



Public consultation on taxation and the not-for-profit sector

Submission

28 March 2025

City Legacy Trust carries out the community support ministry of City Church Christchurch. For the past 7 years its main operation has been to provide free, on-site counselling services to children in three primary schools in Christchurch.

The Trust has paid for approximately 2000 individual counselling sessions—an investment of over \$150,000—over this time.

The Trust relies entirely on donations to provide this service to school children in our community. A little over half of this investment has been donated out of rental income received by City Church Christchurch, and a large proportion of the remaining amount has come from church members' donations.

Taxing the rental income of the church, if it were deemed unrelated to its charitable purpose, would place a burden on the funding streams for the school counselling programme. We consider that were the church's rental income subject to income tax, the amount of tax would be similar to the amount the church has donated each year over the past two years to the school counselling programme. As a consequence, and to avoid a curtailment of the programme, the Trust would be required to source other donations or grants. We therefore submit that in our situation, any tax benefit to the Government would come at an equal or greater cost to the Trust.

Garth Chin Poy
Trustee, City Legacy Trust
Senior minister, City Church Christchurch



28 March 2025

Taxation and the not-for-profit sector
c/- Deputy Commissioner, Policy
Inland Revenue Department
P O Box 21918
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By email: policy.webmaster@ird.govt.nz

AUCKLAND MUSEUM SUBMISSION ON TAXATION AND THE NOT-FOR-PROFIT SECTOR

Background

1. Thank you for the opportunity to provide feedback on the Officials' Issues Paper *Taxation and the not-for-profit sector*.
2. Tamaki Paenga Hira Auckland War Memorial Museum ('Auckland Museum') is a public not-for-profit museum and the second largest museum in the country by revenue (~\$54m p.a.) and expenditure (~\$61m p.a.). The Museum is established by a local Act of Parliament, the *Auckland War Memorial Museum Act 1996*.
3. The Auckland Museum Group is registered on the Charities Register (CC62584) and comprises the Auckland Museum Trust Board (CC11225) and the Auckland Museum Future Fund Trust (CC62573). We are also the beneficiaries and / or controllers of a small number of other trusts and funds that are not separately registered.

General comments

4. In general, it is unclear to us exactly what problem(s) IRD is attempting to address via this discussion paper. We understand there are some high-profile anomalies in the current regulatory regime (particularly for unrelated business activity income where the business is sufficiently removed from the charitable purposes and for some donor-controlled charities), but our view is that overall the system works well for organisations such as ours. Changing the regime in the ways implied by the paper would likely increase the regulatory burden for us and reduce our ability to carry out our charitable activities. We strongly question whether Government will realise any benefits – revenue or otherwise – from making the policy changes signalled in the paper, and particularly if they are applied to the museums and galleries sector.
5. If Government wishes to change the regulatory rules, particularly around unrelated business income and fringe benefit tax, we ask that a class exemption is created for museum and gallery sector organisations. We believe there is a strong argument for such an exemption.

6. We address some of your questions in more detail below.

Charity business income tax exemption

7. The Museum derives revenue from the following sources:
- a) Public funding from local government to contribute to the operations and development of the Museum. This is \$34m in the current financial year, about two-thirds of our annual revenue.
 - b) Entry to the Museum and tickets to special exhibitions and programmes – about \$6.5M per year.
 - c) Bookings of our venue spaces – about \$1.3M per year.
 - d) Retail expenditure in the Museum shop, lease income and profit share from on-site hospitality businesses, and on-site car parking revenue – about \$2.3M per year.
 - e) Interest on funds invested in the Museum's name and through various trusts and bequests – about \$2M per year.
 - f) Grants for specific purposes (research programmes, capital works etc.) – about \$5M per year.
 - g) A small amount of income for delivering contracted services (e.g. conservation consultancy; subleasing of offsite storage space to other museums to hold their collections in secure, controlled conditions) – about \$0.2M per year.
8. All revenue is applied to the Museum's charitable activities and purposes – either to deliver the Museum's activities (including education, research and public programmes) or to maintain and develop the Museum.
9. Furthermore, s.10 of the *Auckland War Memorial Museum Act 1996* establishes the Museum for charitable purposes and deems that all business is carried on for charitable purposes:

10 Board established for charitable purposes

- (1) The Board and the Institute are deemed to be established exclusively for charitable purposes within New Zealand, and all actions carried out by either of them pursuant to this Act shall be deemed to be carried out exclusively for charitable purposes.
- (2) Any business carried on by the Board or by the Institute is deemed to be carried on exclusively for charitable purposes within New Zealand and not for the pecuniary gain of any person.¹

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?

10. In our case, and in the case of other public museums and galleries, we see no compelling reason to tax our charity business income.
11. It is unclear to us how IRD would differentiate related and non-related business income. We assume that the following income might be considered unrelated / non-charitable by IRD:
- a) retail, food and beverage, and car-parking

¹ See [s.10 of the Auckland War Memorial Museum Act 1996](#).

- b) interest
 - c) venue hire
 - d) contracted services / consultancy
12. Together these account for approximately \$5m, or under 10%, of Auckland Museum's annual revenue. Every dollar of this revenue is crucial to the Museum being able to deliver its charitable activities, and all of it is ultimately applied to the Museum's charitable purposes. Non-taxation does not provide any competitive advantage for our services. We certainly do not engage in predatory pricing and the directly comparable visitor products are offered by other museums and galleries who operate under very similar models.
13. We consider that onsite retail, food and beverage, and car-parking is a core part of the experience of visiting Auckland Museum (and all museums and galleries) and cannot be disentangled from the charitable purpose. Market research confirms that our audiences consider these services as a holistic and integrated part of the offer.
14. The other revenue sources are also all very closely associated with the purposes of the Museum – either because they are derived from use of the Museum's building which is a core part of the attractiveness of the services (such as venue hire) or because they are undertaken specifically to augment the public funding which is inadequate to operate, maintain and develop the museum. Indeed our Act specifically requires us to maximise non-public funding revenue sources in recognition of the fact that ratepayer and taxpayer investment is inadequate for the Museum to sufficiently meet our charitable objectives.²
15. We ask that, if policy changes are implemented, a class exemption is created for public museums and galleries on the grounds that:
- a) the charitable purpose and public benefit are much more apparent and is usually more immediately realised than the 'edge case' where a large commercial business is operated at arm's length from the charitable purpose (e.g. Sanitarium);
 - b) the operation of what IRD might deem non-charity related income (retail, venue hire etc.) is in fact tightly linked to the core charitable purposes and activities of the organisations, is almost always located on the same physical site as the charitable activities, and is a critical revenue source that contributes to financial sustainability;
 - c) in general, our sector's business activities are not in material competition with other providers of similar activities;
 - d) very little revenue will likely be raised from this sector by IRD as our organisations are generally either break-even or in many cases running deficits / loss-making;
 - e) if not exempted, there would likely be additional compliance costs that would outweigh any benefits.

² [s.11\(i\) of the Auckland War Memorial Museum Act 1996](#) states that one of the Board's objectives is 'greater financial self-sufficiency through the prudent operation of compatible revenue-producing and fundraising activities which supplement public 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?

16. Firstly, it is unclear how any change would interact with s.10 of the *Auckland War Memorial Museum Act 1996*. We request that if the blanket exemption is removed, the intention of s.10 is retained so that all activities and income are automatically deemed to be for charitable purposes.
17. If this is not allowed, the most significant practical implication is that we would not be able to accumulate sufficient funds for development / capital works for the Museum. This would be disastrous for the Museum.
18. Ultimately, if taxation were to apply to the Museum's charity business income, the resulting lack of funds would turn up as an increased demand on the public purse via another route – either local or central government funds which are mainly derived from taxation or rates. Taxing Peter to pay Peter makes even less sense than robbing Peter to pay Paul.
19. We have extensive capital needs: infrastructure needs to be maintained and developed on a regular long-term cycle, and it is expensive. These costs can only be partially met by external funding sources, are uneven year-on-year, and we rely heavily on retained earnings from business income to invest in our facilities. Given our not-for-profit status, that our heritage assets cannot be leveraged as financial security, and our ability to raise revenue is constrained, we cannot debt-fund our capital works.
20. By way of example, in 2018-2020 we undertook a redevelopment of part of the Museum that cost approximately \$85m. We were able to accumulate retained income from public funding and business income over the course of a decade that contributed to the funding of this project. We will soon begin another capital development that we expect to cost c.\$40m over four years. These are in addition to business-as-usual annual capital investments of c.\$12m in renewals.
21. Auckland Museum has been running deficits for the last five years at least and will run deficits for the foreseeable future. An unintended side effect of removing the exemption is that we would be incentivised to carry forward losses against future tax income. We doubt that Government would raise any new tax revenue from the Museum.

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?

22. It would be easiest to maintain the current exemption regime. In the case of organisations such as ours, income can be retained for years before it is used for capital developments directly associated with our charitable purposes (e.g. upgrading galleries and other infrastructure). We think that moving to an exemption regime for distribution would add unnecessary complexity.

23. However, if it is removed then yes, income distributed for charitable purposes should remain tax-exempt.

Integrity and simplification – Fringe Benefit Tax

24. The Museum is unlikely to be affected by changes to make not-for-profits non-exempt from FBT. We operate a very small fleet of vehicles, and these are almost never taken home by employees. The benefits we provide our employees are onsite and / or do not meet the FBT threshold.
25. However, we acknowledge that some of our sector colleagues would likely be affected and the removal of this exemption will place additional costs upon them. It is unclear from the discussion document just how Government intends to reduce FBT compliance costs but in our view, there is no compelling reason to make not-for-profits, and particularly not-for-profit museums and galleries, subject to FBT.

Conclusion

26. We do not believe there is a compelling case for the indicated tax changes.
27. If Government is to make the indicated policy changes, we ask that any new regulatory regime:
- a) recognises and continues the explicit provision in s.10 of the *Auckland War Memorial Museum Act 1996* that all activities of the Museum are undertaken for charitable purposes; and
 - b) makes a class exemption for museums and galleries from any tax on business income.
28. Thank you for the opportunity to provide feedback. We are available to expand on our submission should you require.

James Liddell

Executive Officer

s 9(2)(a)

From: J.C. Fox s 9(2)(a)
Sent: Friday, 28 March 2025 9:54 am
To: Policy Webmaster
Subject: "Taxation and the non-for profit sector"

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

Hi my name is Jacinta Fox. I work at The Invercargill Salvation Army, I have for almost four years now but half the time has been volunteer work also.

We are not a business we support our community with Food form our Foodbank, Finacial budgeting, Reintegration, Positive lifestyle programme, Transitional Housing and Alcohol and Drug. Although we have businesses that are non charitable, that support us with an income made after their expenses. If I.R.D decides to tax these businesses, and everything else associated with The Salvation Army, this would cause a huge stress. The loss would mean not being able to support our community. Work and Income send their clients to us for food due to not being able to help once clients have reached their entitlement under their policies.

Thank you for considering my submission. 😊

Jacinta

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From: Wendy Sanson s 9(2)(a)
Sent: Friday, 28 March 2025 9:55 am
To: Policy Webmaster
Cc: Murray Sanson
Subject: Submission – Taxation and the Not-for-Profit Sector

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

Kia Ora,

My name is Wendy Sanson, and I work and worship with The Salvation Army in Invercargill for 3+ years and across Aotearoa NZ for nearly 60 years. I'm writing to share my thoughts on the proposed tax changes affecting charities and not-for-profits.

At our centre, we walk alongside people going through **really** 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.

One mum and her kids came to us after fleeing family violence. She had very little and was exhausted. We were able to provide food, clothing, and furniture. That kind of support is only possible because of the resources we have — and that includes the money our store earns and generous donations we receive from the public.

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

We are NOT a business, we are here for a mission and on a mission, to HELP our fellow New Zealanders.

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,
God bless

Wendy

Nau i roto i a te Karaiti / Yours in Christ

Manaaki te Atua

Wendy Sanson

Major

Corps Officer & Director, Community Ministries

The Salvation Army

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caring for people | transforming lives / reforming society



THE ARMY THAT BRINGS LIFE

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GirlGuiding New Zealand Submission in Response to Officials' Issues Paper *Taxation and the not-for-profit sector*

Introduction

GirlGuiding New Zealand is a national charitable organisation that has a mission of enabling girls and young women to develop into confident, adventurous and empowered leaders in their local, national and global communities. Established in 1908, our organisation was the first GirlGuiding organisation in the world, and later went on to become a founding member of the World Association of Girl Guides and Girl Scouts. You could argue that GirlGuiding is a Kiwi invention.

GirlGuiding New Zealand programmes are run by dedicated trained volunteers, and each year thousands of girls and young women gain skills, experience, confidence, access to positive adult role models and friendships through their participation in GirlGuiding. As part of the GirlGuiding programme, our girls learn to give back to their communities, and partake in community endeavours all around the motu.

We're grateful for the opportunity to submit on the proposed changes to taxation law concerning charities and not-for-profit organisations.

GirlGuiding New Zealand is currently a tax-exempt organisation but have two potential sources of revenue that might fulfil "business" criteria, namely:

- a. Rental revenue from properties
- b. Term fees charged for provision of Guiding programmes and services

In addition to these sources GirlGuiding New Zealand receive income from grants, donations and financial investment income.

Charities like GirlGuiding New Zealand operate with a mission-driven focus, reinvesting all income into their charitable activities. Taxing their income undermines their ability to fulfil their mission and provide essential services to the community.

Charities contribute significantly to the economy and society by providing services that the government and private sector do not. Taxing their income would reduce their capacity to serve vulnerable populations and address critical social issues.

The argument that charities have an unfair advantage over for-profit businesses overlooks the fundamental differences between the sectors. Charities reinvest their income into their mission, whereas for-profit businesses distribute profits to shareholders.

The proposed changes would introduce significant administrative complexity and compliance costs, which are particularly burdensome for smaller charities. This could lead to reduced efficiency and effectiveness in delivering charitable services.

Executive Summary

Where income is generated by 'business' income and that income is directed towards truly charitable functions then that income should be exempt from paying tax and the entity itself should not be obliged to complete necessary tax functions. Any change to this will be to the detriment of providing important charitable services.

Potential unintended and negative consequences for GirlGuiding New Zealand brought about by the proposed changes to taxation law include:

1. **Increased Administrative Burden:** The proposed changes would require GirlGuiding New Zealand to allocate significant resources to determine the taxability of various income streams, increasing administrative costs and diverting funds away from its charitable activities.
2. **Financial Strain:** Taxing rental and term fee income would reduce the funds available for GirlGuiding New Zealand's programmes and services, potentially leading to cutbacks in activities that benefit the community, or price increases that would decrease the accessibility of such programmes and services.
3. **Complex Compliance Requirements:** The need to separate costs associated with taxable and non-taxable income would introduce complexity and subjectivity, making compliance more difficult and costly.
4. **Impact on Long-Term Planning:** The inability to accumulate surplus funds without tax implications would hinder GirlGuiding New Zealand's ability to plan for future projects and cover potential deficits, affecting the sustainability of its operations.

Recommendations

- Any rules or definitions surrounding the distribution of income, or business income should be kept simple and not add compliance costs to charities.
- It is important to allow a charity to retain an untaxed surplus to cover shortfalls that may follow.

Responses to Relevant Questions Raised in Officials' Issues Paper

CHAPTER 2 - Charity business income tax exemption

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

1. GirlGuiding New Zealand charges market rates for property rental in order to maximise returns to the charity, so has no true advantage over non charity providers.
2. GirlGuiding New Zealand sources of income are mixed between potentially taxable (per points a and b above) and non-taxable e.g. donations and grants. The calculation of a taxable income may require the apportionment of administrative cost between these income sources, this would be subjective, difficult and costly to manage.
3. Properties owned include some externally rented (on a commercial basis for non-GirlGuiding New Zealand use, but given the nature of the properties these are normally rented by other community/charitable entities) and properties for Guiding use – complicating potential classification as taxable or not. This exists over a spectrum i.e. from only GirlGuiding New Zealand use to only external and a mix in-between.
4. GirlGuiding New Zealand could potentially accumulate revenue during occasional years, but ultimately all would be spent in charitable pursuit.
5. Periodically GirlGuiding New Zealand would like to make a surplus to cover a subsequent deficit and in the possible absence of b/f losses, taxing the surplus would simply deny the ability to achieve its objective in future years.
6. If rental and term fee income were to become taxable but grant income continued to be excluded we would likely be asked to separate the costs associated with obtaining grant and donation income. This would be difficult, subjective and costly to manage.
7. Calculation and preparation of income tax returns adds additional cost to the administration of the charity – resulting in less charitable work. For GirlGuiding New Zealand the immediate result would be increased losses and increased draining of 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?

1. Defining 'charitable purposes' and 'unrelated' becomes challenging. At GirlGuiding New Zealand, all income is directed to singular charitable activity so arguably exempt, but we would need to expend resource to determine.
2. Increased legislation and complexity complicate the environment in which we operate and ensuring that we comply with a greater number of rules becomes increasingly time consuming and resultingly expensive.

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?

1. An unrelated business should be managed independently from the charitable organisation.
2. An unrelated business should retain a significant portion of its profits i.e. not distributed to charity.

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?

1. Yes, distributed charity business income should remain exempt.
2. Once every few years GirlGuiding New Zealand may hold a Jamboree or similar largescale event that ideally will result in a surplus. These events are usually held every four years, and are designed to help our girls and young women develop essential life skills. They, therefore, are of great benefit to the community. It is important that GirlGuiding New Zealand can carry forward unspent funds in that year to cover likely deficits in future years.
3. The introduction of law that requires a minimum percentage of annual surplus be distributed each year could be considered, but this in itself would give rise to unintended and likely negative consequences. This may inhibit growth and affect the charity's ability to achieve its objectives. This question is worded for the 'least negative' response i.e. we believe the critical part is in defining "related to charitable purposes".



Lincoln Rugby Football Club
PO Box 69013
Lincoln 7640

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.

Lincoln Rugby Club has been a cornerstone of our local community for nearly 100 years, delivering not only rugby but also social and community development. Our mission extends beyond the rugby field. We enrich lives, promote well-being, and drive positive societal change.

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

The Economic and Social Value of Grassroots Rugby Clubs

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

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

Beyond playing rugby, we host social events for our members and hire our clubrooms out to our community where they can come together and celebrate

special occasions together. 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. It is a place where players and families feel supported as part of our club community.

The Importance of Retaining the Income Tax Exemption for Amateur Sport

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

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

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

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

Yours sincerely,

Corran Pywell
President
Lincoln Rugby Club Inc
president@lincolnrugby.org.nz



Taxation and the Not-For-Profit Sector Consultation Submission from Wellington Community Fund

March 2025

Introduction

The Wellington Community Fund (WCF) supports community wellbeing through targeted funding of grassroots and Māori-led initiatives across the Wellington region. We have serious concerns about the proposed changes to the taxation of the charitable sector, particularly regarding process, fairness, and the potential unintended consequences on vulnerable communities. Our submission outlines these concerns and offers recommendations to ensure a fair and sustainable operating environment for not-for-profit organisations.

In short, we are opposed to taxing business income of charities as it will reduce funds available to charities to carry out their charitable purposes. If there are particular charities that are of concern, or a more broader concern regarding eligibility to be (or remain) a charity, there are other ways to address this. Taxing income of charities who are providing so much good to our communities is not the right policy solution.

Wellington Community Fund

The Wellington Community Fund (WCF), formerly 'Wellington Community Trust', is a philanthropic grant-making organization that supports community initiatives in the Wellington region, including Ōtaki, Porirua, Lower Hutt, Upper Hutt and Wellington city. Wellington Community Fund is part of a network of 12 community trusts. Each trust covers a different region of the country. The Community Trusts were first established in 1988. Since then, each has developed its own investment and funding strategies to increase their capital and tailor their distribution of grants in response to the needs in their community.

Wellington Community Fund focus on funding community-based work that supports the advancement of Māori aspirations and/or funding initiatives that support communities experiencing inequity, exclusion, and disadvantage in the Wellington region to thrive. We prioritise, Māori, Pacific peoples and Middle eastern, Latin American and African communities.

As part of the 'family' of Community Trusts in Aotearoa, our priority is ensuring that charitable organisations have the resources and flexibility to deliver lasting impact in their communities.

The proposed changes to not-for-profit taxation raise several concerns that could hinder our ability to fund effective and sustainable charitable work.

Consultation Document Specific Concerns

WCF has some more specific concerns regarding the proposed changes in the consultation document. These concerns are as follows:

Charity Business Income Tax Exemption

- **Taxing business income of charities:** We do not support taxing business income of charities. In our view, introducing a business tax will have significant and irreversible effects on many charities and their ability to deliver the services. The issues paper notes that charities are able to accumulate funds tax free and identifies the criticism that charities have a competitive advantage to other trading entities. The criticism in effect compares charities to other trading entities that do not face the same restrictions that charities do. Irrespective of where charities derive income, they are bound by constraints in law and do not apply for example to private companies.
- **Reduced Capacity for Long-Term Impact:** As a related point, it is not correct to say that the public does not receive “any benefit” from a charity’s accumulations. Charities’ ability to accumulate tax-free profits does not allow them to “expand more rapidly than their competitors” but merely provides a degree of offset to the considerable disadvantages charities otherwise face in their ability to access capital. Many charities accumulate funds over time to support large-scale projects, respond to crises, or sustain operations during economic downturns. Taxing charity business income could force organisations to prioritise short-term spending over strategic, long-term initiatives.
- **Lack of understanding of the charitable sector:** The proposals reflect a limited understanding of the charitable and philanthropic sector more generally. Charities provide immense public good, often stepping in where government services are stretched or absent. Whether income is directly related to their charitable purpose or not, charities rely on diverse income streams to survive. Charities are essential to a well-functioning society but because of their nature and focus they are frequently financially fragile. Hence the need to seek other funding sources to weather the dry periods and increase their chances of survival. The public good provided by these entities is significant and far outweighs any perceived “costs” of their tax treatment. WCF provides support to many charities delivering basic social services, food banks, mental health services, services for the homeless etc. Charities are best placed to carry out the charitable purposes, for the benefit of the vulnerable people in our region, as opposed to those funds being transferred to the Crown in the form of income tax. This is because many of the charities we fund are well established in our region and know the communities they serve well. Taxing unrelated business income seems to be inefficient as there is no guarantee that the tax income generated will benefit our vulnerable communities, and it disincentivises charities to develop their own solutions to resource and address current inequities that affect vulnerable communities in our region.
- **Potential Funding Gaps:** If charities face higher tax burdens on their earned income (whether related or unrelated), they may rely more on philanthropic funding to cover operational costs rather than investing in innovative programs or expanding services. This could lead to increased demand on funders without additional resources to meet

the need. For example, WCF as a relatively small philanthropic funder in our region, serving a large population is consistently oversubscribed when it comes to applications for grants. This means that we consistently part fund requests, and consequently applicants must find funding/income from other sources. This last year we had a 40% decline rate, not because organisations applying are necessarily poorly aligned to our funding priorities, but applications are being declined because of increased demand for grants and a lack of funds available.

- **Challenges for Social Enterprises:** Many charities operate trading arms (e.g., op shops, training programs) to generate sustainable revenue. Subjecting these to taxation could undermine self-sufficiency and increase dependency on external funding. Charitable entities that are running businesses have diversified their income streams - philanthropy and government encourage these entities to do so for sustainability.
- **Unclear Definitions & Compliance Risks:** If "unrelated business activities" are not well-defined, charities may struggle to determine what qualifies for exemption, as a result, increasing compliance costs and administrative burdens. Charities already have significant compliance costs given the reporting requirements that apply to registered charities under the financial reporting rules. Further complexity in the system would increase compliance burdens further. A well-resourced and independent Charities commission should be the appropriate body to ensure accountability to the general public for any public funding or exemptions granted to charities.

Donor-Controlled Charities

- **Risk of Discouraging Major Philanthropic Giving:** Many significant charitable gifts come from donors who take an active role in ensuring their funds are used effectively. Excessive restrictions or compliance requirements could deter philanthropy, leading to reduced funding for charitable causes.
- **Donor Funds critical to philanthropic Ecosystem:** Philanthropic funding organisations like WCF often collaborate and co-fund together with donor led funds, any reduction in donor led fund's ability to gift/donate and co-fund would negatively impact the collective availability of philanthropic funds across the sector. This has a negative impact on the ability of charities to serve the needs of vulnerable community members who are relying on their services. If vulnerable members of the community cannot access services through charities this will further increase the burden on government funded and provided services.
- **Flexibility for Strategic Giving and Impact Investments:** Philanthropic funders often invest in long-term initiatives, capacity-building, and innovation. This may happen via granting but can also happen as a specific asset allocation within investment portfolios earmarked for impact investment. Any rigid minimum distribution rule must account for the need to build endowments, sustain funding over multiple years to maximise impact and allow for impact investments which can have both a financial and social return on investment. WCF is an in-perpetuity fund and as such it is critical that we protect our capital base. We also have a responsibility to grow our funds available to ensure that we can continue to serve the communities of Wellington region into the future.
- **Avoiding Over-Regulation While Maintaining Integrity:** While tax integrity is important, overly complex regulations could create administrative hurdles that divert resources away from mission-driven work and towards compliance.

Integrity and Simplification

- **Protecting Member-Driven Charities:** Many community organisations rely on membership fees and small-scale transactions to support their work. Taxing these could create financial strain, particularly for grassroots groups serving vulnerable populations.
Maintaining Essential Tax Exemptions: The removal of key exemptions without careful consideration could destabilise the funding models of many charities, leading to service reductions or closures.
- **Impacts on Talent and Volunteerism:** If charities face higher costs due to changes in Fringe Benefit Tax (FBT) exemptions, it may become more difficult to attract and retain skilled staff. Additionally, any added tax complexity for volunteer honoraria could discourage community participation.
- **Encouraging More Giving:** Not Less. A well-functioning tax system should make charitable giving easier, not harder. For example, simplifying the process for donation tax credits would be a useful focus area for IRD.
- **Charitable Purpose:** Ensuring that large charitable entities purpose and entities are charitable is important. The Charities Service is already conducting reviews to ensure the integrity of the tax-exempt status. Rather than undertaking a broad and potentially complex and compliance heavy review, a more effective and streamlined approach would be to first allocate funding to conduct a more targeted review. A well-resourced and independent Charities commission could be the appropriate body to ensure accountability to the general public for any public funding or exemptions granted to charities.

General Process Concerns

WCF has some general concerns regarding the process that IRD has taken including:

- **Charities Act Review:** on 5 July 2023, the Charities Act 2005 was amended following a comprehensive review of the Act. The Issues Paper proposes significant changes to the charities regime that should have been addressed during the previous, very comprehensive, review.
- **Short timeframe:** the timeframes for response have been very short (just over a month) and have not been widely consulted on. Charities and the philanthropic sector more generally should have been engaged with appropriately on such significant proposed amendments.
- **Impacts on Māori:** The Crown has an obligation under Te Tiriti o Waitangi to understand the impact of any proposed policy changes for and on Māori. Specific impacts on Māori charities (many of whom WCF support in the Wellington region) do not appear to be considered in the consultation document.

Conclusion

WCF appreciates the opportunity to submit on this important consultation. However, we strongly urge IRD to reconsider both the substance of the proposed changes and the way in which the sector will be engaged. Any reforms must preserve the independence, flexibility, and sustainability of the charitable sector, and should aim to strengthen - not weaken - the impact

of community-led solutions in Aotearoa. Alongside fellow Community Trust representatives we welcome the opportunity to meet with you to engage in the process in any way you see beneficial.

From: Sarah Lewis s 9(2)(a)
Sent: Friday, 28 March 2025 10:16 am
To: Policy Webmaster
Subject: Taxation and the not-for-profit sector

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

Area of feedback relating to

> OFFICIALS' ISSUES PAPER Taxation and the not-for-profit sector

Policy framework

4.26 The rationale for introducing and maintaining this exemption was to support the charitable sector. Specific reasons included enabling charities to offer more competitive salary packages at a lower cost to the charity (thereby increasing funds available for charitable purposes) and reducing compliance costs.

Reason for review

4.27 There are weak efficiency grounds for continuing this exemption because it distorts the labour market. The current position creates an incentive for organisations and employees to negotiate for non-cash remuneration and in doing so, pay less tax than if they were paid salary and wages.

4.28 Further, the current exemption lacks coherence. For example, universities are specifically excluded from the exemption, but other tertiary institutions are not.

4.29 Historically, one of the arguments against applying FBT to the charitable sector was to help save compliance costs. However, one of the aims of the current review of FBT settings is also to reduce those compliance costs. Therefore, these concerns may no longer be as relevant as in previous years.

Question for submitters

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

In reference to 4.29

It is pleasing to hear that FBT compliance costs are being actively reviewed as part of the IRD work programme however I have concerns with this being removed for charities at this stage. The compliance reductions have not been tried and tested with 'for-profit' organisations and would at least benefit from this being implemented prior to removing the charity exemption.

In reference to 4.27

Speaking with almost 20 years within the NFP sector where revenue is tight and worsening, attracting talent is difficult. Roles advertised in either private or government organisations can regularly attract 50% or more candidates compared to NFP roles.

Remuneration packages, even after taking into account FBT dispensation, are not comparable. Removing the FBT dispensation will add workload to the finance / HR teams who generally don't personally get access to the FBT benefits but would spend their time completing returns. Those who can benefit from FBT as part of their package will think twice before considering a role.

'Tools of trade' vehicles and other benefits where provided will need to be either paid in the way of package increases or take-home salary reductions for the individuals affected.

The cost to the organisation will increase on all of these fronts, compliance as discussed, reduction in choice for talent, and additionally where 'tools of trade' vehicles and other benefits are provided these will need to be either paid in the way of package increases or take-home salary reductions for the individuals affected.

I trust you will consider this feedback seriously before making a change that does not support the most vulnerable section of our society, those who deliver charitable services.

--

Ngā mihi,
Sarah Lewis
(she/her)



CFO

Community Connections



s 9(2)(a)



www.connections.org.nz



15 Sheffield Street, Paraparaumu 5032,
New Zealand



[*Disclaimer](#)



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

28 March 2025

Dear Deputy Commissioner

INLAND REVENUE CONSULTATION ON TAXATION AND THE NOT-FOR-PROFIT SECTOR

Harness Racing New Zealand ("HRNZ") is writing to submit on the recent Officials' Issues Paper, taxation and the not-for-profit sector (the "Issues Paper"). The Issues Paper is of direct relevance to HRNZ as an incorporated society that is subject to an existing income tax exemption under section CW 47 of the Income Tax Act 2007. It is in this context that our submission is made.

This submission is made by HRNZ and also the harness racing clubs that are members of HRNZ (a list of the clubs is set out in Appendix One).

Background

HRNZ was formed as an incorporated society in 2001, set up to be the administrative body for Harness Racing. With a purpose to contribute to and drive industry growth, provide effective and efficient support services and regulate the harness industry, HRNZ performs a variety of functions namely, the registration of horses and licence holders within the industry, distributions of winnings and club funding, making and ensuring the rules of harness racing are complied with, develop and implement animal welfare policies, and provide education to participants.

HRNZ is not, and does not intend to be, registered as a charitable entity under the Charities Act 2005, and rather operates as an incorporated society. HRNZ has a specific income tax exemption under subsection CW 47(1)(c) of the Income Tax Act 2007. Racing clubs have a specific income tax exemption under subsection CW 47(2).

The HRNZ Board is a body of elected members responsible for the governance of Harness Racing in New Zealand. The Board's activities are determined by the powers, duties and responsibilities delegated to it or conferred on it under the Racing Industry Act 2020, the Constitution of Harness Racing New Zealand Incorporated, and the New Zealand Rules of Harness Racing. The functions of the board include governing HRNZ, ensuring the availability of financial resources to Clubs, approving annual budgets and accounting to industry stakeholders for HRNZ's performance.

General Comments

As income tax exempt organisations, HRNZ's and the harness racing clubs' key priority is to confirm there are no intentions to remove the tax exemption in section CW 47 if the Government progresses with any of the proposals in the Issues Paper. This position can be inferred from comments made by Inland Revenue in respect of bodies promoting amateur games and sports¹, but this is not without doubt. There should be full and direct consultation with racing organisations if there are any proposals to change the existing tax status.

¹ A [Questions and Answers document](#) released by Inland Revenue states that because sports bodies have a tax exemption under section CW 46, they will not be impacted by proposals in relation to CW 42. It follows that this should also apply to entities that are tax exempt under section CW 47.

HRNZ wish to comment on one of the questions raised in the Issues Paper.

Question 10 – what policy changes, if any, should be considered to reduce the impact of the Commissioner’s updated view on NFPs, particularly smaller NFPs?

If there was a requirement for tax exempt organisations such as HRNZ and harness racing clubs to file income tax returns as set out in Chapter 4 of the Issues Paper, we expect there would be no additional benefit in terms of information available to Inland Revenue and other government departments.

For HRNZ and the harness racing clubs, entities with an exemption under the Income Tax Act, this would result in the filing of nil returns. This creates a deadweight compliance cost, and as an incorporated society, HRNZ and the harness racing clubs already have a requirement to file comprehensive, publicly available financial statements online. HRNZ’s financial information is [publicly available](#) on their website, and both HRNZ and its member clubs file their annual reports with the Incorporated Societies Register, and provides more information than what would be provided in a nil income tax return.

If you would like to discuss further, please contact Lydia Botha on **s 9(2)(a)**

Yours sincerely,

s 9(2)(a)

Lydia Botha
Accounting and Reporting Manager
Harness Racing New Zealand Inc

APPENDIX ONE – LIST OF HRNZ MEMBERS

The following clubs are members of HRNZ:

- Akaroa Trotting Club Inc
- Amberley Trotting Club Inc
- Ashburton Trotting Club Inc
- Auckland Trotting Club Inc
- Banks Peninsula Trotting Club Inc
- Central Otago Trotting Club Inc
- Cheviot Harness Racing Club Inc
- Forbury Park Trotting Club Inc
- Geraldine Trotting Club Inc
- Gore Harness Racing Club Inc
- Hawera Harness Racing Club Inc
- Hororata Trotting Club Inc
- Invercargill Harness Racing Club Inc
- Kaikoura Trotting Club Inc
- Kapiti Coast Harness Racing Club Inc
- Kurow Harness Racing Club Inc
- Manawatu Harness Racing Club Inc
- Marlborough Harness Racing Club Inc
- Methven Trotting Club Inc
- New Zealand Metropolitan Trotting Club Inc
- Nelson Harness Racing Club Inc
- Northern Southland Trotting Club Inc
- Oamaru Harness Racing Club Inc
- Rangiora Harness Racing Club Inc
- Reefton Trotting Club Inc
- Riverton Trotting Club Inc
- Roxburgh Trotting Club Inc
- Timaru Harness Racing Club Inc
- Tuapeka Harness Racing Club Inc
- Waikato Bay of Plenty Harness Inc
- Waikouaiti Trotting Club Inc
- Waimate Trotting Club Inc
- Wairarapa Harness Racing Club Inc
- Wairio Trotting Club Inc
- Westport Trotting Club Inc
- Winton Harness Racing Club Inc
- Wyndham Harness Racing Club Inc

TE RŪNANGA O NGĀTI MUTUNGA

28 March 2025

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

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



Tēnā koe, otirā, tēnā koutou,

Submission on “Taxation and the Not for Profit” Sector

Introduction

Te Rūnanga o Ngāti Mutunga was established by Trust Deed dated 21 December 2005. Today the Rūnanga has around 2,500 members aged 18 and over. 2.4 The area of Ngāti Mutunga's rohe is approximately 63,200 hectares (156,000 acres).

Te Rūnanga o Ngāti Mutunga areas of interest has been formally recognised by the Crown in the Ngāti Mutunga Claims Settlement Act 2006 which identifies our cultural, spiritual, historical and traditional association with the whenua and takutai moana extending from Titoki Ridge in the north to the right bank of the Waiau stream in the south, offshore out to 12 nautical miles and inland to the Taramoukou stream and the Waitara river.

A subsidiary of the Trust is a Charitable Trust Entity, Te Whiringa o Ngāti Mutunga Charitable Trust. Therefore, we respond to this submission as a parent entity for a currently registered charitable trust.

Summary of views

- We do not believe it is practical to change the charity business income tax regime without creating substantial other anomalies
- We do not believe it is practical to define and then separately regulate so called “donor controlled charities” and doing so would also create other inefficiencies and anomalies
- We believe there are options for integrity and simplification enhancements for charities, notably around volunteers and how their contribution is recognised. The current system is inequitable and only accommodates recognition of contributions from the cash rich, not the extensive contributions of volunteers

TE RŪNANGA O NGĀTI MUTUNGA

- If the Crown is minded to improve the tax system, resources would be better directed away from the already impecunious charitable sector and to larger anomalies such as banks and others being generally exempt on GST for interest and financial services

Discussion questions

Chapter 2: Charities business income tax exemption

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

There are many compelling reasons not to tax:

- It would seem to require making artificial, charity-specific rules around business or investment type, shareholder status, accounting consolidation and or tax status including look-through that would be illogical in the wider system and create or impute further distortions.
- Many charities have an endowment fund or other investments including real estate or debt instruments such as bonds. These are ostensibly unrelated to charitable activity and would be captured by the proposed changes unless some new distinction was created based on degree of operational involvement or complexity. This seems arbitrary and hard to enforce
- The suggestion of taxing business profits is predicated on the assumption that such funds are not allocated to charitable activities and/or that charities make profits over the long term. Many charities may have investments and investment income but still breakeven or make losses as their charitable costs are netted off against business or investment income
- It would seem to then require changes to the Limited Partnership Act to remove their look through nature for tax – this would undermine the standard look of the NZ regime, making it more complex for both domestic and international investors and to a large extent, removing its point. Removing look through just for some investors such as NZ domestic charities is arbitrary
- The notional profits of these operations/investments tend to be offset against charitable operations. Taxing business profits would seem to be predicated on ceasing to allow consolidation, which would be unfair as this sort of consolidation is open to all other businesses
- There are existing restrictions on what charitable proceeds can be used for. If enforcement is inadequate, this should be investigated
- Many charitable investors already pay tax as they invest in equities. The comment at 2.12 is not strictly correct: “A charity’s alternative to running a business (eg, investing in securities) is also tax free, so their opportunity cost remains the same.” Charities can only fully avoid tax if they invest in Limited Partnerships or in cash deposits with 0% RWT. This is recognized by a footnote in the discussion paper. In domestic equity investment, if charities receive

TE RŪNANGA O NGĀTI MUTUNGA

imputation credits, they cannot use them as they do not have other tax against which to offset

- Bringing in a non-refundable tax on interest for charities in line with other tax rates would create distortions in how charities allocate their investment resources, encouraging them more into real estate or other products where tax collection practicalities would make a special charities tax harder to introduce

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 consolidation with other costs and revenue will be arbitrary for charities and therefore distortionary
- Making a distinction between business income and investment income, assuming IRD does not want to tax endowment funds. Any such distinction is likely to be inconsistent and arbitrary
- In effect removing tax look through for companies with charitable owners and therefore logically needing to for limited partnerships, as otherwise charities would just operate via Limited Partnership

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

- This seems impossible to define in an enforceable way due to the diversity of investment types or alternatively that any pure investment activity is arguably unrelated to charitable purpose but provides the funds therefore.
- Defining an unrelated business on the basis of type of business, ownership percentage or operational complexity will just create distortions and encourage charities to reallocate in different manners.
- In effect what is being proposed is to tax revenue other than donations.
- Accumulation is not an issue as these funds remain for use for charitable purposes and that can be managed via charities legislation.
- The IRD could remove the ability for companies to have charitable status but then a rational charitable owner, as noted above, would move to a limited partnership structure.
- Alternatively if the proceeds of a business are deemed to not being deployed for charitable purposes, there are existing enforcement options.

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?

- N/A – per Q3 this is impractical.

TE RŪNANGA O NGĀTI MUTUNGA

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, see above. It seems impractical and distortionary to create non investment standard, non legislated distinctions between income sources.

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?

- Charities will likely pay little additional tax regardless of changes as so few make any profits overall. This is unless an easily circumvented, arbitrary distinction is introduced between differing sources of income, and charging tax on that income without regard to costs or losses elsewhere within the group.
- Two other charity specific issues should however be considered:
 1. Whatever the 'advantages' for a charity over a non-charitable body corporate in the provision of a good or service, they are as nothing to the embedded advantages central and local government bodies enjoy. In many cases, charities are a natural replacement or competitor for government (in broadest sense) delivered services. This landscape is distorted, and charities prevented from growing in accordance with their own efficiency, by crowding out that comes, inter alia, as a result of government bodies enjoying balance sheet and P&Ls that are not governed by rules of market efficiency. Other jurisdictions have legislation restricting government provision if the service or good can be provided by private charities including iwi aligned or Maori targetting charitable entities A diluted alternative would be to have government suppliers required to operate according to 'market' conditions e.g. in transport
 2. If interested in levelling the playing field with charities, it would be easier and less distortionary in first instance to look at local taxes (local body rating) however this seems unfair until the Crown normalizes its own position on rates, as would just enhance the Crown advantage and crowding out
- More broadly, if IRD's genuine concern is efficiency in the tax system and the system's costs and concessions, then there are more meaningful concessions that could be looked at, notwithstanding they are not mentioned in the November 2024 'Tax and Social Policy Work Programme'. In particular the GST exemption for interest and financial services in the high margin banking sector seems to be a much more significant anomaly than the level of income tax paid by the low profit charitable sector.
- We note the Tax Working group at para 88 of the 'Summary Recommendations' of their final February 2019 report notes that it "considers

TE RŪNANGA O NGĀTI MUTUNGA

there is a strong in-principle case to apply GST to financial services," while noting there are technical complications.

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?

- This seems impossible – many trusts and charities have settlors and settlor controls. So long as charities are acting within charitable legislation, it should not matter how they have been formed. Regulations around arms-length transactions seem to also cover many of the issues raised in the discussion paper. If donors were restricted from donating complex or large assets in return for a tax credit, this would seem to damage the charitable sector. Valid donations should either be recognized or not. A donation by a related party of an unpriceable asset for a vast, unjustified sum, would seem to be ordinarily subject to IRD investigation.

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?

- This should be covered by existing charitable legislation. The Tax Working Group report of February 2019 likewise implicitly sees the issue as being around arm's length procedures, not the entities themselves.

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

- No this is arbitrary. If there are concerns about faux transactions these should be subject to enforcement action.

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

TE RŪNANGA O NGĀTI MUTUNGA

- modifying the resident withholding tax exemption rules for NFPs.

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

- No view.

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?
- We would be happy to see these tax exemptions widened to anyone undertaking research or work on regional development, to level the playing field.

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?

- No view.

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?

- Volunteers are the heart of most charities but are not compensated as the NZ charitable regime is unsophisticated when it comes to donations other than cash.
- There should be a regime allowing charities to:
 - Register all volunteers as employees

TE RŪNANGA O NGĀTI MUTUNGA

- Track volunteer hours as with an ordinary employee
- Issue annually or at other regular periods, a 'payslip' recording all their hours up to a maximum of say 40 hrs per week
- A fixed national hourly sum (as for mileage – potentially using the minimum wage at any time) is then applied
- Volunteers can offset this against income as if it was a donation
- This is only fair and equitable. As it stands only the cash rich can benefit from donations to charities – volunteers do not.
- The amount of tax foregone will likely be minimal as most people volunteering large hours cannot be also working for significant salaries.
- This will also provide a framework system to check on allegations of volunteer abuse (aka modern slavery described as volunteerism).
- ACC and frictional costs from this will need a solution however this could be opt-in and likely only largely charities would use.

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 view.

Nāku ra,

s 9(2)(a)

Mitchell Ritai

Pouwhakahaere (CEO)

Taxation and the Not For Profit Sector Consultation

Combined Community Trusts of Aotearoa

Submission March 2025

Introduction

In 1988, the New Zealand Government established the twelve independent Community Trusts - covering in aggregate the whole of New Zealand - and gave each of the Trusts 100% ownership of the shareholding in their local trustee savings bank. The specified area of operations of each of the twelve Trusts mirrors the area serviced by their regional savings bank.

Amalgamation of a number of the regional banks resulted in the establishment of Trust Bank New Zealand Ltd. By April 1996, the majority of the Community Trusts sold their respective bank shareholdings.

Today the twelve Community Trusts have aggregate assets of approximately \$3.9 billion and make grants for the benefit of their local communities of over \$200 million each year.

As Community Trusts our priority is ensuring that charitable organisations have the resources and flexibility to deliver lasting impact in their communities. The proposed changes to not-for-profit taxation raise several concerns that could hinder our ability to fund effective and sustainable charitable work. As Community Trusts are tax-exempt the majority of these changes will not impact us (except Fringe Benefit Tax) however the proposed changes will impact the communities and the groups we support and as we are already heavily oversubscribed with funding requests, we will not be able to assist to make up any shortfall charities have. As such, fewer community services will be delivered, and the community will suffer as a result of these changes at a time when community group and also our communities are under immense pressure already

The Combined Community Trusts appreciate the opportunity to submit on this important consultation. However, we strongly urge IRD to reconsider both the substance of the proposed changes and the way in which the sector will be engaged. Any reforms must preserve the independence, flexibility, and sustainability of the charitable sector, and should aim to strengthen - not weaken - the impact of community-led solutions in Aotearoa. Alongside fellow Community Trust representatives we welcome the opportunity to meet with you to engage in the process in any way you see beneficial.

Process Concerns

The Combined Community Trusts have some general concerns regarding the process that IRD has taken including:

- **Charities Act Review:** on 5 July 2023, the Charities Act 2005 was amended

following a comprehensive review of the Act. The Issues Paper proposes significant changes to the charities regime that should have been addressed during the review.

- **Short timeframe:** the timeframes for response have been very short (just over a month) and have not been widely consulted on. Charities should have been engaged with appropriately on such significant proposed amendments.

Impacts on Māori: The Crown has an obligation under Te Tiriti o Waitangi to understand the impact of any proposed policy changes for Māori. Specific impacts on Māori charities do not appear to be considered in the consultation document.

- **Lack of Evidence and Analysis:** There appears to be no clear impact analysis on how many charities would be affected, what the potential tax revenue might be, or the overall cost to the sector. There is an absence of financial modelling and regulatory impact assessment, as well as a lack of a clearly defined problem. We strongly support a call for a more collaborative, evidence-based approach to any reform.

Consultation Document Specific Concerns

The Combined Community Trusts have some more specific concerns regarding the proposed changes in the consultation document. These concerns are as follows:

Charity Business Income Tax Exemption

- **Reduced Capacity for Long-Term Impact:** Many charities accumulate funds over time to support large-scale projects, respond to crises, or sustain operations during economic downturns. Taxing charity business income could force organisations to prioritise short-term spending over strategic, long-term initiatives.
- **Lack of understanding of the charitable sector:** The public good provided by these entities is immense and the need for diverse funding streams is important, whether connected to their charitable purpose or not. Community Trusts provide support to many charities delivering community benefits across the entire spectrum of community – including education, health, sport and recreation, the arts, social services, environment, heritage, community development, and community economic development. Taxing charities may have widespread negative implications such as reduced programme delivery and provision of services for vulnerable people. Taxing unrelated business income may disincentivise charities to develop diverse income streams that enable them to deliver long term positive impact in the communities they work in. What should matter is that funds derived from unrelated business activities are used for charitable purposes – not necessarily how they are earned.
- **Potential Funding Gaps:** If charities face higher tax burdens on their earned income, they may rely more on philanthropic funding to cover operational costs rather than investing in innovative programs or expanding services. This could lead to increased demand on funders without additional resources to meet the need. As we are already oversubscribed with funding requests, we will not be able to bridge any new funding gaps these changes may create.
- **Challenges for Social Enterprises:** Many charities operate trading arms (e.g., op shops, training programs) to generate sustainable revenue. Subjecting these to taxation could undermine self-sufficiency and increase dependency on external funding. Charitable entities that are running businesses have diversified their income streams - philanthropy and government encourage these entities to do so for sustainability.
- **Unclear Definitions & Compliance Risks:** If "unrelated business activities" are not well-defined, charities may struggle to determine what qualifies for exemption,

increasing compliance costs and administrative burdens. Charities already have significant compliance costs given the reporting requirements that apply to registered charities under the financial reporting rules. Further complexity in the system would increase compliance burdens further. A blanket approach to policy reform seems excessive given the likely small scale of misuse (potentially only 1–2%), which could arguably be addressed through existing Charities Services powers.

- **Fringe Benefit Tax (FBT) Concerns:** FBT changes could negatively affect recruitment and retention, as charities often offer below-market salaries and rely on non-cash benefits. The proposed FBT changes will either reduce benefits for staff or result in fewer funds available for community distribution.

Donor-Controlled Charities

- **Risk of Discouraging Major Philanthropic Giving:** Many significant charitable gifts come from donors who take an active role in ensuring their funds are used effectively. Excessive restrictions or compliance requirements could deter philanthropy, leading to reduced funding for charitable causes.
- **Donor Funds critical to philanthropic Ecosystem:** Philanthropic funding organisations often collaborate and co-fund together with donor led funds, any reduction in donor led funds ability to gift/donate and co-fund would negatively impact the collective availability of philanthropic funds.
- **Flexibility for Strategic Giving and Impact Investments:** Philanthropic funders often invest in longterm initiatives, capacity-building, and innovation. This may happen via granting but can also happen as a specific asset allocation within investment portfolios earmarked for impact investment. Any rigid minimum distribution rule must account for the need to build endowments, sustain funding over multiple years to maximise impact and allow for impact investments which can have both a financial and social return on investment.
- **Avoiding Over-Regulation While Maintaining Integrity:** While tax integrity is important, overly complex regulations could create administrative hurdles that divert resources away from mission-driven work and towards compliance.

Integrity and Simplification

- **Protecting Member-Driven Charities:** Many community organisations rely on membership fees and small-scale transactions to support their work. Taxing these could create financial strain, particularly for grassroots groups serving vulnerable populations.
- **Maintaining Essential Tax Exemptions:** The removal of key exemptions without careful consideration could destabilise the funding models of many charities, leading to service reductions or closures.
- **Impacts on Talent and Volunteerism:** If charities face higher costs due to changes in Fringe Benefit Tax (FBT) exemptions, it may become more difficult to attract and retain skilled staff. Additionally, any added tax complexity for volunteer honoraria could discourage community participation.
- **Encouraging More Giving, Not Less:** A well-functioning tax system should make charitable giving easier, not harder. Simplifying the process for donation tax credits and ensuring strong incentives for philanthropy will help sustain community funding.

From: Ian & Helen Bateman s 9(2)(a)
Sent: Friday, 28 March 2025 10:47 am
To: Policy Webmaster
Subject: Removal of Tax Concessions for Charities

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

To Whom it May Concern

I am a concerned member of The Salvation Army.

My family has been members for 4 generations, as volunteers

The concern is that removal of tax concessions to charities like The Salvation Army, will mean we have less money to support our communities.

My community activity has been as a volunteer church prison visitor serving the regional prison Waikeria for 25 years. I realised the benefits to prisoners are life changing and have witnessed these decisions by the men. The impact on the community is a radical change to how men have been used to doing life, one by one initially, then extending to wives partners and wider whanau.

In addition my journey thru life has enabled me to work in the local District Court representing The Salvation Army serving and supporting the Judiciary, Magistrates, Lawyers, Police, Probation Service, offenders and members of the public for 5.5 years. As a service provider this support was only made possible by the community donations of clothing and furniture made to our local Salvation Army Family Stores.

Were a tax be levied on that income from these family stores, the inevitable result in real terms 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 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, housing provision.

Simply put, without income that charities rely on, our taxes go up because The Salvation Army with other church volunteers help people in far greater ways than the Government could for a lot less money.

Yours faithfully

Ian Bateman



UNIVERSITY of CANTERBURY
**STUDENTS'
ASSOCIATION**
Ākonga tū, ākonga ora

Haere-roa,
90 Ilam Road,
Ilam,
Christchurch, 8041,
PO Box 31311.
28th of March 2025

University of Canterbury Students' Association | Whitepaper Submission

Te Rōpū Ākonga o Te Whare Wānanga o Waitaha | University of Canterbury Students' Association (UCSA) is an incorporated society/ Tier 2 Non for profit with Charitable status. The (UCSA) manages all its operations through one legal entity with externally prepared/audited financial statements. In addition to this both Early Learning centres (ELCs) also have externally prepared/audited financial statements which are subject to MOE reporting requirements. The (UCSA) has an Advisory Board with external advisers and an Elected student executive (Governance) part of the organisation in addition to a Chief Executive and Senior Leadership team (SLT).

The organisation is funded via two mechanisms:

1. Through the Student Service Levy (SSL), this is used to fund the student facing services and not limited to Advocacy & Welfare, Dental Services, Student Experience (Clubs, Large Student events relating to O'Week, Re-Orientation and T-Party / social and cultural events) Executive Support for our elected student executive, media & communications teams that support communications to our students across the organisation.
2. The (UCSA) also has commercial operations which derive unrelated business income including the following:
 - Student Function Catering and external catering within Haere-roa.
 - Venue Hire of Haere-roa (Haere-roa is the UCSA student building which is located at 90 Ilam Road Christchurch) and can be booked by clubs/societies, used for academic lecturing purposes as well as commercial conferences/events.
 - On campus retail outlets that are used predominately by students.
 - The two (ELCs) primarily are to support students but do have non-student families at the centres also, with the organisation providing slightly discounted student parental fees.
 - Student residential Hall catering services.
 - Student Bar within Haere-roa used by Students as well as some external events.
 - 50% ownership of the University Books Shop that is a separate legal entity and is subject to corporation tax in its own right. The University Book Shop is accounted for using the equity method, and all dividends received have With Holding Tax (WHT) exempted due to the association's charitable status.
 - Bank interest.

Unrelated business income tax exemption

The draft submission notes that the proposed de minimis under which business income tax exemption would continue to apply, should take into whether a (NFP) such as the

UCSA has generated net surpluses and/or if those surpluses are actively being used to fund the charitable activities. Furthermore the IRD whitepaper IS 24/08: Charities – Business Income Exemption in paragraph 5 defines:

“A charity might not be carried on a business because of the nature of the activities is not sufficient to result in those activities being a business and/or the activities are carried on with a profit-making intention.”

In the UCSA’s case the activities carried out on a deliberately loss making or break-even basis. Please refer to the example below:

Example | Tauira 2 – Charity carrying on a business and activities that are not a business

The charitable purposes of Pet Welfare Centre Ltd from **Example | Tauira 1** are wider and include promoting animal welfare through a healthy diet.

In addition to running the opportunity shop it manufactures and sells dog treats. It prices the dog treats at an amount sufficient to cover the manufacture and sale costs only, rather than to make a surplus.

Pet Welfare Centre Ltd’s activity of manufacturing and selling dog treats (which is separate from its running of the opportunity shop) is not a business. It follows that the income it derives from the manufacture and sale of the dog treats is non-business income and exempt under s CW 41.

To this end to provide certainty to impacted charities there should be a legislative definition of when a “business” is carried on. This should explicitly include features considered in IS 24/08, which concludes that a charity would not be carrying on a business if it was deliberately undertaking an activity on a loss-making or breakeven basis.

Volunteers – honoraria payments

The UCSA supports the honoraria being treated as salary and wages as well as any income tax or ACC being paid in the existing payroll / PAYE filing processes. That said there are also other non-taxation implications that would need to be considered if the change proceeds in particular those relating to (individual employment agreement impacts, minimum wage, Holidays Act for example.

FBT exemption

The whitepaper proposal also highlights the removal of the FBT exemption for employees of charities. It is worth noting any additional changes within this area will add additional compliance costs onto those charities and in turn adversely impact there intended charitable purpose.

Signed:

s 9(2)(a)

Cate Sexton

Chief Executive,

University of Canterbury Students’ Association

26 March 2025

Taxation and the not-for-profit sector
c/- Deputy Commissioner, Policy
Inland Revenue Department
PO Box 2198
Wellington 6140
by email: policy.webmaster@ird.govt.nz

SUBMISSION TO: INLAND REVENUE DEPARTMENT

SUBMISSION ON: CONSULTATION ON TAXATION AND THE NOT-FOR-PROFIT SECTOR

SUBMITTER INFORMATION

Claire Falck
Chief Executive Officer
BRANZ Inc.

This submission is made on behalf of the organisation Building Research Association of New Zealand Incorporated (BRANZ Inc.).

I understand that this submission will be proactively released on Inland Revenue's tax policy website. There is no information in this submission that warrants withholding under the Official Information Act 1982.

PREFACE

BRANZ Inc. welcomes the opportunity to provide a submission to the Inland Revenue Department (IRD) on its officials' issues paper Taxation and the-not-for-profit sector, issued 24 February 2025.

We support the overall intent of the Government's tax and social policy work programme to ensure the tax system is simple, easy to comply with and reduces integrity risks. However, we consider that some of the proposals do not keep the tax system simple and easy to comply with.

In this submission, we focus primarily on chapter 4 of the officials' issues paper, which considers the topics of integrity and simplification, in particular paragraphs 4.9 to 4.24.

In this submission we:

- provide an overview of BRANZ Inc. and BRANZ Ltd, our role and our legislative basis via the Building Research Levy Act 1969 (BRLA);
- explain the rationale for BRANZ Inc.'s exemption from income tax;

- highlight the impact and potential outcomes of the proposed changes for BRANZ Inc., and implications for public good, if the scientific and industrial research exemption is removed;
- recommend that the Inland Revenue retain the income tax exemption for bodies promoting scientific or industrial research that are public benefit entities.

OVERVIEW OF BRANZ

The primary role for BRANZ Inc.¹ is as an independent science and research organisation. BRANZ Inc. is the only national research institution focused exclusively on building and construction.

Our aspiration is to have *Affordable, resilient, sustainable and quality buildings for Aotearoa New Zealand*.

Our current priorities for new research are in four main areas:

- Affordability – housing is affordable for people to build, maintain and live in.
- Resilience – buildings protect people from earthquakes, fire, extreme weather and climate change.
- Sustainability – buildings are environmentally designed, built, maintained and recycled.
- Quality – buildings are safe, warm, dry and fit for future generations.

BRANZ Inc. funds research that is directly in service to public good. Examples include:

- Informing changes to the New Zealand Building Code and standards.
- Development of computer models used by Aotearoa New Zealand fire safety practitioners to predict fire and smoke spread.
- Providing evidence-based information to help home and building occupants, building owners and the building industry to produce and maintain warm, dry, healthy homes. Reducing moisture and improving the insulation, ventilation and heating of Aotearoa New Zealand's houses supports people's health and lessens disruption to work, learning and living due to illness.
- Investigating critical aspects of building structural integrity and serviceability. We conduct applied research of building structures under loading conditions such as wind, vibration and fires, as well as research into the structural stability of buildings in earthquakes.
- Contributing to shifting the construction industry towards delivering net-zero carbon buildings in an affordable way.
- Delivering free tools, solutions and guidance for all – see <https://www.branz.co.nz/calculators-tools/>

¹ <https://www.branz.co.nz/>

Legislative mandate

BRANZ Inc. (a registered incorporated society) is established by the Building Research Levy Act 1969². Through the BRLA, authority is given to levy building contractors, to provide money for research into improved techniques and materials for the good of the building industry and wider public. Practically, the Building Research Levy is charged and collected by Building Consent Authorities and then paid to BRANZ Inc.

BRANZ Inc. is a not-for-profit public benefit entity (PBE) and the BRLA mandates our objective to provide goods or services for community or social benefit, rather than for a financial return to equity holders. As such, BRANZ Inc. reports under PBE financial reporting standards and is audited annually by EY³. As well as being limited in its actions by the BRLA, as a registered incorporated society BRANZ Inc. is also limited in the use of its funds for other purposes through the Incorporated Societies Act 2022⁴.

BRANZ Ltd, a wholly owned (and taxable) subsidiary of BRANZ Inc., has been established as an independent and impartial research, testing, consulting and information company to perform the research and associated tasks for the building industry. BRANZ Ltd is the primary (but not sole) provider of research services to BRANZ Inc.

RATIONALE FOR INCOME TAX EXEMPTION

BRANZ Inc. has an Inland Revenue exemption made under Section CW 49 of the Income Tax Act 2007.

Importantly, Section 8(1) of the BRLA sets out that the Levy can only be used “for the purposes of promoting and conducting research and other scientific work in connection with the building construction industry”. It also sets out, at Section 8(2), other functions for which the Levy can be used. This includes the maintenance of a library, publications, provision of advice and dissemination of information, and investment in capital assets to support research.

Section 3.1 of BRANZ Inc’s Constitution⁵ sets out purposes, consistent with the BRLA, for which the Association is established, as follows:

- 3.1 *The purposes of BRANZ Inc. are to:*
- (a) promote and conduct research and scientific work in connection with or related to the building industry;*
 - (b) apply, promote and market commercially any product and subject of any building industry research and scientific work in connection with or related to the building industry;*
 - (c) encourage the study and understanding of research and scientific work in connection with or related to the building industry.*

² <https://www.legislation.govt.nz/act/public/1969/0023/latest/DLM391231.html>

³ See our 2024 Annual Review for the most recent financial statements and service performance information: <https://www.branz.co.nz/about/corporate-publications/annual-review-2024/>

⁴ <https://www.legislation.govt.nz/act/public/2022/0012/latest/LMS100809.html>

⁵ As per the Incorporated Societies Act 2022, BRANZ Incorporated is in the process of re-registering as an incorporated society. BRANZ Inc’s Constitution was approved by its Board and members on 6 November 2024 to take effect 1 April 2025. The Constitution supersedes BRANZ Inc’s Rules.

It is clear that BRANZ Inc. was established primarily, and substantially, to conduct and promote scientific or industrial research. This is specifically confirmed in 3.1(a). The remaining purposes encourage and support the research purpose.

BRANZ Inc. invests the Building Research Levy in industry and public good research and knowledge transfer. At the heart of our investment decisions is our commitment to lifting the performance of Aotearoa New Zealand's building system so it can deliver better outcomes for all.

As the steward of the Building Research Levy, BRANZ Inc. invests the Levy through a range of mechanisms. These include, work contracted with BRANZ Ltd and external providers, scholarships, strategic initiatives and agile, urgent investments. This also includes investments into larger capital assets required to facilitate testing and research.

In response to the criticism that tax exemptions can lead to competitive advantage, BRANZ Inc. is the only national research institution focused exclusively on building and construction. As such, BRANZ Inc. gains no competitive advantage by having the income tax exemption.

IMPACT OF PROPOSED CHANGES

The BRLA describes the context in which BRANZ Inc. is funded and mandates its role.

As mentioned above, section 8(1) of the BRLA dictates that the Levy "...shall be used by the association for the purposes of promoting and conducting research and other scientific work in connection with the building construction industry."

Therefore, currently 100% of the Levy is directed to purposes of public good: For every dollar levied, a dollar is spent as per the intent of the BRLA.

If the income tax exemption were removed, the value to the public (as per the intent of the BRLA) would decrease: For every dollar levied, only 72 cents of it would go towards the purposes described in the BRLA.

This would mean that BRANZ Inc. would have less money available to meet its purposes set out by the BRLA. This is particularly apparent when considering that BRANZ Inc. will often accumulate the Levy in order to be able to fund capital assets. Under Section 8(2) of the BRLA, the money collected by the levy may be used for the "(a) the establishment and equipment of laboratories for the purpose of facilitating building research... (d) the establishment and maintenance of a library of books and other publications... (j) the acquisition of land and premises... (k) the erection of premises...". Many of these purposes require the accumulation of funds in order to be able to fund the capital asset, meaning that any tax imposed would slow the rate of accumulation and hinder BRANZ Inc.'s ability to undertake its research – thereby slowing the rate at which improvements can be made to New Zealand's housing stock and other buildings.

BRANZ Inc. would also have less funding to be made available to fund university research and scholarships, disseminate information in relation to developments in the field of building research, and carry out tests and experiments on materials and techniques for use in the building construction industry (as per some of its other purposes in the BRLA). While this can be partially managed by matching income with expenditure (i.e. if BRANZ Inc. spends the levy as it earns it, there will be no 'leftover' amount to tax), this just introduces unnecessary compliance costs in managing the spend

based on an arbitrary line in the sand (i.e. the income tax year). BRANZ Inc.'s focus should be on the public good and spending the levy in accordance with its core purposes – any extra compliance would take away from the time BRANZ Inc. can spend on these core purposes.

The officials' issues paper notes that the section CW 49 exemption should be removed because the context in which scientific or industrial research has changed significantly since the introduction of the exemption, with advances made in technology, changes in funding models, and research being increasingly commercialised. We do not think that this reasoning is valid in the context of BRANZ Inc. BRANZ Inc. carries out important research that is not otherwise funded by government bodies and having the full benefit of the Levy allows BRANZ Inc. to meet its core purposes as set out the BRLA. This is part of the reason why BRANZ Limited was created, to split out the commercial work that provides a market service and ensure that BRANZ Inc.'s focus is solely on providing a public good as per its core principles.

As noted earlier, the research and influential work we do brings significant value to Aotearoa New Zealand. For example:

- Our research and guides help homeowners prepare for and recover from severe weather events – something that is becoming increasingly common. This benefits by allowing them to direct their income to living expenses instead of repairs, speeds up the time taken to return housing to a liveable state and indeed prevents many issues from arising at all. This same research has a broader, longer-term impact as it aims to prevent future issues like weathertightness problems, benefiting again by reducing repair/remediation costs for households.
- Our research includes investigating the seismic performance of hybrid multi-storey residential buildings, to contribute to the development of a robust seismic engineering basis for low to mid-rise hybrid residential buildings. These buildings are becoming more common in New Zealand as we move to greater density housing, and the work we do aims to research the efficacy of different combinations of bracing systems and building materials, ultimately aiming to limit earthquake damage in these buildings.
- Following on from the above, we are also looking into the performance of hillside residential buildings in earthquakes, looking at retrofit solutions to address the vulnerabilities of hillside house construction.
- We are researching environmental factors specific to New Zealand that affect the durability of building materials, noting that New Zealand has material durability requirements that are longer than overseas and also uses materials not commonly used overseas. This aims to improve the materials / type of materials used in the building industry, lengthening the life of New Zealand's buildings.
- Experimental and model development work is being undertaken to better understand and control the fire behaviour of buildings materials and systems. Recent international fires (e.g. Grenfell Tower, Lacrosse) have demonstrated that the international fire safety community does not fully understand the fire behaviour in the new systems being introduced into the construction industry. With New Zealand moving towards more densified residential construction, this work being undertaken is aimed at saving lives and minimising New Zealand's exposure to fire risk.

If the section CW 49 exemption were to be removed, BRANZ Inc. may have to limit the amount of research it can fund, limiting the public benefit that is gained through BRANZ Inc.'s activities.

There is a possibility that BRANZ Inc. could apply to Charities Services to be a charity, as its purposes include advancing education and overall public good (note this is not something BRANZ Inc. has explored in any detail at all). However, this would introduce unnecessary complexity and compliance costs, when the existing structure (under the BRLA, Incorporated Societies Act and section CW 49 exemption) is more than sufficient and removing it would just introduce more deadweight cost into New Zealand's tax system.

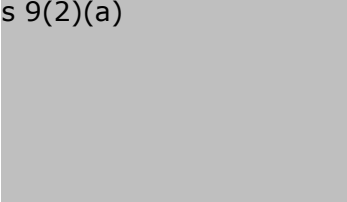
RECOMMENDATION

We recommend that Inland Revenue retain the section CW 49 income tax exemption for bodies promoting scientific or industrial research. This is important for the current and future housing/building stock of New Zealand.

BRANZ Inc. continues to create value, benefit and research impact for public good, enabled by the BRLA. Removing the income tax exemption to BRANZ Inc. will devalue the purpose and intent of the BRLA, directly in contrast with Parliament's intent in establishing BRANZ Inc., and erode the pool of funds currently applied entirely towards research that is directly in service to public good.

Yours sincerely,

s 9(2)(a)



Claire Falck
Chief Executive
Building Research Association of New Zealand Incorporated



United Matamata Sports

PO Box 277, Matamata

p 07 888 8018

e office@ums.nz

www.unitedmatamatasports.co.nz

28 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.

United Matamata Sports Inc has been a cornerstone of our local community for 28 years, delivering not only rugby but also social and community development. Our mission extends beyond the rugby field. We enrich lives, promote well-being, and drive positive societal change.

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

The Economic and Social Value of Grassroots Rugby Clubs

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

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

Beyond playing rugby, we hold primary touch tournaments, business house touch tournaments, provide space for local groups to hold their fundraising activities, a place to get extra training in for all sports and much more. These activities bring communities together and generate economic activity for local businesses throughout the year, not just on game day.

Rugby clubs are also at the forefront of addressing important societal issues in our communities. We provide up skilling and training for our young players which helps keep them active and busy. The club will come together to support any member of the community through hardship by providing meals, support or connection from its many members contacts. We also provide support and mentorship to our younger players who have extenuating circumstances.

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:

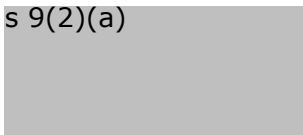
- significantly reduce the funding available for clubs to provide community programs, purchase equipment, maintain facilities, and support player development.
- create an administrative burden for us as a volunteer-run organisation, diverting time and resources away from our core activities; and
- lead 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. United Matamata Sports 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,

s 9(2)(a)



Paul Dean
CHAIRMAN
UNITED MATAMATA SPORTS

s 9(2)(a)



From: s 9(2)(a)
Sent: Friday, 28 March 2025 11:20 am
To: Policy Webmaster
Subject: PAPER SUBMISSION NON-FOR-PROFIT ORGANISATION

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

To Whom It May Concern.
Inland Revenue Department

I am requesting that my personal details will not be disclosed publicly or on any documents accessible to the public and other government agencies for privacy purposes.

MAJOR POINTS OF MY SUBMISSION:

- **OUR TITHES AND OFFERING FROM OUR INCOME HAS BEEN TAXED FROM WHAT HAS BEEN DEDUCTED FROM OUR WEEKLY WAGES.**
- **AS A CHARITABLE ORGANISATION, WE ARE HELPING THE GOVERNMENT TO PRODUCE: LAW ABIDING CITIZENS BY FURTHERING THE FAITH THAT TEACHES RIGHTEOUSNESS, SUPPORTING LAW AND ORDER OF EVERY COMMUNITIES.**
- **THE CHILDREN ARE BEING TRAINED TO DO THE SAME TO BE A GOOD EXAMPLE OF GOOD BEHAVIOUR AT SCHOOL, AT HOME, COMMUNITIES.**
- **CHARITABLE ORGANISATIONS (CHURCHES) DISCOURAGES USE OF DRUGS, ALCOHOL, GAMBLING,**
- **CHURCH TEACHES MEMBERS NOT TO BE A BURDEN TO THE GOVERNMENT BY RELYING ON BENEFITS.**
- **THE CHURCH TEACHES TO BE PRODUCTIVE LIKE WHAT THE BIBLE TEACHES ON: 1 THESSALONIANS 4:11** And that ye study to be quiet, and to do your own business, and to work with your own hands, as we commanded you; That ye may walk honestly toward them that are without, and that ye may have lack of nothing.

RECOMMENDATION:

- **IRD TO CATEGORISE THE CHARITABLE ORGANISATIONS THAT ARE NOT CONTRIBUTING TO ANY IMPROVEMENT OF THE PEOPLE IN THE SOCIETY, REMOVE THEM OR TAX THEM.**
- **IF THOSE CHARITABLE ORGANISATIONS ARE NOT HELPING THE COMMUNITY, TOWN OR THE NATION TO PRODUCE GOOD ABIDING CITIZEN THEN, CHANGE THEIR CATEGORY.**

- **RE-EVALUATE THE POLICY AND REVIEW THE CATEGORIES OF THE REGISTERED CHARITABLE ORGANISATION.**
- **TAX THOSE WHO ARE EARNING HUGE AMOUNT LIKE A BUSINESS AND USING THE CHARITABLE ORGANISATION FOR THEIR OWN PURPOSE AND NOT RETURNING ANYTHING TO THE COMMUNITY, CITY OR NATION.**

Ngā mihi nui

s 9(2)(a)

**The Salvation Army | Te Ope Whakaora | New Zealand, Fiji, Tonga and Samoa Caring for people |
Transforming lives | Reforming society**

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.

s 9(2)(a)

From: Sherilyn Shanks s 9(2)(a)
Sent: Friday, 28 March 2025 11:22 am
To: Policy Webmaster
Subject: Taxation and the not-for-profit sector

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

If this bill goes through, the salvation army and other charities would have reduced funds. These funds are used to help many people under stress from the high cost of electricity, food, and rent to name a few. We would not be able to provide the services we do (which are quite limited, as they are), meaning the people who need our services would suffer. Our services are needed so much in the communities we serve. Some people depend on us so much, that their lives would be in jeopardy from reducing our funds.



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

12th March 2025

Submission on IRD's Consultation Paper on Taxation and the not-for-profit sector

Te Pū Harakeke —Community Collective Manawatū Incorporated was established in 1971 as the Palmerston North Community Services Council. We are a collective of 108 not-for-profits, individuals, businesses, and other agencies engaged in social and community service in Palmerston North and the Manawatū.

Our vision is "a strong, vibrant and connected community sector in the Manawatū" and our mission is "to empower community groups to participate in and contribute to the community and it's wellbeing."

We would like to thank IRD for the opportunity to provide our feedback on the Issues Paper on taxation and the not-for-profit sector.

In this submission, we do not intend to respond to each question raised in the consultation paper individually. Instead, we would like to highlight our overarching concerns.

Key Concerns

1. Taxing charity business income discourages not-for-profit organisations from being innovative and seeking sustainable income streams.

The sector is financially fragile, with increasing competition for funding. Many organisations are experiencing funding reductions due to government budget constraints, while demand for social services continues to rise. The *Community Networks Aotearoa State of the Sector Survey Report* (October 2024) highlighted that 77% of surveyed organisations have experienced increased

demand for their services and activities. Additionally, the number of people accessing these services has risen by 64% compared to two years ago. The *Salvation Army State of the Nation Report* also underscored significant challenges in Aotearoa, including the highest reliance on welfare since the 1990s and growing demands for social services and food security.

These findings align with what we have observed in Palmerston North and the Manawātū region. We have received an increasing number of applications for the *Emergency Grant*, which we administer on behalf of the Palmerston North City Council. This grant provides essential funding to help community organisations remain operational while they develop alternative and long-term funding strategies.

Funders encourage charities to diversify their income streams and demonstrate financial sustainability. They rarely provide funding that covers the full cost of service delivery. Anecdotal feedback from one of our member organisations indicates that funding from funders covers only 40% their needs, while the remaining 60% comes from their Op shops and other fundraising activities. Many charities operate businesses, such as op shops, to generate alternative income or find innovative ways of raising funds for their organisations. Removing tax exemptions on business income for charities would significantly hinder their ability to remain financially viable. Restricting their ability to operate businesses would not only reduce financial sustainability but also stifle innovation in addressing social issues.

2. The definition of “unrelated” business income lacks clarity.

The proposal to tax “unrelated” business income raises concerns about how “unrelated” will be defined. For example, our organisation collaborates and connects community and social services in the region. We manage a community house in Palmerston North, where tenants (community organisations) receive a small share of meeting room revenue quarterly to help cover the costs of maintaining communal spaces. Would this income be considered “unrelated” simply because renting meeting rooms is not listed among their charitable purposes? We propose that taxation be based on the purpose for which the income is used rather than its source.

3. Removing the tax exemption for unrelated business income will increase compliance costs for charities.

Introducing additional tax obligations will impose higher compliance costs on charities. Many charities already face difficulties in accessing affordable accounting services, particularly smaller Tier 3 and Tier 4 organisations. Pro bono or semi-pro bono accounting and auditing services are becoming increasingly difficult to find. Any increase in compliance costs will reduce the funds available for charitable purposes.

4. Charities operate with substantial pro-bono and donated resources that are not reflected in financial statements.

Many charities currently operating businesses do not account for the true value of their input costs. They often rely on:

- Pro bono or discounted goods and services

- Volunteer labour
- Staff working for lower-than-commercial rates due to the charitable mission
- Discounted or peppercorn leases

If charities are required to pay tax on their business income, they will also be entitled to claim all available input expenses, as for-profit businesses do. This would likely reduce taxable business profits and, consequently, any potential tax revenue.

5. Reducing the financial capacity of charities will place greater pressure on government and philanthropic funding sources.

Restricting charities' ability to generate sustainable income will increase reliance on government and philanthropic funding to address societal needs. If charities are unable to provide essential services, the government will inevitably face pressure to step in—at a greater cost than the current tax exemptions.

6. Charities already meet high standards of transparency and reporting.

Charities are subject to stringent reporting requirements, including compliance with legislated financial reporting standards and, in many cases, independent audits. These regulations ensure financial transparency and accountability.

Our Position

We believe that business income generated by charities and used for charitable purposes should remain tax-exempt. The sector is already facing financial challenges, and any additional requirements on the not-for-profit sector would increase costs for charitable organisations and, ultimately, for the government.

Ngā mihi nui

s 9(2)(a)

Dr Kat Nguyen
Kaiwhakahaere Matua/Manager
Te Pū Harakeke



**The
Federation**
of disability information centres

Registered Charity No. CC21998

P O Box 10311
Te Mai
Whangarei 0143
s 9(2)(a)

Email: admin@thefederation.nz
www.thefederation.nz

28 March 2025

Taxation and the not-for-profit sector
C/- Deputy Commissioner
Policy Inland Revenue Department
PO Box 2198
Wellington 6140
(Sent via email to policy.webmaster@ird.govt.nz)

Kia ora

We are a Peak Body organisation with 26 members, who operate autonomously, providing information and services to disabled people and their families/whānau, around the country.

We have answered questions that are relevant for us below, but to summarise, we believe that it is not in the best interests of the people who we serve to place a taxation burden on charities by removing the exemption. We do not believe there is any unfair commercial advantage for those who are responding to unmet needs in their communities by being innovative in raising funds. The business activity itself may or may not be related to the charity's purposes, but if there is evidence that the destination of any profits from those activities is used for charitable outcomes then those funds should not be taxed.

I am happy for officials from Inland Revenue to contact me regarding this submission.

Kind regards

Carol Wood
Executive Officer
executiveofficer@thefederation.nz

Submission on the review of Taxation and the not-for-profit sector March 2025
From the NZ Federation of Disability Information Centres Inc.

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?

Many of our members have diversified into social enterprise / business activities because the funding we receive from government, philanthropic grants and donations, does not keep pace with the rising costs of providing essential disability information and resource services. Any profits made are used for service development in response to unmet needs. We have Constitutions that make it very clear that we operate exclusively for charitable purposes, and that any income, benefit or advantage must be used to advance our charitable purpose.

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?

Some of the services we provide would be reduced or closed, not because we would have to pay a lot of tax (profits are generally low), but because our accountancy and audit costs would increase. Compliance costs are high already, our funders require us to produce audited annual accounts and having to factor in additional costs for tax processes may well be the tipping point for some smaller organisations.

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

We believe that only business income that does not produce benefit to the people the organisation serves should be considered to be unrelated business income. If a charity can show the destination of the income/profits results in charitable outcomes then it should be tax exempt.

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 Tier system is based on expenses rather than profits. There are no doubt some charities in each of the Tiers who do make business related profits that may or may not be used for charitable purposes. Equally, a higher level of expenses doesn't always mean the charity makes a profit. Exemption should be based on the relevance of the business activity to the Constitutional objectives of the organisation.

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 agree that charity business income distributed for charitable purposes should remain tax exempt. It is prudent for charities who produce a profit to hold some funds in reserves for risk management / contingency, for example, the equivalent of six months operating expenses.

It is also good sense for charities to invest some funds into interest bearing accounts so that the income from these can be used to further the purpose of the charity.

Chapter 3: Donor-controlled charities

Not relevant for us.

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.

Not relevant for us.

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

Not relevant for us.

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? FBT exemption

Not relevant for us.

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?

Not relevant for us.

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?

Not relevant for us.

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 agree that the DTC scheme isn't widely known. Donors have to wait till the end of the financial year to claim back donations and this means they may be forgotten.

We also agree with the policy related recommendations.

From: Alister Irwin s 9(2)(a)
Sent: Friday, 28 March 2025 11:34 am
To: Policy Webmaster
Subject: Taxation and the not-for-profit sector

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

Kia ora friends,

Thank you for the opportunity to present to the draft paper.

I am not an expert writer and do not understand all the in's and out's of what is being presented. However, I do know that any removal of charity tax status to The Salvation Army would be disastrous for the people whom we serve.

If what is presented in this 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.

Although I am currently in an administration role, previously I have served in The Salvation Army for nearly thirty years on the frontline. I have seen that the need is great and is getting greater. We have never been able to do all that people need us to do. By removing charity tax status, this would force us to close Centres thus not being present in communities and not able to provide the assistance people need.

It has been proven often that Non-Government Agencies like The Salvation Army perform better than Government Agencies. I believe we save the government money by the services we offer. Meaning that people receive the help they are seeking before things get too bad for themselves and their families.

Clearly, The Salvation Army is a charity. We are not-for-profit but for the people. We are Te Ope Whakaora, the Army that brings LIFE. Please allow us to continue service so others can experience the LIFE they need.

Nga mihi

Alister Irwin (Major)
International Development and Discipleship Resources
Te Ope Whakaora - The Salvation Army
Territorial Headquarters
204 Cuba Street
Wellington 6011
New Zealand, Fiji, Tonga and Samoa Territory
Ph s 9(2)(a)



**THE ARMY THAT
BRINGS LIFE**

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.

From: s 9(2)(a)
Sent: Friday, 28 March 2025 11:34 am
To: Policy Webmaster
Subject: Submission

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

I am secretary for the Selwyn Catholic Parish. This consists of 3 main churches with the hope to complete a 4th to be built in the growing town of Rolleston.

We have Mass every week day with an additional 3 midweek masses at other areas. We have 1 evening mass on Saturday and 4 masses on Sunday,

Each church is supported by a separate community who look after our parishioners in many ways, from visiting the sick, holding craft and prayer groups. We also have a thriving St Vincent de Paul community providing welfare packages for those in need and they have recently helped an immigrant family settle into New Zealand.

To maintain our existing churches 2 of which still have earthquake damage to be fixed and support our parish priest in their work we are reliant on weekly donations. We also gather a small part of our income from the rental of our halls for a variety of groups including baby classes, craft, Martial arts. This helps with the costs of regulatory requirement from Health and safety and Fire regulation requirements and general upkeep and power. If these were taxed it would mean a loss of the ability to maintain them and perhaps make them unavailable to the community.

On the presumption that existing donations would still be free from tax and other income would be taxable, I would have an increased compliance cost which would mean less income for the parish and therefore less outreach to the community. It could also result in the loss of our Parish Pastoral worker who coordinates our parish communion and Alpha courses for the youth and active parishioners.

Donations cannot be relied on to be maintained at a consistent level as Economic and socialites' factors influence them. These are in many cases given after all needs are met for their family.

By eroding charities tax position, even in a small way our income will reduce – which means less funds available to do all good work within the parish. We know our local communities and their needs; we have untold volunteer hours which go unnoticed.

Charities are also more efficient than the infrastructure of Government, so taxing them would likely prove to be an own goal if the government has to step in and provide these services at a higher cost. The underpinnings of a functioning society have long involved charity, and it is charities that are often the final backstop.

Charities are hugely important to a well-functioning society, but due to their nature and focus they are also 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.

Regards Mary

Mary Prendergast
Secretary Selwyn Parish
Our Lady of the Plains.
Wednesday & Friday (9am to 1pm)



31 March 2025

Te Kaahui o Rauru

Taxation and the not-for-profit sector
C/- Deputy Commissioner, Policy
Inland Revenue Department
PO Box 1298
Wellington 6140

Via email policy.webmaster@ird.govt.nz

Teena koe,

Te Kaahui o Rauru Submission – Official Issues Paper: Taxation and the not-for-profit sector

Te Kaahui o Rauru appreciates the opportunity to submit on the Official Issues Paper: Taxation and the not-for-profit sector.

We kindly request that the signature at the end of this document is redacted when submissions are published on the IRD website and if a request for information is made under the Official Information Act 1982.

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Introduction

1. This submission is made by Te Kaahui o Rauru on the Official Issues Paper: Taxation and the not-for-profit sector.
 - (a) The submission covers:
 - (i) who we are;
 - (ii) our position – opposed to imposition of income tax on unrelated business income for charities;
 - (iii) responses to questions for submitters (Chapter 2 only);
 - (iv) Additional points on the process that IRD has followed.
2. We do not wish to be contacted to discuss points raised.

Te Kaahui o Rauru

3. Te Kaahui o Rauru is the post settlement governance entity of Ngaa Rauru Kiitahi recognised by the Government's Ngaa Rauru Kiitahi Claims Settlement Act 2005 as the mandated iwi and therefore makes this submission on behalf of the 7,300 uri, 14 hapuu and 12 marae affiliated to it.
4. The Tribal area of Ngaa Rauru Kiitahi is traced from Kaihaukupe (Castlecliff, Whanganui), where there were six settlements, to Kaierau (now St Johns Hill, Whanganui). From there it extended to Tawhitinui (opposite Raanana, on the banks of the Whanganui River) and the Matemateaonga Range, near the source of the Paatea River. There were several paa and kaainga along the Paatea River, and from the mouth of the river along the shoreline back to Kaihaukupe.
5. The ancillary purposes of Te Kaahui o Rauru include:
 - (a) to act for the benefit of all Ngaa Rauru Kiitahi, irrespective of where they reside;
 - (b) the preservation and enhancement of the Vision, Mission, Values and Tikanga of Te Kaahui o Rauru as set out in the Guiding Principles;
 - (c) to give effect to the Settlement Legislation;
 - (d) to receive and manage the settlement assets from the Crown on behalf of Ngaa Rauru Kiitahi:
 - (i) pursuant to the Deed of Settlement; and
 - (ii) following settlement of any other claims by Ngaa Rauru Kiitahi relating to the breach by the Crown of any obligations to Ngaa Rauru Kiitahi under Te Tiriti o Waitangi;
 - (e) through the Ngaa Rauru Kiitahi Entities consider appropriate, to manage the affairs, business activities, assets and liabilities of Te Kaahui o Rauru in furtherance of the Charitable Purposes;
 - (f) the revival, preservation, maintenance and perpetuation of Ngaa Rauru Kiitahi arts, crafts, language and history in order to preserve Ngaa Rauru Kiitahi Values of tika, pono, maaramatanga and kotahitanga;
 - (g) to foster unity and enable uri to embrace Ngaa Rauru Kiitahitanga;
 - (h) the provision of assistance for the building, preservation, renovation and maintenance of all marae, paa, waaahi tapu, tauranga waka, and other historic sites associated with the whaanau and hapuu of Ngaa Rauru Kiitahi;
 - (i) the provision of assistance and fostering and embracement of the promotion, research, recording, and learning of Ngaa Rauru Kiitahi history, tikanga and traditions;
 - (j) to initiate and assist development that delivers sustainable charitable benefits to the marae, whaanau and hapuu of Ngaa Rauru Kiitahi; and

- (k) any other such charitable programmes and facilities that Te Kaahui o Rauru may at their discretion determine as being necessary for the promotion of any or all Charitable Purposes.
6. Our interest in this Official Issues Paper stems from our responsibility to advocate for the rights and interests of Ngaa Rauru Kiitahi uri concluding in the Ngaa Rauru Kiitahi settlement of historical claims for breaches of Te Tiriti of Waitangi in 2005.
 7. We note that the settlement Act for our historical claims against breaches of the Treaty contains a Crown apology and states that:
 - the Crown seeks to atone for these wrongs;
 - the Crown seeks to being part of the process of healing with the settlement; and
 - the Crown looks forward to building a relationship of mutual trust, co-operation, and respect for Te Tiriti o Waitangi/the Treaty of Waitangi and its principles.
 8. The Te Kaahui o Rauru Group as a post settlement governance entity has other charities within our Group structure including Te Pataka o Rauru Ltd, Te Pataka o Tangaroa Ltd, and Kii Tahī Ltd. The Te Kaahui o Rauru Group are taxpayers and comply with obligations under the Revenues Acts (including the Income Tax Act 2007, Goods and Services Tax Act 1985, and the Tax Administration Act 1994) and this submission relates to income generated by Te Kaahui o Rauru Group for charitable purposes only.

Submission Questions

9. We have focused our attention for this submission on Chapter 2 – Charity business income tax exemption:

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

10. The existing settings within the Charities regime provide sufficient safeguards, such as:
 - (a) The prohibition of private profit;
 - (b) The requirement to only distribute funds for charitable purposes; and
 - (c) The requirement for charities to maintain charitable registration;

mean that the taxing of profits reduces funds available to Te Kaahui o Rauru to carry out its charitable purposes. In effect it will mean that Te Kaahui o Rauru will have less money to achieve the purposes outlined in point 5 above.
11. Te Kaahui o Rauru is best placed to carry out the charitable purposes, for the benefit or Ngaa Rauru Kiitahi uri, as opposed to those funds being transferred to the Crown in the form of income tax. This is because:
 - (a) We are people at place who understand the needs and aspirations of our people the best. We have several examples of success stories where we have helped our people achieve their aspirations.
 - (b) There is no guarantee that the funds transferred to the Crown as income tax will directly benefit Ngaa Rauru Kiitahi uri.
 - (c) Taxing unrelated business income is not only inefficient, but it also disincentivizes Maaori charities developing their own solutions to address current inequities that affect Maaori health, education and other broader social factors because:

- (i) Maaori charities often use their charitable funds to undertake activities that the Crown often have a duty to provide support towards or practically provide relief for e.g. emergency support coordination (flood relief, COVID support, marae welfare hubs during crisis). There's no guarantee the additional revenue generated by government will deliver the same outcomes and have the same targeted impact on Maaori communities;
 - (ii) Taxing unrelated business income will reduce overall funds Te Kaahui o Rauru has at our disposal in any given financial year, which will impact on what we can deliver each year for Maaori in our communities and will have a distressing effect on us undertaking charitable activities generally.
- 12. To impose income tax on unrelated business income would discourage Te Kaahui o Rauru from undertaking business activity or delivering on our charitable purposes, thereby reducing income earned by our charity altogether. This will result in less funds being available, rather than providing for a transfer of the funds to the Crown, in the form of tax, and ultimately disadvantage Ngaa Rauru Kiitahi uri today and descendants of tomorrow.
- 13. The imposition of income tax would be manifestly unjust given the nature and character of the assets held by Te Kaahui o Rauru. These are from our Treaty settlement, which was provided as recognition of the Crown's Treaty breaches. Furthermore, they are held on an intergenerational basis as pointed out by the Tax Working Group in their Interim Report at page 121. The Official Issues Paper fails to recognise this point of difference for iwi and hapuu charities who exist for the benefit of current and future uri / descendants.
- 14. Further settlement assets were received to remedy historical breaches by the Crown of the Treaty of Waitangi. To tax Maaori when they generate income from those assets, penalises iwi and hapuu who are successful, discourages development, and is counter intuitive to the way the assets were transferred. Key objectives for management of Treaty settlement assets include intergenerational sustainability and restoration of our capital base. As a post settlement governance entity (PSGE), we have over 7,000 members and do not make distribution of dividends for individual gain. Retaining the existing tax exemption for charities within a PSGE structure is appropriate to support restoration of our iwi and economic base.
- 15. The imposition of income tax appears to be based on the underlying assumption that charities have a competitive advantage by not being subject to income tax and therefore having less compliance costs. In our view, this is not accurate, for the following reasons:

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

- (a) Charities are still subject to other tax compliance costs, including PAYE and GST.
- (b) Maaori charities are unique in that they have a range of compliance costs that a non-Maaori entity, or charity, does not have such as provisions for AGM's, consultation with membership, major transactions etc. In short, any business activity Te Kahui o Rauru practically undertakes is subject to iwi/hapuu scrutiny. This analysis is missing from the 'competitive advantage' analysis set out in the Official Issues Paper.
- (c) The administrative and legislative constraints on Te Kaahui o Rauru as a mandated iwi organisation and the assets holding companies within the Te Kaahui o Rauru Group are already extensive. There are mandatory legislative restrictions we are bound by the Maaori Fisheries Act 2004 in addition to ordinary charity law, for example restrictions on the sale of settlement quota

and income shares, the requirement to beneficiaries for performance to all members of our iwi etc.

- (d) Introduction taxation of unrelated business income will substantially increase the already-onerous burden for operating Maaori charities. Specifically, apportioning unrelated business income and expenses is administratively onerous and exacerbate compliance costs without any corollary benefit.
- 16. The legal system in Aotearoa, does not provide for a settlement vehicle that is bespoke for Maaori. Rather, iwi and hapuu have been required to establish post-settlement structures with limited options, i.e. limited legal vehicles, and limited tax elections. In short, iwi and hapuu have been forced into the charities regime, rather than the regime being fit for purpose, for Maaori. To now significantly amend the regime, by imposing tax, will detrimentally affect iwi and hapuu in a manner that fails to recognise the relevant Crown-acknowledged settlement history and context.
- 17. For charities, the generation of business income (related or unrelated) is not directed toward private profit or gain. Rather, business income provides them with more funds to further their charitable purposes. This is a key and important distinction from for-profit businesses. The proposal to tax 'unrelated business income' will prevent charities from flourishing by discouraging business and innovation. The negative effect on the charities sector will far outweigh the benefit of any revenue generated. Furthermore, imposing a tax on unrelated business income while at the same time keeping the existing restrictions on charities at the same time keeping the existing restrictions on charities (i.e., not to exist for pecuniary profit) would create a perpetual inequity between not-for-profits and private companies.

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?

- 18. If the government developed a tax-credit regime (for example, so that tax was only paid on accumulated surpluses rather than all business income), and required charities to maintain a special memorandum account, like a Maaori Authority account as alluded to in the Official Issues Paper. This would create a significant additional accounting burden to Te Kaahui o Rauru who is already required to maintain such an account.
- 19. Taxing unrelated business income is not practical, is likely to be expensive, and increase compliance costs for IRD and charities and the Official Issues Paper lacks any analysis on revenue generation if unrelated business income is to be taxed.
- 20. An assessment of business income, and whether it is unrelated or related would be difficult to apply, and would likely require specialist taxation advice, each year. Presumably an assessment of expenditure would also need to be undertaken. This would result in an increase of costs, resulting in less funds available for Te Kaahui o Rauru to carry out its charitable purposes.
- 21. The charitable purposes of Te Kaahui o Rauru are broad (see point 5) and are not mutually exclusive. It would be difficult, from a practical perspective, to dissect business income, as part of the income may be related, and part may be unrelated. To do so creates significant complexity and a subjective assessment that would be difficult to implement practically.

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?

22. A broad approach should be allowable. Anything that touches on our purposes should be considered related.
23. Investment income derived from Treaty settlement assets should be exempt. This is because:
- (a) The receipt of Treaty settlement assets as recognition of the Crown's breaches of Te Tiriti o Waitangi are a different class of assets because they are primarily for long-term gain and restoration of whaanau, hapuu and iwi.
 - (b) Maaori are intergenerational investors and manage their asset base accordingly. We put our assets into stable equity investments and reinvest our earnings for future descendants according to our iwi priorities or use that income to fund our charitable activities.
24. Income received pursuant to the Maaori Fisheries Act 2004 should be excluded as they are Treaty settlement assets:
- (a) The Maaori Fisheries Settlement was signed on behalf of all Maaori and we hold quota for the benefit of our uri and future descendants. It would be inappropriate to tax income earned off Treaty settlement assets by a side wind without any benefit particularly when we are not private companies and are already constrained by existing charity law.
 - (b) Te Kaahui o Rauru as a mandated iwi organisation is already burdened by existing, inherent restrictions in legislation. We are required to be established to ensure accountability and transparency to our iwi members, which for-profit companies and private entities are not.
 - (c) Te Pataka o Tangaroa Ltd (part of the Te Kaahui o Rauru Group) as an AHC derives income from the sale of annual catch entitlement and passive investments. We are not like other fishing quota owners or fishers trading in ACE, who operate without any restrictions based on asset class. Our compliance costs are substantial. Furthermore, we already operate with substantially less freedom about managing our settlement assets than other fishing quota owners (for example, in granting security interests over settlement assets etc.). To impose a tax while otherwise keeping the status quo creates inequities.

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?

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

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?

27. Te Kaahui o Rauru has a unique obligation and must take an intergenerational approach when deciding on the distribution of income. We are required to carefully and intentionally balance the needs and aspirations of generations today with the needs and aspirations of the next generation, and every generation thereafter. Accordingly, income tax should not be imposed on retained income for Te Kaahui o Rauru.

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?

28. Some examples of analysis Te Kaahui o Rauru considers missing from this Official Issues Paper includes:
- (a) The unique drivers and features of Maaori charities, particularly those that are in receipt of settlement assets, i.e. Treaty settlement assets, or fisheries assets.
 - (b) The social good that charities contribute to Aotearoa, and in particular the work that is undertaken by Maaori charities in Aotearoa.
 - (c) Analysis of the underlying drivers for the proposals – the Official Issues Paper assumes that charities have a competitive advantage without testing that driver. It fails to acknowledge the strict rules around distribution and reporting that do not apply to for-profit entities.
 - (d) Thought around if a business income tax was imposed, whether a charity could then be relieved from its charitable obligations in relation to that portion of income. It appears the proposal is seeking to tax charities, but at the same time maintain the same strict rules around distribution and reporting.

Additional Points

29. The Charities Act 2005 was amended 5 July 2023, following a comprehensive review of the Act. The Official Issues Paper proposes significant changes to the charities regime that should have been raised during the review.
30. The timeframes to respond to this Official Issues Paper has been just over a month and has not been widely consulted on. Charities should have been engaged with appropriately on such significant amendments.
31. Te Kaahui o Rauru expects there will be a select committee process, in which we will also participate.
32. The Crown has an obligation under Te Tiriti o Waitangi to understand the impact of any proposed policy changes for Maaori and to consider how any negative or unintended effects might be mitigated. It is apparent that this obligation has not been discharged. The Official Issues Paper mentions the work

‘Maaori’ once. Specific impacts on Maaori charities needs to be well understood before any proposal or consultation paper is put forward for public consultation.

33. Maaori comprise a sizeable proportion of the charities sector and have unique drivers and features, that require specialist engagement. The IRD must rectify its omission and undertake targeted engagement with Maaori in an appropriate manner before proceeding with policy development.

Summary

34. Te Kaahui o Rauru strongly oppose the imposition of income tax on unrelated business income for charities.
35. This seems to be another way the Crown is taking aim at Maaori entities. These reforms will impact on our ability to invest in our people as a symptom of further reforms.
36. As a PSGE, we continue to invest in supporting the gaps and inequities that exist for our people whether that be in social, health, education, environmental or economic growth and development. PSGE prop up Crown shortfalls and now they are looking to claw back Treaty settlement funds and take away this resource from the people who can best deliver it.

Recommendations

37. That Maaori charities be exempt from these tax reforms.
38. That there are exemptions for PSGEs and AHCs due to statutory obligations and intergenerational purposes.
39. That Maaori charities can accumulate funds for intergenerational purposes tax-free.
40. That Maaori charities are not overburdened with compliance and so we advocate for simplified reporting for Maaori entities.
41. We oppose minimum distribution rules for Maaori charities and recommend exemptions for AHCs.

Ngaa manaakitanga, naa
s 9(2)(a)

Renée Bradley
Tumu Whakahaere (Chief Executive Officer)
Te Kaahui o Rauru

Presbyterian Support Otago (PSO)

Submission on Taxation and the not-for-profit sector Issues paper

Date: 28 March 2025

IRD officials can contact us regarding this response

Discussion questions

Chapter 2: Charities business income tax exemption

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

Response;

PSO is not in favour of removing the income tax exemption on charity business income.

Tax exemptions are in place to recognise the positive contribution charities make to the community. Charities provide cost effective services to vulnerable New Zealanders that if not provided could fall on the Government to provide. Typically, when provided by the Government these are at a much higher price point. Charities need to be innovative in how they accumulate sufficient resources to deliver their services. The use of "business" income is one of the ways this is achieved. Removing tax exemptions (Income Tax and FBT) from this income will ultimately reduce the effort that charities can deliver, thus putting more demand on Government.

The reasons to remove tax exemptions and increase costs to charities, must meet the IRD objectives of "simplifying tax rules, reducing compliance costs, and addressing integrity issues", and these proposals fail to deliver on these objectives.

2.13 – We are not aware of any charitable business undercutting competitors in the market within our sector of Aged Care. The tax exempt status does not create an advantage over others in the market as in general terms pricing is set under the Aged Related Residential Care contract issued by Te Whatu Ora.

There is not an advantage in borrowing costs for the not-for-profit sector. The sector cannot not raise equity capital in the way the for-profit can. Therefore for major capital works the not-for-profit sector is limited largely to using external debt and not take advantage of a mix of capital funding options that are available to others.

2.14 – Any surpluses generated are typically used to resource under-funded charitable work. Taxation of surpluses will reduce the ability to deliver these services and ultimately put more pressure on Government to provide them.

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

Response;

All revenue generated by PSO regardless of its source is channelled towards our mission of supporting the most vulnerable people in our community. This is not a dividend to shareholders/owners with tax credits attached via imputations. The "distribution" to the beneficiaries of our services will be negatively impacted by reducing the capacity available if income was taxed.

Charities such as ourselves in the Aged Care sector offer services to those who cannot afford to pay for care. If this work became taxable it could reduce the volume of beds available to the most vulnerable. For-profit operators in our sector are already only providing services to those for can afford to pay privately and do not take fully subsidised residents.

This does not simplify the tax system and there could be unintended consequences of where a line is drawn in such a definition. There is a significant challenge in defining Business Income being related or not to charitable purposes.

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

Response;

There could be circumstances where the line between charitable purpose and business activity is not clear. Some business activity could have a charitable purpose.

How do you simply define "unrelated" and "business" without creating significant greyness. This will not "simplify tax rules" and make compliance costs increase.

We believe the test should be more aligned with the use of those surpluses.

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

Response;

Use of Charities already existing structure size, ie. Tier 3 and 4 should be exempt as they could not bear the burden of the compliance costs should they be captured.

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?

Repsonse;

Agree exempt. Method, maybe allow consolidation of charitable and business results for taxation purposes.

If this is allowed, it results largely in the scenario we have now. So, if it's not broken.....

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

Response;

Impact of compliance costs on charities.

Charities are obliged to be more transparent in reporting (eg. Through Charities Services annual reporting) that is not the same with non-listed commercial enterprises.

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?

Response;

None

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?

Response;

None

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?

Response;

None

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.

Response;

We agree it is long overdue to increase the \$1,000 threshold, to a value more in line with the definition of a small Charity (refer Tier 3 and Tier 4 system in Charities Services).

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

Response;

None

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?

Response;

None

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?

Response;

To remove tax exemptions for FBT, will require FBT filing and this will incur compliance costs (tax accountants and filing returns), in addition levying FBT will reduce available funds from our charity to complete our work with the community, and this work will fall back to government to undertake at a higher cost.

Removing FBT Tax exemptions would increase our employment costs relating to the staff use of our cars. Contrary to the discussion paper assumptions it is the exemption from FBT tax, that allows us to compete in the market to hire staff. In particular we are competing for staff against our funding agencies such as Ministry of Social Development, Oranga Tamariki, Te Whatu Ora, Ministry of Health, and ACC and who hire staff for similar roles on higher salaries. These funding agencies fix our salaries lower than their own in our funding contracts, which means we are only able to overcome this market distortion, and compete

in the market with the offer to staff to use our vehicles without FBT being imposed. This exemption currently ensures that we are not priced out of the market by our own Funders, and we can overcome the market distortion they create

- We disagree the stated IRD objectives of "simplifying tax rules, reducing compliance costs, and addressing integrity issues", will be achieved. The proposal will increase complexity, increase compliance costs and increase costs to charities.***

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?

Response;

None

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?

Response;

None

Submission on Taxation and the Not-for-Profit Sector

To: Policy, Inland Revenue, Wellington policy.webmaster@ird.govt.nz

Subject: Response to Officials' Issues Paper on Taxation and the Not-for-Profit Sector

Date: 28 March 2024

From: WHAIORA WHANUI TRUST

Introduction: Whaiora Whanui Trust was established as a Charitable Trust in 2000. We are a kaupapa hauora service based in Masterton, Wairarapa, providing no cost health and social services in the community (which are government funded) and a Very Low Cost Access Medical Centre with a copayment regulated by Government. Our client base are predominantly Maori and those living in Quintile 5 areas.

We appreciate the opportunity to provide feedback on the issues paper titled "Taxation and the Not-for-Profit Sector" issued on 24 February 2025. As a not-for-profit organization, we are deeply concerned about any proposed changes that would increase compliance costs and administrative burdens for our sector.

Position: We do not agree with any changes that would increase compliance costs and administrative functions for not-for-profits. Our organization, like many others in the sector, operates with limited resources, while our sustainability is based on government funding, the funding is geared towards frontline staff and not administration staffing. Increased compliance requirements would divert valuable time and resources away from our core mission of providing public benefit.

Key Points:

1. Charity Business Income Tax Exemption:

- We oppose the removal of the tax exemption for charity business income that is unrelated to charitable purposes. Such a change would impose significant compliance costs on charities, particularly those with small-scale trading activities.
- The introduction of thresholds or de minimis exemptions may not sufficiently mitigate the compliance burden for smaller charities.

2. Donor-Controlled Charities:

- While we understand the need to address potential tax avoidance, we believe that introducing specific rules for donor-controlled charities could lead to increased administrative complexity and compliance costs.

- Any new regulations should be carefully designed to minimize the impact on genuine charitable activities and avoid unnecessary administrative burdens.

3. Integrity and Simplification:

- We support efforts to simplify tax rules and reduce compliance costs for not-for-profits. However, we are concerned that some of the proposed changes, such as removing certain income tax exemptions, could have the opposite effect.
- Simplification measures should focus on reducing administrative burdens rather than introducing new complexities.

4. Reliance on Government Funding:

- Our organization is reliant on government funding to provide essential services to communities with high health needs. Our contracts are specifically for frontline services and do not include provisions for administrative roles.
- Any increase in compliance costs would strain our limited resources and hinder our ability to deliver critical services to those in need.

Conclusion: We urge the Government to carefully consider the impact of any proposed changes on the not-for-profit sector. It is essential to strike a balance between addressing integrity concerns and ensuring that not-for-profits can continue to operate effectively without being overburdened by compliance requirements. The liability of Income Tax will have a detrimental effect to the social and economic sustainability of the organisation.

Thank you for considering our submission. We are available to discuss our points further if required.

Contact Information: Triny Ruhe – s 9(2)(a)



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

From: Access Community Radio Auckland Inc (Planet FM)

Date: 28 March 2025

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

Introduction

Access Community Radio Auckland Inc provides an essential public service. We ensure diverse communities can access media platforms that reflect their voices, languages, and cultures. We operate under the principles of section 36(c) of the Broadcasting Act 1989. We 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 Access Community Radio Auckland Inc. 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

Access Community Radio Auckland Inc ensures that all Aucklanders have access to locally relevant news, information, and cultural content regardless of background. We play a unique role by:

- Broadcasting in over **30 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 Access Community Radio Auckland Inc

From 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 Access Community Radio Auckland Inc. We 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 Access Community Radio Auckland Inc, we recommend that Inland Revenue:

1. Ensure income generated to support core Access Community Radio Auckland Inc 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 Access Community Radio Auckland Inc, 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 Access Community Radio Auckland Inc, 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

Access Community Radio Auckland Inc plays a vital role in Auckland'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 Access Community Radio Auckland Inc 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,
 Brent Harbour
 GM Radio and Development
 Access Community Radio Auckland Inc
 s 9(2)(a)

Friday 28 March 2025

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

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

Tēnā koutou Deputy Commissioner, Policy,

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

Thank you for the opportunity to submit on the Officials issues paper Taxation and the not-for-profit sector issued on 24 February 2025.

Introduction

1. This submission is presented by Platform Trust the national peak body representing and advocating for community and non-government organisations (NGOs) throughout Aotearoa New Zealand that provide vital mental health and addiction services and support. Our 95 member organisations and 119 non-member organisations comprise a diverse range of charitable entities, including community-based organisations, service providers, and advocacy groups dedicated to improving the wellbeing of individuals and communities affected by mental health challenges and addiction. In 2022, there were approximately **214 NGO providers** delivering **adult MH&AOD** services¹. Of these NGOs, **192** deliver mental health services and **75** deliver AOD services for adults². Approximately **77** NGO providers were **kaupapa Māori providers**, with just under half delivering AOD services for adults. In 2021/22, there were approximately **83 NGO providers** delivering **child and youth MH&AOD** services³.
2. Platform welcomes the opportunity to provide feedback on the Inland Revenue Department's (IRD) issues paper, "Taxation and the not-for-profit sector" (hereafter referred to as "the issues paper"). We recognise the importance of a fair and effective

¹ Te Pou. (2023). *NGO workforce estimates: 2022 survey of adult alcohol and drug and mental health services*. Auckland: Te Pou.

² See Footnote 1

³ Child and youth MH&AOD workforce stocktake data for 2021/22, analysed by Whāraurau.

tax system and the need for ongoing consideration of the interaction between taxation and the not-for-profit sector.

3. However, we have significant concerns regarding several of the proposals outlined in the issues paper, which we believe, if implemented, would have profoundly negative consequences for our member organisations including all other mental health and addiction NGO and community providers in our sector and, critically, for the vulnerable individuals and communities they serve. Our submission draws heavily on the expert analysis provided by Sue Barker Charities Law in their submission on this matter. We concur with their assessment that the issues raised are complex and far-reaching, necessitating careful consideration of potential consequences and thorough consultation.

The vital role of the Mental Health and Addiction NGO and Community Sector

4. The charitable sector in Aotearoa New Zealand plays an indispensable role in addressing a wide range of societal needs, including health and social investment.
Organisations within the mental health and addiction NGO and community sector are a crucial component of this, providing essential services, support, and advocacy that are often not fully met by government funding or private enterprise. Our members work tirelessly to support individuals experiencing mental distress, those struggling with addiction, and their whānau, contributing significantly to community wellbeing.
5. As highlighted by Sue Barker Charities Law, the charitable sector's contribution extends beyond direct service provision to encompass broader societal benefits such as social capital, social cohesion, and community wellbeing. In the context of mental health and addictions, our members foster supportive networks, reduce stigma, and promote understanding, all of which are vital for a thriving and inclusive society.
6. Our member organisations, like many charities, often operate with limited resources, relying on a combination of government funding, philanthropic grants, community fundraising, donations and, in some cases, income generated from business activities related to their charitable purposes. The proposals in the issues paper have the potential to undermine these crucial income streams and increase operational burdens, ultimately impacting the availability and quality of mental health and addiction NGO and community services across the country.

Concerns Regarding the Taxation of Business Income

7. The issues paper raises the possibility of taxing the business income of charities that is deemed "unrelated" to their charitable purposes. Many of our member organisations undertake activities that could be classified as business income to support their core charitable work. This might include social enterprises that provide employment opportunities for individuals with mental health challenges or addiction issues, or the sale of goods or services that directly align with their mission and generate revenue for reinvestment.
8. We strongly echo the concerns raised by Sue Barker Charities Law that **taxing such income would significantly impact the financial viability of charities in the mental health and addiction NGO and community sector** [see discussion in original submission]. These organisations often operate on tight margins, and the imposition of income tax on their business activities would reduce the funds available for direct service delivery, support programmes, and advocacy efforts. This could lead to a contraction of essential services at a time when demand for mental health and addiction support is significant and growing.
9. Furthermore, as Sue Barker Charities Law argues, **the proposal overlooks the comprehensive transparency and accountability framework already in place for registered charities in New Zealand**. Our member organisations are subject to the Charities Act 2005, which requires them to register, disclose their charitable purposes, and comply with financial reporting standards. This framework ensures public scrutiny of their operations and the appropriate use of their funds. Imposing a new layer of taxation based on a potentially narrow interpretation of "related" business income seems unnecessary and unduly punitive.
10. We also agree with Sue Barker Charities Law's point that **charities need flexibility to make their own decisions about how to further their charitable purposes, including through generating income**. Placing restrictions on income-generating activities could stifle innovation and reduce the ability of mental health and addiction NGO charities to develop sustainable funding models that reduce reliance on fluctuating grant funding and government funding which does not wholly cover the full cost of operations.

Opposition to Mandatory Minimum Distribution Requirements

11. The issues paper touches upon the accumulation of funds by charities and the potential for minimum distribution requirements. Platform strongly opposes the notion that accumulating funds is inherently problematic or indicative of a failure to apply those funds for charitable purposes. **For organisations in the mental health and addiction and community sector, accumulating funds can be a prudent and necessary practice for several reasons.**
12. Our members may need to build reserves to ensure the long-term sustainability of their services, particularly in the face of unpredictable government funding cycles, increased demand during times of unexpected crisis causing temporary loss of income or funding. Accumulating funds may also be necessary for planned expansions of services, the development of new programmes, or the acquisition of essential assets to better serve their communities. As Sue Barker Charities Law notes, there can be many legitimate reasons for a charity to accumulate funds in the best interests of its charitable purposes.
13. Imposing mandatory minimum distribution requirements, as considered in the Department of Internal Affairs' earlier policy paper, could force mental health and addiction NGO charities to distribute funds prematurely, potentially jeopardising their long-term stability and their ability to respond effectively to future needs. This would represent an unwarranted intrusion into the operational decisions of independent charitable organisations.
14. We concur with Sue Barker Charities Law's argument that **the underlying assumption that charities do not further charitable purpose until they distribute funding is misconceived and represents a fundamental lack of understanding of the fiduciary duties to which all registered charities are subject.** The trustees and officers of our member organisations have a legal and ethical responsibility to act in the best interests of their charitable purposes, which includes making informed decisions about the management and application of their funds. These duties already provide a robust mechanism for ensuring funds are used appropriately.
15. We also note Sue Barker Charities Law's observation that **most comparable jurisdictions do not impose mandatory minimum distribution regimes, instead relying on transparency and public scrutiny.** New Zealand's existing framework, with its emphasis on registration, reporting, and the fiduciary duties of charity officers, is a more appropriate and less intrusive approach.

The importance of the Independence of Charities

16. The independence of charities from government influence is paramount in a democratic society. As Sue Barker Charities Law rightly states, just as the Inland Revenue Department does not dictate how businesses should operate, the legal and policy settings should not dictate how charities further their charitable purposes. **This independence is particularly crucial for organisations in the mental health and addiction NGO and community sector, who often play a vital role in advocating for the rights and needs of people receiving support from their services and challenging systemic issues which can attributed to worsening mental wellbeing and addiction.**
17. Policy settings that could be perceived as incentivising charities to align their activities too closely with current government priorities could undermine their ability to act as independent voices and to address emerging or unmet needs within the community. The strength of the charitable sector lies in its diversity and its capacity to respond flexibly to the evolving needs of society, where direct government services are unable to.

Transparency and Accountability are Already Robust

18. As highlighted by Sue Barker Charities Law, New Zealand charities already operate within a comprehensive framework of transparency and accountability. The Charities Register provides public access to key information about registered charities, including their charitable purposes, financial statements, and governing documents. This public scrutiny, combined with the legal duties of charity officers, provides a significant level of assurance that charitable funds are being used appropriately.
19. We agree with Sue Barker Charities Law that **any concerns about the operation of individual charities, including those in the mental health and addiction NGO and community sector, can be addressed through the existing regulatory framework and the enforcement of fiduciary duties.** The introduction of additional layers of regulation or taxation, based on unsubstantiated assumptions about the sector, is likely to create unnecessary complexity and divert resources away from core charitable activities.

Concerns Regarding Fringe Benefit Tax (FBT)

20. The issues paper once again raises the potential removal of the FBT exclusion for charitable organisations. Platform strongly opposes this proposal. **The FBT exclusion is a vital support for charities, including those in the mental health and addiction NGO and community sector, helping them to attract and retain qualified staff** in a competitive labour market.
21. Removing the FBT exclusion would increase the operating costs for our member organisations, potentially impacting their ability to offer competitive remuneration packages and leading to difficulties in recruiting and retaining the skilled professionals necessary to deliver high-quality mental health and addiction services. This would ultimately harm the individuals and communities who rely on these services. We concur with Sue Barker Charities Law's assessment that concerns about the FBT exclusion creating a "competitive advantage" for charities appear overstated, given the significant challenges the sector faces in attracting and retaining staff.

Impact of Increasing Regulatory Burdens and Piecemeal Amendments

22. Platform shares the concerns expressed by Sue Barker Charities Law regarding the increasing regulatory burdens and the trend of piecemeal amendments to the Charities Act. The Charities Amendment Act 2023 is a recent example of legislation that was enacted despite significant concerns from the charitable sector regarding inadequate consultation and a lack of evidence to support the changes.
23. **Such increasing regulatory complexity places a significant administrative burden on our member organisations**, many of whom operate with limited administrative capacity. This can divert valuable resources and focus away from their core charitable purposes – providing mental health and addiction support. A stable and well-considered regulatory environment is essential for the sector to thrive and to continue its vital contribution to community wellbeing.

Conclusion and Recommendations

24. In conclusion, Platform has significant concerns about several of the proposals outlined in the issues paper. We believe that the taxation of business income deemed "unrelated", the potential introduction of mandatory minimum distribution requirements, and the possible removal of the FBT exclusion would all have detrimental effects on the mental health and addiction NGO and community sector in Aotearoa New Zealand.

25. **We urge the Inland Revenue Department to carefully consider the potential negative consequences of these proposals on the financial viability, operational flexibility, and overall effectiveness of charitable organisations providing essential mental health and addiction services.** We strongly believe that the existing framework of the Charities Act 2005, with its emphasis on registration, transparency, accountability, and the fiduciary duties of charity officers, provides an appropriate level of oversight for the sector.

26. We support the recommendations made by Sue Barker Charities Law in their submission, which advocate for a considered and evidence-based approach to any potential reforms, with meaningful consultation with the charitable sector. **We specifically recommend that the Inland Revenue Department:**

- **Retain the current tax exemption for the business income of charities,** recognising the importance of this income stream for supporting charitable purposes, including within the mental health and addictions sector.
- **Not pursue the introduction of mandatory minimum distribution requirements for charities,** acknowledging the legitimate reasons for fund accumulation and the robust existing framework of fiduciary duties.
- **Maintain the FBT exclusion for charitable organisations,** recognising its importance in enabling these organisations to attract and retain essential staff.
- **Not pursue a new category of “donor-controlled charity” at all** – the term is an oxymoron, as a donor can’t lawfully “control” a charity for their own personal benefit, and non-arm’s length transactions are already proscribed under existing settings. Minimum distribution requirements were comprehensively rejected during the review of the Charities Act raising the question of why they are being raised again – any problems can be more than adequately addressed under existing settings and should be addressed under the Charities Act, not with complicated arbitrary tax rules.
- **Prioritise a stable and well-considered regulatory environment for charities,** avoiding piecemeal amendments based on inadequate consultation and evidence.

- **Work closely with the Department of Internal Affairs – Charities Services and the charitable sector itself** to better understand the unique challenges and contributions of different parts of the sector, including mental health and addiction service providers.
- **Ensure thorough and meaningful consultation** with the charitable sector, adhering to the Generic Tax Policy Process, before any decisions are made regarding changes to the tax treatment of not-for-profit organisations.

27. Platform is committed to working constructively with the IRD and the government to ensure a tax and regulatory environment that supports a thriving charitable sector, enabling our member organisations to continue their vital work in promoting mental health and wellbeing and supporting those affected by addiction in Aotearoa New Zealand.

Ngā mihi,

s 9(2)(a)

Memo Musa

Chief Executive

Who are we?

Platform is a membership organisation and peak body representing the mental health and addiction NGO and community sector. Platform actively collaborates with a network of 6 Regional Navigate Groups covering mental health and addictions services in the community. Currently 95 NGOs are members of Platform that provide support to tāngata whai ora (people seeking wellness) including Māori and Pasifika providers, and whānau and peer-led services.

Collectively across 2023/24, approximately 73,000⁴ people accessed mental health and addiction NGO services, making up approximately 42% of all people accessing specialist support for their mental health or addiction needs in Aotearoa. NGO and community providers also work alongside primary care teams to support over approximately 92,250⁵ people who used Access and Choice programme, for mild to moderate mental health needs.

There is a large and diverse workforce across the broader mental health and addiction NGO and community sector with a range of staff working across different occupational groups which in 2022 consisted of about 5,820 staff fulltime equivalents⁶.

END

⁴ Te Whatu Ora|Health New Zealand PRIMHD extract dated 27 November 2024, analysed by Te Pou.

⁵ Te Hīringa Mahara | Mental Health and Wellbeing Commission. (2022). *Access and Choice Programme: Report on the first three years | Te Hōtaka mō Ngā Whai Wāhitanga me Ngā Kōwhiringa: He purongo mō ngā tau tuatahi e toru*. Wellington: Te Hīringa Mahara.

⁶ Te Pou. (2023). *Mental health and addiction workforce: 2022 primary, community, and secondary healthcare settings*. Auckland: Te Pou.

From: Rachael UWEN <uwen.manager@gmail.com>
Sent: Friday, 28 March 2025 12:13 pm
To: Policy Webmaster
Subject: Taxation and the not for profit sector

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

Tēnā koe

I am writing on behalf of the Upper Waitematā Ecology Network (UWEN) which is a collaboration of 9 community led, environmentally focused, restoration projects in the Upper Harbour Local Board area of Auckland.

As an organisation that is entirely reliant on income from third parties and has no means of generating income, we are keen to ensure that the income we receive, in the form of grants remains untaxed. Taxing this form of income would result in us having to work proportionally harder to secure funding, taking time away from our core focus and role as an enabling, umbrella organisation.

We currently convert every hour of paid staff time into 8 hours of volunteer time. Every extra hour we have to spend on fundraising, or every dollar we lose as a result of taxation would therefore impact on our ability to deliver meaningful work.

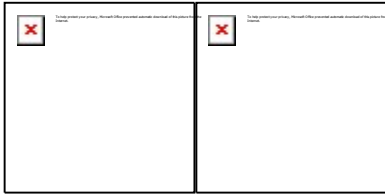
As many organisations do, we are now starting to receive contracts for work - for example Auckland Council paying us to deliver community engagement work or deliver pest control rather than paying private contractors. There is an argument that any retained "income" from this source of funding could be taxed. However, if we had to build this costing into our quotes, all that happens is that we ask for more money from Auckland Council. In this instance, the contract is just another form of income that enables us to continue our core mahi and unallocated funds are immediately invested back into the organisation to help us just deliver more.

We welcome a review of the current regulations for unrelated businesses linked to charities that act in a very similar manner to commercial organisations and where there is a material advantage in not paying tax. We urge you though to retain the ability for small charities doing tangible good for their local community, reinvesting their funds and amplifying their impact.

Ngā mihi nui

Rachael
Rachael Pates
Network Manager

Follow us on [Facebook](#) and [Instagram](#) or [Subscribe to our newsletter](#)



Taxation and the not-for-profit sector
C/- Deputy Commissioner, Policy



policy.webmaster@ird.govt.nz

Submission on Taxation and the not-for-profit sector

Thank you for the opportunity to submit on this important issue. Whānau Āwhina Plunket (Plunket) are providing the below submission on the consultation paper and questions asked in the Taxation and the not-for-profit sector Paper. Overall, we do not support the proposed changes due to the financial impact on the not-for-profit sector and added complexity to implement.

By eroding Plunket's tax position, even in a small way, our income will reduce – which means less funding available to deliver services to children and their families in communities.

We believe entities such as Plunket are at the heart of why the current exemptions exist – and should be retained for both FBT and Income Tax.

Comments about the not-for-profit sector

The charities and not-for-profit (NFP) sector make a valuable and significant contribution to New Zealand. Any changes that reduce the funds available are likely to have a big impact on the most vulnerable parts of our society.

Charities aim to be financially sustainable and achieve these through various ways such as developing diversified income streams and maintaining accumulated funds that provide returns to be used for the charities purposes. It disincentivises charities to undertake these activities if they are taxed and therefore may make them more reliant on government money and donations.

It is a complex sector therefore it won't benefit from a 'one size fits all' approach. Broad, sweeping changes are likely to have unintended negative consequences. Targeted measures to address actual problems are likely to be more effective and appropriate.

Charities often run at operating deficits and rely on a Foundation or accumulated funds for resilience and also to save for large capital projects. There are also tagged legacies that require capital to be maintained and the investment returns used on the charitable purpose. Any legislative changes that impact the ability to maintain and accumulate these funds could have significant adverse consequences.



Who is Whānau Āwhina Plunket:

We are a not-for-profit charity and are the largest provider of health and wellbeing support services to tamariki under five and their whānau in Aotearoa New Zealand. We see three-quarters of all new babies across Aotearoa New Zealand, including nearly six out of ten Māori pēpi. We have been supporting pēpi, tamariki and their whānau for 117 years.

Our overall feedback on the Paper:

Whānau Āwhina Plunket has an interest in the questions raised in the Paper as we are a charity having an impact in our communities everyday – and this would be reduced if implemented.

Some of the suggested tax changes would add cost to our organisation therefore reducing our funds and impact – we would reduce our services if these proposals go ahead. For example, the impact on our frontline services capacity if FBT were to be applied to Plunket is a potential cost of up to \$3,000,000. That is a significant cash cost and would result in approximately 35 (6%) less nurses working in our communities.

While we do agree with some of the concepts in the Paper of taxing all accumulated business income this will have unintended consequences, as currently suggested, for Plunket of creating an FBT cost and potentially some income tax cost.

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

The paper does not quantify the “problem” that is caused by not taxing charities. Without this Plunket cannot know what the size and nature of the issues are and whether using taxation is an appropriate response. Plunket can only assume that IRD has concerns about certain charities and their businesses. If this is the case, then we suggest the efficient 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. If the organisation meets the charitable purpose tests and all proceeds no matter how they are generated, are spent on charitable purposes then there should be no tax on any revenue from any source. 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.



Responses to specific questions in the Paper:

Question	Answer
Chapter 2: Charities business income tax exemption	
Q1. What are the most compelling reasons to tax, or not to tax, charity business income? Do the factors described in 2.13 and 2.14 warrant taxing charity business income?	<p>We do not support taxing of charity business income.</p> <p>In these difficult economic conditions there is more competition for donations and charities should be encouraged to explore other ways to generate and diversify income.</p> <p>Taxing charity business income discourages them from being innovative and seeking sustainable income streams. We believe the key question to be answered here is what is “business income”. In our view everything we do at Plunket is “related” to our core charity activities – or generating income to support these activities. Some definitions could define some activities as a “unrelated business” e.g. our Foundation which operates an investment portfolio (which is built up from bequests and other gifts) generating passive income to support our core activities. However, this would be unfair and unjust to apply income tax to these net earnings as all returns ultimately go towards our core activities. We believe the current exemption approach by entity is more appropriate for charities of our nature.</p> <p>Applying income tax to Plunket will increase compliance costs whilst likely not resulting in any income tax being paid.</p>
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>It is difficult to define ‘unrelated business activity’ without having unintended consequences of taxing charities that are utilising other activities to create a diversified income stream.</p> <p>We would be concerned if investment income was captured as unrelated business income. Our accumulated funds are largely the result of legacies which we manage in accordance with the bequests and to support long term sustainability of our services. Income is applied to our charitable purpose each year, but we need to be able to smooth out income to cover peaks and flows of other income.</p>



	<p>How to define what is “unrelated” would be challenging.</p> <p>The implication for Plunket Trust and Foundation is that there is a risk some of our activities could be deemed as “unrelated” and therefore incur income tax on any surpluses which must be paid in cash. This will result in the Plunket Trust having less cash funds available to do our work in the community. Less funding means we deliver less services for whanau, pepi and tamariki across New Zealand.</p>
<p>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>	<p>Make sure it is truly unrelated if this is a criteria that is to be used e.g. a charity earning passive income which generates a sustainable income should be related.</p> <p>How will a meaningful definition be made of non-business vs. business income (for example, what about passive investments) and also related and unrelated business?</p> <p>The internal resource, and external expertise, required to develop and maintain the justification for supporting what is our related business activities would be an administrative burden and cost to Plunket – again reducing our funds to deliver our services.</p> <p>We don’t believe the exemption should be removed for our type of charity and business.</p>
<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>	<p>We don’t believe the exemption should be removed for our type of charity and business. If it is removed we believe it should be a high cost – the administration cost v’s the revenue collected needs to be weighed up.</p> <p>Maybe Tier 3 and 4 charities being exempt.</p>
<p>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>	<p>Yes agree that business income distributed for charitable purposes should remain tax exempt and if it is accumulated a reasonable time period to apply it to the charitable purpose should be allowed.</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?	This will increase compliance cost for both government and charities, reducing funds available for charitable purposes.
Chapter 4: Integrity and simplification	
<p><i>FBT exemption</i></p> <p>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>	<p>Charities often run at an operating deficit. It is therefore difficult to remunerate employees at a level to attract from the market. The FBT exemption is an important way charities can offer an attractive package to employees while operating with limited funds. This allows charities to be more able to compete for labour resources which are essential for delivery.</p> <p>We do not consider that removing the exemption for charities will generate sufficient extra tax income to offset the additional compliance cost to the sector.</p> <p>The implication of removing the FBT exemption for Plunket would be significant – in terms of both the tax and administration cost.</p> <p>We have approximately 500 vehicles across the country that our staff use to deliver health and community services in people's home and our network of 440 facilities. If FBT were to be applied to our organisation there is a risk of up to \$3,000,000 in FBT being liable. That is a significant cash cost and would result in less funds to undertake our services – it would be around 35 (6%) less nurses working in our communities.</p>

Consequences of Changes for Whānau Āwhina Plunket

The practical consequences for Plunket of these proposed changes are a combination of:

- a) more resource/cost required to administer FBT and Income Tax, and
- b) the actual FBT and income tax cost.

These new costs will mean less funds are available to deliver our services across the country. This impacts on our ability to deliver our critical services to children and their families across New Zealand.



Conclusion:

Our view is that if Plunket are meeting our charitable purpose, all revenue is spent on that charitable purpose, then there should be no tax on revenue from any source.

By eroding Plunket's tax position, even in a small way, our income will reduce – which means less funds available to do all our good work in our communities.

We believe entities such as Plunket are at the heart of why the current exemptions exist – and should be retained for both FBT and Income Tax.

Thank you again for the opportunity to submit.



28 March 2025

Inland Revenue Department
New Zealand Government

Submission to the New Zealand Government on Proposed Changes to Charities and Not-for-Profit Sector Taxation

Subject: Opposition to Proposed Changes in Taxation for Charities and Not-for-Profit Sector

I am writing to express my concerns regarding the proposed changes outlined in the consultation document on the taxation of the charities and not-for-profit sector. These changes include the potential removal or restriction of the income tax exemption for charity business income, the introduction of specific tax rules for donor-controlled charities, the reassessment of existing tax exemptions for not-for-profits, and the simplification of tax obligations for donors and volunteers. I believe these recommendations should not be passed into law for the following reasons:

1. Income Tax Exemption for Charity Business Income: The income tax exemption for charity business income is crucial for the sustainability of charitable organisations. Removing or restricting this exemption would significantly reduce the funds available for charitable activities, thereby impacting the services provided to communities in need. Charities often rely on business income to support their operations and fulfil their missions (ie organisations like Hospice or Habitat run Op shops which are vital sources of income used to support their primary charitable purpose).

Having some context around what forms part of 'business income' or 'unrelated income' will be very controversial and open to interpretation for many organisations.

Currently, there are many honorary treasurers and bookkeepers maintaining accounts for smaller charities and not for profits. The cost for these organisations could be significant if they are required to employ external accounting services to take care of the resulting tax liabilities that they may endure under these new proposed rules. There are approximately 29,000 charities that would need to start filing tax returns. That is a significant compliance cost for these organisations.

2. Specific Tax Rules for Donor-Controlled Charities: Introducing specific tax rules for donor-controlled charities, such as private foundations, could create unnecessary complexity and administrative burdens. These organisations already operate under stringent regulations to ensure transparency and accountability. Additional tax rules are likely to discourage philanthropic efforts and reduce the overall contributions to charitable causes. It is essential to maintain a supportive environment for donors who wish to establish and control charitable entities.

If there is belief that donor-controlled charities are more susceptible to abuse and therefore require more scrutiny, then the Government should seek to identify these at the time of formation with a view to taking a more stringent approach which may include restricting some investments made by these entities.

3. Reassessment of Tax Exemptions for Not-for-Profits: The existing tax exemptions for not-for-profits are designed to recognise the unique role these organisations play in society. They provide essential services, support vulnerable populations, and contribute to the overall well-being of communities. Reassessing these exemptions could undermine the financial stability of not-for-profits and hinder their ability to carry out their missions effectively.

While the rationale for introducing and maintaining the Fringe Benefit Tax regime for the charitable sector is appreciated, this has also allowed charities to offer more competitive remuneration packages at a lower cost to allow them to attract appropriate labour resources. This benefits charities who can more easily compete with the for-profit sector. The introduction of FBT for charities will increase compliance costs who are likely to require external accounting assistance.

4. Simplification of Tax Obligations for Donors and Volunteers: While simplifying tax obligations for donors and volunteers is a commendable goal, it is crucial to ensure that any changes do not inadvertently create new challenges or reduce the incentives for charitable giving and volunteering. The current system, although complex, provides necessary checks and balances to prevent abuse and ensure that tax benefits are appropriately allocated. Any simplification efforts should be carefully considered to avoid unintended consequences.

In conclusion, the proposed changes to the taxation of the charities and not-for-profit sector could have far-reaching negative impacts on the ability of these organisations to serve their communities. I urge the government to reconsider these recommendations and to engage in further consultation with stakeholders to develop policies that support and strengthen the charitable sector. Maintaining the current tax exemptions and ensuring a supportive regulatory environment are essential for the continued success and sustainability of charities and not-for-profits in New Zealand.

Thank you for considering my submission.

Yours sincerely

VAZEY CHILD LIMITED

s 9(2)(a)

Tricia Hunt

Director



New Zealand Chambers of Commerce Inc

Submission response to IRD's:

"Taxation and the Not-for-Profit Sector"

28 March 2025

Introduction

New Zealand Chambers of Commerce Incorporated (NZCCI) welcomes the opportunity to provide feedback on the officials' issues paper, "Taxation and the Not-for-Profit Sector." NZCCI is the national accreditation body for 30 chambers of commerce across the country operating as separate incorporated societies.

NZCCI recognises the importance of ensuring a fair and effective tax system for all organisations, including community organisations and not-for-profits (NFPs). We are particularly interested in the discussion around removing tax-exempt status on membership revenue.

Our submission focuses on Section 4: NFP member transactions and related matters. We confirm that chambers' constitutions would not qualify for mutual treatment because their constitutions would prohibit distribution of surpluses to members including on winding up. Chambers are generally not tax-exempt entities, except where membership revenue is tax exempt.

The Role of Chambers of Commerce

Chambers of commerce have the objective to enable and grow the local business community. We are not competing with other private enterprises; instead, we are enablers and connectors at the heart of local business communities that support successive Government objectives of growing regional communities. Our activities include:

- **Networking:** Facilitating connections between people in business to foster collaboration and growth. This includes events and communications channels.
- **Training and development:** Providing workshops and resources to enhance the skills and knowledge of our members.
- **Export Document Certification:** Supporting exporters with trade and customs documentation, such as certificates of origin.
- **Information and support:** Being the hub and connector of the range of business-related resources and services, often being provided by Government entities who request for chambers to promote across our network.

As many regional communities across New Zealand are parochial – locals want to work with other locals. Many Government agencies acknowledge this and frequently ask local chambers to share Government information with our audiences as trusted third-party endorsements. Government

agencies often *'do not have budget'* for the chambers to provide this service, but their frequency of requests shows the agencies value this service.

The Need for Alternative Revenue Sources

The officials' issues paper acknowledges that many NFPs raise funds through business activities. We agree that this is a necessary practice for several reasons:

- **Financial sustainability:** Membership fees often do not cover the full costs of operating an incorporated society. Additional revenue sources are essential to ensure the long-term viability of these organisations.
- **Service delivery:** Alternative revenue streams enable incorporated societies to provide a wider range of services and benefits to their members. This could include training programs, networking events, advocacy work, and other initiatives that support the community.
- **Compliance costs:** Incorporated societies face increasing costs associated with complying with legislation, regulations, and local body requirements. These costs can be substantial and often require additional revenue sources to cover.
- **Reinvestment:** Surplus funds generated through alternative revenue sources are typically reinvested back into the organisation to improve services, expand programs, or enhance facilities. This benefits the entire membership and our non-member customers that utilise our services and facilities.

A Level Playing Field

We understand the government's concern about ensuring a level playing field for all businesses. However, we believe that a balanced approach is needed. It is important to recognise the unique role and challenges of incorporated societies, which often operate with limited resources and rely heavily on goodwill.

We also wish to highlight that the wind-up clauses of nearly all chambers of commerce make it clear that any surplus assets are not returned to members; any surplus assets are transferred to another similar entity with similar objectives.

Impact of Potential Tax Changes

Removing the tax-exempt status of eligible membership revenue would cause great concern for the financial sustainability of local chambers and their ability to connect and serve their local business community. Any new tax obligations would likely result in negligible benefit to the Government, but it will negatively impact local business communities as chambers would:

- **Reduce services:** We would need to review the financial viability of continuing our services and programs that we offer to enabling and growing local businesses, factoring in the new tax implications.
- **Adjust membership fees:** We would have to adjust membership fees structures to optimise tax settings, which could deter some businesses from engaging and growing.
- **Closure:** In cases, some incorporated societies may be forced to close-down altogether.

We note that **4.10** references *“If the Government wishes to encourage a particular economic activity, it is preferable this is done in a transparent way by direct funding rather than through the tax system.”*

This way of thinking leans too much towards an interventionist approach where a Government increases their tax revenue from community organisations with a view to redistribute funding back to organisations that they see as providing value. This gives the Government-of-the-day too much influence on what local communities value. It would also likely increase NFPs overheads in tendering for short-term Government funding, which would inhibit chambers’ productivity and ability to develop long-term programmes to support local businesses.

Clear Guidelines and Definitions

If the Government is pursuing these changes due to specific high-profile examples, we encourage the Government to seek a more focused policy approach that does not result in significant collateral damage to a range of vital community entities.

If Government chooses to proceed with this broad-brush approach, it is crucial to have clear guidelines and definitions to distinguish between taxable and non-taxable activities. We seek clarification on the treatment of membership revenue and the definition of "commercial activities" and how it would apply to different revenue-generating activities of incorporated societies, especially where it is part of the core objectives/purpose of the entity. This includes revenue from such activities as facility hire, fundraising events, training services, and sponsorship (for chambers, it means a group members that receive the highest tier of member benefits).

We offer to work with Government to develop practical and workable guidelines that minimise disruption to incorporated societies.

Conclusion

NZCCI is committed to supporting the growth and success of our local business community, as well as providing opportunities for local not-for-profits to engage with potential commercial supporters. We believe that incorporated societies and community groups play a vital role in local communities and that their financial sustainability is essential. We urge the Government to carefully consider the potential impact of any tax changes on the long-term viability of these organisations and the local communities they serve. The main risk is that it potentially elevates the Government’s influence on deciding whether an incorporated society is viable to continue if it proceeds with this approach, instead of local communities.

We appreciate the opportunity to provide feedback on this important issue and look forward to further with the Government on this topic.

Submitter Contact Information:

On behalf of the New Zealand Chambers of Commerce Incorporated:

Matt Cowley
Executive Director: New Zealand Chambers of Commerce Inc.
CEO: Tauranga Business Chamber
s 9(2)(a) | ceo@tauranga.org.nz

28 March 2025



**Hato Hone
St John**

Deputy Commissioner, Policy
Inland Revenue

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

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

This is a submission regarding the Officials' Issues Paper on Taxation and the Not-for-profit sector published February 2025, on behalf of Hato Hone St John¹.

Hato Hone St John is a charitable organisation with 140 years of experience, providing critical ambulance and community health services across Aotearoa, New Zealand.

Our Emergency Ambulance Services (EAS) cover 91% of NZ's population and 97% of its geography. We answer over 686,000 emergency 111 calls annually and treat or transport over 540,000 patients every year.

We also facilitate 84,000 patients transfers between medical facilities, ensuring patients receive the right care in the right place. Our event medical teams reduce demand on emergency services at 3,100+ events, annually reducing the need for EAS response.

As part of our community health services, we educate over 92,000 people in first aid annually, transport 90,000 patients to their health appointments with our health shuttles, and equip 130,000 young people with essential emergency response skills through the St John in Schools programme.

With a dedicated team of 3,500 paid staff and 8,000 volunteers, we remain committed to delivering life-saving care and community health support to all New Zealanders.

In terms of broad feedback on the Issues Paper, we note:

- We are concerned that the changes considered would add cost and complexity to our operations and reduce our capacity to deliver services to our communities.
- Overall, the current regulatory framework is effective, not overly complex, and enables charities to perform their work and provide significant public benefits. Most of the changes of the nature contemplated by the consultation document will come at a cost. We do not consider that the benefits of change are likely to outweigh the impact and costs on the work of charities (and the flow-on costs to the public).

¹ The Priory In New Zealand of the Most Venerable Order of the Hospital of St John of Jerusalem, registration CC35053



- We have concerns that the overall intent of the consultation seems to be aimed to address the behaviour of a few ‘bad actors’ in the charities sector. We consider that changes in other policy such as the Charities Act may better target these behaviours without causing significant disruption to other organisations.
- We are concerned that a full cost benefit analysis should be undertaken to substantiate the claimed benefits. We believe the public/social costs would be greater than public/social benefits (hence the call for a cost/benefit analysis), and further observe the costs imposed on charities are likely to considerably exceed the net revenue gain by government (i.e. a distribution from the charities sector to the public purse involving significant leakages).

We have responded to several of the specific questions noted in the paper (where relevant to Hato Hone St John) as follows:

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?

- Overall, we do not consider that the reasons raised in the issues paper warrant taxing charity business income.
- Charities in Aotearoa New Zealand provide significant benefits, critical services and support to our communities. Charitable activities, whether or not resulting in ‘charity business income’ are delivered in accordance with charitable values and purposes, with drastically different priorities to commercial activities. Hato Hone St John takes the view that is contrary to the public interest to tax charity income. We consider that it is likely that taxing this income would have a high compliance cost and low taxation revenue.
 - For Hato Hone St John, any ‘charity business income’ is effectively applied towards its charitable purposes.
 - Charities may structure their affairs such that income from activities relating to ‘charity business income’ are generated in separate entities and donated through to the charity, meaning the effect of any change would be negligible.
- Registered charities have wider considerations than the private sector in operating ‘business activities’. They are not just concerned about profits and shareholder interests, and their activities are already restricted under the Charities Act.
 - Any business that a charity may enter into must align with or be ancillary to its charitable purpose.
 - To remain qualified for registration a charity must (among other things):
 - For a trust: ensure income is derived in trust for charitable purposes.
 - For societies or institutions: operate exclusively for charitable purposes and not for private profit.

- The Charities Act is the appropriate regulatory mechanism to govern the activity of charities. Introducing requirements to identify 'charity business income' for taxation purposes would be a de facto constriction on the activities of Charities. Taxing charity business income as outlined will impose additional compliance obligations and constraints on an already stretched sector.
- Taxing charity business income would require additional time, cost and resources from the sector. In some cases, technical advice may need to be obtained to understand the implications for existing or new proposed activities. In many cases 'charity business income' will be intermingled or interlinked with 'non-business income', particularly in relation to overheads.
- A change to the current approach or any approach is likely to add complexity and uncertainty. This could affect the willingness of individuals to be involved in charitable sector governance and leadership. While there are some protections under the Charities Act, a prudent governor will still need to have appropriate assurance that a Charity has appropriately managed its tax affairs. Governors otherwise risk personal liability in the event the charity is unable to meet its obligations. Changes would generate additional complexity and risk in tax judgements or tax strategies - which could put off potential governors.
 - If the potential changes set out in the consultation document are implemented, it may have a cooling effect on governance in the charitable sector, which is contrary to the public interest.
 - At Hato Hone St John, our Governors are not remunerated. They volunteer their time, like many other charitable organisations and they would be taking on additional personal liability risk under the updated approach.
- We also note that some donors may contribute to registered charities to support charitable activities which may be considered 'charitable business income'. Altering the tax treatment of these activities could result in a perception risk that they are not appropriate to donate to, leading to a reduction in overall donations.
- Charities may choose to enter into business activities that support, synergise with, or are supplementary to their charitable activities. It would be difficult to separate or quantify the benefits to charitable purposes and business income in those situations.
- Specifically in relation to the matters under 2.13 and 2.14:
 - Fundamentally the considerations for a charity participating in a business activity are materially different to other commercial trading entities, and therefore an analysis of advantages and disadvantages from a tax perspective does not capture the complexities of charitable operations.
 - We disagree that reduced compliance costs for tax obligations would create any material advantage for charitable trading entities vs non-charitable trading entities. Charities have significant compliance requirements that most private

businesses do not, including requirements to maintain registration under the Charities Act, annual reporting under XRB standards and audit requirements.

- Non-refundability of losses affecting rates of return is not a relevant comparison when comparing charitable trading vs non-charitable trading. Generally speaking, businesses do not continue trading or start trading if they are not anticipating future profits and recovery of losses – to do otherwise risks insolvent trading. Charities are also naturally conservative with capital due to the requirements of the Charities Act.
- Charities face constraints that commercial entities do not when considering the accumulation and re-investment of tax-free profits as retained earnings to finance the capital expansion of business activities. For example, they are obligated to consider that the application of that capital would be in the best interests of the charity (and its purposes).

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

- The key practical implication would be reduced funding availability for charities which would reduce the services and benefits that they are able to provide the communities they serve.
 - There would be additional compliance costs both in terms of potential taxation costs, and resources required to confirm and facilitate appropriate compliance.
 - This may increase the net cost to the public notwithstanding any increase in tax revenue as the public sector may need to step in to fill the service gaps created.
 - Some activities that could be considered as generating charity business income rely on volunteers to continue providing the services, which means that it would not be considered commercially viable for the private sector to replace or maintain the activities.
- There would likely be practical challenges in identifying charity business income for certain activities, particularly in relation to the provision of goods and services that may have a charitable benefit. This is not always straightforward to determine and can be subjective. Business activities operated in the charitable sector are not always done for the purposes of profit – they may share resources, support or align with the charitable purposes but they may not directly relate to them. This will mean that overhead allocation may also be challenging.
- A change would also disincentivise innovation and activities that may be outside the core existing activities of a charity (as these will now require review to ensure that they do not inadvertently create tax complications). This may discourage genuine activities that would deliver positive outcomes for communities.

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

- As above, we do not consider that the exemption should be removed.
- Investment income wholly applied to charitable activities should be excluded from the definition of unrelated business to ensure that bequests can be made on an endowment basis or similar can be held in accordance with those purposes without adverse tax implications.
- We note that under the Charities Act, an ancillary purpose does not preclude registration as a charity. We would suggest that related business activity should be defined on similar principles as commercial activity that is not “ancillary, secondary, subordinate, or incidental to a charitable purpose [or activity] of the trust, society, or institution”.

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 suggest that this applies on the basis of a percentage of total revenue or assets of a charity (the higher of). This amount should be reasonably high to provide comfort for charities that may undertake intermingled activities and reduce compliance costs.
- A de minimus amount should also apply (we suggest \$100k would be appropriate).

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 agree that this income should remain tax exempt. There should be a reasonable period after which income has earned following which it can be distributed, and a wide criteria for what is considered a ‘distribution for charitable purposes’ (to encourage commitment to capital projects).
- We consider that the most effective way to achieve this is for an annual declaration process (following filing of financial statements).

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?

- As above, we would propose an exemption based on percentage of the higher of total revenue or assets.

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?

- Changes to the FBT exemption would likely result in significant increased cost to Hato Hone St John, both in terms of taxation payment obligations and in resource to ensure compliance. This would reduce funds available and our overall capacity to provide

services to the communities we serve and achieve our charitable purposes, as noted above.

- Changes may also increase compliance costs in accounting for any fringe benefits that may still be provided.
- This would impact our ability to provide benefits to our volunteers and would likely mean we would see decreased levels of volunteer engagement. As above, this would impact our ability to provide the valuable services and benefits that we deliver for our communities.

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

- This may make processes easier for any volunteers who receive payments of this nature.
- We are cautious of any employment law and FBT implications. If the simplification was extended it would be beneficial to ensure that it clarifies that volunteers who receive these payments are not deemed employees. This potentially adds compliance cost and complexity.
- Given the compliance costs and complexities, potentially a de minimis amount could be introduced to treat honorarium payments made by registered charities below a certain level as exempt income, so that volunteers do not need to include these in personal tax returns.

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

- This process should be as simple as possible to encourage donations. We support any solutions or changes that would streamline the process for our donors to receive tax benefits from their donations as many of these go unclaimed.
- The current process also has complexities including requirements to send donation receipts to individuals without email addresses (this can result in a reasonably significant cost where multiple donations are made during the year).
- We would suggest a streamlined process where the donation credit can be assigned to a charity at the same time that a donation is made:
 - Some charities already encourage customers to do this via MyIR – e.g. How to claim donation tax credit – it would be simpler for everyone if charities could obtain authority from the donor to claim the credit back directly from IR when a donation is made, and if these could be claimed back in real-time.
 - The United Kingdom has an established scheme to facilitate this – “Gift Aid”.

Other considerations

We also note that the consultation comments on potential changes to the taxation of memberships and subscriptions for not-for-profit entities. The questions and answers document on the issues paper notes the intent that subscription income for tax-exempt entities will remain tax exempt. However, we are concerned that a change in this area would be a 'thin end of a wedge' and could lead to the eventual taxation of subscription and membership income for charities. Given that these payments are often made without an expectation of dollar-for-dollar services, and rather in the same spirit as a recurring donation to charities (or to NFPs) we find it concerning in principle that they could be taxable or treated as business income.

Final comments

In our view, removing the taxation exemption for charity 'business income' would have significant impacts for the services that charities provide. We have not seen significant evidence of major problems under the current approach that necessitate this change. If a change must be made, we consider that qualifying the exemption to require that a proportion of charity business income is allocated or directed towards charitable purposes would be appropriate. Our view is that to the extent there is perceived to be a problem, it should be tackled via enforcement of the Charities Act.

We also have concerns about other changes which would add tax costs and compliance costs, reducing the resources we have available to deliver services that our communities rely on.

We are hopeful that our comments will be of assistance to inform your views in relation to the proposed changes.

Yours sincerely

s 9(2)(a)

Peter Bradley
Chief Executive – Hato Hone St John

John Whitehead
Chancellor – Hato Hone St John

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

Reasons Not to Tax Charity Business Income:

1. Encouraging Charitable Activities

- **Promoting Public Good:** Many charities rely on income from business activities to fund their charitable missions. Taxing business income could divert resources away from vital social programs and diminish the charity's ability to achieve its goals. Exempting charity business income encourages organizations to generate revenue that directly supports charitable purposes.
- **Mission-Driven Focus:** Charities often engage in business activities as part of their mission (e.g., selling products or services that align with their charitable goals). Tax exemptions for income generated in this way allow charities to reinvest earnings into their mission rather than paying taxes to the government.

2. Distortion of Charitable Activities

- The inclusion of charities in the income tax regime may inadvertently create a distortion in how charities operate. Charities exist to provide a social benefit rather than to generate profits. Taxing organizations that are fundamentally focused on serving the public good could divert attention and resources from our charitable mission. Furthermore, the financial strain imposed by tax obligations could result in the scaling back of essential programs, reducing the overall impact of the charity sector on society.

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?

1. Increased Financial Burden

Taxation on Unrelated Business Income: Charities would be required to pay tax on any income generated from business activities that are not directly related to their charitable mission. This could lead to significant financial strain, especially for charities that generate substantial income from non-charitable business activities. This tax burden could reduce the funds available for the charity's core charitable work.

Potential Reduced Funds for Charitable Programs: One of the key advantages of our charitable status is the exemption from income tax, which simplifies our financial administration. The requirement to account for losses within the income tax framework would introduce a complex layer of compliance, requiring additional resources to track and report losses in a manner consistent with commercial tax regimes. The administrative costs associated with these requirements could detract from the funds that we could otherwise direct towards the charitable purposes for which we are established.

2. Increased Administrative and Compliance Costs

Complex Tax Reporting and Compliance: Charities would need to segregate and clearly differentiate between business income related to their charitable activities and unrelated business income. This would require detailed financial reporting and compliance with tax regulations. Charities may need to hire additional staff or consult with tax advisors to ensure proper reporting and tax filing.

Accounting and Record-Keeping: Charities would have to implement more complex accounting systems to track and report business activities accurately. This could involve additional costs for bookkeeping, auditing, and legal services to ensure compliance with the new rules.

Ongoing Monitoring of Activities: Charities would need to monitor the nature of their business activities more closely to ensure that they remain compliant with tax regulations. This could divert attention away from their charitable mission and toward maintaining tax 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?

1. Purpose of the Activity

Charitable Purpose Test: The primary criterion for determining whether a business is unrelated to a charity's mission should be whether the activity directly furthers the charity's charitable purposes. Activities that do not serve the charity's mission, values, or social objectives should be considered unrelated businesses.

The criteria for defining an unrelated business should be clear, comprehensive, and focused on ensuring that income generated from activities genuinely furthers the charitable purposes of an organization. Activities should be examined for their purpose, nature, frequency, and connection to the charity's mission. Additionally, the intent behind the activity, how profits are used, and the impact on the public and market competition should also be considered when determining whether income is related or unrelated to the charity's charitable activities. This will ensure that tax-exempt status is preserved for genuine charitable endeavors while preventing misuse of the system by organizations operating purely for profit.

From: Vergil Smith s 9(2)(a)
Sent: Friday, 28 March 2025 1:04 pm
To: Policy Webmaster
Cc: Tohi Tohiariki; Sue Hay; Bex Leonard
Subject: Submission: Taxation and the Not-for-Profit Sector

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

Kia Ora,

My name is Vergil Smith (he/him), and I work at The Salvation Army Bridge Programme in Christchurch. I am writing to express my profound concerns regarding the proposed tax changes that will significantly impact our ability to serve the most vulnerable in our community.

At the Bridge Programme, we frequently work with tāne and wahine who face complex challenges, including severe addiction, chronic health conditions, and entrenched poverty. Many of our tangata whai ora arrive with multiple co-existing problems, requiring a holistic approach to their recovery. We provide comprehensive addiction treatment, alongside support for their physical and mental health and assistance in navigating the complexities of housing and social services.

For example, we recently worked with a tāne who was struggling with severe addiction and chronic health issues, compounded by years of homelessness. He arrived at our program in a state of crisis and needed immediate intervention. We provided intensive addiction treatment, facilitated access to essential healthcare, and supported him in finding stable housing. Through our comprehensive support, he is now rebuilding his life, reconnecting with his whānau, and becoming a functioning member of society. This transformation is only possible because of the integrated services we provide, filling the gaps where government assistance is often limited.

The Salvation Army's Family Stores play a crucial role in providing a small but vital level of funding for our programs. These stores also offer affordable goods to middle and lower-income families who are struggling to survive. Alongside the generous donations we receive from the public, these stores help us bridge the widening gap in our society. These donations come from everyday people who understand the need.

Taxing these donations and the income generated by our Family Stores is counterintuitive. It effectively redirects funds away from those who desperately need them and into the government's coffers, where they are unlikely to be returned to the communities we serve with the same directness and efficiency. This proposed policy creates unnecessary red tape and bureaucracy, diverting valuable resources from the frontline services that make a real difference.

The Salvation Army is a lifeline for many in Christchurch and across Aotearoa. We provide essential support that the government often cannot or does not provide. Taxing our operations will severely undermine our ability to serve the most vulnerable, exacerbating existing inequalities and pushing more people into crisis.

I urge the Inland Revenue to reconsider these proposed tax changes and recognise the invaluable role that charities like The Salvation Army play in our society.

I am available to discuss these concerns further if required.

Ngā mihi,

Vergil Smith

Residential Support Worker

s 9(2)(a)

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29th March 2025

Taxation and the not-for-profit sector

We strongly oppose the taxation of charity business income unrelated to charitable purposes.

This change would significantly hinder charities' ability to innovate, become self-sufficient, and sustain their impact, particularly in lower socio-economic communities like South Auckland. Traditional fundraising is increasingly competitive and restrictive, while business income provides a crucial, unrestricted funding stream that enables charities to scale and operate sustainably.

The argument that charitable trading entities have an unfair advantage over private businesses overlooks how charities align their prices with the market to remain competitive and maximise revenue from business activities. Taxing this income would divert essential resources away from community impact and create unnecessary financial and administrative burdens.

If the tax exemption is removed, several practical challenges would arise. Charities would face reduced funds for community impact, increased compliance costs, and greater financial instability, limiting their ability to develop sustainable funding solutions. Furthermore, defining "unrelated business" must be approached carefully, focusing on how funds are used rather than how they are generated. A fair and practical policy should recognise that many business activities directly or indirectly support charitable missions.

To mitigate negative impacts if a change must happen, we propose a clear threshold—exempting small-scale business profits of up to \$250,000 unless it demonstrably does not further charitable purposes. Additionally, if tax is imposed, charities should be allowed a one-to two-year timeframe to reinvest or distribute income for charitable purposes before it becomes taxable.

Beyond financial concerns, any changes must consider unintended consequences, such as increased administrative complexity, reduced innovation, and challenges for hybrid business structures. Instead of penalising charities for being proactive and self-sufficient, policies should support sustainable funding models that enable them to thrive and deliver greater public benefit.

The following pages outline our response to the key questions we have a perspective on.



Taxation and the not-for-profit sector response to key questions

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

We oppose the taxation of business income unrelated to charitable purposes, as it would significantly hinder charities like ours that work hard to innovate and achieve self-sufficiency through diversified funding streams.

After over 20 years in the fundraising sector, I have seen firsthand how securing funding has never been more challenging. Traditional methods—individual giving, major donors, events, and trust funding—are increasingly competitive, often restricted, and require substantial staff time to manage. Even when successful, compliance and stewardship obligations further limit the funds available for impact.

In contrast, generating unrestricted funds through business activities allows charities like ours to scale, operate sustainably, and respond flexibly to community needs. The Beautification Trust, like many charities, reinvests 100% of its business income into our charitable mission, bridging funding gaps and reducing reliance on traditional, unsustainable fundraising models. This is especially critical in lower socio-economic communities like South Auckland, where donor capacity is more limited.

The argument that charitable trading entities have an unfair advantage over private businesses overlooks a key fact: charities align their prices with the market to maximise revenue from business activities rather than undercut private businesses. The difference is that, unlike private businesses, our motive is not personal profit but funding greater charitable impact. Additionally, all revenue is legally protected under our Trust Deed, ensuring it is applied solely to charitable purposes or reinvested for long-term sustainability.

Imposing additional tax burdens would directly reduce funds available for community impact, stifling charities' ability to innovate, address pressing social and environmental challenges, and achieve financial independence. Instead of penalising charities for being proactive and self-sufficient, the focus should be on supporting sustainable funding models that allow charities to thrive and deliver greater public benefit.

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

Removing the tax exemption for charity business income unrelated to charitable purposes would create practical implications:



1. **Reduced Funds for Charitable Impact** – Many charities, including the Beautification Trust, use business income to cover funding shortfalls and reinvest in their core charitable purposes. Taxing this income would reduce the resources available to be flexible with their funds, serve communities, deliver programmes, and address social and environmental challenges.
2. **Disincentivise Innovation and Self-Sufficiency** – The proposed change would discourage charities from developing innovative, self-sustaining business models. Instead, it could push them toward passive investments, which may not generate the same level of impact or align with their mission. Charities should be encouraged to diversify their income rather than being penalised for doing so.
3. **Increased Compliance Costs and Administrative Burdens** – Tax compliance and reporting requirements would introduce significant costs for charities, particularly smaller organisations with limited capacity. This added financial and administrative burden across 29,000 registered charities would divert time and resources from our key charitable work into more tax management.
4. **Greater Financial Instability** – Charities operating in lower socio-economic communities, like South Auckland, often face more difficulty securing traditional funding sources. Business income provides a sustainable alternative to reliance on grants and donations. If taxed, many charities may struggle to maintain financial stability, leading to potentially reduced services.
5. **A lack of clarity** – Charities will be left more uncertain as to whether business activities do or don't relate to their charity purposes. Uncertainty leads to concerns from finance teams in charities and Trust Boards, which means less innovation and funding diversity.

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 tax exemption for charity business income unrelated to charitable purposes is removed, it is essential that clear, fair, and practical criteria are established to define an "unrelated business." The criteria should recognise the diverse ways charities generate income. Criteria should consider:

1. **Use of Profits for Charitable Impact** – Any charity's business income that is reinvested into charitable purposes should be considered related. Many charities, including the Beautification Trust, use business revenue to sustain programmes that benefit the



community. The key focus should be on how funds are used rather than the nature of the business itself.

2. Alignment with Charitable Purpose – Business activities should only be considered "unrelated" if they have no reasonable connection to the charity's core mission. If a business directly supports or advances charitable objectives (e.g., an environmental charity running a recycling service), it should not be classified as unrelated.

A fair and well-defined approach should focus on how income is used rather than how it is generated. If business activities ultimately strengthen a charity's ability to serve the public good, they should not be classified as unrelated. The policy must avoid penalising innovation and self-sufficiency, especially for charities working in communities with limited access to traditional fundraising streams.

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 threshold should strike a balance between ensuring that larger, unrelated business activities are taxed appropriately while allowing small-scale initiatives to continue supporting charitable purposes. If profits exceeded \$250,000 from unrelated business activities and there wasn't a clear demonstrable link that these profits were not furthering the charitable purpose, they could be taxed.

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 agree that charity business income, when distributed for charitable purposes, should remain tax-exempt, even if the tax exemption is removed for unrelated business income. This approach is consistent with the core principle that any surplus generated by charitable entities should be directed towards their charitable mission rather than being taxed in a way that diminishes their capacity to create social impact.

To achieve this effectively, we recommend implementing a time-based exemption for distributions: A clear and reasonable timeframe for distribution should be established (e.g.,



one or two years from the accumulation of business income). Charities should be able to claim tax relief if business income is distributed for charitable purposes within this period. This would support charities in their long-term planning and allow them to plan for the following financial year with flexibility in the timing of allocating funds.

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?

Administrative complexity

Introducing new tax obligations for charities may significantly increase administrative burdens, including compliance costs and the need for charities to implement detailed reporting and accounting systems. This could divert resources away from their core charitable purposes, affecting their impact.

Support for Innovation

Charities are increasingly relying on innovative, business-oriented models to generate income. If tax is imposed on unrelated business income, it could discourage experimentation with new ways of funding, limiting the potential for innovation that is often needed in lower socio-economic communities, where traditional fundraising may not be as viable.

Defining 'Unrelated Business' clearly

To avoid disputes and confusion, the definition of unrelated business activities needs to be clear and practical. A charity's business income should only be taxed if it is truly unrelated to its charitable purposes. The complexity of this distinction should be addressed to ensure that charities are not unfairly taxed for activities that are aligned with their charitable missions.

Unintended consequences for hybrid business structures

Charities using hybrid structures like limited partnerships may face challenges in navigating new tax rules. These structures are often used for specific purposes, such as limiting liability, and new rules should account for their distinct characteristics. Any policy changes should be mindful of the operational flexibility charities currently enjoy when using these structures.

s 9(2)(a)

Daniel Barthow, CEO, s 9(2)(a)



Response to the Officials' Issue Paper, Taxation and the not-for-profit sector submitted by the Otago Tertiary Chaplaincy Trust Board

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 a Charitable Trust that primarily receives its income through charitable donations, it does not appear that the proposed taxation will be applied directly to us. We are however dependant on donations from other charitable bodies that were established specifically to create funds to which other charities like our own could apply. Since the foundation of such bodies was specifically not to do business but to support charities, through applying profits from investments or income generating operations, we argue that profit of this kind should not be taxable. In relation to the statement made in most of the provided questions of “If the tax exemption is removed for charity business income that is unrelated to charitable purposes”. The term “unrelated” is rather loaded and misconstrued. All income of these types of charity bodies has a relationship to charitable purposes, regardless of how it is gained. It is about the availability and use of that money. Any form of taxation reduces the money available to be used for charitable purposes and will ultimately weaken the charitable sector through making less money available for Trusts like ours to apply for. Point 1.4 argues “every tax concession has a “cost”, that is, it reduces government revenue and therefore shifts that tax burden to other taxpayers”. Although this is true at one level it completely overlooks the point that if the money not paid in tax is being used to provide public services (e.g. suicide prevention) this saves the government having to provide these same services. In other words, if charities have less to spend on services, the government will have to spend more. The arguments that 2.13 and 2.14 put forward on advantages over non-charitable trading entities, though theoretically correct, are very minimal in practice and are attempting to negate a potential problem that does not appear to be currently prevalent within New Zealand. The indirect harm that taxation of these charity bodies could have across the charitable sector far outweighs any effects of potential advantage.

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 practical result is that charitable trusts like ours will struggle to be able to receive the same income. This is due to the consequence of the taxation of some charitable bodies, which provide us with grants, and that any grant money available would be

reduced. We therefore may not be able to continue to provide all the chaplaincy services that we currently provide. Also, less money for charities to spend on social services, may then require more expenditure by the government.

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 have very little to do with how their income is obtained but rather about the purpose of the “business” and whether the money is used for charitable purposes. This is already defined and provided for within the Charities Act.

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?

In relation to the statement made in most of the provided questions of “If the tax exemption is removed for charity business income that is unrelated to charitable purposes”. The term “unrelated” is rather loaded and misconstrued. All income of these types of charity bodies has a relationship to charitable purposes, regardless of how it is gained. It is about the availability and use of that money.

NOTE: Can not add any further value by responding to questions 5 – 15, other than restating what has been stated in the first four questions.

s 9(2)(a)

Hamish Smith

Chairperson

Otago Tertiary Chaplaincy Trust Board

Ph: s 9(2)(a)

From: Mobina Tinwala s 9(2)(a)
Sent: Friday, 28 March 2025 1:44 pm
To: Policy Webmaster
Subject: Request to Reconsider Tax Proposal on NFPs

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

Kia ora,

I'm writing to express my concerns about the proposed tax on not-for-profit (NFP) organizations. This change would seriously impact the critical services NFPs provide, like healthcare, housing, and social welfare. With limited funding already, taxing NFPs could lead to fewer services, longer wait times, and even the shutdown of key programs.

NFPs play a vital role in supporting communities and filling gaps that government services can't fully cover. If taxed, their capacity to help would shrink, and the extra burden would likely shift back to the government. Donors, too, might hesitate to contribute if they see their donations going toward taxes instead of directly helping people.

NFPs are also major contributors to jobs and local economies. Adding financial pressure could lead to job cuts and reduced community support. Many countries exempt NFPs from taxes to ensure they can continue making a difference, and I urge the government to reconsider this proposal.

Thanks for taking the time to review my submission.

Best regards,

Mobina Tinwala

Transitional Housing Finance Administrator
The Salvation Army | Transitional Housing
Northern Division
Level 1, 691a Mt Albert Road, Royal Oak, Auckland, 1023
M: s 9(2)(a)
W: <http://www.salvationarmy.org.nz/>

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Associated New Zealand Myalgic Encephalomyelitis Society Inc



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Question 1: What are the most compelling reasons to tax, or not to tax, charity business income? Do the factors described in 2.13 and 2.14 warrant taxing charity business income?

Reasons Not to Tax Charity Business Income

1. Alignment with Charitable Purpose:

Charities like ANZMES engage in business activities solely to fund their charitable missions. For instance, ANZMES' proposed online store would generate revenue to directly support initiatives that improve outcomes for people with ME/CFS and associated conditions. Taxing this income would divert essential resources from their mission, negatively impacting the vulnerable communities they serve.

2. Increased Overheads and Reduced Charitable Impact:

Taxing business income would impose unnecessary administrative and compliance costs on charities, many of which already operate on minimal resources. ANZMES, for example, relies on a single part-time employee for administration purposes; with the majority of its education, research, and advocacy work carried out by volunteers. Unlike for-profit businesses, charities reinvest every dollar into their mission, leaving no surplus for taxation or extra overhead. For ANZMES, this would mean fewer resources to support advocacy, education, and groundbreaking research into ME/CFS.

3. Filling Funding Gaps:

Charities often rely on mission-aligned business activities to address funding gaps left by insufficient government support. Taxing these income streams would disproportionately affect smaller charities, like ANZMES, which lack alternative funding sources. This would severely limit their ability to function effectively.

4. Recognition of Community Impact:

Charities provide vital societal benefits, filling gaps where government and private entities fall short. ANZMES, for instance, reduces healthcare costs by improving outcomes for ME/CFS patients. Taxing their business income could undermine these contributions, resulting in higher costs for society compared to the revenue such taxes might generate.

5. Public Trust and Donor Intent:

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Taxing mission-aligned income risks eroding public trust in charities and violating donor expectations. Donors contribute with the understanding that their funds will directly benefit the cause. For ANZMES, this includes specific donations to the Kathy Foley Trust, which is restricted to diagnostic funding and emergency patient support.

6. Volunteer Contributions:

In Aotearoa/New Zealand, charities collectively rely on 1.4 million hours of volunteer labor weekly. Taxing business income would devalue this contribution by increasing overheads and discouraging innovation. ANZMES exemplifies this dynamic, with extensive volunteer involvement critical to its operations.

Reasons Cited for Taxing Charity Business Income

1. Fair Competition:

While some argue that taxing charity business income creates a level playing field with for-profit businesses, this ignores the unique nature of charities, which reinvest profits into their mission rather than distributing them to shareholders.

2. Clarifying Boundaries:

Concerns about distinguishing between mission-aligned and unrelated business income are valid. However, ANZMES, like many other charities, is transparent about how its business activities align directly with its charitable objectives, rendering additional taxation unnecessary.

Factors in Sections 2.13 and 2.14

Sections 2.13 and 2.14 raise issues of fairness and potential economic distortions caused by untaxed charity business income. However, these points fail to account for the greater societal benefits of charitable contributions. Taxing mission-aligned income, such as ANZMES' planned online store, could dissuade charities from pursuing innovative and sustainable funding solutions. Policymakers should instead focus on clearly defining and exempting mission-aligned income to preserve and enhance charitable impact.

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Moreover, introducing taxes could result in unintended consequences, such as diminishing community support for at-risk populations like those with ME/CFS. Examples such as hospice services demonstrate the multiplier effect of charitable work—taxes would constrain their reach and impact.

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

1. Increased Financial Strain on Charities:

Removing the tax exemption for unrelated business income would place additional financial burdens on charities, particularly smaller organisations like ANZMES. These charities often rely on such income to bridge funding gaps caused by insufficient government support. The added tax liabilities would reduce the funds available for delivering vital services, forcing organisations to scale back their activities.

2. Reduced Capacity to Deliver Charitable Services:

Taxing unrelated business income would compel charities to divert resources away from their core mission to cover increased compliance and tax costs. For ANZMES, this could mean reduced advocacy, educational initiatives, and research funding for ME/CFS, leaving the vulnerable communities they serve at risk.

3. Complexity in Determining 'Unrelated' Income:

Without clear guidelines, distinguishing between related and unrelated business income could lead to significant confusion and administrative challenges. Many charitable activities, such as ANZMES' planned online store, are intricately tied to their mission, even if not explicitly categorised as charitable. Misclassification could result in undue tax burdens.

4. Disproportionate Impact on Smaller Charities:

Smaller organisations like ANZMES, which operate on limited budgets and heavily depend on volunteer support, are particularly vulnerable. Compliance with taxation rules would not only increase administrative costs but could also make it unsustainable for them to pursue creative funding models, such as small-scale business initiatives.

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5. Erosion of Public Trust and Support:

Introducing taxes on unrelated business income might undermine public trust in the charitable sector. Donors and volunteers often expect their contributions to directly support the cause, not be consumed by taxes or compliance costs. For ANZMES, maintaining donor confidence is vital for sustaining initiatives like the Kathy Foley Trust.

6. Hindrance to Innovation in Charitable Funding:

Taxing unrelated business income would discourage charities from exploring innovative funding strategies. For example, ANZMES' planned online store could face limitations in its scope and operations, reducing its ability to fund critical projects aimed at improving the lives of ME/CFS patients.

7. Potential Ripple Effects on the Broader Community:

Charities often fill critical gaps in public and private services, creating societal benefits that far outweigh the value of tax revenue collected. For ANZMES, a reduction in their capacity could lead to increased costs for the healthcare system as ME/CFS patients are left without adequate advocacy or support.

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

1. Mission Alignment:

The primary criterion should be whether the business income is directly aligned with the charity's mission. For instance, ANZMES' proposed online store generates revenue to fund education, advocacy, and research for ME/CFS. Such activities are clearly mission-aligned and should not be classified as unrelated business income.

2. Use of Funds:

Business income that is entirely reinvested into charitable activities or directly supports the charity's mission should be exempt. Any income used for purposes unrelated to the charity's stated objectives, such as personal or private gain, could be classified as unrelated.

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3. Nature of Operations:

The day-to-day operations of the business should be evaluated to ensure they are consistent with advancing the charity's goals. For example, if a charity operates a community thrift store to fund its programs, the operation should be considered related to its mission.

4. Donor Intent and Fund Restrictions:

Income derived from activities specified or restricted by donor intent should not be classified as unrelated, even if the activity itself appears tangential to the charity's mission. For ANZMES, bequest interest restricted to the Kathy Foley Trust's purposes exemplifies this.

5. Contribution to Public Benefit:

A business activity should be evaluated for its contribution to public benefit. Even if an activity is not explicitly charitable (e.g., running a café), if the revenue supports underserved communities or critical research—as with ANZMES—it should not be classified as unrelated.

6. Revenue Proportionality:

Small-scale or incidental business activities should not be classified as unrelated solely based on their nature, especially when they provide minimal supplemental funding. For instance, modest sales from ANZMES' planned store would support its core mission and should not attract taxation.

7. Risk of Commercial Competition:

The activity should be assessed for its potential to compete unfairly with for-profit businesses. However, it must also be recognised that charitable organisations reinvest profits into public welfare, unlike commercial entities, which distribute profits to shareholders.

Conclusion:

To ensure fairness and clarity, criteria for defining unrelated business income must prioritise alignment with the charity's mission, reinvestment into charitable purposes, and the scale of operations. Policymakers should also consider the administrative burden these definitions may impose, particularly on small charities like ANZMES, and avoid punitive measures that undermine their ability to serve the community.

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

1. Threshold Should Reflect Realistic Operating Costs:

A threshold significantly higher than the current \$1,000 deduction is essential to reflect the operational realities of small-scale charities. Many organisations, like ANZMES, rely on modest business activities to generate critical funding for their charitable missions. A threshold of \$50,000 in annual unrelated business income would better accommodate these needs without imposing unnecessary compliance burdens.

2. Minimising Administrative Costs for Small Charities:

Compliance costs associated with tax obligations can disproportionately affect small charities. For ANZMES, which consists of one part-time staff member and a volunteer-driven executive team, managing tax reporting for minor income streams would divert limited resources away from core activities like advocacy, education, and research. A higher threshold would preserve these resources for their intended purpose.

3. Recognition of Charitable Impact:

Small-scale business activities often directly support charitable initiatives, even when classified as unrelated income. For example, ANZMES' proposed online store would provide funding for ME/CFS patient support and education. Taxing such activities under a low threshold would hinder the charity's ability to deliver meaningful benefits to the community.

4. Alignment with Policy Goals:

Setting a more substantial threshold would ensure that the tax system focuses on larger-scale, profit-driven activities that might genuinely compete with for-profit businesses. For charities like ANZMES, whose operations are mission-driven, this distinction is vital to prevent undue financial strain and support sustainable funding models.

5. Proposal for a Tiered Threshold System:

To balance fairness and practicality, a tiered system could be introduced:

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- Income below \$50,000: Exempt from taxation to support small-scale charities.
- Income between \$50,000 and \$100,000: Simplified reporting and reduced tax rates to ease compliance burdens.
- Income above \$100,000: Full taxation for unrelated business income to ensure parity with for-profit entities.

6. Consideration for Volunteer-Driven Organisation:

For organisations like ANZMES, which rely heavily on volunteer contributions, even small changes to taxation thresholds can have outsized impacts. Policymakers should prioritise exemptions for charities demonstrating significant volunteer involvement and clear mission alignment.

Conclusion:

An appropriate threshold for unrelated business income taxation should reflect the realities of small-scale charities, support sustainable operations, and minimise administrative burdens. A threshold of \$50,000 or more, coupled with a tiered system, would allow organisations like ANZMES to continue delivering critical services without being constrained by disproportionate compliance costs.

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

Yes, charity business income distributed for charitable purposes should remain tax-exempt. This ensures that the primary purpose of charities—to benefit the community—remains uncompromised, even if the tax framework is adjusted.

Key Reasons:

1. Alignment with Charitable Goals:

Charities like ANZMES use business income to directly fund their missions, such as improving advocacy, education, and support for ME/CFS patients. Distributing this income for charitable purposes

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aligns fully with their public benefit mandate and should not attract tax, even if sourced from unrelated business activities.

2. Efficient Resource Utilisation:

Taxing income that is subsequently reinvested into charitable initiatives reduces the resources available for direct community benefits. This results in inefficiency, as vital funds are redirected to compliance and tax rather than addressing critical needs like ME/CFS research or patient care.

3. Recognition of Community Impact:

Mission-aligned reinvestment amplifies the societal value of charities. For example, ANZMES provides essential support to an underserved population, ultimately reducing healthcare system costs. Maintaining tax exemptions for income reinvested in charitable activities enhances these benefits.

4. Avoiding Administrative and Financial Burdens:

Requiring charities to pay taxes on income they later reinvest for their purposes would create a significant administrative burden, particularly for smaller organisations like ANZMES, which rely heavily on volunteers and limited staff. This could discourage innovation and efficient funding models.

Most Effective Way to Achieve This:

1. Introduce a Clear Framework for Exemptions:

Policymakers should define income that is reinvested for charitable purposes as explicitly tax-exempt, even if earned through unrelated business activities. This could include specific reporting mechanisms to ensure transparency and compliance.

2. Implement Proportional Exemptions:

A proportional exemption model could be introduced, where the portion of business income reinvested into charitable purposes remains tax-exempt. This avoids penalising charities for innovative funding strategies.

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3. Simplify Compliance for Smaller Charities:

To reduce the administrative burden, smaller charities like ANZMES should face simplified compliance requirements when demonstrating reinvestment of business income into their mission.

4. Provide Clarity Through Guidelines:

Detailed guidance from authorities like Inland Revenue on what qualifies as reinvested charitable income would support compliance and ensure uniform application of tax rules across the sector.

Conclusion:

Maintaining tax exemptions for business income distributed for charitable purposes strikes a balance between ensuring fairness in taxation and supporting the essential role of charities. For ANZMES, this would safeguard resources needed to fund advocacy, education, and research, directly benefiting ME/CFS patients and the broader community.

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

1. Exemptions for Mission-Aligned Reinvestment:

Policies should explicitly exempt any unrelated business income that is fully reinvested into the Organisation's charitable mission. This would ensure that charities like ANZMES, which rely on mission-aligned business ventures to fund critical initiatives for ME/CFS, can continue operating without undue financial strain.

2. Recognition of Volunteer Contributions:

The significant role of volunteer labor in New Zealand's charitable sector—amounting to 1.4 million hours per week—should be factored into policy settings. ANZMES alone contributes 2,590 volunteer hours annually, valued at \$64,750. Taxing unrelated business income disregards the economic value provided by volunteers, which charities like ANZMES depend on to deliver cost-effective services to underserved populations.

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3. Safeguards Against Overregulation:

Smaller charities and those predominantly reliant on volunteer efforts should not face the same tax compliance requirements as larger organisations. Introducing tiered thresholds and streamlined reporting mechanisms for smaller entities like ANZMES would reduce administrative burdens and allow them to focus on their core mission.

4. Incentivising Sustainable Funding Models:

Policies should encourage, not penalise, charities that adopt innovative funding strategies to address funding gaps. For example, ANZMES' planned online store is designed to sustainably support ME/CFS advocacy, education, and research. Tax policy should promote such initiatives by providing exemptions or simplified rules for clearly defined mission-aligned business activities.

5. Addressing the Flawed Framework of Cost-Benefit Analysis:

As highlighted by Steve Moe, tax exemptions for charities should not be narrowly viewed as a “cost” to the government but rather as a “benefit” that reduces overall public expenditure. For instance, ANZMES' work improves health outcomes and reduces strain on the public healthcare system. This perspective shift would create policies that recognise the multiplier effect of charitable activities on community welfare.

6. Flexibility for Restricted Funds and Long-Term Projects:

Policies should account for donor-restricted funds, such as ANZMES' Kathy Foley Trust, which can only be used for specific purposes. Taxing such funds would violate donor intent and impede the Organisation's ability to plan for long-term, high-impact projects, such as ME/CFS research.

7. Mitigating Socioeconomic Impacts:

Introducing taxes on unrelated business income could disproportionately affect small charities serving vulnerable communities. Policymakers should conduct impact assessments to evaluate how these changes could exacerbate financial hardships for charities like ANZMES, which provide vital support to underserved populations.

8. Recognition of Charities' Role in Filling Government Gaps:

Charities often step in to provide services that should ideally be funded by the government. For example, hospices generate \$1.59 in health benefits for every \$1 of government funding. A similar value

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case applies to ANZMES, which delivers significant public benefits through its advocacy and support for ME/CFS patients. Policies must reflect this broader societal contribution.

Conclusion:

Policymakers should adopt a nuanced approach that recognises the unique contributions of charities, incentivises mission-aligned activities, and minimises administrative burdens on smaller organisations. For ANZMES, maintaining flexibility and reducing compliance costs are essential to sustaining their impact on the ME/CFS community and beyond.

Question 7: 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, New Zealand should make a distinction between donor-controlled charities and other charitable organisations for tax purposes, but only with clear and fair criteria that do not penalise legitimate charitable activities.

Reasons for Making a Distinction

1. Addressing the Risk of Tax Abuse:

Donor-controlled charities, where a single donor or family retains significant influence, may pose a higher risk of tax abuse, such as using charitable funds for private benefits. Distinguishing these entities can ensure greater oversight and accountability without undermining the broader sector.

2. Ensuring Transparency:

By defining donor-controlled charities, regulatory authorities can apply specific requirements to enhance transparency, such as stricter reporting and governance standards. This would help maintain public trust in the charitable sector.

3. Protecting Public Benefit:

A distinction would enable policies that safeguard the principle of public benefit as the primary purpose of all charitable organisations. Donor-controlled charities should be required to demonstrate how their activities serve the wider community, beyond the interests of the donor.

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Criteria for Defining a Donor-Controlled Charity

1. Control and Influence:

A charity could be classified as donor-controlled if an individual or family donor(s) retain significant influence over decision-making, such as:

- Having veto power or majority control over the board.
- Dictating how funds must be allocated.

2. Source of Funding:

Charities receiving a substantial portion (e.g., over 50%) of their income from a single donor or related group of donors could fall under this category.

3. Use of Funds:

Clear guidelines should assess whether the funds are exclusively directed toward public benefit and not for private or restricted purposes that primarily benefit the donor.

4. Governance Structure:

Donor-controlled charities should demonstrate adherence to governance standards, such as independent board members, to mitigate risks of undue donor influence.

Cautions and Safeguards

While making this distinction:

- **Avoid Overregulation:** Small donor-controlled charities, especially those operating with transparency and legitimate charitable intent, should not face undue burdens. For instance, donor-directed funds restricted to initiatives like ANZMES' Kathy Foley Trust should not be penalised as long as they align with the broader mission.
- **Preserve Donor Intent:** Policies must strike a balance between protecting public benefit and respecting donor intent, ensuring funds continue to serve the intended charitable purposes.

Conclusion:

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A distinction between donor-controlled charities and other charitable organisations can address potential risks while fostering transparency and trust. However, the criteria must be carefully designed to avoid discouraging philanthropy or overburdening legitimate charities.

Question 8: 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, investment restrictions could be introduced for donor-controlled charities, but only where necessary to mitigate risks of tax abuse without penalising legitimate charitable activities. These restrictions must be carefully designed to balance oversight with operational flexibility.

Why Introduce Restrictions?

1. Mitigating Tax Abuse Risks:

Donor-controlled charities, where substantial influence remains with a donor or small group, may face heightened risks of funds being directed toward private benefit rather than public good. Introducing investment restrictions could ensure funds are used exclusively for charitable purposes.

2. Promoting Transparency and Accountability:

Clear investment rules would enhance public trust in donor-controlled charities by demonstrating accountability in their use of funds. For example, restrictions could prevent high-risk or speculative investments that might jeopardize the charity's financial stability and mission.

What Restrictions Would Be Appropriate?

1. Prohibition of Private Benefit:

Investment policies should explicitly prohibit practices that provide private benefits to donors, their families, or related parties. This ensures that funds remain aligned with the charity's stated mission.

2. Mission-Aligned Investment Requirements:

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Charities could be required to demonstrate that their investment strategies align with their purpose. For example, investments in social enterprises or funds supporting public health initiatives might be encouraged, while speculative ventures unrelated to their mission would be restricted.

3. Diversity and Risk Mitigation:

Donor-controlled charities should follow guidelines to ensure diversified portfolios, minimising financial risks that could impact their ability to fund charitable activities. This would prevent over-concentration in high-risk assets.

4. Annual Review and Reporting:

Regular reporting and independent reviews of investment practices could ensure compliance. For example, donor-controlled charities might submit annual disclosures highlighting how investments support their mission and meet policy guidelines.

5. Exemptions for Small Charities:

Smaller donor-controlled charities, such as those managing restricted funds like ANZMES' Kathy Foley Trust, should not face undue restrictions. Simplified compliance measures could be introduced to ensure these entities retain the flexibility needed to address their unique challenges.

Why Avoid Overly Restrictive Policies?

1. Risk of Discouraging Philanthropy:

Overly restrictive policies may deter donors from establishing charities, fearing they will lose control over the use of their contributions. This could reduce overall philanthropic activity.

2. Impact on Operational Flexibility:

Charities, especially smaller donor-controlled ones, often require flexibility in managing investments to address funding gaps and adapt to changing community needs. Excessive restrictions could hinder this adaptability.

3. Existing Safeguards:

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Robust regulatory frameworks and existing oversight mechanisms already address many risks associated with tax abuse. Rather than introducing additional restrictions, strengthening enforcement of these existing frameworks may suffice.

Conclusion:

Carefully considered investment restrictions could address tax abuse risks in donor-controlled charities without compromising their ability to serve public needs. Policies should prioritise transparency and mission alignment while avoiding burdensome measures that could discourage philanthropy or limit operational flexibility.

Question 9: Should donor-controlled charities be required to make a minimum distribution each year? If so, what should the minimum distribution rate be and what exceptions, if any, should there be for the annual minimum distribution? If not, why not?

No, donor-controlled charities should not be strictly required to make a minimum distribution each year.

Reasons Against Mandating Annual Minimum Distributions

1. Flexibility to Address Strategic Goals:

Many donor-controlled charities accumulate funds for long-term or high-impact projects, which may require years of planning and investment. For example, charities like ANZMES may strategically allocate funds for future ME/CFS research projects or significant advocacy campaigns. Mandating annual distributions could force such charities to prioritise short-term expenditures over strategic, mission-critical activities.

2. Alignment with Donor Intent:

Donor-controlled charities often manage funds according to specific directives from donors, such as endowments or bequests. For instance, if a donor specifies that funds should support ME/CFS research over time, a mandated annual distribution might conflict with these intentions. Respecting donor intent is critical to maintaining trust and ongoing philanthropic contributions.

3. Adaptability to Fluctuating Needs:

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Charities frequently face fluctuating demands. ANZMES, for example, may experience years of relatively low financial requirements followed by periods of heightened activity, such as launching educational programs or responding to new ME/CFS research findings. A mandated minimum distribution would reduce their ability to adapt effectively to changing needs.

4. Risk of Inefficient Spending:

Requiring minimum distributions could encourage donor-controlled charities to spend funds in ways that are less impactful or misaligned with their mission, simply to meet regulatory requirements. This could diminish the efficiency and effectiveness of their operations.

If a Minimum Distribution Were Introduced

If a minimum distribution policy were deemed necessary, it should consider the following principles:

1. Reasonable Threshold:

The minimum distribution rate should be low (e.g., 2-3% of annual income or endowment) to allow charities to retain financial stability and plan for long-term goals.

2. Allowable Exceptions:

Charities should be able to apply for exemptions under specific conditions, such as:

- Accumulating funds for a designated long-term project.
- Operating in years of reduced income or heightened external uncertainty.

3. Mission-Driven Flexibility:

Any policy should differentiate between charities retaining funds for mission-aligned purposes and those not utilising funds effectively. Transparency measures, such as financial reporting, can address this without imposing rigid minimum distribution requirements.

4. Administrative Simplicity:

The distribution framework must avoid placing undue compliance burdens on small or volunteer-driven charities, ensuring resources remain focused on their primary charitable objectives.

Conclusion:

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Imposing rigid minimum distribution requirements on donor-controlled charities could hinder their ability to pursue long-term projects, respect donor intent, and respond flexibly to fluctuating needs. Instead, a balanced approach—emphasising transparency and voluntary guidelines—would better support the charitable sector while addressing concerns about fund mismanagement.

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

Key Policy Changes to Support Smaller NFPs:

1. Increase and Redesign the Current \$1,000 Deduction:

The current deduction of \$1,000 is outdated and insufficient given the realities faced by small not-for-profits today. There should not be a threshold for taxing income of charities or not-for-profits. However, if this was implemented then the threshold should be significantly higher than the current \$1,000 deduction, such as a more realistic threshold, of \$25,000.

Better yet, no income tax, which would better reflect the operational needs of organisations like ANZMES, enabling them to focus on their core mission rather than administrative compliance.

Raising this threshold to at least \$25,000 would remove smaller organisations like ANZMES from the tax system entirely, ensuring they can focus on their core mission without undue administrative burdens. Alternatively, redesigning this deduction to reflect inflation-adjusted operating costs would provide equitable relief for smaller charities. This change recognises that NFPs, such as ANZMES, operate with minimal resources and provide critical services to underserved populations. Volunteer involvement—like ANZMES’ 2,590 hours annually—makes charities highly cost-effective, delivering frontline services at a fraction of the cost of government agencies.

2. Simplify Income Tax Return Filing Requirements for NFPs:

Small NFPs that rely heavily on volunteer-led operations, like ANZMES, struggle to meet complex filing requirements. Introducing a streamlined short-form tax return or exempting organisations below a certain revenue threshold (eg \$50,000) from filing altogether would reduce compliance costs and impact of administrative burdens on volunteer-led charities, and allow resources to remain focused on their core mission and dedication to community impact.

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3. Clarify Resident Withholding Tax (RWT) Exemption Rules:

Confusion around RWT exemptions creates unnecessary obstacles for NFPs accessing critical funding. Clear guidelines that explicitly exempt mission-aligned income from RWT obligations would simplify the process and improve access to funds for small organisations.

4. Introduce Tiered Tax Relief:

Implementing a tiered system for tax relief based on Organisational income would ensure proportional support for small NFPs. For instance:

- Organisations with incomes below \$25,000: Exempt from all filing and compliance requirements.
- Organisations with incomes between \$25,000 and \$50,000: Minimal compliance obligations with simplified reporting.
- Organisations above \$50,000: Full compliance with standard tax rules, adjusted for charitable reinvestment.

5. Provide Government-Funded Compliance Support:

For smaller organisations unable to hire dedicated tax professionals, establishing a support framework—such as access to free tax advisory services—would reduce compliance burdens and ensure proper adherence to regulations.

6. Recognise and Exempt Volunteer-Driven Entities:

Policies should prioritise relief for NFPs driven primarily by volunteer efforts. ANZMES, with its one part-time employee and extensive volunteer involvement, exemplifies the need for exemptions tailored to organisations delivering high impact through unpaid labor.

Conclusion

Mitigating the impact of the Commissioner's updated view requires thoughtful and proportional changes to the tax system. Policies that increase deductions, simplify requirements, and provide exemptions for small-scale and volunteer-driven entities will safeguard their ability to serve the community effectively. For ANZMES, these changes would ensure that resources remain focused on advocacy, education, and research for ME/CFS, rather than being diverted toward compliance costs.

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Question 11: What are the implications of removing the current tax concessions for friendly societies and credit unions?

1. Financial Impacts on Communities:

Friendly societies and credit unions play a vital role in providing affordable financial services to underserved communities. Removing their tax concessions would increase operating costs, potentially resulting in higher fees or reduced services for their members. For many individuals and families, this could limit access to essential financial products, such as low-interest loans and savings accounts.

2. Erosion of Social Value:

These organisations contribute significant social benefits, including financial literacy education and community-building initiatives. Tax concessions allow them to reinvest funds into these programs. Without such concessions, their ability to deliver these benefits would be diminished, further disadvantaging vulnerable groups that rely on their support.

3. Competitive Pressures:

Friendly societies and credit unions operate in competition with large commercial banks, despite having fundamentally different objectives. Commercial banks focus on profit generation, while credit unions prioritise member welfare. Removing tax concessions could undermine their ability to compete, pushing them toward unsustainable practices or forcing closures. This would lead to decreased diversity in the financial services market.

4. Impact on Smaller Entities:

Smaller credit unions, in particular, would struggle to absorb the additional financial burden. Many operate on tight margins and rely on tax concessions to maintain solvency. Increased costs could force them to merge, reduce their scope, or cease operations altogether, impacting rural and low-income communities that depend on them.

5. Unintended Consequences:

- **Loss of Trust and Membership:** Members might perceive the removal of tax concessions as a shift away from the organisations' ethos of mutual support and community welfare. This could reduce member engagement and contributions, further challenging their financial stability.

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- Increased Financial Exclusion: With fewer affordable options, individuals who are already excluded from traditional financial services could face greater hardship, deepening socioeconomic disparities.

Conclusion:

Removing tax concessions for friendly societies and credit unions would have far-reaching negative implications, including financial strain on these organisations, reduced services for vulnerable populations, and increased competition pressures. Policymakers should carefully consider these impacts and explore alternative measures to support equitable access to financial services.

Question 12: What are the likely implications if the following exemptions are removed or significantly reduced?

Local and Regional Promotional Body Income Tax Exemption

1. Impact on Tourism and Economic Development:

Removing this exemption would hinder the ability of promotional bodies to attract tourism and investment, particularly in smaller regions that rely on these organisations to boost local economies. This could lead to reduced economic activity and diminished support for businesses in underserved areas.

2. Risk to Collaborative Initiatives:

Promotional bodies often serve as hubs for regional collaboration across sectors. Taxing their income could undermine their capacity to coordinate efforts, stalling projects that benefit local communities.

Herd Improvement Bodies Income Tax Exemption

1. Disruption to Agricultural Sector:

Herd improvement bodies contribute to the efficiency and productivity of the agricultural sector. Removing their tax exemption could increase the costs of services provided to farmers, negatively impacting agricultural output and profitability.

2. Potential for Reduced Accessibility:

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Small-scale farmers, already facing financial challenges, would find herd improvement services less affordable, potentially widening the gap between large-scale and small-scale operations.

Veterinary Service Body Income Tax Exemption

1. Increased Costs for Animal Healthcare:

Veterinary service bodies play a critical role in ensuring affordable access to animal healthcare, particularly in rural communities. Removing their tax exemption would likely increase service costs, making animal care unaffordable for some.

2. Threat to Public Health:

Veterinary services contribute to disease prevention, safeguarding both animal and human health. Reduced funding could limit their capacity for outreach and preventative programs, leading to increased public health risks.

Bodies Promoting Scientific or Industrial Research Income Tax Exemption

1. Reduced Innovation Capacity:

Scientific and industrial research bodies drive technological advancement and innovation. Taxing their income could limit their ability to fund research projects, impeding progress in critical areas such as renewable energy, healthcare, and infrastructure development.

2. Loss of Competitive Edge:

New Zealand's ability to compete globally in scientific and industrial sectors depends on investment in research and development. Removing this exemption could weaken these efforts, reducing long-term economic and societal benefits.

Non-Resident Charity Tax Exemption

1. Impact on International Charitable Contributions:

Non-resident charities often channel funding into underserved communities or regions facing crises. Taxing their income could reduce the flow of international aid to New Zealand charities, negatively impacting vulnerable populations.

2. Compliance Challenges:

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Introducing taxation for non-resident charities may create additional administrative hurdles, discouraging international charities from working within New Zealand's regulatory framework.

Conclusion

Removing or significantly reducing these exemptions could have wide-ranging adverse effects, including diminished support for local economies, the agricultural and veterinary sectors, innovation, and international charitable contributions. Policymakers must carefully evaluate the societal and economic benefits of these exemptions before considering any changes.

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

1. Impact on Employee Retention and Recruitment

- Charities often rely on part-time staff and volunteers, with limited budgets to offer competitive salaries. Fringe Benefit Tax (FBT) exemptions allow charities to offer non-monetary benefits, such as flexible work arrangements or modest perks, to attract and retain employees. Removing or reducing this exemption could make it harder for charities like ANZMES to retain skilled staff, particularly given their reliance on one part-time coordinator to manage operations.

2. Increased Financial Strain on Charities

- Removing the FBT exemption would add a layer of financial burden for charities already operating with constrained resources. For ANZMES, which struggles to meet its operating deficit, this could mean scaling back essential programs, such as advocacy and educational initiatives for ME/CFS patients and healthcare professionals.

3. Disincentivising Volunteer-Driven Efforts

- The FBT exemption also indirectly supports volunteer-driven organisations by enabling them to allocate more resources to community programs instead of compliance costs. Losing the exemption could force charities to divert funds from these critical services and programs, reducing their overall impact and making it harder for charities like ANZMES to continue their community-driven activities.

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4. Compounding Administrative Complexity

- Although a reduction in compliance costs is proposed, charities would still face the challenge of navigating the financial implications of FBT on their limited resources. For small organisations like ANZMES, even minor increases in administrative complexity could detract from their capacity to focus on their mission.

5. Potential Loss of Small Perks and Incentives

- Non-monetary benefits supported by FBT exemptions, such as meal vouchers or travel support, can make a significant difference to employees and volunteers in the charitable sector. Removing this exemption would diminish these small but meaningful incentives, further exacerbating challenges in retaining and motivating staff.

6. Compromising Cost-Efficiency:

Charities consistently deliver services at a lower cost than government agencies or for-profit entities. ANZMES, with its single part-time employee and reliance on volunteer-driven efforts, exemplifies this efficiency. Increasing financial burdens on charities risks undermining this cost-effectiveness.

Conclusion

The removal or reduction of the FBT exemption would have wide-reaching implications for charities, particularly those that are small-scale or rely heavily on volunteers. It would increase financial strain, reduce flexibility in staff retention, and make it harder for organisations like ANZMES to sustain their mission. To support the sector, policymakers should prioritise maintaining the exemption while exploring other ways to simplify compliance.

Question 14: 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 to All NFPs

1. Support for Consistency and Clarity:

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Extending the Fire and Emergency New Zealand (FENZ) tax simplification framework to all Not-for-Profits (NFPs) would provide a consistent approach across the sector. Many small organisations like ANZMES struggle with complex tax systems, and the simplifications in the FENZ model could reduce confusion and administrative burden.

2. Reduction in Compliance Costs:

FENZ simplification offers a more streamlined approach to financial reporting and tax obligations. Applying this model broadly would particularly benefit small, volunteer-driven NFPs like ANZMES, freeing up resources for their charitable activities, such as advocacy, education, and research for ME/CFS patients.

3. Scalable Application:

To ensure fairness, a scalable framework could be introduced that adapts the FENZ simplification principles based on the size and income of the NFP. Smaller charities would see greater relief, while larger organisations with more administrative capacity could adopt a more detailed system.

4. Easing Administrative Burdens:

Extending the FENZ simplification to all NFPs would streamline tax compliance, freeing up resources for mission-critical work. For volunteer-driven organisations like ANZMES, this means more time and funding for advocacy, research, and education initiatives.

5. Recognition of Volunteer Contributions:

Volunteers across Aotearoa contribute 1.4 million hours weekly, enabling charities to deliver services cost-effectively. For ANZMES, its 2,590 volunteer hours annually equate to enormous societal value. Simplified tax compliance would ensure that these hours are spent delivering community impact rather than navigating complex systems.

6. Supporting Smaller NFPs:

Many small charities lack the administrative resources to manage burdensome compliance requirements. Extending the FENZ model provides equitable relief, helping these organisations remain focused on their missions.

Suggestions to Reduce Tax Compliance Costs for Volunteers

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1. Simplified Reporting Requirements:

Introducing a short-form tax return for organisations below a specific income threshold (e.g., \$50,000) would reduce the reporting burden on volunteer-driven charities. This ensures volunteers' time is spent on mission-critical activities rather than navigating complex tax documentation.

2. Exemptions for Volunteer-Dependent NFPs:

NFPs that rely heavily on volunteers, like ANZMES, should be exempt from certain tax obligations, such as Resident Withholding Tax (RWT) on mission-aligned income. This would ease the administrative load and allow volunteers to focus on providing direct support to their communities.

3. Government-Sponsored Tax Support:

Establishing a dedicated tax advisory service for NFPs could offer accessible, no-cost guidance on compliance. This would be especially valuable for smaller organisations with limited resources, enabling volunteers to navigate tax requirements confidently.

4. Technology Grants for Compliance Automation:

Providing grants or subsidies to NFPs for adopting compliance tools and accounting software could streamline tax processes. This would help organisations like ANZMES, which rely on a small, part-time team, manage their finances more efficiently.

5. Volunteering Incentives and Tax Relief:

Offering tax relief for individuals contributing significant volunteer hours could incentivize more people to support NFPs while recognizing the immense value volunteers provide. With ANZMES volunteers contributing 2,590 hours annually, this acknowledgment would reflect their critical role.

Conclusion

Extending the FENZ simplification model to all NFPs would provide much-needed consistency and relief for the sector, especially for smaller organisations like ANZMES. Additional measures to simplify reporting, offer targeted exemptions, and support volunteer efforts would further ensure that the focus remains on delivering community impact rather than navigating tax complexities.

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

Views on the DTC Review Findings and Policy Initiatives

1. Recognition of Charitable Impact:

The review appropriately highlights the need to safeguard donation tax concessions to support the sustainability of charities. For organisations like ANZMES, these concessions are critical for maintaining community trust and securing donor contributions that fund advocacy, education, and patient resources for ME/CFS.

2. Simplification of Administrative Processes:

Streamlining compliance requirements is an important step, especially for smaller charities. Reduced administrative complexity ensures that resources can be focused on delivering charitable services rather than navigating burdensome tax-related processes.

3. Fairness Across the Sector:

The proposed initiatives are commendable for seeking to create equitable frameworks that reflect the diverse nature of the charitable sector. However, more clarity is needed to ensure that smaller organisations, like ANZMES, are not disproportionately affected by compliance costs.

Suggestions to Improve Donation Tax Concession Rules

1. Automatic Concessions for Small Charities:

Implementing automatic donation tax concessions for small charities with annual income below a specified threshold (e.g., \$50,000) would reduce administrative burdens and encourage donor engagement.

2. Recognition of Restricted Funds:

Associated New Zealand Myalgic Encephalomyelitis Society Inc



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New Zealand		

Donation tax concession rules should explicitly exempt restricted funds, such as bequests allocated to specific initiatives like ANZMES' Kathy Foley Trust, ensuring that donor intent is preserved without tax complications.

3. Enhanced Incentives for Regular Donors:

Introduce additional incentives for individuals who commit to regular donations over a specified period. This would provide stable funding for charities and foster long-term donor relationships.

4. Support for Emerging Fundraising Models:

Charities adopting innovative fundraising strategies, such as ANZMES' planned online store, should receive guidance on how to integrate donation tax concessions into their business models. Policymakers could offer exemptions for mission-aligned income used to enhance donor-funded initiatives.

5. Education and Outreach for Donors:

Public campaigns to educate donors about donation tax concession benefits could increase charitable contributions. These efforts should emphasize the societal impact of organisations like ANZMES and their role in reducing government costs.

6. Streamlined Reporting for Donation-Based Organisations:

Simplifying reporting requirements for charities primarily reliant on donations would reduce compliance burdens and allow organisations like ANZMES to allocate resources more effectively.

Conclusion

The DTC review findings provide a strong foundation for ensuring the sustainability of donation tax concessions. Implementing automatic concessions for small charities, recognizing restricted funds, and Incentivising long-term donations would further enhance the effectiveness of these rules, supporting organisations like ANZMES in delivering vital services to the community.

Submission on
“Taxation and the not for profit sector” consultation
document

(issued 24 February 2025)



March 2025



Kia eke ai te hunga taitamariki
ki ngā rangi tūhāhā

Introducing Barnardos Aotearoa

1. Barnardos is Aotearoa's national children's charitable NGO, working towards the vision of 'An Aotearoa Where Every Child Shines Bright'.¹ We hold fast to this vision because we believe in the potential of every child to develop and flourish. This is also reflected in our poutama: Kia eke ai te hunga taitamariki ki ngā rangi tūhāhā – realisation and development for all children. Every day we strive to uphold our commitment to Te Tiriti o Waitangi, 1840. Our work is grounded in relationships, including working with whānau and hapū to achieve the outcomes they seek.
2. Barnardos Aotearoa provides essential social and early learning services to approximately 30,000 young people and whānau every year. We focus our services in communities where the need is the greatest - offering best practice and quality in the delivery of social work focusing on early intervention and prevention, residential and foster care services, as well as a professional helpline supporting 5 to 19 year olds. The positive outcomes of our mahi are well evidenced.

Summary of major points of Barnardos' submission

3. Taxing business income will reduce the amount that charities like Barnardos can spend on their charitable activities, there can probably be no debate about that. Barnardos is not fully funded by Government for its work and relies on fundraising and other income to make up the deficit. Any income that is taxed will result in less funds available for our charitable activities and will move the cost burden to the Government or to already struggling sectors of society to make up the shortfall.
4. Government recognises that "complex social and environmental challenges cannot be solved by Government alone". It is now even more vital to increase social enterprise activity to both fund and address social need, not to limit it.
5. Charities generating income for long-term capital projects or for future charitable expenditure can be just as valid ways of pursuing charitable purposes. One of the key advantages of the charitable sector is that charities are not dependent on the election cycle and can therefore address issues on a longer-term basis than Governments.
6. Charities also do not have access to capital in the same way that other entities do and need to accumulate funds to finance capital intensive activities or long term projects. Any reduction in this will result in charities only addressing short term needs.
7. Financial sustainability is a challenge for the charitable sector - as costs increase, demands for services are also increasing. Government funding for charities to deliver services is also reducing. Fundraising in particular can vary materially year by year and, to be sustainable, charities need to ensure they have sufficient reserves to manage this. Taxing business income will result in even more challenges for charities.

¹ See: Barnardos Annual Report 2022: <https://barnardos.org.nz/whats-happening/annual-report-2022>

8. Charities generally operate on a lower cost basis than other entities. Taxation of business income will increase the compliance costs which will mean less resources available to carry out the charitable activity.
9. We understand there is concern that some charities are not fully applying their income for charitable purposes or that they are making disproportionate profits and accumulating excessive reserves, however taxation is not the best solution to addressing that concern. The Charities Act needs reform and, in particular, the definition of Charitable Purpose. Without Charitable Purpose being clearly defined, the purpose and application of charitable business income would be difficult to ascertain.

Barnardos Aotearoa Financial Overview

10. Barnardos does hold very prudent and modest financial reserves. These amount to less than 3 months of operating expenditure. Barnardos hold the professional view that this is good management and governance and entirely prudent and sensible practice for any organisation of our size, especially when any breakeven position is reliant on significant fundraising.
11. Barnardos current financial operating position is challenging. Before accounting adjustments our final year end to 30 June 2024, reported an operational deficit. In the current financial year, we have budgeted another operating deficit. Compounding to the pressure this year, is significant funding uncertainty with regards to Government funding which is likely to result in a reduction in the funding of our social work services.
12. Alongside Government funding and fundraising, Barnardos charges fees in some instance for Early Learning which could be determined as business income. However, for the majority of families, Early Learning Parent Fees are subsidised by fundraising.
13. Supported by our prudent reserves, Barnardos will manage through these challenging times so that we continue to deliver our needed and essential services.

Response to specific questions

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

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

The most compelling reason to tax charity business income is if the income is not being applied to that entities charitable purpose. If the income is being fully applied to the charitable purpose, any taxing of it would result in a higher burden on either the Government or communities to make up the shortfall.

The most compelling reason to not tax charity business income is that taxing it would reduce funding for charitable purposes and would in some instances shift more of the financial burden on to Government agencies and to the communities who can least afford it.

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

If the income is unrelated to charitable purposes, but is fully distributed for charitable purposes, this would leave less funding available to communities in need.

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?

Follow the international precedent outlined in 2.24. That is, in countries where unrelated business income is taxed, unrelated commercial activities remain tax exempt, including:

- activities that are primarily to raise money for the benefit of a charity and its charitable purpose,
- charitable businesses that are substantially run by unpaid volunteers, and
- businesses primarily engaged in selling donated goods or services, such as charity op-shops.

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?

Taxing of charity business income would create a compliance burden on charities which in most instances that are not set up for. The threshold should therefore be high and should only apply where the majority of income is not applied to the charitable purpose or to building up reserves for future charitable purpose.

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, definitely otherwise the burden to make up the shortfall in income will be borne by other Government agencies or the community themselves. Tightening up of the definition of charitable purpose to ensure it is to the benefit of communities, along with disclosure and certification annually would be critical.

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?

Charitable entities are required to have a charitable purpose. A tightening up of the charitable purpose will be required to make this clearer for tax purposes.

If charities have a valid charitable purpose and they use business income to support that purpose, any tax on that income would need to be made up elsewhere putting a larger burden on the community and in some instances Government.

Social Investment is a key objective of the Government and to be successful the community also needs to contribute to the funding and outcomes - taxing income that could be used for social investment will lessen the impact of social investment.

Contact:

IRD Officials can contact Barnardos to discuss any points raised in this submission.

Key contact:

John Willis Chief Financial Officer

s 9(2)(a)

Barnardos has no objection to the information in this submission being released in terms of section 1.12 of the Officials Issues Paper.

END

Submission Against Proposed Tax Changes for Charities in New Zealand

I am writing to express my opposition to the proposed tax reforms in Inland Revenue's issues paper, "Taxation and the Not-for-Profit Sector." As a Tier 2 charity representative, I am deeply concerned about the potential negative impacts these changes could have on our operations and the communities we serve.

The process so far has been less than helpful for a robust, evidence-based consultation with groups impacted - only a five-week submission period for a sector that is under-resourced, the proposal has very broad definitions and lacks clarity, and the proposed changes do not appear beneficial to any parties involved.

Many charities engage in business ventures to diversify income streams and ensure financial stability. In the proposed changes, 'unrelated' business to the charitable purpose is ill-defined due to the broad definitions. Our organisation's income streams, for example, contribute to the advancement of the charitable purpose and the long-term sustainability of our organisation in delivering on that purpose.

The impact of introducing taxes on charitable 'business' income could lead to adverse impacts such as,

- Increased reliance on government funding for community services no longer provided by charities, offsetting revenue generated by the proposed tax changes and advantaging neither the government nor charities,
- Charities becoming financially unsustainable and unable to serve their communities, leading to increased social and economic issues and inequities,
- Additional administrative functions and compliance costs, moving funds from the charitable purpose to compliance, unreasonably stretching resources for charities.
- Increased costs of IRD monitoring and enforcing compliance.

Reforms must be robustly evaluated based on credible evidence to ensure they do not undermine the essential contribution that charities make to people and communities. Any reforms need to allow charities to sustain their operations, invest in their communities and work alongside the government to support New Zealand people.

In conclusion, these changes will fail to address the core issues, therefore it is crucial that the government gives serious and thorough consideration to the actual impact changes would have. I strongly oppose the proposed tax reforms and urge you to withdraw or revise these proposals in order to safeguard the interests of the wider community. Thank you for your attention to this matter.

s 9(2)(a)

[Michelle Bentham \(Mar 28, 2025 09:40 GMT+13\)](#)

Michelle Bentham
Chairperson
Your Way | Kia Roha Charitable Trust






NFP Tax Proposal Submission 31 March 2025 FINAL

Final Audit Report

2025-03-27

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Taxation and the not-for-profit sector

Hospice Southland Submission

Submitter - Chief Executive Dr Flora Gilkison

email flora@hospicesouthland.org.nz

Phone 021993366

Emailed to IRD.policy.webmaster@ird.govt.nz

This submission should be read in conjunction with the Hospice NZ submission.

Hospice Southland Charitable Trust is an Essential Health service operating 24/7 all year. It has been a registered (Tier 2) charity since 2008. We provide specialist palliative care to the 140,000 people who reside in the Southland and Whakatipu Basin region. Our care is both community and Inpatient Unit based. Our main site is in Invercargill with another in Queenstown. Our area covers Queenstown through to Te Anau, Western Southland, Stewart Island, Invercargill, up to Gore and Tapanui. A very large rural area.

To cover our population and provide specialist palliative care at no cost to our patients, their family and whānau costs \$7.6 million annually. Health New Zealand provides \$3.1 million, and the rest must come from our communities through a wide variety of donations. This is over \$4.5 million per annum which is a lot of money to have to raise.

Our relative level of funding from Health NZ has been decreasing as costs, especially wages have increased at a higher rate than our payment from the Crown. This means we are increasingly reliant on the generosity of our communities, to ensure our free of charge service can continue.

The ability of a charity to accumulate untaxed profits on business income by being able to have a lower pricing structure, lower compliance costs and to raise external capital seems to be the main thrust of Chapter 2's Policy Framework. This is the fundamental rationale whether an organisation should pay tax or be exempt. Hospice Southland does none of these. We don't charge therefore we have no pricing structure; we don't have lower compliance costs but need to meet all the compliance costs of an Essential Health service, and we don't raise capital but rely on our communities to donate the necessary funds.

Question 1 - the charitable purpose of an organisation and how it achieves that purpose is one of the key considerations on whether to tax or not to tax. The purpose of Hospice Southland is to provide specialist palliative care at no cost to the people in our region.

Hospice Southland Charitable Trust has fixed operating costs – nurses, doctors, patient support services and administration costs. There is no fat in this system, and we rarely see a surplus. We are supported by the Hospice Southland Foundation where donations from our community

have been placed and work as a buffer to the losses of the Hospice Southland Charitable Trust. The two operate as a “group”. Hospice Southland is a charity that operates at no cost to its community, relies for over half its income on the generosity of its community and should not be considered a business and therefore not open to being charged taxation.

Question 2 – If Hospice Southland’s tax exemption state was removed then we would no longer be able to provide the level of service we do. With the likelihood of Health NZ funding being reduced on a comparative basis then we will be even more reliant on our communities for donations. Removal of Hospice Southland tax exempt status will only put even more demand onto our community for an increased level of funding. Plus, even more demand onto Health NZ’s hospital resources as we become no longer able to operate.

Palliative care plays a most important role in keeping people out of the main hospital service, our daily cost rate is lower than hospital daily cost rate and this is a significant effect of having a tax-exempt status.

Question 3 - definitions of an unrelated business should include its size and the sector it operates in (does it have sector influence or an unfair competitive advantage), the level of funding it contributes to the charity (how many other sources of income does the charity have), what are the funds used for (do the funds enable the charity to deliver its service or are they 'banked' for future use) and the timeframe over which those funds are used (are they required to meet the daily costs of the charity's operations). Hospice Southland has a Foundation whose funds are used to “bale” out the operational arm and as a risk mitigator for future losses. The Foundation does not have sector influence or an unfair capital advantage.

Question 4 - a de minimis exemption is a sensible idea for Tier 3 and 4 charities where it can be clearly identified that they receive income from businesses not related to the charity's purpose. Southland Hospice does not fall into this category

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

Question 6 -13 We refer to comment made by Hospice NZ.

Questions 14: Hospice Southland has over 400 volunteers and makes no type of payment or Honoria to our volunteers. What we would like to see is a discussion where the tax compliance costs for volunteers recognises the enormous contribution they make to the charity sector. Any extra compliance measures should be predicated on a rationale to not disincentivise volunteers from providing their services.

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

Signed by

s 9(2)(a)

Flora Gilkison, CEO, Hospice Southland

Submission to IRD on “Taxation and the not-for-profit sector” consultation paper.

1. Introduction:

- 1.1. Vetora Waikato (Te Awamutu Veterinary Association) is one of New Zealand's longest-standing veterinary clubs, established in 1942 to promote efficient veterinary services for its rural community.
- 1.2. As a veterinary club, Vetora Waikato’s income is generally exempt from income tax under the Income Tax Act 2007, provided that the club's funds are not used for private pecuniary profit.
- 1.3. Vetora Waikato is an association of members and is also exempt from income tax due to conducting its inter-generational ownership as a registered Incorporated Society
- 1.4. The purpose of our submission is to advocate for the retention of tax exemptions for veterinary clubs, given their rural community benefits and not-for-profit motivations and purpose.

2. Background:

- 2.1. Vetora Waikato operates eight clinics in Rural Waikato, including the Waipa, Otorohanga, South Waikato, Hamilton, and Taupo catchments. We provide critical services to 784 farming members (predominately Dairy, Sheep, Beef, and Deer) and 214 associate members (predominately small block holders).
- 2.2. Vetora Waikato also provides services to approx. 12,000 non-member clients for their companion animal needs.
- 2.3. Vetora Waikato employs 130 staff focused on providing full animal health services to its rural communities.
- 2.4. Vetora Waikato is often the only competition provided to private practices, including large national organisations or limited-service providers.
- 2.5. In the 80-plus years of trading, all member profits have been retained and re-invested to advance its purpose.
- 2.6. Retaining profits have benefited Vetora Waikato’s rural community through modern infrastructure to service its clients and attract veterinarians into its rural communities. Lately, retained profits have been invested into modernising technology, diagnostic and advisory services, and investment in an associated animal research business that supports the industry in animal well-being, productivity, and greenhouse gas reduction research.
- 2.7. The ongoing advancement of animal health science, rural animal health, and biosecurity surveillance requires additional reinvestment and aligns well with organisations with long-term community-focused intentions.

3. Key Points:

- 3.1. Veterinary clubs are crucial in rural areas where private practices do not fully operate. Veterinary Club's tax-exempt status ensures that full-service animal care, biosecurity surveillance, antibiotic stewardship, and competition are upheld in these rural communities.
- 3.2. **Rural Infrastructure:** Many clubs (estimate +40) have transitioned to a hybrid-contract practice model, selling their operations to private veterinarians while retaining roles as landlords. This allows private practices low rents and funding for infrastructure improvements that private practices might not otherwise afford.
- 3.3. If taxed, veterinary clubs would likely pass on these costs through higher rents or reduced funding for improvements, impacting the efficiency of veterinary services in rural areas. Although not directly involved in providing services, these clubs promote efficient veterinary care through their not-for-profit, tax-exempt status, offering superior facilities and low rents in less desirable locations.
- 3.4. Veterinary clinics are small hospitals, including diagnostic labs, X-ray and radiography and imagery services, surgical equipment, and dental services, with emergency and surgical drugs and consumables. Having modern infrastructure in rural communities is a significant long-term community benefit due to the many veterinary clubs that exist.
- 3.5. **Community Support:** Vetora Waikato, as a veterinary club, is deeply committed to its local communities. Part of our financial surplus is reinvested into initiatives that directly benefit these non-commercial areas. For instance:
 - 3.5.1. Governance: We have a local farmer-elected board and offer the "Taste of Governance" course to aid rural community governance and experience.
 - 3.5.2. Community Engagement: Vetora sponsors Ag Calf and Lamb Days, supports local sports teams, and provides scholarships for agricultural and science studies.
 - 3.5.3. Veterinary Industry Support: Each year, we provide industry access to our team and senior management to support industry committees, boards, and development resources.
 - 3.5.4. Graduate Development: Each year, we host over 50 Students for one to two weeks each with practical training opportunities and encourage their connections to rural communities.
 - 3.5.5. Industry Partnerships: We support the Veterinary and Agricultural industries. Our sponsorship of VetStart@Massey, the Waikato Dairy Industry Awards, underscores our commitment to agricultural excellence.
 - 3.5.6. Capital Reinvestment: Recent upgrades to our clinics in Tokoroa and Taupo ensure world-class veterinary care and help attract and retain talented veterinarians.
 - 3.5.7. Regular targeted initiatives, including low-cost companion animal vaccinations for elderly clients and in low-socio-economic areas.

- 3.6. If Vetora lost its tax-exempt status, funds currently used for these community projects would be redirected to tax obligations, placing financial stress on these initiatives and potentially reducing our support for local communities.
- 3.7. **Competition:** The veterinary sector in New Zealand is rapidly corporatising, similar to trends seen in other countries. Corporate entities are acquiring smaller veterinary clinics, leading to reduced competition in many regions. Examples include:
- 3.7.1. s 18(c)(i) [REDACTED]
- 3.7.2. Veterinary Enterprises: One of the largest privately owned practices in New Zealand, operating multiple mixed animal clinics across the North and South Islands.
- 3.7.3. s 18(c)(i) [REDACTED]
- 3.7.4. VetPartners: A major player in the small animal veterinary sector, owning over 270 clinics across Australia, New Zealand, and Singapore.
- 3.8. As corporate entities continue to acquire more practices, market competition is likely to weaken. These larger entities have the scale to out-compete and purchase practices when smaller practice owners exit.
- 3.9. Maintaining the tax-exempt status of veterinary clubs like Vetora Waikato is crucial for healthy competition. It helps ensure these clubs can maintain competition in rural areas, benefiting both livestock and pet owners. Rural communities are particularly vulnerable to rising prices due to reduced competition and profit-first corporations.
- 3.10. Additionally, corporate and private practices, while efficient, may sometimes prioritise profitability over compliance and full service. This can impact bio-security surveillance and antibiotic stewardship, where veterinary clubs like Vetora Waikato are particularly diligent. Small private operators often provide only limited services, with a focus on the most profitable parts of veterinary care.
- 3.11. The IRD's initial briefing document acknowledges that while tax exemptions provide a tax advantage, they do not necessarily confer a competitive advantage. The exemption allows entities like Vetora Waikato to reinvest profits into animal health services and community support rather than lowering competition. This reinvestment is highlighted in this submission and includes reinvesting in low financial return areas, quality infrastructure, higher governance, staff development, and supporting good antibiotic and biosecurity standards.
- 3.12. Maintaining our tax-exempt status allows Vetora Waikato to continue these vital contributions, ensuring that rural communities have access to high-quality veterinary services and support. This aligns with the value that not-for-profit organizations bring to their communities through reinvestment of profits.
- 3.13. **Sustainable Staffing:** Veterinarians remain on New Zealand's skilled labour shortage list.

- 3.14. The not-for-profit veterinary club model provides a supportive environment for new graduates and retaining experienced staff, offering essential mentorship and training. This structure is vital in retaining skilled professionals within the sector and preventing burnout, a known and recognised concern within the industry, leading to further staff shortages and a decline in the quality of care available.
- 3.15. Vetora Waikato has been recognised for its employee development through the Ministry of Primary Industry Good Employer Award and has experienced veterinarians focused on mentoring and supporting the first three years of a clinician's development and retention in the industry.
- 3.16. Vetora Waikato provides comprehensive support to veterinarians by covering the costs of Professional Indemnity Insurance, Veterinary Council registration, and Veterinary Association membership. These benefits mitigate the personal risks associated with veterinary practice whilst also providing access to development and support resources, thereby significantly enhancing the overall support provided. Vetora Waikato is increasingly aware that large corporate practices often prioritise profit over employee wellbeing and often do not offer the same level of support that clubs like Vetora Waikato do.
- 3.17. Finding, developing, and retaining veterinarians to service rural communities remains a steadfast commitment of the club. It is noted that a number of rural veterinarian clinics have recently closed or considerably reduced their services, citing a lack of skilled veterinarians.
- 3.18. Maintaining our tax-exempt status allows Vetora Waikato to continue ensuring that rural communities access high-quality veterinarians and support staff. This aligns with the value that not-profit-motivated organisations bring to their communities through reinvestment in retaining veterinarians and employment in rural areas, especially when socio-economic conditions make it difficult to maximise corporate profit expectations.

4. Conclusion:

- 4.1. In summary, Vetora strongly opposes any changes to Section CW 50 of the Income Tax Act 2007. The current veterinary club model ensures sustainable access to efficient and affordable veterinary care in rural areas, provides significant rural community benefits through modern infrastructure, retention of skilled veterinarians, sponsorships, donations, and competitive services, promotes unbiased and high-quality animal care, and supports staff and governance development in rural areas.
- 4.2. Removing the tax exemption would jeopardise these benefits, leading to undesirable economic and social consequences for rural areas.
- 4.3. We urge this consultation process to recognise the invaluable contribution of Veterinary Clubs and to maintain their existing tax-exempt status so they can continue fostering animal welfare, farm productivity, and community well-being across rural New Zealand
- 4.4. The tax exemption for veterinary services remains as crucial today as it was when we were founded in 1942, playing a vital role in supporting and retaining efficient veterinary services in rural communities.

Thank you for considering this submission. We are available to discuss this further if required.

Vetora Board

Te Awamutu Veterinary Association