unrelated business income tax” would create unnecessary complexity and ambiguity. Taxing such income from unrelated business activities could divert critical resources away from charitable activities, impose a disproportionate administrative burden on a sector already facing rising costs and declining revenue, and erode our ability to deliver impact for vulnerable communities.
- While relief mechanisms—such as deductions for income reinvested into charitable programmes have been suggested, they would introduce new layers of bureaucracy with little fiscal benefit to the Government.
- WVNZ perceives that the benefit of any tax revenue to be gained by removing the tax exemption will be outweighed by the negative impact on the sector if charities are unable to deliver on their charitable purposes due to increased administrative and financial constraints. In our view, the current exemption should remain.

Chapter 3: Donor-controlled charities – Questions 7 to 9.

- WVNZ is not a donor-controlled charity, being governed by an independent voluntary board. However, we partner with many such organisations, and the proposed changes could significantly affect their ability to fund WVNZ and other similar charities. This would ultimately result in less money for the children we support through our programmes.
- The concept of “donor-controlled charities” is problematic for tax purposes and risks capturing legitimate philanthropic structures, undermining charitable giving and penalising responsible donors who seek to structure giving for long-term impact. Instead, Inland Revenue should focus on identifying specific tax risks within these organisations and address them directly, rather than applying broad criteria.
- Regarding investment restrictions, while preventing non-arm’s length transactions is important, broad investment restrictions could hinder legitimate investments that sustain charitable work. Charities are already required to provide audited financial statements on the Charities Register, ensuring transparency and accountability. Rather than applying broad-based investment constraints, Inland Revenue should focus on targeted enforcement against proven abuse, ensuring that charity investments are made in good faith and in support of long-term charitable goals.
- Regarding the minimum distribution rule, mandatory distribution rules may unintentionally force inefficient or premature expenditure, reducing flexibility and limiting charities’ ability to fund long-term initiatives, especially in humanitarian and development contexts where flexibility is vital. Inland Revenue should focus on assessing whether specific accumulation practices pose tax risks and address them on a case-by-case basis.
- Overall, while WVNZ supports measures to prevent tax avoidance, WVNZ considers that broad regulations could negatively affect legitimate donor-charity relationships. Clear guidelines and targeted rules would address concerns around tax avoidance and abuse without imposing unnecessary restrictions on genuine philanthropic endeavours.

Chapter 4: Integrity and Simplification

Questions 10 to 12

- WVNZ supports the objective of integrity and simplification but recommends that comprehensive impact assessments be conducted before any specific tax exemptions are altered. Additional rules and complexity will disproportionately affect small and medium-sized charities, many of which lack the administrative capacity to navigate tax compliance systems. The strength of the current framework lies in its simplicity and accessibility.
- WVNZ considers that changes to existing exemptions could disrupt the operations of organisations serving niche but vital roles. Thorough assessments will ensure that any modifications do not negatively impact the not-for-profit sector’s ability to contribute to societal wellbeing. The questions posed in the Paper and the tight timeframe for response do not allow for Inland Revenue to conduct a comprehensive assessment of the impact of proposed changes on the wide and varied not-for-profit sector. WVNZ is concerned that those not-for-profits most affected by these proposals may lack the capacity to respond within the tight consultation timeframe, leading to underrepresentation of key perspectives.

Question 13

- WVNZ recommends that the FBT exemption for charities is retained.
- The FBT exemption allows charities to provide modest, essential staff benefits—such as health insurance—without incurring tax liabilities that would otherwise reduce funding for mission-critical activities. Its removal would disadvantage a sector already competing for talent under resource constraints.

Questions 14 and 15

- WVNZ recommends Inland Revenue collaborates and meaningfully engages with the not-for-profit sector to co-design simplification measures that are practical, flexible, and suited to organisations of all sizes.
- While we support efforts to make tax obligations easier for donors and volunteers, the short timeframe for submissions—coinciding with many organisations' financial year-end—limits meaningful sector input. As a result, responses may not fully reflect the views of smaller or under-resourced charities most affected by these changes.
- Requiring real-time receipts for donation tax credits could add unnecessary complexity and cost, especially for monthly donations or charities with limited administrative capacity. A better approach would be to focus on raising public awareness and improving digital access to the scheme.

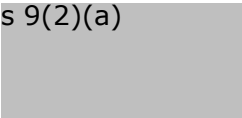
Conclusion

While WVNZ understands the need for regular reviews of tax policies to ensure their effectiveness, we urge Inland Revenue to consider the unique nature of the not-for-profit sector. Any changes should aim to support and not hinder the valuable contributions not-for-profit entities make to society. We echo the concerns raised by other international development and humanitarian organisations in the sector who likewise view the proposed changes as a barrier to charitable work at a time when the sector faces growing service demand, declining revenue, and rising operating costs. We urge Inland Revenue to maintain a collaborative, evidence-based approach that supports—not hinders—the contribution of charities to New Zealand society.

If you have any questions or would like to discuss WVNZ's submission in more detail, please contact us.

Yours sincerely,

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Grant Bayldon

National Director

27 March 2025

Sent via email

policy.webmaster@ird.govt.nz

Taxation and Not-For-Profit sector 2025 submission

Thank you for the opportunity to provide a submission on the proposal to change the business income tax exemption for the not-for-profit sector.

Paraloan

The New Zealand Paraplegic and Physically Disabled Foundation, known as Paraloan, was formed back in 1973 to improve the lives of physically disabled people in New Zealand. The charity is governed by six trustees.

According to the latest census, one in six (17%) of people identify as disabled.

Many physically disabled people have difficulty in accessing bank lending. One way Paraloan achieves its purpose is by providing low-interest loans to these people.

In 2023, we undertook a survey to ascertain a better understanding of what financial barriers are faced day-to-day by disabled people. This survey was sent widely across New Zealand with nearly 500 viewing the survey and nearly 200 responses. Over half of those who responded acquired their physical impairment during their life through accident or illness, and it made a major impact on their future. Unsurprisingly, a third of respondents rely on Government funded income, be it a benefit or ACC but this is insufficient to cover many of the additional costs incurred through disability.

Respondents were asked to rate the approachability of Government agencies, banks and non-Government organisations. It was a sad indictment on these organisations that these disabled people feel they are not welcomed by these agencies. Their financial sustainability reflected the approachability scores that were low.

Increased Costs to taxpayers

Not-for-profits and charities (NFPs) contribute significantly to New Zealand's economy and the accumulation of physical and financial capital. NFPs are doing a public good which no other agency can afford to do. They exist because there is a gap in the market that the Government does not fill and relies on NFPs to provide for the needs of the community, many of which are marginalised people in our society.

Paraloan, like many other NFPs in New Zealand, provides services which are otherwise not provided by the Government. The assertion that NFPs' non-payment of taxes shifts the burden to other taxpayers and impacts on the Government's ability to provide services is not reflective of the environment within which NFPs operate.

The vast majority of NFPs run on limited resources so feel a great deal of responsibility that their funds and resources are used as effectively as possible to further their cause (Inland Revenue, Not-for-Profit & Charities Landscape report July 2020).

Increasingly, however, NFP, including Paraloan, are spending more time and money on administration and compliance obligations.

A blanket approach to taxation changes is likely to cause unintended consequences which may do more harm than good. Any changes to taxation rules will incur additional costs on NFPs and reduce the resources available for charitable purposes.

NFPs engage a large part of New Zealand's workforce in paid and volunteer labour and generate substantial funds - they contribute \$1.2 billion to GDP (Stats NZ 2020). Any reduction in income by introduction of tax on business income would result in a loss of funds and reduce the service provided by NFPs.

Business income exemption

Paraloan recognises that many NFPs operate businesses to fund the provision of their charitable programmes and services. The business income is not subjected to constraints that other sources of income, such as grants or bequest, might be, and can be applied without restriction. Given the nature of NFPs, it is very hard to manage this as bequests, grants are not guaranteed income. To earn business income provides an opportunity for NFPs to accumulate resources which in turn can be utilised to earn passive income.

We note, with concern, that no definition of business income is provided in the discussion paper. Without clarification of business income, the scope of impact of this undetermined. Distinguishing between related and unrelated business activities will be difficult in practise.

De minimis for small-scale trading activities

Paraloan agrees that establishing a threshold for tax exemption would be a better solution than a one-size-fits-all. While aligning with the External Reporting Board (XRB) tiers would be convenient, we believe the Tier 3 threshold of \$5 million may be too low for some larger NFPs. Our preference would be establishing a higher independent threshold for annual turnover.

Donation tax concessions

Any improvements which encourage people to make donations is valuable. The current DTC system does have its challenges – keeping receipts and filing the claim are time consuming for donors. However, the proposed process will increase the workload for NFPs, particularly small NFPs, and as such is not supported.


Final Comments

NFPs are passionate about what they do but there providing services which are not being provided by the Government or private sector. The proposals for reviewing taxing of business-related income does not differentiate the consequences between large and small NFPs. The Government's current policy mandates pose challenges in reaching under-served communities, such as those serviced by Paraloan.

Paraloan acknowledges there is no doubt that there is some abuse of the taxation system by some NFPs. However, in general, these proposed policies by Inland Revenue are best described as blunt instruments, the efficacy of which is questionable.

Kind regards

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Liz Manuel
Executive Officer

Inland Revenue, Te Tari Taake
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Submission on IRD Consultation Paper: Taxation and the Not-for-Profit Sector

Sustainability Trust is a community social enterprise operating in the Te Ūpoko o te Ika (wider Wellington), region. We have been operating since 2003.

We run under a community/social enterprise model. We develop financial surpluses from a range of sustainability-focussed business units which are used to support our social and environmental programmes. These programmes include the Wellington Curtain Bank, Warm Fuzzies programme, and our Repair Cafes. We also provide Wellingtonians with practical support to live warm and healthy lives with positive impacts on our environment. More information on our work can be found [here](#).

We welcome the opportunity to submit on the IRD's consultation regarding the taxation of charities. While we acknowledge the government's intention to address concerns regarding potential abuse of tax-exempt status, we believe the proposed changes will create significant unintended consequences that will negatively impact the charitable sector and the communities we serve. If the proposed changes were enacted, Sustainability Trust would be significantly adversely affected.

Sustainability Trust is very concerned about the possible removal of tax-exempt status from not-for-profit organisations in Aotearoa. At a time when the current Coalition Government has made several statements about wanting to support the not-for-profit sector to become less reliant on government funding and contracts, it is perplexing that they are simultaneously looking at restricting one of the most obvious ways NFPs can do just that—by generating their own profits through social enterprises. This contradiction undermines efforts to create a more financially independent and sustainable charitable sector.

Key Concerns:

1. Lack of Cost-Benefit Analysis

There is a complete absence of costings or estimates regarding both the severity of the alleged issues and the compliance cost impacts on charities. Given that this proposal is framed around stopping abuse and increasing revenue, a comprehensive cost-benefit analysis is essential. Without this analysis, it is impossible to determine whether the proposed changes will ultimately provide more harm than benefit.

2. Erosion of Government Support for the Sector

The proposed changes risk reducing overall government support for the charitable sector, representing the "thin end of the wedge" in undermining a framework that has enabled charities to deliver vital services. If taxation is introduced, further incremental changes

could be expected in the future, including taxation on passive income or related business income, which would further threaten the financial sustainability of charities.

3. **Complicating New Zealand's Tax System**

New Zealand's tax system is known for its simplicity. The proposed taxation framework introduces complexity, particularly in defining what constitutes "unrelated" business income. Complexity leads to higher compliance costs for charities, reducing our ability to fulfil our missions effectively.

4. **Unintended Consequences and Long-Term Impacts**

- Many charities use commercial activities to generate sustainable income rather than relying solely on donations and grants. Restricting or taxing such income will make it harder for charities to be financially self-sustaining.
- The government must weigh how much revenue it will actually gain from these changes against the additional services it will need to fund if charities become less sustainable.
- If charities face financial strain due to taxation, will the government be willing and able to step in to meet the resulting unmet social needs?

5. **A Blanket Approach to a Targeted Issue**

The consultation appears to be directed at a small number of charities that may be exploiting the current settings. While we agree that action should be taken against abuse, a broad-brush approach that affects all charities is not the appropriate response. Targeted action against bad actors under the Charities Act is a more effective and proportionate solution.

Case Study: Sustainability Trust's Sustainable Homes Business

A prime example of the importance of charity-owned business operations is our own business unit, Sustainable Homes. Through this initiative, we install insulation and heat pumps in Wellington homes, generating income that directly funds the Wellington Curtain Bank. The Curtain Bank provides upcycled curtains to low-income families, helping them improve their living conditions and reduce energy hardship.

If the proposed tax changes were implemented:

- The additional compliance burden would reduce the efficiency and profitability of Sustainable Homes.
- Less profit would be available to fund the Wellington Curtain Bank, potentially reducing the number of families we can assist.

- The overall impact would be an increased reliance on government funding or donations to continue providing these essential services.

This case illustrates how taxation on unrelated business income could significantly hinder the ability of charities to operate sustainable social enterprises that directly benefit vulnerable communities.

Case Study: Sustainability Trust's Resource Recovery Centre

Sustainability Trust recently launched a resource recovery centre in central Wellington, where we repair and resell donated electronic equipment, preventing waste and extending product life. Much of this work is carried out by volunteers.

While any profits will support our repair and recycling education programmes, the business is not yet profitable. If taxed as an unrelated business, would the funds we invested in establishing it be deductible against future tax liabilities?

The consultation paper is unclear on what constitutes related versus unrelated business income. Constantly proving compliance would be a significant burden, particularly for smaller charities without the time or expertise to manage complex tax requirements. This uncertainty adds unnecessary administrative pressure and financial risk to socially and environmentally beneficial enterprises.

Responses to selected Consultation Questions:

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

- Taxing charity business income discourages innovation and sustainable income generation.
- It will increase compliance costs while not actually increasing revenue significantly.
- It perpetuates an outdated view that charities should only rely on donations, this view is based on a misguided understanding of the breadth and diversity of New Zealand's charitable sector and a lack of understanding of how difficult it is to raise funds through donations, particularly in the current economic environment.
- If business income is taxed, we are concerned about possible further changes, such as taxing passive income from unrelated investment funds?

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

- Defining what is "unrelated" would be extremely challenging. We are concerned that a definition for "unrelated" would be arrived at without proper consultation of those

affected. The burden on charities to prove how the business was related would be onerous and time consuming.

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 reject the concept of “unrelated business”. If a hospice runs a second hand clothing shop for income to support the hospice, IRD may deem that is “unrelated”. The question for us is why the government would be interested in taxing a charity that is doing good in the community, regardless of the nature of the business they are running to do that “good”. If all the profits from that business venture is going into a not for profit activity that serves a board public good, we don’t see why it should be taxed.

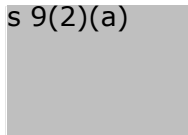
Recommendations

1. Conduct a full cost-benefit analysis of the proposed changes, including compliance costs for charities and the potential financial impact on government-funded services.
2. Ensure that any reforms do not create unnecessary complexity in the tax system.
3. Adopt a targeted approach to address cases of abuse under the Charities Act rather than imposing broad taxation changes that affect the entire sector.
4. Recognize and support the role of charity-owned businesses in ensuring financial sustainability for charitable work.
5. Engage in further consultation with the charitable sector to develop policy settings that support both financial sustainability and transparency.

We appreciate the opportunity to provide feedback on this important issue and urge the government to reconsider an approach that could undermine the ability of charities to meet vital community needs.

Yours sincerely,

s 9(2)(a)



Georgie Ferrari
CEO

Submission – Taxation and the Not-for-Profit Sector

My name is Captain Jocelyn Smith, and work alongside my husband as The Salvation Army Officers (Ministers) in Oamaru, and as the director for Community Ministries for the Waitaki district – primarily working in Oamaru. We have been here for just over 2 years now, but I have worked for the Salvation Army in various roles, across the South island over the last 40 years.

I'm writing to share my concerns on the proposed tax changes affecting charities and not-for-profits organisations, Churches and Agencies, which if they go ahead with the full impacts suggested – will significantly impact on the work we do in community through The Salvation Army.

At our Salvation Army centre in Oamaru, we daily work and walk alongside people going through really tough times - whether that's needing food, help with bills, finding housing, or just someone to talk to. Most of this work is supported by the income we receive through our Family Store sales - largely operated by volunteers; and through community and local fundraising. Our Community Ministries – Food bank - operates 4 days a week, and in the past 6 months we have issued in excess of 365 food parcels, and given out further kai support through our kai pantry which does not gather stats on people it impacts or assists. Additionally we have helped people with furniture, bedding, clothing, and other practical supports in their time of challenge or crisis.

As a small centre in a rural town, we are not Government funded in our food or welfare assistance, and the fact is that our community support of whanau and individuals is only possible because of the resources we have through Salvation Army generated funding — including the money our Family Store generates, and generous donations we receive from the public.

If the Government starts taxing this income or making the admin more difficult, it will take away time, money, and energy from the people who need it and us. We already work with limited resources — we simply can't afford to spend more of it on red tape. We have a few part time staff that run out Community Ministries and whanau support in community, and our funding is already stretched. As demand continues to grow, rents continue to sky-rocket, and financial and kai sustainability stresses in our community add more and more strain on the well-being of families, children and young people; I am pleading with you not to add more pressure to us meeting these needs, by adding more layers of tax and red tape.

The Salvation Army depends on its charitable tax-free status to maximise community ministry and care opportunity where the money is clearly being used for good. We're not here to make profit — we're here to make a difference.

Today alone; we have assisted a person living rough in a tent beside a river with food and bedding following a family breakdown, another man and his children with food assistance as his wife has deserted the family suddenly taking the family finances with her, another man has relocated to the south from Auckland unable to continue to pay the costs up there, and suffered a significant health incident in the process, another young woman and her partner have recently lost work and income through the seasonal instability of work, and we have been able to assist them with food and some clothing for their young children while they face a stand down period with MSD assistance, another family of 6 with both partners working faced food instability when

their car broke down leaving them unable to travel to work. Urgent repair bills and a lack of savings nearly tipped them over the edge. With some time, compassion and the resources of The Salvation Army, we were able to offer each of these cases some hope and help through compassion and generosity. Compassion and charity are surely values our nation values. Please allow us to continue to do so by allowing The Salvation Army, along with the many other excellent not-for-profit charities to continue to serve Aotearoa without the added stress and strain of an added tax burden.

I'm happy to share further examples and stories if needed. As I said – the people mentioned in this submission are from today or this week in Oamaru. - Representing just a portion of the over 135,000 kiwis The Salvation Army have helped in Aotearoa in the past 12 months.

Ngā mihi,

Jocelyn Smith

Jocelyn Smith (Captain) | Corps Officer | Community Ministries Director

Oamaru Salvation Army

255 Thames St, Oamaru 9400

P: +64 034348413 | Cell: s 9(2)(a)

The Salvation Army | New Zealand, Fiji, Tonga & Samoa

caring for people | transforming lives | reforming society ... By God's Power



**THE ARMY THAT
BRINGS LIFE**

From: Kristy Morgan s 9(2)(a)
Sent: Thursday, 27 March 2025 4:34 pm
To: Policy Webmaster
Subject: SUBMISSION Taxation and the not-for-profit sector

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

Kia ora

I wish to make a submission regarding the above and The Salvation Army.

Removal of tax concessions to charities like The Salvation Army will mean they have less money to support our communities.

In real terms this means more people going hungry, more people made homeless, more people struggling with addiction, more people under pressure financially, more sick people, more people struggling to re-enter society after leaving prison and likely to fall back into old ways etc.

The services The Salvation Army deliver make a positive impact on individual, community and societal well-being. If The Salvation Army have to reduce their services, this will push the cost onto government, either directly, with government needing to fund and deliver the services they can no longer provide and/or downstream due to increased costs in health, welfare, justice etc.

I support continuation of tax concessions for charities like The Salvation Army.

Kind regards

Kristy Morgan
BARRISTER



Level 1, 18 Allright Place
Mount Wellington
Auckland 1060

(09) 302 0644

s 9(2)(a)

The content of this email is confidential and/or legally privileged. If this email is not intended for you, you must not use, read, disseminate or copy it. If you have received this email by mistake please permanently delete the original message and any attachments and notify the sender immediately.



27 March 2025

My Name is David McEwen. My wife Christina and I are the Corps Officers (Church leaders) and Directors of Community Ministries at Hastings Corps. We have been Officers for 15 years serving in Hamilton, Gisborne, Dunedin and transferred to Hastings Corps this year. We are writing to share our thoughts regarding the proposed tax changes for charities and not for profits.

At our Corps we walk with people who are having a very rough time. We have two family stores that fund the welfare work that we do.

We help on average 25 families a week with food parcels, or helping them find housing, budgeting or advocating for them with government and other agencies. Often, we are the last option for desperate people as no one else can or will help them. We offer a hand up not a handout and we see a number of our clients leaving our service with a solid plan to navigate the issues they are facing.

Our food bank does accept donations from public donors and one supermarket helps supply us as well, but we need to buy a lot of our stock to meet the demand we are experiencing at present. This comes at a high cost.

Our concern is if the government starts taxing the income that we have coming in or making the administration and compliance more demanding and time consuming this will leave us with less money, which will seriously affect our ability to help those in need. Our current resources are already stretched.

Please keep charities, such as ours tax free where the money is clearly being used to help change peoples lives for the good. We are not about making a profit, we are here to make a difference.

I am happy to talk more if needed.

God bless you.

s 9(2)(a)

David and Christina McEwen
Corps Officers
Community ministries directors.
The Salvation Army Hastings Corps.

s 9(2)(a)



PO Box 302 145
North Harbour,
AUCKLAND, 0751

27th March, 2025

Inland Revenue

By email:

Policy.webmaster@ird.govt.nz

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

To Whom it May Concern,

Aquatics New Zealand is the international body representing the aquatics disciplines of Artistic Swimming, Diving, Swimming, Water Polo and Masters, reporting to World Aquatics. Collectively these sports represent over 200 clubs/incorporated societies.

Most of these clubs/societies are run by volunteers, already incur considerable compliance costs and are under significant financial pressure.

It is of the utmost importance that the current situation whereby amateur sports clubs have income tax exemption is retained.

Implementing any form of income tax on them would exacerbate this situation and would be a guaranteed way of undermining their viability and, indeed sport in general as it currently operates right across New Zealand .

Aquatics New Zealand vehemently opposes any potential introduction of Income tax on its member clubs/incorporated societies.

Yours faithfully

s 9(2)(a)

Lindsay Stone
Aquatics New Zealand Board Member
CEO Diving New Zealand
ceo@divingnewzealand.org.nz
Ph 09 413 9128
Ph s 9(2)(a)

cc Shirley Hooper
Chair Aquatics New Zealand
s 9(2)(a)

cc Pam Scheirlinck
Administrator Aquatics New Zealand
accounts@nzwaterpolo.org.nz
Ph 09 953 1428



Taxation and the not-for-profit sector

Mary Potter Hospice Submission

About Mary Potter Hospice

Vision

We honour living and dignify dying for all.

Mission

Mary Potter Hospice helps people make the most of their final months, weeks and days of life. Our specialist teams partner with other community health services to deliver palliative care for patients and their whānau with aroha and mana.

Mary Potter Hospice provides specialist palliative care services for people living in Wellington, Porirua and Kāpiti. We care for around a third of all people who die in our region each year. We provide services to patients, families, whānau and carers in their homes, and at our Inpatient Unit in Newtown. We employ around 175 people including doctors, nurses allied health professionals and other therapists. We are also supported by around 600 volunteers at any one time.

We provide specialist palliative care consultation and training to GPs, Aged Residential Care services, and medical, nursing and social work students.

Specialist palliative care has been shown to reduce patient's use of hospital beds, emergency departments and ambulances, with direct savings to government of \$1.59 for every dollar spent.¹

Mary Potter Hospice's financial position

About half the cost of providing this specialist palliative care to our community is funded under government contract. Mary Potter Hospice needs to raise around \$8 million each year to cover the full costs and ensure that we can continue to provide our care to patients and their whānau free of charge.

¹ MartinJenkins. 2024. *Sustainable funding for hospice services: Health and social impacts of specialist hospice palliative care and an economic case for investment*. Report commissioned by Otago Community Hospice, Nelson Tasman Hospice, Hospice Waikato, Tōtara Hospice, and Harbour Hospice.

Around \$3 million of this income comes from our second hand retail operation – 8 shops across our region as well as an online presence. Our reading of the consultation document suggests that it is possible that these shops would be classified as unrelated and therefore be subject to the usual corporate tax rates.

The rest of our non-government income comes from philanthropic fundraising.

Taxing 'unrelated' business

Mary Potter Hospice strongly opposes any moves to remove the charitable tax exemption on business operations like second hand shops that have become a ubiquitous and hugely critical part of the survival of the charitable sector for the following reasons:

1. Problem of definition

Assuming that the policy intention is not to tax every commercial activity run by a charity, the creation of an equitable and manageable tax regime that separates out 'related' from 'unrelated' will be hugely problematic, inevitable lead to perverse consequences and opportunities for tax avoidance. A definition relying on scale (and surely size is not the issue here), on how the profits generated are ultimately used by the charity, or whether the business activity itself has some social benefit unrelated to the charities registered aims (e.g. second hand shops help relieve poverty and improve environmental outcomes) would simply either capture too much or too little of the intended targets.

2. Saving government cost of essential services

Like hundreds of health related charities across New Zealand, Mary Potter Hospice saves the government the cost of delivering essential services – in our case to the tune of \$8million each year.

These savings range from large charities running ambulance services to local community groups running small scale and essential community health services. Any taxation change that reduces the resources available that charities can apply to their services simply transfers that cost – either back onto the government, or onto the community where access to things like ambulance services or palliative care would be further eroded.

If Mary Potter Hospice's retail income was taxed, the reduction in funds available for providing palliative care would inevitably lead to service cuts and closure. As noted above, our services keep people out of hospital. If we were unable to do that, or needed to reduce scale, the people we could no longer care for would be in public hospitals, further exacerbating the pressure on resources and workforce in a health system already struggling to meet demand.

3. Funding charities is really hard and getting harder.

The viability of the whole sector is in question. Don't make it worse! One of the essential components of a sustainable charity – especially in a sector where most charities are of a size that makes them 'too big to be small and too small to be big' is to ensure a diverse range of sources of income. Worthy and effective charities fail when a single source of income that makes up a high percentage of income fails. This means that resilient and sustainable charities are not just incentivised to take creative and wide ranging approaches to generating income, it's an absolutely essential strategy that ensures the multi-billion dollar contribution to New Zealand made by charities across health, justice, education, community development, sport, the environment, the arts etc.

Taxing business operation would erode and in some cases remove a really important tool from our survival tool-kit.

We think it's simple. If a registered charity (no matter what the size) is running a business or quasi-business operation, and all the profits from that business are being paid to, or used by a parent charity, for furthering their charitable objectives – including the legitimate accumulation of funds for capital purposes, then those business operations should continue to not have to pay tax. As noted above the cost to NZ Inc. of doing otherwise will be far greater than any increase in the tax take.

If there are charities running businesses and there is some doubt about whether the profits from those businesses are not being used for the legitimate and reasonable furtherance of legitimate and registered charitable objectives then this is a matter for the Charities Commission and the regulation and policing of charity registration standards.

Thank you for this opportunity to make a submission on these matters.

Tony Paine
CE
Mary Potter Hospice

27 March 2025

s 9(2)(a)



Submission by the
Royal New Zealand Society for the
Prevention of Cruelty to Animals Inc.
on
Taxation and the not-for-profit sector consultation

31 March 2025



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Introduction

The following submission is made on behalf of The Royal New Zealand Society for the Prevention of Cruelty to Animals (SPCA).

SPCA is the preeminent animal welfare and advocacy organisation in New Zealand. The Society has been in existence for over 150 years with a supporter base representing more than 100,000 New Zealanders across the nation.

The organisation includes 28 Animal Welfare Centres across New Zealand and approximately 60 inspectors appointed under the Animal Welfare Act 1999.

The SPCA employs over 800 people and relies on approximately 2,000 volunteers to deliver our services. Despite this the organisation still costs approximately \$70million per annum to operate with only \$6.6million in direct government funding so other income streams are extremely important to the delivery of our charitable purpose.

The proposed changes to taxation are likely to decrease our ability to deliver on these services either directly through reducing the available funds or indirectly through increased compliance costs. This will lead to an increased reliance on government funding to deliver services that are mandated in legislation under the Animal Welfare Act 1999.

SPCA welcomes the opportunity to submit on the consultation Taxation and the not-for-profit sector.



Submission

Answers To Specific IRD Questions:

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

- 1.1 Aside from the direct impact on our organisation, the proposed changes appear to be based on assumptions that we believe are highly problematic. Only unrelated business activities are the focus of this review.
- a. What is the policy logic of allowing passive unrelated business income e.g. investment in term deposits, shares and bonds etc, but not active unrelated business income?
 - b. What is the policy logic of allowing related business activity to charitable purpose but not unrelated?
 - c. How does one define/demark what is considered “unrelated” to charitable purposes?
 - d. We see this definition and demarcation of what is considered “unrelated” to be highly problematic. It is likely to lead to considerable compliance cost for charities and we suspect for the IRD and DIA Charities Services.
- 1.2 Competitive advantage argument, despite hearing claims from business of competitive advantage of charities we have not seen evidence of predatory pricing examples or independent studies showing this and have been unable to find any studies that support this claim.
- 1.3 Charities are held to a much higher level of reporting requirements and public transparency which provides a commercial disadvantage compared to any for-profit competitors.
- 1.4 Charities reporting requirements in compliance with legislated reporting standards, and often independent audit, depending upon their scale, imposes greater compliance costs.



- 1.5 Charities are at a competitive disadvantage due to being restricted in raising finance as they cannot share their profits.
- 1.6 Charities are at a competitive disadvantage in investing in shares as they cannot claim the imputation tax credits from tax paid dividends.
- 1.7 Charities operating businesses cannot offset losses against future year profits as for-profit businesses can.
- 1.8 If there is concern about the behaviour of specific charities actions, mechanisms already exist to address these through the Charities Service and the Charities Act. It would be better to increase the enforcement powers of the Charities Service and deal with any organisations that are breaching the law that way rather than a broad brush taxation approach that is likely to increase costs and lead to a reduction in the services being provided by the Not for Profit Sector, costs that would then need to be picked up by central government funding.

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?

- 2.1 It will all come down to the definition of unrelated business income. For our organisation depending on what is captured by this the impact could be significant and lead to either a reduction in services or requests to increase government funding. This is especially relevant for our role as enforcement officers of the Animal Welfare Act. Currently the government funding of this service only covers one third of the cost.
- 2.2 The proposed changes are going to add extra complexity and costs to our organisation to ensure that we are compliant. As result there will be a reduction the funding available to deliver on our charitable purpose.
- 2.3 We can also see that adding this extra complexity is going to lead to increased costs for the government to ensure compliance.

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?

- 3.1 Distinguishing between related and unrelated business activities will be difficult in practise. Drawing a line in the sand always results in significant issues as to where the line should be drawn. Experience shows that thresholds often promote activities and structuring specifically to avoid exceeding thresholds. Without question, this will result in increases in compliance costs for both charities and the government. Any increase in compliance costs will translate to less funds for charitable purposes.



3.2 The simplicity of the New Zealand tax system is one of its most significant features and translates to efficiency. This proposal appears to lessen that simplicity.

3.3 We do not have a view on what criteria to use to define charitable purpose. The business would need to be completely unrelated to the stated charitable purpose and clearly not applying its surpluses towards the short to longer term support of its charitable purposes

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

4.1 We do not support removing the tax exemption. However if this was to occur, we do believe there should be some form of de minimis threshold. We would suggest at a minimum 75% of a charity's annual total annual turnover with no limit.

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?

5.1 We agree that if the tax exemption is removed for unrelated charity business income that is subsequently distributed for charitable purposes, then it should remain tax exempt.
Such a relief system would need to be simple and clear although we are unsure of the best mechanism to achieve this.

5.2 Such a system would however increase compliance costs therefore reducing the overall amount able to be applied to charitable purposes.

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?

6.1 We agree with the other considerations listed as all being further complications and complexities that would need to be addressed. This will increase compliance cost for both government and charities, reducing funds available for charitable purposes.

6.2 In addition if the income is going to be taxable then it is only equitable that a value be established on pro bono or semi pro bono services as input expenses. Labour cost is a significant expense for any business. Currently many in the charitable sector receive



some pro bono or semi pro bono labour. Accordingly, it would be important for charities to be able to claim the true cost of their business in any income tax return.

6.3 One of the concerns listed in the submission paper is that charities may have an unfair competitive advantage. Charities must meet a higher level of transparency of reporting compared to a for-profit business, i.e. charities must currently meet a higher level of public transparency. Failure to address this issue results in charities being at an unfair competitive disadvantage with for-profit businesses as they will incur both the costs of complying with the Charities Act and the additional compliance burden of taxation compliance.

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?

7.1 We have no comment on this issue.

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?

8.1 We have no comment on this issue.

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?

9.1 Although not a donor-controlled organisation we do make the following observation.

9.2 Charities such as us are very capital intensive and have limited options to finance capital projects. Often the only way these can be funded is through the accumulation of funds over several years.

9.3 Like all businesses we need to maintain suitable funds to avoid any solvency issues. This is especially important given the uncertain and irregular nature of donations.

9.4 If this is an issue of concern then it would be more appropriately addressed through tougher provisions and enforcement of the Charities Act to prosecute any individual or organisation that is abusing its charitable status.



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

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

10.1 We have no comment on this issue.

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

11.1 We have no comment on this issue.

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?*

12.1 We have no comment on this issue.

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?

13.1 We appreciate that from a pure taxation perspective it may appear to make sense to remove the current exemption.

13.2 However the rationale of introducing and maintaining the FBT exemption has been to support the charitable sector. This has indeed allowed charities to offer more competitive remuneration packages at a lower cost to the charity allowing them to attract appropriate labour resource. It helps them compete with the for-profit sector. That also increases funds available for charitable purposes and reduces compliance costs.



13.3 In the case of the SPCA the removal of this exemption is likely to lead to a significant FBT liability each year and add a significant compliance burden. This will reduce the amount of funding available for our charitable works.

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?

14.1 We have no comment on this issue.

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

15.1 We are in favour of the proposed changes.



Conclusion

We are not in support of many of the items outlined in the consultation document.

We believe that many of these proposals will lead to increased compliance costs for very little revenue gain for the government. In fact, the opposite is likely to be true with charities having to reduce their charitable works, creating a gap that will need to be filled by central government.

The consultation has been framed as a stopping abuse/revenue issue we believe cost benefit analysis is essential. If the behaviour of certain individuals or organisations is of concern no supporting data has been provided to back up this claim or the scale of the issue. We believe that this type of abuse is best addressed through enforcement of the Charities Act.

SPCA appreciates the opportunity to contribute to the Taxation and the not-for profit sector consultation paper. Our organisation is happy to discuss this matter if further information is required.

Jason Copus

Chief Financial Officer

31 March 2025



The New Zealand Marketing Association Inc.

Submission to IRD on the implications of removing the current tax concessions for friendly societies and credit unions.

This submission is made by:

KEITH W. NORRIS

On behalf of John Miles
Chief Executive Officer
New Zealand Marketing Association (Inc)
PO Box 137266 Parnell, Auckland 1151

ABOUT THE MARKETING ASSOCIATION

The Marketing Association (MA) was formed in 1974 and is the industry body dedicated to the marketing profession in New Zealand.

The MA has 8,500 members across brands, marketing service providers, agencies, and suppliers. Each year, we communicate and interact with over 21,000 New Zealand marketing professionals. We have over 30,000 followers across our social media channels, and more than 775,000 annual website visitors.

We are a member organisation of the Advertising Standards Authority (ASA) and our members are required to support strict codes of practice relating to marketing as well as the advertising codes of the ASA.

A major part of our activities involves establishing and promoting codes of practice and best practice guidelines for all forms of marketing communication, including advertising and sponsorship. Many of these codes require an even more stringent observance of fair and responsible data management than current legislation.

This submission is made on behalf of the members of the Marketing Association.

WHO ARE OUR MEMBERS?

Our members include major banks, insurance companies, supermarkets, major retailers, telecommunication companies, utilities and Government ministries. A more specific breakdown on member origins from industry sectors is below:



MARKETING ASSOCIATION MEMBERS BY INDUSTRY SEGMENTS

Accounting	Electrical/Electronic Manufacturing	Information Technology and Services	Performing Arts
Airlines/Aviation	Entertainment	Insurance	Photography
Architecture & Planning	Farming	Internet companies	Professional Training & Coaching
Automotive	Financial Services	Investment Management	Political Parties
Banking	Fishery	Legal Services	Public Relations and Communications
Broadcast Media	Food & Beverages	Leisure, Travel & Tourism	Public Safety
Building Materials	Food Production	Logistics and Supply Chain	Real Estate
Business Supplies and Equipment	Fund-Raising	Luxury Goods & Jewelry	Recreational Facilities and Services
Capital Markets	Furniture	Machinery	Research
Chemicals	Gambling & Casinos	Management Consulting	Restaurants
Civil Engineering	Government Administration	Maritime	Retail
Commercial Real Estate	Government Relations	Marketing and Advertising	Sports
Computer Software	Graphic Design	Mechanical or Industrial Engineering	Staffing and Recruiting
Construction companies	Health, Wellness and Fitness	Medical Devices	Supermarkets
Consumer Electronics	Higher Education	Mining & Metals	Telecommunications
Consumer Goods	Hospital & Health Care	Non-Profit Organization Management	Transportation/Trucking/Railroad
Consumer Services	Hospitality	Oil & Energy	Utilities
Defence & Space	Human Resources	Online Media	Wireless
Education Management	Individual & Family Services	Paper & Forest Products	Writing and Editing

How would the Marketing Association (NZMA) be affected by removing tax concessions for Incorporated Societies ?

- **Taxable Income:** NZMA currently pays tax on profits from non-member activities while membership fees remain exempt. Since we typically generate losses from these non-member activities and carry these losses forward, any retrospective changes could adversely affect this benefit.
- **Reporting Tier Considerations:** Currently, NZMA is operating under the simpler PBE SFR-A (NFP) regime because it does not have public accountability and remains under the \$5m expense limit. However, being close to that threshold means that a small increase in expenses could push us into a higher reporting tier. This would result in more complex reporting requirements and could potentially alter the de minimis thresholds if any changes are implemented.

Submission Recommendations

We recommend that no Retrospective Changes are applied.

We would like reassurance that any changes are not applied retrospectively, so that the carried-forward losses are preserved. It is important to us to safeguard these accumulated losses as part of our long-term financial planning.

1. **Recognition of Public Benefit:** NZMA delivers significant public benefit to all NZ consumers by creating and maintaining best practice marketing and advertising standards. Policy changes should protect organisations like NZMA, either by maintaining current concessions or by offering transitional arrangements.
2. **Safe-Harbours:** We recommend that suitable transitional arrangements or a safe-harbour period to give NZMA time to adjust if new rules are introduced.
3. **Safeguards for Near-Threshold Entities:** Our current revenue takes us near the \$5m threshold. We recommend a de minimis exemption or simplified compliance rules for small-scale trading activities to avoid an unexpected shift into a higher reporting tier with tax consequences.
4. **Assessment of Compliance Costs:** We recommend that Inland Revenue assess the administrative and compliance burdens imposed on smaller societies and consider providing tailored support or simplified reporting measures.
5. **Enhanced Consultation:** If the changes go ahead, we suggest an additional consultation period to allow for further feedback on the implementation details, ensuring that any changes are practical for organisations with limited resources.

Thank you for affording us the opportunity to submit on these matters

.....

Taxation and the not-for-profit sector

My submission is as follows

I retired from running successful business's at 73 years, and feel what I have to say is important.

It is only fair that we all pay taxation, many persons and businesses strive to avoid doing so using any means possible, the current charitable status system is one such.

There are a lot of substantial companies and philanthropists who could claim to be charitable but still pay their full taxable income . The fund manager Simplicity is one and of course Milford who have established a charitable fund.

Who should pay tax?

1. I belong to an environmental conservation organisation to whom I donate money and time in the causes we promote mostly pest control.

I do not think that organisations like ours should be taxed as they add to the countries wellbeing both its natural and human values for all to benefit from in particular our toanga species. Almost all are on projects on Public land.

Other organisations that should not be taxed are those with voluntary staff or members that contribute substantially to its wellbeing as in a sporting body with less than a certain level of cash assets say \$100.000.00 continually used to fund their events.

2. The companies that have been established as part of a religious organisation have done so to avoid paying tax and then show they are returning the 'profits' to the community usually their adherents as required by law.

This has led to a very focused approach to sharing their wealth.

When most New Zealanders belonged to a church of one denomination or another the Government of the day, during the 2nd World war saw it right and proper to allow those welfare driven motives to assist all citizens to respond and recover, (I was taken to these Welfare tea shops as a child by my Grandmother) those days are long gone with religious groups numbers as a percentage of populations greatly diminished.

It would have been political suicide for any Government of the day to remove that legislation until the unfairness of it became apparent some years ago with the growth of some claimed charitable orders abusing this privileged position.

Examples of unfair taxation avoidance.

3. s 18(c)(i)

[Redacted text block]

4. The Plymouth Brethren Church is also involved in avoiding paying taxes by nefarious means.

I quote; *A broker with the insurance company, Crombie Lockwood, said he was instructed to use a special code with Brethren clients, discounting his commission by 20 percent, which went to the listed "sub-agency", UBT (Universal Business Team) a church-controlled company.*

"The thing I find disturbing is these are businesses, so their insurance premiums are tax deductible and on top of that they also claim back the GST - so I view it almost like a legalised form of money laundering.

"It's a round circle scheme - they are using their businesses to pay 'donations' back to their own church and then they are claiming that back as a tax deductible expense."

And to quote another source that sums it up well;

"So let's say their profit was s 18(c)(i) and they decided to donate s 18(c)(i) Then they can claim that as a deduction in their accounts and reduce their tax liability at the end of the day. But that comes at a cost to the taxpayer because it's obviously a cost to the revenue."

This will apply to KAURI PARK NURSERIES LIMITED Company Number 1564092 NZBN 9429035143536 a company established and managed by Plymouth Brethren.

5. The Sanitarium Breakfast Cereal Company may return some of its charitable status profits to their narrowly focussed community to build schools for their own families but why should that not be paid to the Government so we can all benefit nationally.
6. The Church of Scientology runs as a business which has been exposed many times in many states and countries as a way to grow huge profits by claiming to be a church or religious order.
I became involved in it as a teenager prior to it being claimed as a 'Church' by the founder to avoid USA taxes and saw they were not a religion, the founder, L. R. Hubbard, a prolific writer of pulp science died in 1986.

The book *My Escape From a Life in the Highest Ranks of Scientology* is a 2022 memoir by Mike Rinder explains the process and outcomes well as applied in Australia.

7. If organisations like this have overseas affiliations the monies can be transferred out of New Zealand to 'assist' in funding community good in that country with loss of any control or knowledge by the NZ Government.
8. The Destiny church of NZ is another example of a charitable status organisation having donations or tithes being misused by management.

I do not believe a profit motive should be the primary goal of an organisation calling itself a church.

Why these examples show a problem that taxing them is important

These examples demonstrate a move over time to exert a unfair influence that has led to unequal sharing of wealth unless you 'belong' to a chosen group for instance the Seventh Day Adventist church s 18(c)(i) has less than 15000 member (2024) and the Brethren church 8000 members.

CONSULTATION> OFFICIALS' ISSUES PAPER

In answer to the questions posed I answer as follows.

Q 1 Yes these are reasons that mostly support a tax regime for businesses hiding behind a charity.

Q 2 2.19 And they would have to budget for those increased costs.

And 2.17 but as they can accumulate funds before they expand unlike taxed businesses that must pay advance tax on assumed income from the next year.

Q 3 Not sure of the question.

One that clearly represents most or all the profits going to the wider community for charitable purpose

IE charitable businesses that are substantially run by unpaid volunteers, and businesses primarily engaged in selling donated goods or services, such as op-shops.

Or to purchase items that will be invested into the DOC estate, the QE2 or Government conservation projects.

Q 4 Add a 5th tier of under \$80k and 4th tier \$80k to \$2 million 3rd tier \$2 to \$5 million to separate out the percentages better as there is 88% in the 3rd and 4th in the current suggestion. (What do the numbers look like then?)

You need to capture a lot more now before allowing the bill to be set in law. This approach could also allow the bottom tier to have less reporting and bureaucratic requirements placed on a small voluntarily run organisation.

Q 5 There should be no 'hangover' monies exempt unless it is held by a trust that is set up to ensure continuation of the charity into a maximum rolling set time for the future, 10-15 years and only for those that are devoting their not taxed incomes wholly to the purposes of the charity.

Q 7 Yes, New Zealand should follow the well established overseas example as in Canada and be rid of a Donor related tax avoidance system.

Or it should be 'donated' to the Government as a tax for distribution in the general budget like restoring our public health system, education, conservation and climate change mitigation.

Q 8 Yes I agree with the Tax working group recommendations but add that limits on value and distribution is set to avoid loopholes being formed.

Q 9 A level of distribution could be set at between 5 and 10 percent allowing for the wide range of incomes available from such entities over time with the rider that over any rolling 5 year period it maintains a 7.5 percent distribution.

Q 10 I like the recommendations to reduce complexity.

Q11 Don't know.

YOUR Q12.

'What are the likely implications if the following exemptions are removed or significantly reduced?

Answered in Italics as below

Q • local and regional promotional body income tax exemption.
Great for small bodies that assist with good economic local growth in small communities.

Q ,• herd improvement bodies income tax exemption.
Nil as these should be funded by the industry

,Q • veterinary service body income tax exemption,
Nil as these should be funded by the business concerned and the industry.
How do these companies differentiate between farm stock and pets for claims?

Q ,• bodies promoting scientific or industrial research income tax exemption,
Great as the Government can and does remove funding as we see currently, creating uncertainty and 'brain drain'.
The forced early commercialization can lead to overseas interests taking control and net loss to NZ.

It removes the way in which individuals can work on new innovative ideas at low cost to the country frequently bringing about major improvements to our society.

I can supply a list of these should you wish.

Q • non-resident charity tax exemption?
It is clear from 4.24 we should remove it.

Q 13 *It will weaken the ability of many to carry out their work in the community and employ staff who frequently are paid less than those in the private sector.*

I am happy to be contacted by IRD staff.
Non of my submission is confidential.

Mark Fort

s 9(2)(a)

Mary Dillon

s 9(2)(a)

policy.webmaster@ird.govt.nz

Thank you for the opportunity to comment on the discussion document in relation to taxation for registered charities.

I do not wish to comment on all of the document other than to say that this review does not seem to me,(given the possible tax revenue compared with the administrative burden that will be placed on many charity registered entities) either particularly necessary or of high priority. If anything there should be increased discussion on how many charities could be further assisted by government.

Should the decision be made to proceed, any significant changes should apply to Tiers 1 and 2 only.

In the current climate the name of the game for Tiers 3 and 4 is survival, so that they can continue to carry out their charitable purposes.

In relation to the FBT exemption the **Background-4.25** and the **Policy Framework-4.26** are highly relevant as are the rather lightweight reasons for the review of this exemption. Any changes in Tiers 3 and 4 are likely to result in minimal additional tax revenue but increased compliance costs for the charities, many of which are currently struggling.

If the underlying reason for the wide review is to manage a handful of outliers that are misusing or marginalising their charitable status then those particular entities need to be addressed but not at the expense of the rest of the sector.

Yours sincerely

Mary Dillon

From: Thomas Bougher s 9(2)(a)
Sent: Thursday, 27 March 2025 6:14 pm
To: Policy Webmaster
Subject: Taxation and the not-for-profit sector

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

In principle this submission is totally opposed to taxing charitable activities. The work they do is essential to the wellbeing of many New Zealanders.

1.If every charity in NZ stopped doing the work they undertake how much would it cost the Government to pick up the slack. And would the

Government be as efficient in operation or as effective in outcome as the charities currently are?

Government can be and often is notoriously inefficient and hopelessly ineffective, and produce a very poor cost to benefit outcome.

I could quote the current school lunch scheme as a good example of such bureaucratic bumbling.

2. Just because not every charity spends everything it takes in does not mean the overlap is “profit” There are times when charities

Need to plan ahead and accumulate some funds to undertake future developments or to make sure they stay out of debt and can meet all

their possible commitments. Calling those savings “profits” (and then taxing them) is ridiculous.

Charities should not be expected to take on debt (even if they could) to fund their future undertakings.

Nor should they be punished with taxation for implementing wise management principles.

3. Some charities have employees or contracted service providers. Monies paid to these people is not tax free! The recipient’s pay

Tax on their earnings the same as everyone else.

4. Some specific examples:

The Salvation Army: This organisation undertakes a very large amount of effective work, often amongst those in our society

Who are most in need. If they stopped this work could the Government do it as well.? And what would it cost?

St John Ambulance: People forget that this is a charitable organisation and although it receives some Government assistance

It still has to raise a lot of funds to keep undertaking the service it provides.

How many lives does this organisation save by being available to serve?

Ambulances are expensive. Taxing the funds (“profits”) needed to keep the fleet operational and staffed would be close to committing

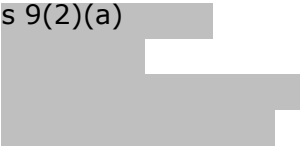
Manslaughter. There would be fewer ambulances and somebody would die as a result.

There are more possible examples but I hope I am getting my point across.

Regards

Thomas Bougher

s 9(2)(a)

A large, irregular grey rectangular area redacting the text in the top left corner of the page.

Taxation and the not-for-profit sector

Deputy Commissioner, Policy

Inland Revenue

Wellington

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

26 March 2025

Tēnā koe

Waihopai Runaka Incorporated response to the Taxation and the not-for-profit sector Officials' Issues Paper

1. We, Waihopai Runaka Incorporated, are one of the eighteen Papatipu Rūnanga Members of Te Rūnanga o Ngāi Tahu, as defined by the Te Rūnanga o Ngāi Tahu Act 1996 and the Te Rūnanga o Ngāi Tahu (declaration of Membership) Order 2001. We uphold the mana whenua of our rohe within the Ngāi Tahu takiwā.
2. We have read the Te Rūnanga o Ngāi Tahu response to the Taxation and the not-for-profit sector Officials' Issues Paper ("the Issues Paper") and support it in its entirety.
3. Despite being a Member of Te Rūnanga o Ngāi Tahu, we operate completely independently with our own governance and legal structure. Part of our structure includes charitable entities that would potentially become detrimentally affected should there be changes to the current charities law settings.
4. We emphasise and reiterate that the removal of the tax exemption for charity business income that is unrelated to charitable purposes would:
 - a. Be a tax on the most vulnerable in society;
 - b. Be a tax on economic growth;
 - c. Be a tax on the regions;
 - d. Be an attack on treaty settlements and mean they are no longer full and final; and
 - e. Exponentially increase compliance costs in the charities sector.
5. We believe that more extensive consultation on the issues raised in the Issues Paper is required to fully understand the potential consequences for the charitable sector and accurately assess the true impact of any proposed changes. The timeframe provided to respond to the Issues Paper is insufficient for this to occur properly. Like many other smaller charities, we lack the time and resources to fully evaluate the impacts of the changes outlined in the Issues Paper within such a short period. Our response to the Issues Paper will therefore focus on the important charitable mahi we carry out in our community and our ability to drive regional growth through the utilisation of charitable structures.

Waihopai Runaka Incorporated charitable entities and charitable purposes

6. Through the utilisation of charitable entities, we carry out important mahi in our region and are enabled to effectively and efficiently deliver services to some of the most vulnerable members of society. Without these services, there would likely be increased demand on the Crown, and undoubtedly the gap of social and economic disparities in the community would be widened.

Closing Comments

7. Our charitable entities play a crucial role in delivering essential services to vulnerable members of our community, reducing the demand on the Crown, and preventing the widening of social and economic disparities. Our intergenerational investment strategy, guided by our Ngāi Tahu tribal whakataukī, ensures sustainable and beneficial returns for future generations, contributing to regional growth and prosperity.
8. We urge the government to consider the significant contributions of charitable entities and the need for a more thorough consultation process to safeguard the vital services we provide and the regional growth we stimulate.

Naku noa, na

s 9(2)(a)

Odele Stehlin
CEO
Waihopai Runaka Incorporated

TAXATION AND THE NOT FOR PROFIT SECTOR

c/- Deputy Commissioner, Policy
Inland Revenue Department
PO Box 2198
WELLINGTON 6140
Policy.webmaster@ird.govt.nz

SUBMISSION FROM: Kevin Nielsen
email: s 9(2)(a)
DATE: March 27, 2025

My interest in this topic is through 20 plus years of involvement with 4 different charities in the not-for-profit sector including roles as a Chief Executive, as a Committee member and as President.

SUMMARY: My strongly held view is that charities that have a charitable purpose that conforms with Charities Services requirements should continue to be exempt from taxation. Further if the charity has an income generating business which has the same purpose as the charity then any income over expenditure should be exempt from taxation. These charities are invariably set up to fill the gap in government funding and community need and if they have the drive and initiative to set up a business to assist the charity to fulfil it's charitable purpose they should not be taxed. Also in many cases (if not all) the business initiative is run on a shoe string and utilises many, many hours of voluntary input, to then be faced with taxation would be an incredibly punitive and short-sighted move.

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?

- *The only compelling reason to tax charity business income I can see is to increase government revenue. There is no other reason!*
- **NO** *the factors in 2.13 and 2.14 do not warrant taxing charity business income. The vast majority of charities are set up to fill the void in service provided by central government. Under funded and under resourced by government.*
- *Actually the factors described in 2.13 and 2.14 correctly rebut the main arguments advanced for taxing charitable business income.*
- *Charities would be left just with the costs of such a measure – increased complexity and compliance costs as well as reduced 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?

- *Without having a clear definition of what is “unrelated business activity” I find it difficult to answer this question other than to say a clear definition and guidance would be essential if there was to be a change.*

- *If removed it would result in reduced income and increased compliance costs for the charity.*

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

If the purpose of the business activity is:

- *to support the purpose of the charity which is defined in the Rules or Constitution of the charity that has been registered with Charities Services*
- *That there is transparency that shows that any financial surplus is passed to the charity*
- *Then any net income generated should not be taxed.*

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

- *If the charity business income is being directed to furthering the purpose then no threshold should be imposed.*

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?

- *The tax exemption for charity business income that is generated to support the purpose of the charity then that income should remain tax exempt.*

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

- *Without a definition of what is "unrelated business income" it is not possible to even consider what issues would arise.*
- *Same response as in Q3 apply.*

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

- *Donor controlled charities should have a clearly defined purpose which is acceptable to Charities Services when applying for registration.*

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

No comment.

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

each year? If so, what should the minimum distribution rate be and what exceptions, if any, should there be for the annual minimum distribution? If not, why not?

- *Yes there should a defined distribution rate for any net income generated by the charity.*

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

- increasing and/or redesigning the current \$1,000 deduction to remove small scale NFPs from the tax system,
- modifying the income tax return filing requirements for NFPs, and
- modifying the resident withholding tax exemption rules for NFPs.
- *A review of the \$1000 deduction would seem appropriate in the light of general inflation, so that smaller NFPs are not included in the tax system.*

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

- *No comment*

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

- *No comment*

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

- *This exemption should remain in place, it does assist charities to compete with salaries paid in the private sector.*

I am able to be contacted: s 9(2)(a) [REDACTED] [REDACTED]

s 9(2)(a) [REDACTED]

From: Alister & Kathy Louis s 9(2)(a)
Sent: Thursday, 27 March 2025 7:52 pm
To: Policy Webmaster
Subject: Taxation and the not-forprofit sector

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

Thank you for the opportunity to comment on the IRD proposal for Taxation and the not-for-profit sector.

I am writing this submission as Chairperson of a Trust Board for a not for profit charity which provides Budgeting assistance and Financial Mentoring free of charge to a large number of people in need in our local community.

Some of our budget is funded through the Ministry of Social Development however, for the most of our budget we apply for grant applications through various charitable foundations and trusts.

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

The most compelling reason not to tax charity business income is the ripple effect that it may create to ours and other organisations that rely heavily on funding through charitable organisations as well as the communities that they serve. Where the charitable organisation has any less money, they will have less resources to serve the community and less resources to distribute.

For example if a Hospice has a hospice shop that sells donated goods and makes a profit, the profits go back to pay the hospice operational costs. If they have a less profit because they are taxed, they would have to reduce their hospice services.

Another example is not for profit health insurance, if the not for profit organisation is subject to further taxes, the insurance premiums would be higher and less people would be able to afford insurance (putting more pressure on the public health sector)

2. If the tax exemption was to be removed what would be the most significant practical implications

The most significant practical implication would be the compliance cost – how would the organisation divide up their accounts, there would be increased audit costs, there would be more cost for accountants to figure out the taxable vs non taxable income, and higher indemnity risk for Directors and officers of these organisations.

3. What would the criteria be for an unrelated business

If the business is unrelated it would be a separate business have be a separate tax entity, and money beyond reasonable reserves not being returned to the charitable entity

4. Exemption for small scale business activities

There is really no scale – if a charitable organisation serves a small or national community and are large or small, if they are serving a need in the community regardless of their size the exemption should apply. Any additional money the IRD earns through taxing charities would quickly revert to government to fund additional services themselves.

5. FBT exemption

I fully support retaining FBT exemptions for charitable workers

Once again, thank you for the opportunity to provide a submission and feedback.

Submission

by

**THE
NEW ZEALAND
INITIATIVE**

to Inland Revenue

on the

**IRD Issues Paper:
Taxation and the not-for-profit sector**

26 March 2025

Prepared by:

Dr Oliver Hartwich, Executive Director
The New Zealand Initiative
PO Box 10147
Wellington 6143

s 9(2)(a)

1. INTRODUCTION AND SUMMARY

- 1.1 This submission on Question 12 of the Inland Revenue issues paper *Taxation and the not-for-profit sector* is made by The New Zealand Initiative (the Initiative), a Wellington-based think tank supported primarily by major New Zealand businesses. In combination, our members employ more than 150,000 people.
- 1.2 The Initiative undertakes research that contributes to developing sound public policies in New Zealand. We advocate for the creation of a competitive, open and dynamic economy and a free, prosperous, fair and cohesive society.
- 1.3 The Initiative's members span the breadth of the New Zealand economy; independent, rigorous public policy research is crucial for effective governance and economic prosperity. The views expressed in this submission are those of the author rather than the New Zealand Initiative's members.
- 1.4 The New Zealand Initiative strongly recommends retaining the income tax exemption for bodies promoting scientific or industrial research (Section CW 49) as it applies to independent public policy think tanks. The exemption is not a historical anachronism but remains vital to New Zealand's policy development ecosystem.
- 1.5 This submission addresses Question 12 of the Issues Paper, which asks about the implications of removing or significantly reducing the exemption for bodies promoting scientific or industrial research.

2. STRUCTURAL IMPORTANCE OF THE RESEARCH BODY EXEMPTION

- 2.1 Section CW 49 of the Income Tax Act 2007 serves a crucial structural purpose in New Zealand's knowledge ecosystem by supporting organisations that produce public benefit research. The exemption recognises that independent research constitutes a public good that would be undersupplied without appropriate policy frameworks.
- 2.2 Independent research bodies like the Initiative operate on a fundamentally different model from commercial entities. They:
 - generate knowledge primarily for public benefit, not private gain.
 - publish research findings freely and openly.
 - operate without pecuniary gain to members, shareholders, or associates.
 - reinvest any surpluses into future research activities
- 2.3 For these organisations, income is not profit in the commercial sense but rather the means to fulfil their research mission. Taxing such income would directly reduce the resources available for research and public engagement without serving the usual redistributive or behavioural functions of taxation.
- 2.4 The regulatory requirements for qualification under Section CW 49, including approval by the Royal Society of New Zealand and the prohibition on pecuniary gain, already provide robust guardrails to prevent abuse of the exemption.

3. THE RESERVE-BUILDING FUNCTION

- 3.1 A critical but often overlooked aspect of the research body exemption is that it enables organisations to build and maintain financial reserves. This capability is not an incidental benefit but core to their function for several interconnected reasons:
- 3.2 **Independence protection:** Financial reserves are essential for maintaining genuine independence in research. Without adequate reserves, research organisations become vulnerable to financial pressure from funders, government funding shifts, or other external influences that could compromise research integrity.
- 3.3 **Income volatility management:** Research organisations typically rely on membership subscriptions, grants, and donations that can fluctuate significantly with economic conditions. The Initiative experienced this firsthand during the COVID-19 pandemic, when some member organisations faced financial constraints. Reserve funds allowed research work to continue uninterrupted despite temporary revenue declines.
- 3.4 **Long-term research capacity:** Complex policy challenges require sustained, multi-year research programs. Reserves enable organisations to commit to and complete longer-term research initiatives that might otherwise be abandoned during funding fluctuations.
- 3.5 Taxing the income of research organisations would effectively function as a tax on building reserves, undermining these crucial functions while generating minimal fiscal benefit. This would be counterproductive to the very purpose the exemption serves – ensuring New Zealand has robust, independent research capacity.

4. FISCAL CONTEXT AND POLICY COHERENCE

- 4.1 From a fiscal perspective, the current exemption for research bodies creates a coherent, principles-based approach to taxation that recognises the distinctive role of knowledge production in society. This principle remains as valid today as when the exemption was established.
- 4.2 The revenue gain from removing this exemption would be minimal. There are relatively few organisations that qualify under Section CW 49's stringent criteria, and most operate with modest surpluses that are reinvested in research activities. However, the impact on the research capacity of affected organisations would be disproportionately large.
- 4.3 It is worth noting that investment income (such as interest and dividends) earned by these organisations on their reserves is already subject to taxation. The current system thus strikes a reasonable balance: core operational income used to conduct research and build essential reserves is exempt, while passive investment earnings are taxed.
- 4.4 Removing the exemption would create an inconsistent policy approach, where government directly funds some research through universities and Crown Research Institutes while simultaneously taxing the operational income of independent research organisations pursuing similar public-interest work.

5. RISKS OF REMOVING THE EXEMPTION

- 5.1 Removing the research body exemption would pose serious risks to New Zealand's knowledge infrastructure and policy development capacity. Key concerns include:
- 5.2 **Reduced research output:** Every dollar diverted to tax is a dollar less for researching solutions to pressing national challenges. Organisations would need to reduce research staff, publish fewer reports, or limit public engagement activities.
- 5.3 **Compromised independence:** With reduced ability to build reserves, research organisations would become more vulnerable to shorter-term funding pressures, potentially compromising the independence that is their core strength.
- 5.4 **Diminished policy innovation:** Independent research bodies often explore ideas outside the political mainstream and initiate debates that government agencies may be reluctant to pursue. Weakening these organisations would narrow the “marketplace of ideas” that drives policy innovation.
- 5.5 **Unintended consolidation:** Larger organisations with diversified funding streams might absorb the impact, while smaller research bodies with focused missions could become unviable, leading to unhealthy concentration in the research sector.

6. CONCLUSION

- 6.1 The tax exemption for bodies promoting scientific or industrial research (Section CW 49) remains a vital structural element of New Zealand's knowledge ecosystem. It enables independent research organisations to build necessary reserves, maintain genuine independence, and contribute meaningfully to policy development and public discourse.
- 6.2 The exemption represents sound, principles-based tax policy, recognising the public good nature of independent research and the non-profit operating model of qualifying organisations. The fiscal cost is minimal, while the public benefit is substantial.
- 6.3 We strongly urge that the tax exemption for bodies promoting scientific or industrial research (Section CW 49) be retained in full. Removing it would yield negligible fiscal upside but pose significant risks to independent research capacity, policy development, and the quality of public discourse in New Zealand.

ENDS



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

From: Community Access Media Alliance (CAMA)

Date: 28 March 2025

Subject: The value and challenges of Community Access Media in Aotearoa

Introduction

Community Access Media in Aotearoa provides essential public services, ensuring diverse communities can access media platforms that reflect their voices, languages, and cultures. The Community Access Media Alliance (CAMA) represents 12 not-for-profit Community Access Media radio stations operating under the principles of section 36(c) of the Broadcasting Act 1989. These stations are funded primarily by NZ On Air and serve as a critical communication tool for underrepresented communities, including ethnic minorities, youth, persons with disabilities, and local organisations.

The Inland Revenue proposals to revise taxation policies affecting not-for-profit organisations pose potential risks to Community Access Media. If business income from unrelated activities were to be taxed, it could compromise our ability to sustain essential services. We strongly urge Inland Revenue to recognise the distinct public value of community broadcasting and to ensure that taxation changes do not undermine our sector.

The local and international value of Community Access Media

Local importance

Community Access Media ensures that all New Zealanders have access to locally relevant news, information, and cultural content regardless of background. CAMA stations play a unique role by:

- Broadcasting in over **50 languages**, ensuring linguistic diversity.
- Providing **media training and opportunities** for marginalised groups, including youth, persons with disabilities, and ethnic communities.
- Facilitating **critical emergency broadcasting** in times of crisis.
- Offering **civic value** by connecting communities and promoting public discourse on critical local issues.
- Functioning as an **archive of local stories**, ensuring regional histories and cultures are preserved for future generations.

International recognition and United Nations endorsement

The value of community broadcasting is recognised globally, particularly by the United Nations (UN) and its agencies. The **UNESCO Community Media Sustainability Policy Series** highlights the importance of community radio in promoting media pluralism, social inclusion, and participatory democracy. The **UN's Sustainable Development Goals (SDGs)** further align with the mission of Community Access Media:

- **SDG 10: Reduced inequalities** – Community radio provides platforms for minority voices and marginalised groups.
- **SDG 16: Peace, justice, and strong institutions** – Access to free and independent media strengthens democratic participation and social cohesion.
- **SDG 4: Quality education** – Community radio plays an educational role by providing training and skills development, particularly for underserved populations.

The UN has consistently called for public policies that **protect Community Access Media from commercial pressures** and ensure sustainability through supportive regulatory and funding environments.

Resourcing challenges facing Community Access Media

The [CAMA 2024 Resourcing Snapshot](#) highlights ongoing financial and operational challenges:

- **Rising operational costs**, including transmission fees and staffing, have placed increasing pressure on stations.
- **Declining non-NZ On Air revenue sources**, such as grants and sponsorships, make stations more reliant on public funding.
- **Stagnant and precarious public funding**, with no safeguards to ensure NZ On Air revenue sources continue, let alone decrease due to broader political and economic pressures.
- **Increased content and compliance demands** from funding agencies require additional administrative capacity, stretching already limited resources.
- **Varying infrastructure and reporting processes** across stations, combined with limited funding and capacity, make streamlining sector-wide financial sustainability strategies difficult.

Concerns about proposed taxation changes

If the proposed taxation changes result in new tax obligations for unrelated business income, this could severely impact Community Access Media stations that rely on (and already struggle to generate) alternative revenue sources. For example:

- **Airtime fees and sponsorships**, which help supplement funding gaps, could become taxable, further limiting financial sustainability.
- **Studio hire and training programmes**, which provide community education, may be categorised as business activities, despite their alignment with sector goals.

- **Administrative burdens** associated with tracking and reporting taxable and non-taxable income would strain already limited staffing resources.

Given the strong public service mandate of Community Access Media, we recommend that Inland Revenue:

1. Ensure income generated to support core Community Access Media content distribution and dissemination **remains tax-exempt**.
2. Recognise sponsorships, grants, and alternative funding sources as **integral to charitable activities rather than unrelated business income**.
3. **Provide exemptions or allowances** for small-scale revenue-generating activities that directly support operational costs.

Specific policy recommendations to reduce the impact on Not-for-Profits

Given the financial constraints on smaller not-for-profits, including Community Access Media organisations, we propose the following policy changes to mitigate the impact of the Commissioner's updated view:

1. **Increase and/or redesign the current \$1,000 deduction** to remove small-scale NFPs from the tax system entirely. This would ensure that organisations primarily engaged in public-good activities, such as Community Access Media organisations, are not burdened with unnecessary tax obligations.
2. **Modify the income tax return filing requirements for NFPs to reduce administrative burdens** on NFPs, Inland Revenue, and associated organisations. Many small NFPs lack the resources to manage complex tax filing processes. Simplified reporting thresholds or exemptions for organisations with income below a set level would significantly ease compliance costs for all parties.
3. **Modify the resident withholding tax (RWT) exemption rules for NFPs** to ensure that investment income or minor revenue streams from sponsorships, grants, and alternative funding sources that directly support operational costs do not become a tax liability.

Concerns regarding the removal of tax concessions for friendly societies and credit unions

Friendly societies and credit unions provide essential financial services to their communities, often supporting lower-income individuals who may struggle to access mainstream banking services. Removing their tax concessions could:

- **Reduce their ability to offer low-cost financial services**, impacting vulnerable community members who rely on affordable credit and savings options.
- **Incentivise friendly societies and credit unions to offset additional financial costs** onto members, communities, and individuals accessing those services.
- **Increase financial hardship for members**, as additional tax liabilities could lead to higher service fees or reduced lending capacity.

- **Disrupt community-focused financial models**, undermining the cooperative principles that allow these organisations to reinvest in their members and communities.

Inland Revenue must consider the broader social impact of removing these concessions. We urge Inland Revenue to maintain these tax concessions or implement transitional measures to prevent negative financial consequences for communities and lower-income individuals accessing these services.

Conclusion

Community Access Media plays a vital role in Aotearoa's diverse media landscape, ensuring all communities have access to representation, training, and civic engagement. The taxation changes under consideration should not inadvertently weaken this critical sector. We urge Inland Revenue to carefully consider the unique value and challenges of Community Access Media and to implement policies that safeguard its financial sustainability.

We welcome the opportunity to discuss these matters further and provide additional sector data or case studies to inform the decision-making process.

Ngā mihi nui,

Alexandra (Sasha) Borissenko

National Representative

Community Access Media Alliance (CAMA)

camaaotearoa@gmail.com, s 9(2)(a)

From: Gavin Baxter s 9(2)(a)
Sent: Friday, 28 March 2025 7:57 am
To: Policy Webmaster
Subject: Submission – Taxation and the Not-for-Profit Sector

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

Good morning

I have been a Salvation Army Officer for over 30 years, approximately half that time in front line ministry and community service, and the other half in HQ finance positions. My last role carried fiscal responsibilities for most centres of The Salvation Army [TSA] in the South Island. My current role oversees our community ministries work in Greymouth (which includes a foodbank, budget advice and the provision of educational tools for life). I am lead person for our local Corps/Church, in its promotion of religion (a defined aspect of charitable work), as well as chaplain to our Bridge Programme (Addictions), Family Store, Driver Programme and the local St Johns Ambulance. I have always believed strongly that TSA Officers are not just appointed to a Corps/Church, but to the community.

It is exciting to see the significant positive change that people in Greymouth and the wider West Coast are experiencing as a result of TSA ministries, and other charities at work on the Coast. Every four weeks I see those afflicted by addictions graduating from one of our courses with new mana, confidence and determination, equipped with tools to make a difference. Every six months I witness Driver graduates experiencing joy and liberty at their legal driver status and know they will be better able to find gainful employment as well as serve their whanau and communities. Twice this year I have heard new church members speak publicly of their transformed lives as they have overcome depression, addictions and other debilitating lifestyle choices, and are now free to actively serve others on a similar recovery journey to wholeness.

I am significantly concerned that any moves to increase the taxation of charities, or to increase the costs of compliance and other administration, will reduce the funding available for the front-line work of transformation and 'lift' that I see here first hand, and hear of elsewhere. Any charity that diversifies its income streams with commercial activities, investment and fundraising (that align with their charity's purpose), reduces their dependence on donation/grant funding and thereby helps maintain a more consistent funding base that enables that charity to do its work year in and out. Sometimes funds (especially including legacies) are not able to be immediately used for the donor's stated purpose, but are carefully (ethically) 'banked' until they can be.

I am convinced most charities can do much more with their financial, property and personnel resources than any commercial or governmental agency – especially because of the inherent 'heart' that is invested by leaders, employees and volunteers (we couldn't do half what is achieved on the Coast and elsewhere in NZ, without our valued volunteers, who come because of the results they observe and because their hearts beat in time with philanthropic goals we carry – their time and skills are gold!) – eg our local family store not only raises funds for TSA but

simultaneously provides cheaper (or free) products to those in need (while maintaining their mana by allowing them to purchase their goods), and contributes to the green sector through recycling and waste minimisation; our foodbank staff invest their time and aroha in interviewing clients (so other services or referrals can be made) as well as making up parcels of donated foodstuffs.

I thank you for your consideration of these points, and pray wisdom and grace for you all.

Gavin Baxter (Major)
Corps Officer/Pastor, Greymouth Corps
Chaplain, West Coast Bridge
Chaplain, West Coast St John
The Salvation Army Greymouth
Caring for people, transforming lives, reforming society
77 Shakespeare Street, Greymouth 7805
Postal/courier: 34 Karoro Place, Karoro, Greymouth 7805
Mobile s 9(2)(a) [REDACTED]
[REDACTED]

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ccs
disability action
Including all people

TE HUNGA HAUĀ MAURI MŌ NGĀ TĀNGATA KATOA

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

Linda Scott

Phoebe Eden-Mann

26th March 2025

About Us

CCS Disability Action is a community organisation that has been advocating for disabled people to be included in the community since 1935. We provide direct support to approximately 5,000 children, young people and adults through our 18 branches, which operate from Northland to Invercargill. Our support focuses on breaking down barriers to participation. We receive a mixture of government and private funding.

CCS Disability Action has a national network of access coordinators, who work with local government and transport operators to create a more inclusive society. We also run New Zealand's nation-wide Mobility Parking Permit scheme. This scheme currently supports more than 180,000 people to more easily access their communities and facilities. Our fully owned subsidiary, Lifetime Design Ltd, advocates for and provides universal design guidelines to improve the accessibility of New Zealand housing.

Introduction

Thank you for the opportunity to submit on the Taxation and the not-for-profit sector issues paper. We are pleased that consultation has been initiated, however, we do have some significant concerns about the content of the document as it stands. We will focus on the potential impacts on our charitable entity from Chapter 2 and Chapter 4 of the document.

Recommendations

- We recommend that charities business income remains untaxed.
- We recommend that the Fringe Benefit Tax exemption remains for charities.

Proposed changes

Proposing that charities unrelated business income be taxed seems an unreasonable response to what appears to be a very small number of bad actors. This would add significant uncertainty and administrative burden to CCS Disability Action and many other charities. Depending on the definition of “unrelated” business income there is the potential to directly reduce the income available to support disabled people’s ability to participate in society. We are concerned that if the proposed changes are to go ahead, that it will have a negative impact on not only the people we support, but the wider disability community.

We administer the Mobility Parking scheme nationwide (to approximately 180,000 Mobility Parking Permit holders) and provide access advice and training to a variety of businesses, local councils and housing providers. All the income earned from these activities directly supports our services, as government contracts do not fully fund the disability sector. Without this income, our ability to support disabled people would be compromised, and we believe that if the proposed changes are enacted, that disabled people will suffer.

- **We recommend that charities business income remains untaxed.**

Removing the FBT exemption would directly reduce funds available to support disabled people’s choice to participate in society. Disabled people are already less likely to be able to participate in society due to systemic barriers; reducing the funds we as an organisation have available will only exacerbate that further.

Approximately 25% of our vehicle fleet would fall under the FBT legislation if the exemption were removed, with an expected taxation of \$277,000 annually plus additional administrative costs estimated at a minimum of \$10,000. The costs of this would be enormous for our organisation and our ability to provide supports and services to disabled people.

While 30% of our vehicles are permanently sign written it is not prominently displayed. The remaining 70% we have chosen not to sign write as this is inappropriate for the services we provide. In addition, our vehicles are primarily located at staff members homes for security reasons or travel requirements not as

part of a remuneration package. We provide direct support to over 5000 people, and much of that support requires travelling by vehicle. It would be inappropriate for our staff to be driving in prominently sign written vehicles due to the privacy concerns that it raises for the people we support and staff. Often, these vehicles are used to travel to and from the person we support home, to accompany them to appointments, and generally participate in society, and having a prominently sign written vehicle is risking a vulnerable person's privacy being breached. Disabled people have the right to privacy regarding their support and access needs, and prominently sign written vehicles puts that at risk.

With that in mind, as well as the significant financial and administrative costs that we would incur because of the FBT exemption being removed for non-prominently sign written vehicles, we are firmly opposed to the proposed changes.

- **We recommend that the FBT exemption remains for charities.**

Conclusion

While we appreciate the opportunity to submit on the not-for-profit sector consultation, we do not believe taxation of business income or the removal of the FBT exemption for charities is appropriate. We understand the need to address those who are exploiting the charitable tax rules; however, the proposed changes are a significant over-correction and will negatively impact our ability to support disabled people. Instead of addressing the small number of bad actors exploiting the system, these changes tar the whole charitable sector with the same brush with little acknowledgement of the enormous financial and administrative burden that it will place on already under resourced charities. Apart from the specific situations described above, the overall impact on disabled people and the entire social fabric of New Zealand society would be seriously undermined by changes in this way. We are opposed to the proposed changes and urge the Government to reassess their current approach to tax reform for the not-for-profit sector.

From: Mac Hungerford s 9(2)(a)
Sent: Friday, 28 March 2025 8:21 am
To: Policy Webmaster
Subject: Re: submission re taxation on charitable trusts.

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

Date 27/03/2025 2:34:55 pm
Subject submission re taxation on charitable trusts.

Dear Board,

My name is HM(Mac) Hungerford. I am chairman of Arohanui Charitable Trust CC31230. I was one of the founding trustees over 50 years ago. At the time of the Trust's beginning there was a maximum of \$200 of giving from personal income before income tax was levied. As a group of Christian farmers we established Arohanui Trust as a vehicle we could use to be able to give through without having to pay tax, thus minimizing the amount we could distribute. The establishment of the trust did not reduce our personal giving to various charities, but operated as an entity through which many young men from our church could work on projects such as scrub cutting, shearing, picking up hay and later when we purchased land to donate beef calves for us to rear and sell.

Arohanui Trust has since its inception until now been run entirely by voluntary input and no person has ever received any monetary compensation for labour or travel and in fact has benefited from many personal donations of time and materials.

Every year since its inception Arohanui Trust has donated to various charitable causes. Initially income was small and debt was large so we donated on a modest scale, but through retaining some earnings each year Arohanui Trust has been able to invest in other business opportunities, always with the aim of increasing profits to enable an increase the amounts it is able to give to various community needs.

Helping people in need over the years has been a very satisfying experience!

A summary of the last 3 financial years.

2022 Income after expenses \$1,156,153 Grants and donations \$685,734 Giving = 59% of profit

2023 Income after expenses \$996,969 Grants and donations \$670,858 Giving =67% of profit

2024 Income after expenses \$655,670 Grants and donations \$625,262 Giving = 95% of profit

Submission.

Taxation on income will reduce the amount of giving the trust can achieve by the amount of tax deducted.

The current no taxation of Charitable trusts has been helpful over the years in enabling the Trust to grow its assets and invest into income earning businesses.

Should taxation be levied against charitable trusts I think it should only apply to retained earnings after grants and donations.

I am happy to be contacted by email at s 9(2)(a)

Yours faithfully,

Mac Hungerford

Okiwi Bay Rate Payers Association

PO Box 2112, Stoke Nelson

27 March 2025

Taxation and the Non Profit Sector

Submission by the Okiwi Bay Rate Payers Association

1. Background

The Okiwi Bay Rate Payers Association Incorporated is a non profit voluntary community organisation which exists to represent the interests of the residents of Okiwi Bay located in the Marlborough Sounds. The Association became an incorporated society in 31 March 1983

The activities of the Association include managing the high-tech water supply, maintaining parks, toilets, public buildings, and machinery, Community Benefits:

Members get the benefit of the use the community centre, library, green waste facility and trailer parking .

The Association is reliant on annual subscriptions, fundraising and donations as a main sources of income

2. Submission in response to the IRD discussion paper on Taxation for Non Profits

This submission covers two points

- (a) The justification for taxing subscription income of small organisations and (b)
The income threshold to be applied if such taxation is imposed

2.1 Justification for taxing subscription income

The current position is that a non profit must pay tax on trading income (unless exempt) but need not pay tax on membership fees or subscriptions. The draft operational statement states that subscription income may become taxable under certain circumstances.

Given that the “certain circumstances” are not made clear in the document it is unclear what criteria would be applied to determine this. We are therefore unable to determine if we would be affected until this is clarified. Also apart from a general comment in the document about “seeking a broad based low rate framework” no clear rationale is provided in the paper for making this change to tax the subscription income of non profit organisations given that arguments about gaining an unfair advantage over commercial competitors do not apply.

Those who pay fees and subscriptions are making these payments from their income which is already taxed and their voluntary work for the organisation is not generally compensated.

Taxing subscription income will have the impact of reducing net revenue available for small organisations to operate and likely lead to an increase in fees to cover costs.

Okiwi Bay Rate Payers Association

PO Box 2112, Stoke Nelson

A further point is that taxation obligations on small non profits imposes further compliance and reporting obligations on organisations which have already seen an increase in reporting requirements under new Incorporated Society rules. Reducing compliance is one of the objectives set out in the discussion paper

In the larger picture, imposing further tax obligations on small organisations such as ours is likely to bring limited tax revenue for the IRD effort involved and focus would be better placed elsewhere where taxation revenue would be more significant such as tightening up on tax breaks for higher income earners or corporates.

2.2 Income threshold

If taxation is imposed on subscription income, the criteria to be met need to be clear to organisations. Also the threshold should be lifted significantly so that the tax exemption threshold is sufficient to cover the income of typical small organisations, including subscription income and income to cover the cost of services to members.

In our case a threshold of at least \$100,000 to include the water subscriptions would be sufficient to ensure that our income is tax exempt.

Taxation and the not-for-profit sector – officials issues paper issued 24 February 2025

27 March 2025

This submission is made by the Presbyterian Church of Aotearoa New Zealand (“PCANZ” or “the Church”) and should be read in conjunction with our letter summarising our submission of the same date.

This paper is presented with our letter summary of the same date and they should be read together as one submission.

We would welcome the opportunity to discuss our submissions with officials.

We acknowledge that our submission may be released on the Inland Revenue’s website or be subject of a request under the Official Information Act 1982.

Summary

We believe that the PCANZ provides for the good of Aotearoa New Zealand. We provide benefits to local communities and neighbourhoods throughout New Zealand. We particularly provide for the health (spiritual, social and physical) of the people we come into contact with – local communities, not just the members of our organisation.

Each community that we are part of gets to share the use of our physical buildings as we host a number of community groups both within and outside our parishes. In most cases, these community halls and facilities are in places where there are no other government or local government facilities or larger halls or meeting places. We generally subsidise their use and can do so because of the benevolence of our past and present members, and due to favourable income tax treatment we receive.

The officials’ issue paper proposal will reduce our ability to provide direct service and support to our communities, including public use of our facilities, due to the potential extra burden of income tax and compliance costs.

1. General Comments

Terminology

We are concerned that the Inland Revenue appears to use “charities” and “not-for-profits” (“NFP”) interchangeably throughout the issues paper. For example, in Chapter 1, para 1.1 these are referred to as separate and distinct, yet in Chapter 4 they can be read separately in places but as one and the same in others (see para 4.3, first bullet point, and the sections on FBT Exemption and Volunteers). We have found this confusing for the lay reader although accept the Inland Revenue website refers to charities as being a type of NFP.

It would be helpful if the Inland Revenue provided definitions of terms it relies on and requires our comment.

Reference to other Inland Revenue issues and interpretation statements

We are concerned that the Inland Revenue refers to multiple different issues papers and interpretation statements, specifically:

- refers to a different paper issued on 10 February 2025, which also impacts (para 4.34)
- has prepared another paper but not released it, nevertheless, are relying on its contents and interpretation (para 4.6)
- refers to FBT paper published November 2024 (para 4.29)
- refers to the “Charities – Business income exemption” published November 2024 (para 2.38)
- includes implications for Donation Tax Credits (a review document issued August 2024 and a response paper January 2025).

As a lay reader with the limited time available to make submissions on this 24 February 2025 officials’ issue paper, having knowledge of very recent papers (including a non-issued paper) has limited our ability to fully respond to you.

Simplifying tax rules, reducing compliance and integrity risks

The issues paper refers to the Government’s tax and social policy work programme as simplifying tax rules, reducing compliance costs and addressing integrity risks. Where possible we have addressed these in comments on each Chapter, and specific questions. However, as a general comment, the issues paper makes very broad assumptions particularly around simplifying tax rules and reducing compliance costs, but has produced little information to explain how these discussion points do either in practice. Our initial view is that they will make the tax rules more complex for our organisation and will also in places significantly increase our costs.

2. Chapter Two - Charity business income tax exemption

General comments

We note the focus of the Inland Revenue’s review is “unrelated business activities” (para 2.3). However, there are difficulties with that term and how to separate what is “related”, “unrelated”, “charitable purpose”, “business income” and “active income” with “passive income”.

What is “business” income?

The primary definition of “business” includes any profession, trade or undertaking carried on for profit. The term “income” itself is not defined in the Income Tax Act. We note the leading New Zealand tax case sets out the definition of “business” *Grieve v C of IR* (1984) 6 NZTC 61,682. The Court of Appeal unanimously agreed that the intention to carry on a business for pecuniary profit does not involve proof of the further element that there must be a reasonable prospect of making a profit. In other words, a “profit” element need not exist for a business to be found to exist. Justice Richardson provided an analysis of what is meant by the term “business” for the purposes of the Income Tax Act. His Honour concluded that the decision whether or not a taxpayer is in business involves a twofold inquiry as to:

- the nature of the activities carried on, and
- the intention of the taxpayer in engaging in those activities.

Meaning the character and circumstances of the particular venture remain at the forefront of analysis. Refer to page 61,691 of the Richardson J's summary in this case.

The Court of Appeal in *CIR v Stockwell* (1992) 14 NZTC 9,190 regarded the tests of continuity and extent as primary considerations in determining whether a business exists, and that every case is always a matter of fact and degree, a view noted in *Estate of King v CIR* (2008) 23 NZTC 21,729 (CA) at [42].

The Canadian approach is the concept of “source” (being the same as New Zealand “income”) applies the charge to tax various sources of income. Among these sources are business profits, being the profit from a business or property in a taxation year. The word “source” is not defined, and it has been left to the courts to determine the nature and scope of sources of income tax purposes. Here the Revenue Authorities attempted to argue a requirement of intention (or prospect) of making a profit, which was rejected by the Supreme Court (see *Brian J Stewart v The Queen* 2002 DTC 6969; 2002 SCC 46).

The Australian approach as set out in the Income Tax Assessment Act 1997, s 995.1, defines a business to include “... any profession, trade, employment, vocation or calling, but does not include occupation as an employee”. In *Ferguson v FC of T* 79 ATC 4261, Bowen CJ and Franki J regarded the following factors as important in deciding whether a given enterprise is a “business” for the purposes of that Act:

- the nature of the activities, particularly whether they have the purpose of profit-making
- repetition and regularity of the activities
- organisation of activities in a businesslike manner, the keeping of books, records and the use of a system, and
- the volume of operations and the amount of capital employed.

Although we note that in New Zealand this was not necessarily accepted, see *Grieve* at p 61,690.

The United Kingdom approach: The position in the United Kingdom is broadly similar to that in Australia. Section 832(1) of the Income and Corporation Taxes Act 1988 defines “trade” as including every trade, manufacture, adventure or concern in the nature of trade. The statute does not contain an explicit requirement for the relevant activity to be carried on for profit. Case law has established that a taxpayer’s intention to achieve a profit may be relevant in determining whether a trade was being carried on, but this is merely one of several indicia to be taken into account.

In *Clark (HMIT) v British Telecom Pension Scheme Trustees* [2000] BTC 64, Robert Walker LJ stated at p 72:

“If the legal or commercial characteristics of a transaction point unequivocally to trading, the trader’s subjective purpose or motive cannot change the character of the transaction. But the **character of the transaction may be ambiguous until resolved by reference to purpose or motivation.**” [Emphasis added].

In summary, what is “business income” is subjective, potentially where a profit is ultimately intended, but equally where the purpose or motivation of the taxpayer (e.g. the charity) is important in the context of that taxpayer.¹ The “intention” to make a profit is difficult enough with tax paying entities and persons, and more complicated still where the entity being considered does not ‘intend’ to have a profit for profits sake, but may have an ‘intention’ to generate funds in one sector of its organisation to finance operations in another.

A passive investment is not a “business”, and we acknowledge the officials’ paper is not looking at passive income (covered under section CW 41 of the Income Tax Act). However, it should not matter whether an investment is passive or active (nor the level of intention required) to determine if an element or parcel of a charity’s income (or funding sources) falls into the “business income” because charities are “not in business” nor to make a net gain.

What is “income”

From PCANZ’s perspective (and many other religious charities) at its widest sense “income” is what comes in on a regular basis and is not capital. The Church is concerned with funding its charitable operations, not where the source of the funding comes from². There are many tax cases in New Zealand that distinguish between “income” and “capital” for the purposes of determining whether something is subject to income tax or not. For the purposes of our submission we will use the widest sense, being money that comes in on a regular basis (which is not a free-will gift or capital receipt), unless the context indicates otherwise. For “capital receipts” we consider these, at its widest definition, one-off sources of funds (e.g. sale of a physical asset or a bequest).

A church will have passive income, but may also have active investments, such as a share portfolio, commercial or residential rental income, farming operations, a camping ground, run conferences, a library, training courses, publish books. As a collective of faith-based people, a specific Parish may (or may not) make a profit operating a child care centre, an op shop or a café or counselling service. The national church as a collective may charge a levy from Parishes to finance the work for the collective whole. We submit these are not sources of “business income” despite the income tax definitions and case law in New Zealand and elsewhere on what is a “business” and what is “income”.

PCANZ is not a business, it is a church, regardless of the profit an element of its activities may or may not make. It is for these reasons that the Charities Act 2005 and the Income Tax Act 2007 carve out charities from the normal definitions and interpretations under both Acts.

What is “unrelated”?

As a nationwide Church, PCANZ, has many people acting in both voluntary and paid roles throughout New Zealand. What may seem a “business” and “unrelated” to its charitable objects from the outside may on closer inspection be clearly tied into the advancement of religion, relief of poverty, educational and beneficial to the community. A simple “op shop” could meet two or three of these tests, a day-care centre three. The provision of counselling services to those in stress or suffering trauma, or offering access to dignified funerals. Some or all of these may be priced the same as a tax paying business offering these identical services.

¹ Sources: *New Zealand Income tax Commentary*, (online ed, Wolters Kluwer, accessed 3 March 2025) at ¶160-010.

² Except to the extent certain investments and activities would be prohibited under our ethical SIPO policies.

The difference is that charity's fee paying 'clients' often would be subsidising those less financially able receiving the same services from the charity.

Each service provided within the PCANZ network links the Church to its religious beliefs of service and faith. PCANZ believes its services are the hands and feet of our Lord Jesus Christ. No less part of our faith than preaching a sermon on a Sunday or operating a foodbank or providing free community meals. Referred to as *the Five Faces of Mission*, PCANZ have adopted as its mission:

- teaching and nurturing people in the Christian faith,
- responding to human need,
- proclaiming the gospel,
- seeking to transform society, and
- caring for God's creation.

It seems difficult to separate our missional goals from creating income to sustain them.

It is equally difficult to separate a "business" that seeks to carry out these missional goals even if they are carried on in a secular society and where tax paying entities provide the same (or similar) services.

Commercial investments

The officials' paper refers to accumulation and "destination of income" (para 2.5). It refers to "large-scale" entities (para 2.7). In our opinion, it correctly identifies that the "competitive advantage" is overstated. The paper notes correctly in para 2.12 that the pre-tax return to both taxable entities and tax-exempt entities is essentially the same. However, official's paper plays down the effect that investing in securities (passive investments) while tax-free is usually received after tax, i.e. post company tax paid. Charities are unable to access the tax paid like tax paying entities (i.e. it cannot access the imputation credits). As such public security investments impose an indirect tax on charities that are not equally experienced by tax paying entities and individual investors, because these receive the benefit of the imputation credits, which affects their gross tax payable. In other words, an individual may pay tax on their investment, but it is partly paid by crediting them with the tax paid by the Company i.e. part of the Company tax paid is creditable to the individual (or put another way, refundable in theory by offsetting against other income tax payable by its shareholder)³. Tax exempt entities do not have the same accessibility to benefit from tax credits meaning the tax differential is not as wide as believed.

As a general rule, PCANZ does not have commercial security investments (listed shares, management funds, overseas portfolio and similar). Primarily, this is not because of the tax disadvantage these investments have, or because PCANZ could not skills and expertise to run commercial large scale businesses if it wanted to. But rather because the funds available for investment are primarily held in trust for specific purposes (i.e. unable to be spent in other areas) or to enable immediate access to finance annual operational costs. PCANZ generally has passive investments. They are low risk, and low return investments.

³ For example, if the 28% imputation credit is lower than the shareholders personal tax rate.

But as we have noted earlier PCANZ may have fledgling operations or activities succeeding (or failing) throughout New Zealand. It would be unworkable for some to be taxable and some to be tax-free. It would be illogical to allow a child care centre in a low socio neighbourhood (to be a tax exempt business income) but not allow one across town or in a different region simply because the poverty and deprivation or wealth is measured to be different in different places.

“Second-order” imperfections

We note the officials’ paper’s reference to *“Second-order” imperfections* in para 2.13. These comments are perhaps over simplified.

- Tax obligations

Charities do face the same, and often more, compliance costs when meeting its tax obligations. The Church is equally subject to GST, payroll, KiwiSaver contributions and deductions, and (a modified but complex) FBT regime than any tax paying entity. As a large organisation PCANZ are also subject to high levels of accounting compliance to meet our IFRS obligations. As a Tier 1 organisation our accounting and auditing compliance costs are significant and on-going, involving complex consolidation of various parts of the church throughout the whole country. The enormity of this exercise annually should not be underestimated. We must also file annual returns and financial statements to Charities Services. We are subject to stringent rules within our charitable documents and policies and are open to audits from both Charities Services and the Inland Revenue at any time.

We also point out that charities, and churches in particular, often have low external debt levels. Apart from the difficulty in borrowing from standard funding sources (see our comments below on this), Parishes would potentially struggle with solvency if they have high interest and principal repayments but no or little assurance of income coming in. The largest asset of most churches are not their bank accounts and investments, it is their buildings (places of worship, which have low realisable values). Whereas, tax paying commercial enterprises are able to leverage their existing income and their existing assets to finance growth in their business and finance returns to shareholders in lean years. Their interest costs are tax deductible. If PCANZ was subject to income tax on its business income, its interest deductibility costs would be disproportionately lower than commercial enterprises.

- Losses

The paper notes that the non-refundability of losses disadvantages the tax paying entity over the non-tax paying entity. This is overly simplistic. Corporate businesses carry forward their tax losses for accounting and tax purposes. When it comes back into profit the old losses are used to shelter the profits until used up. With the introduction of business continuity loss carry forward rules there are few trading companies that lose their prior year losses. Other tax paying entities such as partnerships, unincorporated joint ventures and trusts also have on-going access to historic tax losses.

Churches make losses.

Many charities are loss makers – it is in the nature of their status that focussing on profit is not their goal, although sustaining their momentum to apply their charitable objects are important. As we have noted, many of the arguably “business” operations within PCANZ are literally ‘loss leaders’ in commercial speak, or if they make a gain/profit they cross-subsidise other activities that are not businesses and do not make money. A mainly music activity (pre-school activity) at

a Parish usually loses money and is supported by volunteers, and fees are payable to an external provider for a licence. In addition, it will be financially supported by the Parish, who underwrite the programme and provide facilities for no charge.

Next door, the same Parish may lease out its hall to a private business operating a ballet school. The money from the latter funds the former. A Parish that has excess land may provide a carpark facility to local businesses and their customers at a fee. It may engage an independent operator or employ staff itself. It would only do this to make a 'profit' not to break even, as the commercial risks are high (including health and safety and building compliance rules). It may construct a new commercial carpark at ground and upper levels, with a chapel and worship centre at the back. The 'business' portion makes a profit, the church activity makes a loss. They cannot be separated from each other.

One Parish may make a gain annually, another running down its financial resources year on year. Both are serving their local communities. Both Parishes are within the collective PCANZ network and their financial results are reported at a consolidation level in its financial statements along with hundreds of other Parishes and associated entities. With all due respect to the Inland Revenue's published statistics (Table 1, page 10) and the conclusions drawn, the numbers simply do not translate to the manner suggested for an organisation as broad and diverse as PCANZ.

Raising capital

Churches face significant difficulties in raising finance to buy, rebuild, renovate or expand. This is because the security offered is usually the worship centre itself. Christian Savings was established in New Zealand to support churches to access finance for these builds. Shareholders of Christian Savings can only be charitable, and the liquidity of the equity investment in Christian Savings is virtually nil.

Christian Savings offer loans to churches. The interest rate lower, and the financial leverage greater for non-worship centres (e.g. for minister's housing) than Social housing. Borrowing for a worship centre is difficult and expensive. This is because a residential property has a ready market if the borrower defaults, but less so for social housing. In the event of default and mortgagee sale, prospective purchasers of a purpose-built worship centre with its limited and specific resource consents is extremely small (and much less than a normal commercial building which could be more easily repurposed). You can find out more about Christian Savings at this link [Christian Savings | Connect your money to God's mission in your community](#).

The other aspect for lack of borrowing facilities is that churches have the lack of predicable sources of income (tithing and donations) and less liquidity of other assets if called upon to refinance or repay unexpectedly.

In summary, we consider that PCANZ (as a collection of individual Parish, Presbyteries and General Assembly) does not have "unrelated business income" regardless of how it is defined. We have "income" that comes in. Our income is derived from:

- tithing (donations by members and associates),
- gifts of money or goods/services (from members and the public),
- performing market rate and/or discounted or free services (for members and the public),

- fees levied in-house for services or to support the wider church and its public facing missional work,
- passive investments (including interest, rent/lease, dividends),
- in-house conferences, lecturing at tertiary and other religious institutions, guest speaking, and
- publication and sale of books, archival and library services.

Some of our Parishes may have what appear to be “unrelated business income”. We believe none is “unrelated” to our charitable objects and our missional work.

3. Policy framework

Accumulation and competitive advantage

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?

The factors described in 2.13 are over simplified and do not appreciate the complexity of a national church organisation such as PCANZ.

We have an equal amount of tax, audit and accounting compliance costs as all Tier 1 and Tier 2 IFRS organisations whether they are tax paying organisations or tax-exempt. We also have additional compliance costs relating to the Inland Revenue and Charities Services. The fact that much of PCANZ is run by volunteers at Parish and Presbytery level, as well as at governance level means that our operational costs (cash costs) may be lower than other entities but our capacity to comply with regulations and taxation criteria is very low and comes at a higher cost per member, and per dollar received as ‘income’ compared to a standard tax paying business or large corporation.

We have operated at a loss many times over the last century. These losses are funded from accumulated income from previous years, or from donations and bequests. To the extent the Church has income earning assets, these assets have generally been created by donations of money and time of members, and bequests. The future and financial reality is that buildings have to be sold, congregations merged. Different ways need to be made to pay for ‘the church roof repair’, and the ‘toilet rolls and light bulbs’. Different ways and means need to be found to engage in our charitable purpose, and our mission of service to the communities of New Zealand.

Where the Church has accumulated excess funds, this is almost always where a long held asset has been sold (a capital event) and the money either used to pay for normal outgoings or eventually going towards replacement buildings either for that Parish or another. PCANZ rules limit the ability of Parishes (and Presbyteries) to access these capital funds. They are held on trust for future capital works and must go through a complex and lengthy approval for the future building project (buy, renovate or rebuild) including architectural design approval, justification for the project, fund raising to meet the shortfall, evidence and testing of the missional plans for the Parish and evidence the project meets the needs of the community, Presbytery and the national church. In other words, money from capital sales is often held for 5 to 15 years or more before a new buy, renovate or build project receives Church approval.

Tax paying entities have the ability in the majority of cases to carry forward tax losses and offset them against future income and therefore reduce their tax liabilities. In practice the offsetting of losses for a tax paying entity and a tax-exempt entity are identical from an accounting

perspective. From a tax perspective there is no material difference. PCANZ is a trust⁴. As such, if it was a tax paying entity, it would be entitled to carry forward and offset its tax losses without risk of losing them, in accordance with all other trusts, partnerships, unincorporated joint ventures, and individuals. Incorporated businesses have the ability to carry forward tax losses under the business continuity test, so in the majority their tax losses are not lost on a change in shareholding.

To suggest that the “unrelated business” activities be separated from the passive income and non-business activities fails to understand the symbiotic relationships within PCANZ’s dynamic structure in over more than a century of its existence.

PCANZ has difficulty in borrowing from standard funding sources (e.g. banks), and individual Parishes will likely struggle with solvency if they have high interest and principal repayments but no or little assurance of income coming in. Whereas, tax paying commercial enterprises are able to leverage their existing income and their existing assets and receive a tax deductible cost for borrowing. If PCANZ was subject to income tax on its business income, its interest expense would remain disproportionately lower than a normal ‘business’ due to its inability to borrow, placing it at a tax disadvantage.⁵ This would become manifestly so if non-business activities (e.g. places of worship, passive income and non-income/profit activities) are carved out from the business activities.

The costs of raising capital are generally harder for churches than tax paying businesses for the simple reason that most church fundraising goes towards maintaining worship centres, not profit making commercial operations. The cost of finance and the ability to access finance is difficult due to the illiquidity of the current and resulting assets, and the lack of predictable sources of income.

The factors described in 2.14 correctly reflect that a non-taxable entity does not have a “tax” cost, and therefore can accumulate income faster, in theory. However, as we have described, most churches, and PCANZ in particular, spends any “business income” faster than a standard Tier 1 or Tier 2 tax paying enterprise. A New Zealand company pays income tax of 28%, leaving it free to retain and pay down debt and reinvest 72% or distribute part of the profit to its shareholders. Assuming a shareholder has a 39% tax bracket⁶ the shareholder will pay 39% tax less a 28% imputation credit. At most the combined tax for the company and the shareholder is 39%. Tier 1 and Tier 2 enterprises do not pay all of its profits out at any one time due to the

⁴ Based on its rules, policies and qualification as a charitable trust. PCANZ at its widest form has no founding trust document that one would expect to see from a modern trust. This is common for churches and particularly common for charities at the time PCANZ was established. In respect of the Synod of Southland and Otago, it was formed by an Act of Parliament. Refer **Presbyterian Church of New Zealand Act 1901**

⁵ While this statement may appear counter intuitive, the point being made is that a normal ‘business’ can borrow at a greater percentage and receive a deduction against the whole of its operations regardless of the purpose of the borrowing. Whereas PCANZ cannot borrow to the same extent against its main assets (church buildings) and has a lower debt level on them. Even where a church was operating a ‘business’ and could borrow at commercial levels, its deductibility would be restricted to the ‘business’ income and not factor that the non-business assets would have little or no debt. Meaning that the proposal to tax charities on their ‘unrelated business income’ does not and cannot be compared to a normal tax paying business operation.

⁶ Being the highest tax rate in New Zealand, whereas the average tax rate for an individual would be significantly lower.

capitalisation needs for growth and debt servicing. This means the majority of the income distributed to shareholders would be significantly less.

PCANZ would have a higher capitalisation than a commercial enterprise but a lower net return on its investments. There is no comparison between PCANZ and a commercial enterprise in New Zealand. It is not possible to compare for this submission because the officials' paper is discussing and suggesting separating "unrelated business income" from other forms of income for charities. But as we have noted earlier, there is no separation between "business" and "non-business", between "unrelated" and "related", between "passive" and "active" income. These terms are simply incompatible in a church context.

4. Implications of Change

General comments

The officials' paper refers to the effect of reducing accumulated funds for the charities business. We agree with this statement; however, we reiterate that churches have very little by way of accumulated income year in and year out.

The paper refers to the potential for charities to move to passive (non-business) investments. To a very large extent PCANZ holds passive and non-business investments. Excluding buildings (church worship centres, halls and offices and residential houses for ministers) passive investments include residential rental properties and commercial land ownership but these are a mere fraction of the investment in church specific use buildings (i.e. worship centres and halls). There are a small number of campgrounds, which generally operate at break even or loss, and are supported by an army of volunteers. PCANZ has one modest shareholding in a charitable company (referenced previously), which provides funding for Christian organisations.

PCANZ were bequeathed the income from two farming operations, which are held in separate private discretionary trusts. One has purely farming activities, of which PCANZ receives a modest distribution year on year. PCANZ has no access to its capital assets (prohibited in its trust deed) and is unable to demand income from the trustees. The other has farming activities plus offers discounted and subsidised holiday accommodation to some PCANZ ministers and their families (part of the terms of the trust). One of the farms is unable to incur debt (i.e. borrow for capital costs and therefore must be self-funding). One or both farms may fall into a definition of "unrelated business income" but PCANZ has no control over the income, the activities of the farm nor the trustees. Both benefactors intended for PCANZ to receive an ongoing income stream to fund the church's religious and missional work. We consider that means they are "related" business income.

The balance of PCANZ funds are held in low risk passive investments (bank bonds and term deposits) or a low to medium risk passive managed funds.

PCANZ is disadvantaged both by its own Statement of Investment Policy (SIPO) which limits high risk and excluded investments, and the fact that managed funds mean exposure to company bonds and shares. PCANZ has no ability to access overseas tax credits nor New Zealand imputation credits. Advantages that tax paying businesses can do. If PCANZ's "unrelated business income" was taxable but its passive income was not taxable this would mean that it could not spread the presently inaccessible tax credits evenly against its taxable income. The proposed tax changes would over correct the perceived tax advantage of its charitable status.

We have already raised the complexity of the obligations PCANZ would have if the proposal to tax “unrelated business income” were to apply due to the nature of PCANZ. This is not merely a question of adding a few more entry lines in a single financial statement it would be a larger compliance cost than the consolidation process, to which PCANZ has spent hundreds of thousands in people time and paid external advisors time over the last 10 years.

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?

In summary:

- What the paper suggests is an unknown and unquantifiable concept in PCANZ context, especially over hundreds of Parishes in New Zealand.
- PCANZ does not have the hierarchical elements that some church denominations have, which means the General Assembly and our Assembly Office cannot ‘force’ Parishes to comply;
- Separating “business” from “non-business” “related” and “unrelated” business activities is simply outside the concept of PCANZ – all income is derived to serve the mission and Five Faces of the Church;
- Identifying costs directly and indirectly attributable to different activities of the Church does not work in PCANZ’s context – there is no separation;
- We would struggle to attribute overhead costs at both a direct lower Parish level and a high General Assembly level and everything in-between e.g. cost of capital, financing costs, attributing time of employees and volunteers to different activities and assets;
- The cross subsidising nature of a faith community at a local, regional and national level means that PCANZ would need to force compliance and report as one entity yet the concepts identified by the official’s paper do not recognise these very complex inter-related activities.

On a practical level, if forced to do so by legislation, PCANZ would not have the financial or people resources to comply with legislation which taxed our “unrelated business income”. Further, our “unrelated business income” currently is, and is likely to remain low. This would mean that the proposal suggested would cost PCANZ (and the Inland Revenue) more to comply than the income tax it would raise.

With our experience in attempting to meet our IFRS reporting obligations we can confidently predict a 10 year lead in period would be required to enable our organisation to be compliant. This would also require wide ranging exclusions and waivers for non-compliance before and after any tax obligations would commence.

5. Policy Design issues

General comments

We struggle to understand the reference for “accumulated, unrelated business income” used in para 2.20. While these terms may be readily known in a business activity it simply does not reconcile with a faith-based entity that seeks to carry out its charitable purposes in New Zealand. To the extent we have “accumulated income” (as assumed to mean net of expenses - a ‘profit’ annually) this changes year to year between profit and loss.

What is “business income”?

To the extent we may have “business income”, that income is used to finance our charitable purposes in the current year or to provide a buffer in the lean years both behind us and before us.

The majority of “business income” (which in itself would be low) would sit within and inside PCANZ’s Parishes, Presbyteries and General Assembly – the majority of these would be within the Parishes. There is no separation between different parts of a Parish. The Corporate structure or a the Trading Trust, while common in business and secular society, is not a standard structure in a faith-based setting.

Certainly, few PCANZ Parishes would have a commercial governance, business competence or appetite for risk to embark on commercial activities. PCANZ as a group would have very few legally separate operations or entities that have “business income” and within these, few would be “unrelated business income” to our charitable purposes.

To the extent we receive a distribution from a trust or a company that has “business income” but is itself a charity, we cannot control what is received from these entities and in the majority of cases the income comes from bequeaths given decades ago directly and intentionally to fund the Church’s mission. These entities are managed professionally and are individually small to medium entities. Because they have strict trust conditions over their operations they cannot be compared to a normal operation where the directors and shareholders can change debt ratios, raise external borrowing, demand distributions and similar.

What is “unrelated” business income?

We appreciate the officials’ paper indicates that low level carving out of small activities within a charitable sector would be anticipated. However, the paper expressly refers to Tier 1 and Tier 2 organisations. PCANZ is required to report as a Tier 1 organisation due to the definitions of IFRS reporting. However, in practice how would PCANZ carve out smaller activities in its reporting on “unrelated business income”?

The officials’ paper refers to Interpretation Statement 24/08 published 16 September 2024 to understand the interpretation of “business income”. As a general comment, we appreciate the purpose of IS 24/08 and recognise this is the Inland Revenue’s considered opinion. However, the IS is not suitable and not on point if to be used as a guiding document and established principals for what is “unrelated business income” for the following reasons:

- The IS has been drafted and considered in the context of business income exempt under section CW 42 of the Income Tax Act 2007. Its focus is solely on whether (a) the business income of a charity is directed offshore, and/or (b) whether a person with some control over the business is able to divert the income away from the charity. All research and interpretation focus on those two purposes, meaning that the nuances of other interpretations, case law and commentary that is not directly on point is ignored.
- The IS refers to “business income” compared to “non-business income”, which is not the same as “related” and “unrelated” business income.
- The IS refers in Example 1 to interest associated with a charities business trading bank account as being “business income”. The current officials’ paper does not expressly (nor by implication other than a footnote reference to the IS) suggest that a charities passive interest is “business income” and would be subject to the proposed taxation of a charities

“unrelated business income”. We find this concerning that there is no more than an obscure reference to taxing interest as ‘unrelated business income’ particularly where most Parishes often have no more than two bank accounts:

- an everyday account (money in and money out), and
- a savings account deriving interest on funds not needed immediately.
- The supposed separation of non-business income e.g. donations, Koha and capital sums, dividends and interest, hall hire, residential and commercial rental income from [related or unrelated] “business” trading net profit set out in the IS is simplistic, naïve and without logical connection nor understanding of a faith-based nationwide church, including PCANZ’s Parishes, Presbyteries or General Assembly.
- The IS in Part One references the New Zealand leading case on what constitutes a business as *Grieve v CIR*⁷ which we have previously noted. It also attempts to differentiate between a charity operating intending to make “a profit” (and therefore a “business”) and those that consciously intend to run at a “loss-making or breakeven”.

[30] Charities that engage in activities on a continuous and ongoing basis, commit time, money and effort to those activities, and conduct a large volume of transactions, with the intention of making a surplus are carrying on a “business”, as s YA 1 defines that term. This is the conclusion even though the object of the business is directed to charitable ends, not private pecuniary gain.

[31] Sometimes a charity engages in activities on a continuous and ongoing basis, commits time, money and effort to those activities, and conducts a large volume of transactions without a profit-making intention. For example, a charity that deliberately undertakes an activity on a loss-making or breakeven basis. Such activities will not be a business, as s YA 1 defines that term. Example | Tauira 2 illustrates a situation where a charity deliberately carries on activities to breakeven.

[32] Some charities carrying on trading activities related to their charitable purpose with the intention of making a surplus might think they are not in business because their intention in carrying on those activities is to achieve their charitable purpose (not to make a profit). However, that position is not correct. Case law shows that it is possible to be in business even though the trading activity is related to the charity’s charitable purpose (see Brighton College v Marriott [1925] All ER 600). A charity will be carrying on a business if the nature of its activities is sufficient to support the concept of business and it seeks a surplus.

- Despite the IS using religious examples, it is simplistic to suggest that (a) all “business” intend to make a profit in direct contrast to (b) “non-business” deliberately and consciously intending to make a loss or break even. Businesses fail every day, generally they intend to make “profits” but don’t for various reasons. Charities often intend to not make “profits” but equally may intend to make “profits” in some areas of their activities but their view of making a profit is different to a commercial secular interpretation of “profit” and “loss”.

Reducing Government financial support to various societal need means that Charities must step into the gap. Which is the core doctrine and why the law of charities was developed. This means in the context of PCANZ we provide social support in many areas of New Zealand, rural and urban without or with reduced external funding support. Declining church members reduces our financial resources (tithing and donations declining), meaning that to meet the

⁷ (1984) 6 NZTC 61,682 (CA)

social needs of their local communities, fund raising is required at Parish level. The volunteer labour market in the Church is declining, with vastly disproportionate being elderly because younger and fitter members are working full-time. Gone are the days where “mother” stayed home minding the children and volunteering at the local Parish and baking cakes. Professional, skilled and qualified unpaid volunteers are hard to come by in any sector.

This means that any PCANZ “business activities” are not operated by volunteers, they are staffed by qualified professional employees. This could include mental health and family counselling and wrap around services, budget advisory, child care, elderly day respite care. Any of these (or some) could be considered “unrelated” to being a “church”. They may be overseen by ministers, youth or social workers, senior managers – both paid and unpaid. Governance would normally be undertaken at the Parish / Church Council level (unpaid). These operations may have all the characteristic’s described in *Grieve*. Whether they operate at “a profit” in any given year will depend on multiple factors, but cannot be isolated from other parts of the Parish activities (including because of the overlay of volunteer governance and multi-use of church facilities).

We consider that business income should not include investment income even if this is interest derived from business profits. The concept of trace-thorough does not work where a significant part of PCANZ is funded by donations of money (post tax) of members or member volunteer labour over decades. Nor should it include income created by being ‘in the business of investing’. Trustees of charitable trusts have a statutory duty to invest prudently and act in the best interest of the charities.⁸ This means that cash-rich charities must diversify and balance both their risk and the areas of investment. For PCANZ this also means where we can liquidate an investment for purposes within the Church.

The costs to implement these proposed tax changes would be outside the scope of many Parishes and Presbyteries, particularly small to medium Parishes who do not have the financial nor skilled people resources to carry out this work. Even large Parishes and the General Assembly Office would have insufficient resources to fund and staff the requirements. The resulting costs of complying would be manifestly and disproportionately high compared to the Governments eventual tax take.

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

In our view, the Inland Revenue should revisit its position that interest income assumes the nature and flavour of “business income” due to its source. To dissect and apportion even very large operations at a Parish level between business income and non-business income, related and unrelated is fraught with complex factors involving people, overheads, direct and indirect expenditure.

For PCANZ to be able to do this under the existing consolidation of financial statements under IFRS requirements would be overly complex and disproportionate to the resulting taxable income. That cost could not be borne by small to medium Parishes who do not have the financial or people resources to carry out this work. We can only contemplate this is capable of being done if the accounting, consolidation and reporting obligations (IFRS) is repealed.

⁸ Section 30 Trusts Act 2019

This would mean that the taxing of charities is done at the individual entity level (e.g. Parish), which would mean that at that level each would not meet the IFRS Tier 1 or Tier 2 measurements. And by extension, would fall out of the proposal to tax smaller entities. In practice that means each Parish and Presbytery and affiliated entity undertake their own accounting and taxation reporting directly. We note that they already do so for GST and Payroll purposes. Investments held in the Church Property Trustees (which are in trust for Parishes and Presbyteries and General Assembly) would be reported at the entity level not within Church Property Trustees level.

On the other hand, if the IFRS consolidation is where the income tax was measured and reported this would be a practical and financial nightmare. Due to our unique governance structure PCANZ would not have the control nor knowledge of each Parish, Presbytery and affiliated entity to be able to undertake the analysis required to comply under the proposals suggested in the officials' issues paper. Furthermore, each PCANZ entity would not be able to financially sustain and to carry out analysis on whether they needed to report these activities for consolidated and taxation.

6. Alternative methods of taxation of charities business operations

There are multiple methods of taxation of charities business operations, if this was the intention of Government. We will not traverse all the options, which no doubt officials and Government have considered including how different countries operate in this sphere. However, we would like to suggest that using the existing definitions within the New Zealand context and legislation could be a better fit than adopting new and unknown concepts into New Zealand law. To the extent possible, existing definitions should be used (with necessary carve out) rather than the introduction of new concepts and definitions.

IFRS Consolidation v Income Tax Consolidation

It is important to appreciate that consolidation for IFRS reporting purposes (and auditing) is not the same as consolidation for taxation reporting purposes. Just as large corporations may have multiple subsidiaries or control entities for which they must consolidate for IFRS reporting so do charities and NFP entities. A tax paying entity does not report for income tax purposes on a consolidated basis unless it has elected into the Tax Consolidated regime.⁹ Others may opt into GST group, or Imputation Grouping provisions. These all offer different aspects of consolidation within a group with strict criteria to qualify. But they are all optional for the tax payer.

PCANZ has been advised it is a Tier 1 entity and complies for accounting and auditing purposes. This means IFRS prescribed accounting consolidation. That does not mean Tax Consolidation, as exists with tax paying entities. There would be very complex considerations to be made and issues to be considered if PCANZ were to be required to report for income tax on a tax consolidated basis. Not least of these is the lack of control due to our governance structure and the size and independence of Parishes and Presbyteries.

Significant consultation would be required for any such proposal.

⁹ Subpart FM of the Income Tax Act 2007.

CFC comparison when considering a taxing model

We suggest Controlled Foreign Company (“CFC”) definitions on “active” and “passive” may be of assistance to the Inland Revenue’s considerations if taxation were being considered for charities. For CFC’s there is a clear distinction between overseas investment income (passive non-trading income), which is taxable on a deemed basis, and activities that generate business income (with a minor de minus rule for passive income), which is not taxed until the profits are brought back to New Zealand.

CFC rules are intended to bring to New Zealand taxation profits that have (arguably) been artificially retained offshore in low or non-tax countries, to defer or delay taxation. Active trading companies are excluded from the rules, until the overseas profit is brought home to New Zealand. The “Active” business is a benefit generating to New Zealand industry, wealth creation and job creation / development. It is the exporter of goods and services for the benefit of New Zealand.

Considering CFC concepts of active and passive and the de minus rule, but **in reverse**, may be a starting point to consider a different way of looking at taxing business activities of charities.

That concept could be to tax charities that **do not bring** its industry (mission), wealth (by failing to spend) and job creation /development (people and the environment) into New Zealand to benefit New Zealanders.

How the Government, the Inland Revenue and a Charity would measure and report on these matters would be subject to consultation. However, the concept could mean there is:

- arguably an easier way to measure this criteria,
- making it a lower cost to comply,
- a reasonable ability to comply under existing accounting and financial reporting obligations, and
- a more natural and standard fit for many charities regardless of their size.
- It would be particularly appropriate for those within the target tax group – Tier 1 and Tier 2 charities.

The CFC rules have a 5% de minimis rule (if up to 5% of overseas income is passive, the CFC remains an Active CFC for tax purposes. Perhaps a rule of 20% to 30% may be appropriate for a charity. If a charity has a rolling average of less than 20% to 30% spend over say 10 to 15 years period, the charity will be subject to income tax on say (a) all its non-passive income, or (b) of its external¹⁰ “income” excluding gifts and capital income.¹¹ Under this concept, all “expenses” other than those directly related to excluded income would be deductible. The concept is to have everything within the tax net (including non-business income and expenditure), unless it is out (gifts and capital). Rather than everything out (non-taxable) unless it is in (“unrelated business income”).

¹⁰ Income outside the “group” of the consolidated charity or (where IFRS consolidation is rolled back) outside the charities own reporting governance rules.

¹¹ Using commercial concepts of “income” v “capital” and circulating sources of money, but excluding regular gifts such as tithes, and donations, koha, realization of capital assets.

We are not proposing that this is our preferred method of taxing charities, only that there is more than one method that could be used if charities are to be subject to income tax in some form.

A percentage attributed to undocumented or unattributed expenditure

Another alternative is for a charity to be given a blanket percentage of its “unrelated business income” as an extraordinary (super) deduction. This percentage would then be deducted from the net profit of the “unrelated business income” to establish the entities taxable income.

The extraordinary costs could take into account (but not specifically quantify each expenditure) for:

- volunteer time contributions at management and governance level that is within the “business” but not documented,
- capital sunk costs borne by the non-taxable parts of the entity that indirectly contributed to the “profit” of the “unrelated business income”,
- lower borrowing opportunities and higher borrowing costs (typically in charities), and
- liquidity issues of the charity on its key infrastructure assets.

This concept takes into account the extraordinary characteristics of charities which cannot be compared to a standard secular business opportunity. Potentially, there could be say 5 to 7 different classes of charities to allow for differences between their characteristics and size. These could be linked to the principal charitable object of each charity, already recorded at registration on the Charities Register.

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 are concerned that the officials’ paper refers to “small-scale business activities” but fail to appreciate that even large charities have many small-scale activities within them. This is particularly so for PCANZ, where we have over 400 Parishes, seven Presbyteries, the General Assembly (which includes our Assembly Office), a national research and archival library, and library repository, various camp grounds, non-discretionary and discretionary trusts; special purpose and frustrated trusts, training and educational facilities and programmes etc.

As an example, PCANZ Research Centre is our national archival, research and repository library. It is presently undertaking an extensive digitalisation process¹², is open to the public, and has a significant collection of Church and secular / regional information, along with extensive internet accessible information from its website. It also for a modest sum it licences some documents and photographs to external parties undertaking various research¹³; lends books from its collection; and provides our archivist to undertake research on behalf of the “client”. This is a small revenue stream within a small part of PCANZ that has significant national and culture significance within PCANZ and beyond. The revenue stream barely covers the costs of producing the licence, access or staff time. It does not cover the costs of maintaining or supporting the PCANZ Research and Archival division. It does not and is never intended to be financially self-supporting.

¹² A decades long project

¹³ private, for documentary’s, academic etc

Clearly our Research Centre would (a) never make a “profit”, (b) never intend to make a profit¹⁴, and (c) would fall into “small-scale”. Yet, our Research Centre’s financial reporting is consolidated into our Tier 1 reporting. Even if carved out for taxation purposes, it’s financial reporting would not take into account allocations of time and indirect costs borne by the General Assembly (Assembly Office) in overseeing the Centre, governance and volunteer time.

The Research Centre may be described as a “loss leader” without the “leading”. But it is an integral part of PCANZ and our history. It also holds significance in Otago, where it is based in a flagship historic building since 1909, housing a large repository of Otago and Southland history as well as other connected activities and entities associated with PCANZ.¹⁵

We consider it would not be reasonable to include the Research Centre’s income (if any) as part of PCANZ “unrelated business income”, it would be difficult to separate its internal activities with its external activities; and it would be difficult to separate out its full expenditure from other parts of PCANZ. It would also be unreasonable to exclude its “loss” from other parts of PCANZ which make a “profit”.

In summary, the definition of “small-scale activities” does not work for some charities, with PCANZ being an example. Tier 1 and Tier 2 reporting entities may have large numbers of small-scale activities throughout its organisation, but due to the nature of IFRS consolidation, is not separated out (and cannot be separated out) for any proposed taxation of “unrelated business income”. It would be impractical to separate small-scale from large-scale. It would be unreasonable that those that business divisions that are loss making should be excluded and not offset against those that are profitable.

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

We do not agree that “unrelated business income” should be separated from “related” and other types of “income”. We do not agree that charities should be subject to income tax.

If, however, charities are subject to income tax, we consider that all its expenses should be deductible (including direct and indirect business expenditure, and non-business expenditure incurred by the charity). Only this way can it be determined if the charity has made a “profit”.

Distributions by charities to charities

If charities are subject to income tax on their unrelated or related business income, we agree they should not be subject to tax to the extent the profits are distributed to another charitable entity (e.g. a parent charity or a charity that has the same or similar charitable activities). In such circumstances we agree that an imputation credit account or Māori authority credit account should enable the recipient charity a refundable credit. Although this uses the simple example of a standalone business operating charity that distributes a share of its profits to a separate entity. We note this is no different to tax deductions already given to tax paying entities that distribute to qualifying organisations. Charities should be given a higher level of deduction for unique characterisations of charities for reasons set out previously in our submission.

¹⁴ And arguably not be in “business”

¹⁵ Refer [Knox College, Otago - Wikipedia](#)

Charitable activities and spending within the charity

PCANZ predominately carries out its charitable purposes within its own organisation.

Where a charity is the same legal (and consolidated reporting) entity there is an inability for the charity to show its profit has been “distributed”. The only peripheral indication in such cases is that the entity operated at a net “loss” for a given year. The officials’ paper does not discuss a charity where its “unrelated business income”¹⁶ is expended on its charitable purposes within the same organisation, i.e. not a distinct distribution to another entity. PCANZ has little ability to distribute outside its own legal entity due to its charitable distribution constraints and rules.

This means reference to distributing a “profit” should also be interpreted as allocated and/or spent on the charitable purpose carried out within the organisation.

We suggest any taxation measure not be on a year-by-year accounting determination. As with tax paying businesses annual profit must be retained for debt reduction, capital replacement or new assets, solvency and legal reasons, and as a general provision in anticipation of future losses or expenditure. A year-by-year assessment would also skewer (in some cases significantly) for a charity where its income is often unpredictable and subject to more ‘market’ forces than a secular business. That is, a social focused charity is usually spending more money than it receives when the economy is in a recession because the need is higher and at the precise point the charity’s own sources of funding are reduced from donations and external grants.

We suggest that if taxation were to occur, there could be a credit system (for the benefit of the charity itself), which would allow tax paid in a previous year to be refundable back to the charity when it has a future tax loss. That is, the charity could ‘cash in’ its tax losses (forfeit their future use) in exchange for a refund of past tax paid. Or to put it another way, to allow future losses to be carried back to a tax paying year. We note that carry back of tax losses has precedence in New Zealand and was granted to tax paying entities as a Covid relief measure.

In summary, ways to implement any tax regime could be to:

- (a) allow a rolling income / loss over a period of time, so that profit in one year was not taxable if a future tax year a loss occurred (a type of memorandum account);
- (b) allow refunds to charities that receive post tax paid distributions from another charity;
- (c) tax paid in one year could be refunded if in later year a tax loss occurred (and forfeiture of the tax losses);
- (d) allow a carry back of tax losses to prior year profitable years and refund the previous tax paid; or
- (e) allow full deductions against all income.

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

Refer to our previous comments.

In summary, charities are not the same as tax paying entities. There is usually no separation between business and non-business, between related and non-related. Charities carry a large

¹⁶ Which we have pointed out includes passive interest income derived from business income sources, making the definition of “unrelated business income” wider than it appears in the officials’ paper.

social responsibility, which they employ within their field. PCANZ has many charitable activities within New Zealand that are not Government funded. Funding is usually self-funding either from tithes, bequests and similar, and with passive investments. To the extent the Church has “business income” it is invariably linked to our Five Faces of Mission. The Church cross-subsidises these activities and there is a significant level of expenditure that is not currently apportioned towards any business activities due to multi-purpose activities of mission, the use of our physical assets and our financial and people resources (including volunteers).

Any tax regime for charities needs to balance the benefits a charity brings to its community and that of revenue raising for the Crown. If the weight is too high against the charity the greater the unmet needs will be transferred to the Crown.

7. Chapter Three - Donor-controlled charities

General comments

We note comments that some “donor-controlled charities” may exercise excessive control over the charity in breach of the intention of the provisions in section CW 42¹⁷ of the Income Tax Act 2007. The paper does not give evidence and the extent of these. We note the Inland Revenue could increase its review and auditing focus applying these provisions and the existing general anti-avoidance provisions. In addition, the provisions could be strengthened if presently inadequate, rather than creating additional new “donor-controlled” criteria. Similar, anti-avoidance provisions apply for GST purposes.¹⁸

We consider that PCANZ would generally not fall into the “Donor-controlled charities” in the context of the likely definition. However, PCANZ has a number of trusts that were established by General Assembly and/or where General Assembly is required to appoint (or approve) some or all of the trustees or members of the governance board. We would be concerned if these were inadvertently caught up as “donor-controlled charities” when the “settlor” is the General Assembly¹⁹ itself and where they appoint the trustees. There is also a small number of trusts that have been settled by Presbyteries for specific purposes e.g. Local Missional trusts where funds have been set aside from capital funds such as property sales to fund future work within the Presbytery, or where following the closing of a specific church building the resulting capital received on sale has been set aside for Parishes in the immediate surrounding area to apply for project funding (e.g. youth work, equipment, capital works etc).

There will also be trusts settled by local Parishes for specific outreach activities or services. A very small minority of these latter ones could potentially be “controlled” to some extent by representatives of the Parish Council but no more than is expected where an entity has established a charity for a purpose, and it wishes to ensure the governance of that purpose is being pursued.

Finally, there will be a large number of special purpose trusts established by a bequest or a large one-off donation. In all likelihood these latter ones would have been established many years

¹⁷ CW 42(1)(c) and (3) to (8)

¹⁸ Refer the definitions of “consideration” and “unconditional gift” in section 2(1) of the GST Act 1985.

¹⁹ General Assembly meets every two years being representative delegates drawn from ordained ministers (50%) and elders (50%) drawn from Parishes within each of the seven Presbyteries, from throughout New Zealand. There are approximately 300 voting delegates plus a number of non-voting observers. Delegates are rotated at each Assembly meaning that it would be uncommon for a person to be a delegate two or three assemblies in a row.

ago and where the donor is no longer living. We believe there are none where the donors surviving family remain involved at any level. These types of trusts often have extremely strict distribution policies in relation to who or what distributions can be made, the percentage of income and/or the level of capital that can be issued either annually or within a financial level.

Essentially, faith-based organisations have an obligation to ensure good governance and compliance with the charitable purposes of a trust is maintained. This is done by appointing trustees to oversee these matters. This should not be considered “control”.

We consider the costs of complying for large national charities would significantly exceed any revenue gained, and any social benefit that could arise in discouraging such blatant breaches by opportunists.

We express concerns regarding what would be defined as “arm’s length” governance and distribution policies (para 3.12), and what would be considered “privately controlled foundations and trusts (para 3.12). As noted, PCANZ will have transactions within itself that may not be arm’s length (such as lending between Parishes at less than market rates) or where PCANZ appoints some or all of the trustees, or they are drawn from members of PCANZ. These could all be considered “associates” unless the definitions exclude charities. We note that certain definitions for “associations” in the GST Act²⁰ which could be suitable to use as a model for new legislation.

Minimum distribution rules

The examples in the officials’ paper focus on “private foundations”. We expect PCANZ would not fall into a definition of a “private foundation” and therefore the commentary and questions relating to this point would not apply to us.

However, as a general observation, all charities will have differing cash and capital requirements, their size and liquidity will also be factors. Their trust deed or rules will dictate the amount of any distribution. We consider that one-size cannot fit all.

We consider it will be difficult to place a “value” on a charity’s net assets year-on-year, particularly if this involves real estate²¹, intellectual property, goodwill and brand value.²² The cost of valuing such assets could be prohibitive. There will also be questions on whether valuations should and could be made at an asset by asset basis, within an activity basis, within a division or unit of a charity (or for a church within a single Parish) or within a regional or national consolidated charity.

We are concerned the examples in para 3.18 over simplify how much a “private foundation” can distribute. In particular, in North America “private foundations” are common with very high net worth individuals, families and former Presidents as founders. There are significant tax advantages to donors to these entities in the United States, benefits that often include tax credits or deductions greater than the cost of the donation (usually donations in-kind, not cash). Donations can be during the lifetime of the donors but not released legally until their death. Few such organisations exist in New Zealand.

²⁰ See definition of Meaning of Associated Persons, Section 2A(1)(f) of the GST Act 1985.

²¹ The value of a historic but expensive to maintain church complex of little resale value compared to the underlying but unrealisable value of the land.

²² Goodwill and brand more likely associated to a large trading entity (whether charitable or taxpaying).

References to “non-charitable use” assets are difficult to consider, as it repeats the issue of “related” and “unrelated” activities canvassed earlier. Who is to decide these concepts in the vast differences between charities, and the Inland Revenue and Charities Services views and interpretations?

Overseas comparisons are not always helpful where the concept of a “charity” differs, and the concept and legal form of “trusts” differ widely.

Small charities are unlikely to be a revenue risk (both in volume and tax amounts) and large charities are very unlikely to create a risk due to the wider and stronger governance of the organisation). Therefore, the question is whether the Inland Revenue and Charities Services need additional legislation to prevent the potential rorts suggested in the officials’ paper, or whether additional enforcement and auditing is appropriate.

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

We express concern that the proposals could be an overreach of legislative powers when the existing legislation appears adequate to address any Inland Revenue concerns along with suitable enforcement. We consider any revenue gained, or lower level of abuse of the NFP system would be far outweighed by the costs to self-audit and comply.

We also are concerned that charities such as PCANZ could fall into a definition of “donor-controlled” when their involvement is normal prudent governance to ensure the charitable entity is complying with its charitable purposes. In addition, PCANZ is likely to incur significant costs to determine if it did or did not meet any definition of “control” by a settlor or by the appointment of trustees of any particular charitable trust or entity within PCANZ.

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

As noted above, any changes in this area needs to take into account that many charities such as PCANZ may inadvertently fall into a definition of “donor-controlled entities” as a settlor or by appointing trustees or board members, or having these filled by members of PCANZ where there is no private benefit and is outside the intended reach of any legislative changes. We consider that such definitions need to address and exclude large and non-private organisations such as the Church.

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?

Each charity will have differing cash and capital requirements, size and liquidity as well as a trust deed or rules that will dictate the amount of distribution. We consider that one-size cannot fit all charities.

Overseas comparisons are unhelpful where their legal and taxation rules differ from New Zealand.

PCANZ has significant checks and balances, as well as regular reviews of various parts of its organisation including Trust’s established by General Assembly. If the officials’ paper is

concerned about misuse of the donor or charitable operations of charities, we consider the Inland Revenue and Charities Services be given additional funding to measure such breaches, audit and enforce in risk areas.

8. Chapter Four - Integrity and simplification

General comments

We are concerned this chapter refers to “not-for-profit” entities and at times includes charities and in other places appears to exclude charities (e.g. para 4.1 and 4.3). This has made our ability to comment limited. PCANZ as a registered large nation-wide charity that has existed over 100 years and does not necessarily have any experience with not-for-profit organisations that are not charities. Nevertheless, we have reviewed this chapter for areas that could affect PCANZ.

Mutuality Principles

PCANZ has member Parish contributions to both General Assembly Office and Presbyteries. These are in-house voluntary contributions but are levelled and requested based on its own guidance and calculations. In certain cases, Parishes fail to pay. While there is not aggressive enforcement, there are consequences for Parishes that fail to make their contributions. We are concerned that this could be considered not dissimilar to member transactions of other “not-for-profit” organisations, friendly societies etc.

If PCANZ is considered one entity (or a collection of controlled entities) for IFRS purposes, the argument follows that there are no transactions between parts of PCANZ as they are one. However, some entities within PCANZ have separate charitable status (registration), some are legal entities within their own right (incorporated trusts or societies, charitable companies etc). We are concerned that references to “member transactions, and membership subscriptions and levies” may be read or defined wide enough to treat some of the fees and services provided between parts of PCANZ as falling within the mutuality principles that are being discussed and potentially changed (e.g. tax provisions or benefits removed). Mutual Associations are defined in section YA 1 of the Income Tax Act 2007 and referred back to section HE 2.²³

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

We have assumed references to the Mutuality Principles would not apply to PCANZ, however we seek confirmation of this point. PCANZ would not be considered a small Not-for-Profit organisation, however, parts of the wider PCANZ could be. We seek clarification on the officials’ paper on this point.

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

We have no comments

²³ “‘**mutual transaction**’ means a transaction of the kind described in [section HE 2](#) (Classes of mutual transaction) entered into between an association and its members, or with members and other persons who are not members.” “‘**Association**’, in [subpart HE](#) (Mutual associations), and [sections CB 33](#), [CB 34](#), and [DV 19](#), (which relate to mutual associations), means a body or association of persons, whether incorporated or not”

9. Income tax exemptions

General comments

We have no comments on the first 4 bullet points to question 12.

In relation to the last bullet point (non-resident charity tax exemption) we have these comments:

Many members of PCANZ may donate directly to overseas charities. Some will donate to PCANZ where a specific urgent need or purpose is identified either by the individual and Parish or where PCANZ invites donations. PCANZ has a long-standing association with emerging or at risk nations, including Vanuatu and Myanmar. This can include supporting training institutions, medical and infrastructure builds in those countries with volunteers from New Zealand.

We note New Zealand Aid Programme delivers New Zealand's official support for developing countries, with a particular focus on the Pacific Islands region administered by MFAT. Many churches receive grants from MFAT to administer the New Zealand Aid programme, often with conditions that the church must match that funding or a portion of it. This matching may and often does come from members of the church.

Schedule 32 of the Income Tax Act 2007 lists organisations many of which are engaged in providing charitable services overseas. Approval under Schedule 32 means a donor to them qualifies for a tax credit (or deduction) despite many of them being administered (based) overseas. We note many are also based in New Zealand.

We consider in general; registration of foreign charities is appropriate subject to controls exercised in New Zealand.

We note the officials' paper refers to overseas organisations (we assume those approved under Schedule 32) do not report to the Inland Revenue their activities and income and lack of transparency. We consider that foreign charities who are registered under Schedule 32 should be required to have a separate registration under the Charities Act 2005 and report annually. We also consider that such charities should be required to have a New Zealand based and registered agent to ensure compliance. The rules around foreign and non-complying Trusts registered in New Zealand could be a starting point for a model.

Certain foreign charities could qualify for an exclusion or moderation of registration requirements if the country of origin has similar rules and controls as New Zealand. For example, Australia or the United Kingdom.

We also consider that reciprocal charity registration rules should apply for an equivalent to Schedule 32. We understand that it is more difficult, for example, for a New Zealand charity to register in Australia than it is for its equivalent body to register in New Zealand. We understand submissions on this point have been made to government officials on both sides of the Tasman previously.

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

In summary the non-resident charity tax exemption could be monitored and formalised.

Schedule 32 of the Income Tax Act could be strengthened as well as a requirement that foreign charities register and report under an additional provision in the Charities Act. There could also

be requirements for foreign charities (once registered) to have a New Zealand based agent (acting similar to a trustee of a foreign trust) to meet their obligations. We consider that some cross-country exclusions or moderations could be considered where there are similar charity and legal controls in their home country to those of New Zealand.

10. FBT exemption

PCANZ would argue that our salaries to “employees” and a stipend to “ordained ministers” (and taxable allowances) would be well under a comparable salary in the private and public sector. Fringe benefits would be very limited. However, given the nation-wide nature of our organisation, where each entity within it could be registered as an employer, we cannot say with certainty that fringe benefits are not offered by individual Parishes. Ordained ministers make up the vast majority of those paid by PCANZ. PCANZ has a standard remuneration for ordained ministers, which Parishes are expected to comply with. This remuneration package does not include fringe benefits but does have modest taxable allowances. We can provide more information on this if required.

We note the official’s general concerns on the FBT exemption for charities. We submit that while there is a potential for exploitation of the FBT exemption there is little evidence this is widespread. We express concern that closing of perceived loopholes or removing the exemption altogether may be an overreach with compliance costs far outweighing the tax revenue gained. We submit more research should be undertaken to determine the level of risk to the Inland Revenue.

As a general rule, and specifically for FBT, the costs to understand and determine FBT is not payable is a burden for many employers. This would be doubly so for individual Parishes where this would fall on volunteers to monitor and determine.

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 compliance costs for PCANZ would far outweigh the tax revenue gained under the current system. We would welcome the ability to participate in any working group regarding compliance costs for FBT and other obligations.

We submit that compliance costs (even if reduced) would remain a high administrative cost as each Parish, Presbytery and the Assembly Office reviewed and maintained an understanding of the FBT rules. The majority of which would be done by volunteers outside their professional experience. In the alternative if these were consolidated to PCANZ as one entity, compliance and knowledge of benefits provided would be unknowable due to the payroll independence of each entity within PCANZ without extensive system changes and on-going costs.

11. Tax simplification

Volunteers

PCANZ has a very high number of volunteers throughout the country. The majority of whom do not receive a payment or honoraria. However, senior PCANZ governance roles receive an honorarium based on a fraction of a basic stipend of ministers. There would be few PCANZ people throughout New Zealand that receive an honorarium. If the recipient is an employee of the Church or an ordained minister currently serving in PCANZ the honorarium is paid directly to their Parish or employer. In addition, retired or part-time ministers (or lay preachers) may

receive a modest payment if they back-fill a ministerial position (usually when the permanent minister is on leave). In some cases, this is subject to PAYE, in others the recipient must account for income tax and ACC directly. In a few cases the recipient may be given reimbursement of costs (such as a travel allowance) or a modest thank you gift (a fuel voucher, flowers etc).

We would welcome a general exemption from income tax, GST and ACC levies for individuals who received an honorarium or similar (such as modest gifts). We suggest that there could be a benchmark value placed on these provided it was inflation indexed to reduce compliance costs for individual Parishes, Presbyteries and the General Assembly office.

We consider section CB 42B of the Income Tax Act (which identifies voluntary activities)²⁴ should be changed to include honorariums as being tax-free to a certain level of payment similar to the determination issued by the Commissioner of Inland Revenue in relation to School Trustees²⁵ and the Royal New Zealand Plunket Trust.²⁶ Both are a model that could be readily adopted for faith-based charities. We consider the amounts in these determinations needs to be inflation adjusted and reflect modern society (e.g. less travel, or national travel paid by the organisation, but reflecting greater risks and responsibilities).

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

We consider that FENZ is a formal government aligned public service where the local brigades, regional offices and national office are formal and have access to extensive funded resources and paid employees to carry out the administration required to subject any honoraria to the PAYE and ACC. This is not the same with a nationwide church such as PCANZ which is operated by volunteers at Parish level, and not at Presbyteries or the General Assembly office.

We consider any honorarium should be non-taxable where it meets the definitions of volunteers set out in CB 42B. We consider that honoraria should not be subject to income tax nor included in the definition of “salary and wages” (as FENZ payments are). We consider that honoraria paid to School Trustees and the Royal New Zealand Plunket Trust is more analogous for Church

²⁴ Section CB 42B(1) EXEMPT INCOME

When a volunteer, in undertaking a voluntary activity, derives an amount that is a reimbursement payment to cover actual expenses incurred by them, the amount is exempt income of the volunteer.

CW 62B(4) WHO IS A VOLUNTEER?

For the purposes of this section, a volunteer means a person who freely undertakes an activity in New Zealand—

- (a) chosen either by themselves or by a group of which they are a member; and
- (b) that provides a benefit to a community or another person; and
- (c) for which there is no purpose or intention of private pecuniary profit for the person.

CW 62B(5) HONORARIA

For the purposes of this section, an honorarium means an amount that a person receives for providing services that—

- (a) is paid at a rate that is less than the market rate for providing the services; and
- (b) is an amount for which, in the normal course, no payment is fixed for the services provided.

²⁵ The Commissioner’s determination is published at *Tax Information Bulletin* Vol 13, No 7, July 2001 at 51.

²⁶ Determination DET 18/02: Amount of honoraria paid to Royal New Zealand Plunket Trust volunteers that shall be regarded as expenditure incurred in production of that payment.

charities and the Commissioner of Inland Revenue could make a similar determination that any payment is deemed to be expenditure incurred in deriving the honoraria.

12. Donation tax concessions

General comments

We note the research carried out by the Inland Revenue on whether donors are aware of their entitlement to claim and are claiming tax credits (or tax deductions) for donations to charitable and approved not-for-profit entities. We note that the Inland Revenue has only recently published its findings²⁷ and we are not in a position to review and comment on these before completion of our submission. However, as a general rule we consider the tax concessions for donations, and the changes made from 1 April 2008 have allowed many more individuals and small businesses the opportunity to increase their donations at a local and regional level. For PCANZ local and regional is where the people are, and where the identified needs for our Five Faces of Mission are focused.

The limitation of an individual's tax credit to their taxable income is no longer fit for purpose, particularly where many taxpayers have much of their investments in PIE's where the "taxable income" is different to their cash income stream.²⁸ For retired and older taxpayers, they may make donations from capital sources.

For corporations, donations are often pre-agreed and contracted with a selected charity over a long term commitment. Some charities rely heavily on long term contracted arrangements to provide their charitable purposes to be scoped and delivered over a medium to long term. Restricting a company's ability to claim a tax deduction to its taxable profit (pre donation) does not reflect modern business practices. We consider a tax deduction should be available regardless of whether the company has a taxable profit or loss in any given year. Where there is a loss, the deduction should be carried forward as occurs for all other business deductible expenditure.

We appreciate that some donee organisations do not have proper systems in place to recognise, acknowledge nor issue receipts to donors; or these are haphazard, generally as a result of internal organisational under capacity and systems. Some donors prefer to remain anonymous and (particularly for faith-based donors) some elect to not claim their tax credit (or tax deduction).

We consider that many charities would not have the systems in place to carry out the Inland Revenue's policy recommendations. This is particularly where donors make regular contributions throughout the year. We consider that many donors would not wish to provide charities with their confidential information including bank accounts or income tax details and numbers. We consider many donors would consider this an overreach of information that the charity should hold on them personally, and a serious breach of privacy should this information be transmitted to the Inland Revenue.

We consider the trade-off of higher tax credits being paid out (a benefit to the donor) compared to the higher administrative costs for the charity (a burden to the charity) combined with the

²⁷ <https://www.taxpolicy.ird.govt.nz/publications/2025/rs-dtc-regime>

²⁸ That is the tax is paid at the managed fund PIE level, and therefore the reported taxable income for the individual is lower.

privacy concerns and personal choices of the donor (a loss of autonomy of the donor) would not justify any proposed changes.

For PCANZ, donations are generally made weekly, fortnightly or monthly in line with the donor's income. They are regular (although subject to the donor's financial position) and therefore only an annual receipt is required to be prepared. Requiring these more often, or gathering and reporting electronically would create a significant administrative burden for Parishes.

Deregistered charities

It would appear that non-compliance is an issue but for a small number of charities.

We are not aware of the number of charities that are deregistered (and reregistered). As such we are unable to comment on whether a three-month grace period for the charity to be reregistered is a fair period of time. However, it would appear to us, based on the few charities that are publicly known to have been deregistered but reinstated on appeal, that three months is vastly inadequate for any appeal system to work through to a final decision in the courts.

Rather, we consider there are two different elements in this particular discussion. The first is whether a charity retains its charitable tax-free status and registration, which is a focus often on the charity's compliance to the Charities Act. The second is whether donations to that charity still meet the definition to qualify as a tax credit (or tax deduction), which is a focus on the activities to which the donations are being put. These two are not necessarily the same.

Anti-avoidance, influence, counter terrorism and anti-money laundering concerns?

We note there are anti-avoidance provisions that allow the Commissioner to reduce the amount of a donations tax credit (or tax deduction) when a person enters into an arrangement that has a purpose or effect of defeating the intent and application of the donations tax credit provisions.²⁹ Similar rules apply for GST.

It is our opinion that if the Government or the Inland Revenue have concerns about:

- (a) the source of a donor's funds,
- (b) the size of a single individual or associated persons donations, or
- (c) the influence a donation could have on a charity,

then anti-avoidance provisions and selective auditing could be used within existing legislation. Extra ordinary donations are often made by wealthy philanthropists (or via their Wills) where publicity is usually courted either by the donor or the donee. Faith-based donors are often the opposite. Neither behaviour is inherently wrong but should be view based on the personal choices and beliefs of those involved.

If the Government or the Inland Revenue hold strong concerns about donations, changing the donation tax concession rules to obtain donor information for every gift made is not the answer to the problem.

The disclosures of large donations to political parties and lobby groups could be a model for designing disclosure rules for charities and not-for profits (either public disclosure in a charities

²⁹ Section GB 55 of the Income Tax Act 2007.

annual return, or a confidential disclosure to Charities Services or the Inland Revenue). These would enable further scrutiny to be undertaken for at-risk entities.

The level of donations and how to identify associates may be a difficult exercise. We would welcome the opportunity to work with the Inland Revenue officials to consider the balance between compliance of the charity, disclosure of the donor(s) and enforcement and investigation by Charities Services and the Inland Revenue.

However, it would be important to not overly burden a charity to take on onerous investigation of donors and their associates without either being 'put on notice', who in the charity is 'put on notice' or ought to be, and reliance on donors' disclosures. There is also a balance between charities obligations and Charities Services and the Inland Revenue's authority and duty.

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 are not in a position to review and comment on the Inland Revenue's recently published findings on Donations Tax Concession due to the urgency of this submission.

For PCANZ, donations are regularly made by members throughout the year. These only an annual receipt to be prepared and can be done so at a local level. Requiring these more often or gathering and reporting electronically would create a significant administrative burden for Parishes.

We consider that limiting tax credits for individuals to the persons "taxable income" does not reflect modern sources of income, such as PIE income not taxed at the individual's personal level nor the fact that donors may be giving from capital sources. We also consider that companies should be entitled to carry forward tax deductions to charities where they are in a loss situation in any given year, which also reflects the modern corporate – charitable relationship where multi-year commitments are now being made. Both these relatively minor changes are likely to increase philanthropic giving in New Zealand.

The proposals outlined of 'streamlining' tax credits would place a high administration burden on charities, and reduce the privacy and autonomy of donors.

To the extent there are concerns regarding large donations to charities, the bona fide's of these and any undisclosed influence that could be obtained, we consider that disclosure rules for charities and not-for profits where a donation exceeds a certain amount (or amounts within an identifiable group of associates) could address these issues, whether these be either public or confidential disclosure to Charities Services or the Inland Revenue). These would enable further scrutiny to be undertaken for at-risk entities.

The level of donations and how to identify associates may be a difficult exercise. We would welcome the opportunity to work with Inland Revenue officials to consider the balance between compliance of the charity, disclosure of the donor(s) and enforcement and investigation by Charities Services and the Inland Revenue.

27 March 2025

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

By email policy.webmaster@ird.govt.nz

Taxation and the not-for-profit sector

Dear Sir/Madam

Taxation and the not-for-profit sector – officials issues paper issued 24 February 2025

This submission is made by the Presbyterian Church of Aotearoa New Zealand (“PCANZ” or “the Church”). We welcome the opportunity to make submissions on the Inland Revenue’s officials’ issues paper (“the paper” or “the officials’ paper”) released February 2025.

We acknowledge that our submission may be released on the Inland Revenue’s website or be subject of a request under the Official Information Act 1982.

Summary

We believe that the Church or PCANZ provides for the good of Aotearoa New Zealand. We believe that we benefit the local communities and neighbourhoods of our country. We particularly provide for the health (spiritual, social and physical) of the people we come into contact with- local communities not just the parish members we have. Each community that we are part of gets to share our physical buildings as we host a number of community groups both within and outside our parishes. In most cases these community halls and facilities are in places where there are no other government or local government facilities or halls. We generally subsidise their use and can do so because of the benevolence of our past and present members but also favourable income tax treatment. Such a proposal as outlined will reduce our ability to provide such facilities due to the potential extra burden of income tax and compliance costs.

1. Introduction

To understand the context of our submission we set out a summary of the unique management, governance and (for want of a better word) “ownership” of PCANZ at its widest sense.

In short, PCANZ, is not a top-down model that is represented in most other church groups in New Zealand. It is a bottom-up, meaning that individual members of the church govern through a level of courts (or bodies) the entirety of the Church. This is Parish, Presbytery, and General Assembly (incorporating Council of Assembly). This is an elected system of representation of members to provide a collective knowledge and guidance for a period of time. At the highest level, the leadership role is a two-year role elected by the people of the Church, for one term only. At other levels the elected representatives have limited terms, be that of two, four or six years, although at the Parish level this may be for a longer period.

In Appendix 1 of this letter we provide a brief outline of PCANZ, its structure and history.

2. Our submission

We present our response to the officials' paper, with a summary below. Additional comment and more detail is found in the body of our submission, which we attach separately but should be read in conjunction with this letter. We would welcome further opportunity to explain and discuss our submission with officials.

3. Summary of submission

The following is a broad discussion of our submission.

What is "business" income?

What is "business" income is subjective, potentially where a profit is ultimately intended but equally where the purpose or motivation for the taxpayer (e.g. the charity) is important in the context of that taxpayer. The "intention" to make a profit is difficult enough with tax paying entities and persons, and more complicated still where the entity being considered does not 'intend' to have a profit for profits sake, but may have an 'intention' to generate funds in one sector of its organisation to finance operations in another.

If there is "business" income within PCANZ it is generated at the Parish level, where there is no distinction between different activities. Few Parishes have the commercial governance, business expertise, or risk appetite to engage in commercial ventures. PCANZ has very few legally separate entities with "business" income that could be considered unrelated to its charitable purpose. When receiving distributions from charitable trusts or companies with business income, PCANZ has no control over what is received. These entities are managed professionally and operate under strict trust conditions, unlike typical businesses that can adjust debt, raise external funds, or demand distributions.

What is "income"?

PCANZ views "income" as regular revenue (excluding free-will gifts), excluding capital, and prioritizes funding its charitable mission over its funding sources.

It is the nature of charities that profit is not the goal, rather the "charity" is the object and purpose for existing.

What is "unrelated" income?

What may appear as an "unrelated business" can often align with religious, charitable, or community-focused objectives. Every service within PCANZ connects to its faith-driven mission, making it difficult to separate income generation from its charitable purpose, even if

those activities are carried on in a secular society where similar services are offered by tax paying entities.

In an entity such as PCANZ, no income is “unrelated” income. It all relates to the charitable objects and mission whether directly or indirectly, due the symbiotic relationships within its structure.

PCANZ operates various activities across New Zealand, and making some taxable while others remain tax-free would be impractical. It would be illogical to exempt a childcare centre in a low-income area but not one elsewhere simply due to regional economic differences.

“Unrelated business income”

PCANZ does not have “unrelated business income” as commonly defined; rather, it simply has income that supports its mission.

PCANZ spends its “business income” more quickly than typical Tier 1 or Tier 2 tax paying enterprises. While it may have higher capitalisation, its net return on investments is lower. Comparing PCANZ to a commercial enterprise is unrealistic, as there is no clear distinction between “business” and “non-business,” “unrelated” and “related,” or “passive” and “active” income. These classifications do not align with the operational and financial realities of a church.

PCANZ receives income from two farming operations held in private discretionary trusts, intended by the benefactors to support its religious and missional work. This income should be considered “related” business income. PCANZ faces investment limitations due to its Statement of Investment Policy (SIPO), which restricts high-risk and excluded investments. Additionally, it cannot access overseas tax credits or New Zealand imputation credits. If “unrelated business income” were taxed while passive income remained tax-free, PCANZ would be unable to offset inaccessible tax credits against taxable income. The proposed tax changes would overcorrect any perceived tax advantage of its charitable status.

PCANZ does not have the same hierarchical elements that some church denominations have, meaning the General Assembly cannot “force” compliance among Parishes. The Church operates without clear distinctions between activities, making it difficult to attribute direct and indirect costs. Assigning overhead costs such as financing, capital, or staff and volunteer time across different levels of the organisation is impractical. The interwoven nature of PCANZ’s faith community complicates reporting, while the officials’ paper proposals fail to account for these complexities.

The definition of “unrelated business income” is unclear, particularly for PCANZ, which reports as a Tier 1 organisation under IFRS, but operates with many smaller activities that would be difficult to carve out. Interpretation Statement 24/08 (published 16 September 2024) is not a suitable guiding document, as it oversimplifies the distinction between business and non-business activities. For example, it categorises interest on a charity’s bank account as “business income,” which fails to recognize the financial realities of faith-based organisations.

The IS assumes businesses always intend to make a profit, while charities aim to break even or run at a loss. However, businesses often fail to make a profit, and charities may generate surpluses in some areas to support broader charitable work. As government financial support declines, charities like PCANZ must step in to meet societal needs, often in financially constrained environments with declining donations and volunteers.

PCANZ's "business" activities are typically staffed by professionals rather than volunteers, and while some operations may appear "unrelated" to religious work, they are often overseen by ministers, social workers, or church councils. Business income should not include investment income, even if it originates from business profits, nor should it cover earnings from investments. The proposed tax changes would be costly and impractical for PCANZ Parishes and Presbyteries to implement, with compliance costs likely exceeding any tax revenue gained.

"Second-order" imperfections

Regarding "second-order" imperfections, PCANZ finds the officials' comments overly simplified. Charities, including the Church, face significant tax compliance burdens, including GST, payroll, KiwiSaver, and a complex FBT regime. As a Tier 1 organisation, PCANZ also incurs high accounting compliance costs to meet IFRS obligations and consolidate financial reporting across its nationwide operations.

Churches, including PCANZ, typically have low external debt due to challenges in borrowing from standard funding sources. High interest and principal repayments would threaten their solvency, given their uncertain income. Unlike commercial enterprises, which can leverage assets and income to finance growth with tax-deductible interest costs, churches primarily hold assets in buildings with low realizable value. If PCANZ were subject to income tax on its business income, its ability to deduct interest costs would be disproportionately lower than that of commercial businesses.

Corporate businesses can carry forward tax losses to offset future profits, but churches like PCANZ operate differently. Profit is not their focus, and many of their "business" activities function as non-revenue-generating community services. While one Parish may generate surplus funds, another may deplete its resources, both serving their local communities.

Churches also face challenges in raising capital for renovations or expansions, as their main asset (church buildings) offer limited security for loans. Christian Savings was established to help churches access financing, but unpredictable income from tithing and donations makes borrowing difficult.

We are concerned that the officials' paper refers to "small-scale business activities" but fail to appreciate that even large charities have many small-scale activities within them.

Tier 1 and Tier 2 reporting entities like PCANZ have numerous small-scale activities that are consolidated under IFRS and cannot be separated for proposed taxation on "unrelated business income." Distinguishing between small and large-scale activities would be impractical. Additionally, it would be unreasonable to exclude loss-making business divisions while taxing profitable ones without allowing offsets.

Distributions by charities to charities

PCANZ opposes charities being subject to income tax. However, if taxation is imposed, all expenses, both business and non-business, should be deductible to accurately determine profit. Additionally, tax paying charities should not be taxed on profits distributed to other charitable entities, and be treated like other businesses donating to charities. However, to the extent recipient charities should receive tax-paid distributions (e.g. dividends), they should be entitled to access refundable imputation credits.

Charitable activities and spending within the charity

The officials' paper does not address situations where a charity's "unrelated business income" is used for its own charitable purposes rather than being distributed externally. PCANZ primarily operates within its own legal entity, meaning "profit" should be understood as funds allocated or spent on its mission.

A year-by-year taxation approach would be problematic, as charities face unpredictable income and greater financial strain during economic downturns. If taxation were imposed, a system should be in place to account for fluctuations, such as:

- (a) Allowing income and losses to roll over multiple years to balance taxable profits and future losses.
- (b) Providing refunds to charities receiving post-tax distributions from other charities.
- (c) Refunding prior tax paid when future tax losses occur, with forfeiture of those losses.
- (d) Allowing tax losses to be carried back to offset prior profitable years.
- (e) Permitting full deductions against all income.

These measures would ensure fairer tax treatment and reflect the financial realities of charitable organisations.

Charities play a crucial social role, often filling gaps in services without government funding. PCANZ supports many charitable activities across New Zealand, primarily funded through tithes, bequests, and passive investments. The Church cross-subsidises these efforts, with significant expenditure (if not directly attributed to business activities) due to the multi-purpose nature of its mission, assets, finances, and volunteer contributions.

Any tax regime for charities must strike a balance between generating revenue for the Crown and recognizing the vital benefits charities provide to their communities. Overburdening charities with taxation would ultimately shift more unmet needs onto the government.

Donor-controlled charities

PCANZ likely would not fall under the definition of a "Donor-controlled charity." However, it oversees several trusts established by the General Assembly, where trustees or board members are appointed or approved by the Assembly. PCANZ is concerned that these trusts could be mistakenly classified as "Donor-controlled" simply because the General Assembly acts as the settlor and appoints trustees.

Additionally, PCANZ has concerns about the definitions of "arm's length" governance, distribution policies, and what qualifies as "privately controlled foundations and trusts." Clarity is needed to avoid unintended consequences for church-affiliated trusts.

Distinction between Donor-controlled and other charitable organisations

The costs of self-auditing and compliance would far exceed any revenue gained or reduction in abuse of the NFP system.

Minimum distribution rules

Charities have diverse cash flow and capital needs, meaning a one-size-fits-all approach is impractical. Valuing a charity's net assets annually, especially real estate, intellectual property, goodwill, and brand value, would be complex and costly. Determining valuation methods (by asset, activity, division, or national level) adds further challenges.

Overseas models may not be useful due to differing legal and structural definitions of charities and trusts. The key question is whether Inland Revenue and Charities Services need new legislation to prevent abuse or if stronger enforcement and auditing would be more effective.

If there are concerns about misuse of donor funds or charitable operations, additional funding should be provided to Inland Revenue and Charities Services for auditing, enforcement, and monitoring high-risk areas.

Integrity and simplification – Mutuality principles

PCANZ's member Parishes financially contribute to the General Assembly Office and Presbyteries based on internal guidance and calculations. These are voluntary, in-house contributions. However, there is concern that such transactions could be viewed similar to member transactions in other not-for-profit organisations or friendly societies, potentially leading to unintended tax implications.

Income tax exemptions – Non-resident charity tax exemption

We suggest that foreign charities should be appropriately registered in New Zealand with controls in place. Foreign charities registered under Schedule 32 should also register under the Charities Act 2005 and report annually. The rules for foreign and non-complying trusts in New Zealand could serve as a model. Certain foreign charities could be eligible for reduced registration requirements if their home country has similar rules and controls to those in New Zealand.

Income tax exemptions – FBT

The costs and complexity of understanding and determining FBT liability are burdensome for many employers. It would be especially so for individual Parishes, where volunteers would be responsible for monitoring and managing the FBT requirements.

Volunteers

PCANZ has many volunteers, most of whom do not receive payment or honoraria. PCANZ would welcome an exemption from income tax, GST, and ACC levies for individuals receiving modest honorariums or gifts, with a suggested inflation-indexed benchmark. PCANZ also proposes that section CB 42B of the Income Tax Act be amended to make honorariums tax-free up to a certain amount, similar to provisions for School Trustees and the Royal New Zealand Plunket Trust.

Donation tax concessions

PCANZ supports the tax concessions for donations, which have encouraged more donations from individuals and small businesses since changes in 2008. However, we argue that limiting an individual's tax credit to taxable income is outdated, especially for retirees donating from capital or from non-taxable sources (e.g. PIE income), or corporations with long-term commitments to a selected charity. Donations by charitable corporations should be deducted even if there is a loss, similar to other business expenses.

Some charities lack the systems to properly acknowledge donations or issue receipts, and some donors prefer anonymity or choose not to claim tax credits. We believe the trade-off between higher tax credits and increased administrative costs, along with privacy concerns, makes proposed changes unjustifiable.

Deregistered charities

Non-compliance appears to be a concern for only a small number of charities. Existing anti-avoidance provisions, along with selective auditing would address concerns about donations, including undue influence, terrorism and money laundering, rather than changing donation tax concession rules to require donor information for every donation.

We suggest that if there are concerns about large donations or undisclosed influence etc, then disclosure rules for donations above a certain amount (or from identifiable associates) could help - whether through public or confidential disclosure to Charities Services or Inland Revenue, enabling targeted scrutiny of at-risk entities.

4. Conclusion

Thank you for inviting our thoughts and contribution. There are complex issues to consider, and we would welcome the opportunity to discuss these further with the Inland Revenue or Government.

You can contact us through Michaela Press Ms 9(2)(a)

Yours sincerely

s 9(2)(a)

Katerina Solomona

Convenor

Council Of Assembly

Presbyterian Church of Aotearoa New Zealand

Appendix 1

An overview of the Presbyterian Church of Aotearoa New Zealand

The Presbyterian Church of Aotearoa New Zealand is the result of a union between Northern and Southern churches in 1901, the Synod of Otago and Southland still exists and plays a special role in supporting churches in that part of the country.¹

The Presbyterian Church is governed by three levels of courts:

- **Local:** Parishes (congregations) are led by a Session or Parish Council, with elected elders.
- **Regional:** Presbyteries oversee Parishes, ensuring mission coordination and personnel support. There are seven Presbyteries, including Te Aka Puaho (for Māori Parishes) and the Pacific Presbytery (for Pacific congregations). The Council of Asian Congregations also exists outside the seven Presbyteries to enable Asian members to speak to and interact with the wider Church.
- **National:** The General Assembly, meeting biennially, sets policies and direction. Between meetings the Council of Assembly acts on behalf of the General Assembly.

Each court is chaired by a Moderator (or co-Moderators), a largely ceremonial role. The PCANZ Moderator is elected every two years at the General Assembly.

The Church at its widest level consists of hundreds of Parishes, and a large number of ordained ministers. The Church has different ministry paths. Many Parishes do not have a full-time minister or ministry team.

Church Property & Trusts

PCANZ has numerous **trusts** for specific missions, some managed by **Church Property Trustees**. Many trusts have legally binding purposes, with some governed by an Act of Parliament.

The General Assembly has been endowed over its history with trusts established for specific missions and works. Some Presbyteries and Parishes also have specific trusts for defined purposes. The Church Property Trustees operates independently of General Assembly (the Church at its widest level) and also holds the majority of Church property within its trusteeship similar to many churches in New Zealand. The Church Property Trustees also have trusteeship over a number of individual trusts.

In many, if not most cases, these separate trusts are very specific in their objects (purposes) and cannot be deviated from outside a change to the Trust Deed on application to the High Court. Some that may be under the trusteeship of the Synod of Otago and Southland can be altered through their own governance document (an Act of Parliament passed in 1901).

You can read more about us on this link [About Us | Presbyterian Church of Aotearoa New Zealand](#).

¹ The [Synod of Otago and Southland](#) covers the area south of the Waitaki River.

s 9(2)(a)

From: Derek Rautahi s 9(2)(a)
Sent: Friday, 28 March 2025 8:33 am
To: Policy Webmaster
Subject: Taxation and the not for profit sector

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

Hi

I Would like to Subit my preference for the Salvation army to be exempt from being considered for the possible new tax scheme.

I believe the Salvation army are second to nobody when it comes to community support and require all funds they acquire to help achieve their amazing work.

The email message may contain information which is confidential. If you are not the intended recipient, you must not peruse, use, disseminate, distribute or copy this email or attachments. If you have received this message in error, please notify us immediately by return email, facsimile or telephone and delete this email. Thank you.

Submission on Charities tax Changes

Kia Ora Koutou Katoa, and warm greetings from the Bay of Plenty.

Thank you for the opportunity to write a submission on the proposed tax status of charities.

We work for a charity in the Bay of Plenty.

1. The charity is a Tier 3 charity.
2. It operates an Alternative education School which services three large local secondary schools. It provides social services for Youth Justice, the school communities as well as providing specialised social services to other specific sectors of the community.
3. Income is from several government contracts. However, these contracts do not cover all Trust outgoings, and we are reliant on donations for a significant portion of our income.
4. The majority of our donations come from charitable organisations such as Lotto, Bay Trust, Trinity Lands Limited with a small contribution from individuals.
5. Without donations the current operations would cease or would be significantly curtailed.

We are opposed to the proposal to tax the profits of Charities especially with regards to taxing the profits of businesses operated by charities in Tiers 3 & 4. The increased legislative changes will add complexity and cost to charities that are already scrutinized via present charity legislation and are often just getting by financially. As a Tier 3 Charity we are also burdened with the ever-increasing cost of having our annual accounts professionally reviewed. As a charity, we run a very “very tight ship”, and are fastidious in controlling expenses. We have an extremely dedicated staff who could receive better remuneration elsewhere, but because of the dedication, they take a pay cut to work on our team.

Social benefit is both difficult and expensive to measure. If charities are taxed, less funds will be available to be spent on the valuable services that productively contribute to our society.

Not only could the general populace suffer socially, it could also suffer economically, as government departments who will be called on to cover the shortfall in social services have often proved less efficient at providing such services. This could result in the tax collected from charities being spent on additional government social services. Taxation is an expensive but necessary requirement of a well-functioning country. As well as the above-mentioned points our argument is that any added tax take will be eroded by:

- 1) Cost to both I.R.D. and tax paying charities through collecting and administering the tax.
- 2) Increased government expenditure required to provide services once supported by charities.
- 3) The innovation, efficiency and passion (“going the extra mile”) of delivering charitable social services will be reduced, as charities traditionally operate under tighter resourcing levels than government services.
- 4) Charities generally require volunteers to operate, giving volunteers a sense of purpose at helping those in need. The social benefits provided are difficult to measure, but none the less tangible to communities and individuals.
- 5) Charities who run businesses also provide services to the community and provide opportunities for people to donate through purchasing their goods and services. Due to their limited size, they provide competition in the marketplace while not dominating the market. Large charities like Sanitarium and Mission Wines have a significant market share but don’t dominate their markets.
- 6) Larger charities that have business revenue can make an efficient and substantial difference to a community, as they

can donate large amounts of funds

a timely fashion. Vehicle purchases and contributions towards essential buildings are a good examples of this, as they can take an organisation a large amount of time to fundraise for (especially in small communities).

Based on the above we make the following recommendations regarding the taxing of business profits earned by charities:

1. That Tier 3 and 4 Charities be exempt from taxation on business profits.
2. That the current charitable income taxation exemptions continue to apply. E.g. if a charity runs an educational activity any profits from that activity are exempt from taxation.
3. The businesses operated by Tier 1 & 2 charities should be required to donate a certain proportion of their profits annually to avoid tax-if the threshold is reasonably high say 60%, then not only would society benefit but that business would have funds available to grow which would be in the interest of all. We suggest that any annual shortfall in donations be taxed at company rates.
4. We prefer that businesses operated by charities are not taxed. However, if it is decided in the public or some other interest to tax, then we would suggest that any charitable donations made by that business would be deductible for tax purposes. This would leave them on equal footing with normal businesses. We also suggest that the rate of tax be the company tax rate.

The biggest danger posed by this legislation is the potential for extensive loss of social benefit for marginal tax gain.

Thank you for considering this submission.

Yours faithfully,

s 9(2)(a)



On behalf of the Tauranga Christian Community Trust.

Os Dorey Chairman of Trustees.

Hamilton Old Boys Rugby and Sports Club
59 Willoughby Street
Whitiora
Hamilton



28th March 2025

David Carrigan
Deputy Commissioner, Policy
Inland Revenue
C/- policy.webmaster@ird.govt.nz

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

Dear Mr Carrigan,

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

Hamilton Old Boys Rugby and Sports Club has been a cornerstone of our local community for 108 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 also play netball, hockey and squash. We also have a indoor training facility that a local gymnastics school uses. 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. This year we have an alternative playing strip to wear on 17th May, supporting Pink Shirt Day, Speak Up, Stand Together, Stop Bullying. We have replica shirts for our community to wear, fundraising will be happening on the day and all proceeds will be donated to Mental Health New Zealand.

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. Hamilton Old Boys Rugby and 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,

Clint Paterson

Club Manager

p: s 9(2)(a)

e: s 9(2)(a)

From: Tina Kapohe s 9(2)(a)
Sent: Friday, 28 March 2025 9:36 am
To: Policy Webmaster
Subject: "Submission – Taxation and the Not-for-Profit Sector"

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

Kia Ora,

Ko Tina Kapohe ahau, I'm writing to share my thoughts on the proposed tax changes affecting charities and not-for-profits, and would welcome an opportunity to give my own opinion/feedback in person.

I work with The Salvation Army at Dunedin Corps, my role as part-time social worker is **directly funded through our Family Stores**. This is unique as a Social Worker to be given an opportunity to work with tangata whenua and tangata te tiriti, and not be restricted by government contracts and requirements. In other words, filling necessary gaps in supporting people that would otherwise slip through the gaps of other services and not be supported long enough to fulfil autonomy or security.

For example, I support men who leave prison and try to reintegrate into a community with little or no support, this, as you will know are tough times for anyone meeting basic necessities, housing, food security and more, let alone people reintegrating back into the community and also, starting fresh in the South Island. Our State of the Nation report that Salvation Army comprehensively publishes each year would stress the examples of whanau in our harsh economic climate, this is no secret.

At our centre, we support people going through really tough times — whether that's needing food, help with bills, finding housing, or just someone to talk to. A lot of this work is supported by the income we receive through our Family Store or fundraising. As I have highlighted, my role would not exist.

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

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

I'm happy to talk more if needed.

Nga mihi nui,

Tina Kapohe
Nga Kaimahi Papori/Community Ministries
Social Worker (SWRB), Dip in App. Addictions Counselling

Salvation Army Dunedin

Dunedin City Corps & Community Outreach

Ph. s 9(2)(a)

(Please note: As a part-time role, I do not work Wednesday)

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