

On behalf of Community Waitākere, we submit on the IRD Issues paper relating to “Taxation and the not for profit sector”

## **Background**

Community Waitākere has a vision of a West Auckland where all communities flourish. We focus on building flourishing environments - one person, one neighbourhood and one community at a time. This is grounded in the notion the wellbeing of our communities is intrinsically linked to the wellbeing of our environments. We do this through capacity and capability building, community and neighbourhood development, providing support services, sector leadership and advocating for and demonstrating the value of the community sector. Our focus areas are social and community development, local environmental projects climate action and Maori and Pacific engagement and leadership.

## **The role of Charitable Trusts**

As a Charitable Trust in our own right and working with a diverse range of small to medium sized charitable entities in West Auckland we know our sector plays a vital role in our communities and steps up to provide an enormous range of services and support that Government does not, no matter the Government of the day.

In our view, taxing charitable business would negatively impact on our ability to be innovative and is likely to reduce long term sustainability of our organisation.

We believe there is adequate and robust processes in place for an organisation to be accepted as a registered charity. This means there is already a significant level of rigour which Charities are subjected to. Rather than a blanket approach being applied, it may be that the checks and balances need reviewed for the very small number where things go wrong.

In relation to tax of the sector, charities are not taking advantage of any loophole in the system, they are and should remain tax exempt to carry out the positive community good work we all do.

Charities like Community Waitākere do not exist to focus on income generation and profit making, however we cannot exist or survive without sustainable income sources.

### **The major risk**

The tax settings proposed could further drive the wealth divide by reducing charities and not-for-profits ability to sustainably fund services that directly benefit our communities.

The flow on effect of the proposed tax changes could put pressure on already strained organisations through diverting revenue streams that directly support those in our communities.

If Community Waitākere feels challenged to have to divert income and/or can't rely on income generated by unrelated activities (as presented by IRD), the unintended consequences could be, more charities facing closure, more job losses and a continued strain on the community sector.

### **Consultation period lacking**

We express concern about the lack of engagement with Iwi, Māori entities, charities and not-for-profits. The consultation period has lacked genuine engagement with the community sector and grassroots organisations. Good clear communication and problem definition along with appropriate and genuine engagement with the sector is critical.

We would like to see more evidence provided by government, concerning what is deemed related or non-related taxable income, we encourage IRD to use case studies to demonstrate what this might look like for the charitable sector, including on-going or other costs that may arise in accountancy and compliance requirements.

Kerry Allan

Chief Executive Officer

Community Waitakere



27 March 2025

**Inland Revenue Department  
PO Box 2198  
Wellington 6140  
New Zealand**

Dear Sir/Madam,

**Re: Submission on Retaining and Expanding Tax Benefits for Charities and Donations**

I am writing on behalf of City Impact Church to provide a submission in support of retaining and, where possible, expanding the tax benefits currently available to registered charities, including those that relate to charitable donations and the tax-exempt status of organisations like churches. As a charitable entity, City Impact Church is deeply committed to serving the community, addressing social needs, and making a positive contribution to society. We believe that these tax benefits are critical for the continued success and effectiveness of our work and that of other charitable organisations across New Zealand.

**The Work of Churches and Their Contribution to Society**

Churches in New Zealand play a vital and multifaceted role in supporting individuals, families, and communities across the country. Beyond their spiritual mission, churches provide essential social services, including community outreach, mental health support, food and housing assistance, youth programs, educational initiatives, and social justice advocacy. The impact of these services often extends to some of the most vulnerable members of society, including the elderly, homeless, refugees, and individuals facing mental health challenges.

For instance, many churches operate food banks, free community meals, and emergency relief programs that help address food insecurity. Other churches provide counselling services, addiction recovery support, and assistance for people navigating difficult life circumstances. These services are often delivered at no cost to those in need and provide a direct benefit to individuals who may otherwise be unable to access the support they require.

Our churches throughout both islands of NZ have food banks, provide hundreds of meals and do regular community impact days doing home and garden make-overs as requested from our own "clients" as well as from requests from social agencies and the community. We also have regular and ongoing Youth and Young Adult programmes and mentoring. In addition, we have parenting, pre-marriage and marriage guidance counselling and are often front line in identifying at-risk people who need referral to specialist counselling.

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/ Balclutha



## **Reducing the Burden on the Tax Base**

Churches, through their charitable work, make significant contributions to reducing the financial burden on the government and the tax base. By providing services that would otherwise require public funding, churches help alleviate the pressure on government-funded social services, such as healthcare, welfare, and housing. For example, the pastoral care, mental health support, and addiction recovery programs offered by churches often prevent more severe societal issues that would result in higher long-term costs to the government.

Moreover, the work of churches in providing social services and fostering community engagement reduces the need for additional government programs and emergency interventions. This helps free up public resources that can be redirected towards other essential services, ultimately benefiting the wider tax base.

In addition, churches serve as a hub for volunteerism and community participation. Volunteers contribute their time and skills to church-led initiatives, further extending the reach and impact of charitable services. The value of this volunteer work, which often goes unmeasured, is substantial in terms of both economic and social benefits.

## **Tax Benefits Do Not Provide a Competitive Advantage**

We also wish to address a common misconception regarding tax benefits for charities, including churches. The tax benefits and charitable donations tax credits are not intended to give churches a competitive advantage, but rather to support the significant and often underfunded work that they do. Charitable tax benefits do not provide financial gain in a commercial sense; rather, they allow churches to operate efficiently and sustainably, ensuring that the resources are allocated directly to charitable purposes.

Without these tax incentives, many churches would struggle to fund their community services and programs, as donations could be significantly reduced. The ability to provide tax credits to donors encourages philanthropy and supports the voluntary giving that is vital for the ongoing operations of charitable organisations, including churches. This system ensures that churches can continue to focus their resources on helping those in need, rather than on raising funds through other means.

It is important to note that these tax benefits apply equally to all charitable organisations and do not distort competition in the sector. Rather, they are a recognition of the essential role that charities, including churches, play in society and the public good.

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## **Evidence of Societal and Community Benefits**

Research conducted both in New Zealand and internationally supports the positive impact of charitable organizations on society. A comprehensive analysis by the Charities Commission found that charities contributed nearly \$6 billion to New Zealand's economy in 2020 alone, with significant social returns on this investment. Moreover, studies from the United Kingdom, such as the "The Value of the Voluntary Sector" report by the National Council for Voluntary Organisations, highlight that investments in charities lead to reductions in government expenditure by alleviating pressures on public services.

## **Conclusion**

Churches provide a range of valuable services that significantly contribute to the well-being of New Zealand's communities. They reduce the burden on the tax base by providing social support services, fostering community development, and encouraging volunteerism. Maintaining and expanding the tax benefits for charities and donations is crucial to ensuring that churches can continue to meet the needs of those they serve.

We strongly urge the Inland Revenue Department to retain and, where possible, enhance the current tax benefits for charitable donations and the tax-exempt status of churches. These measures are essential for sustaining the valuable work that churches do and for ensuring that the broader charitable sector remains a strong partner in addressing the social challenges that New Zealand faces. By investing in charities, the government is investing in the well-being of its citizens and the future of New Zealand.

Thank you for considering our submission. We look forward to continued collaboration between the charitable sector and the government to strengthen New Zealand's communities.

Sincerely,  
Graham Burger  
Trustee  
s 9(2)(a)

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

28 March 2025

### **Background**

Disability Connect Incorporated is a pan disability NGO and an Incorporated Society. We serve disabled people their families, whanau and carers based in Auckland providing:

- DIAS (Disability Information Advisory Service)
- Cultural Disability Information Service
- Pastoral Care for parents of disabled children
- Housing Disability Navigation

Our organisation is funded by government contracts, government and philanthropic grants, sponsorship and donations.

This submission to Inland Revenue was prepared by Disability Connect's CEO in consultation with our Staff and Board.

### **Responses to selected IRD Officials' Issues Paper Questions**

#### **Discussion questions**

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

*Our funding from government, philanthropic grants and donations, simply does not keep pace with the rising costs of providing essential disability information and wrap around services. Surpluses are used for service development in response to unmet needs or to cover the risk of contractual changes. Our Constitution makes 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. We don't currently run a social enterprise or derive a rental return from property, but if we did we would not expect to be taxed for the income from it. Our income allows us to provide a simply unique social service with outstanding Social Impact over the lifetime of participants as assessed by Impact Lab in 2021 of \$8.50 for every \$1 received.*

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

*We would lose the potential to ensure our services could be scaled to meet growing demand through diversified income streams. If we diversified our income in the future the increased costs to our accountancy compliance and annual audit would be detrimental to the ability to provide services. Compliance costs are high already, all our major funders require us to produce audited annual accounts and having to factor in additional costs for tax processes limits our capacity to make best use of taxpayer funds.*

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

*Business income that does not produce benefit to the people we serve should be considered unrelated business income. As our organisation exists to deliver social services more cost effectively than government for disabled people and their families we feel strongly that both income and surpluses from anything we do to source revenue 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?

*Exemption should be based on the relevance of the business activity to the organisation's objectives located in its Constitution.*

**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?

*Agree income for charitable purchases should be tax exempt. Maintain the status quo from bank interest and GST thresholds.*

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

*If our organisation were to fundraise for a building we would expect an exemption from tax for monies from running an enterprise that enabled us to make the purchase, given the building will effectively be a social asset.*

**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?

*Options that allow charitable organisations to minimise tax compliance costs for volunteers enable us to better fulfil our charitable purposes. We welcome extending the FENZ simplification to all NGO's, though in our situation stipends and honoraria are highly effective for recognising contributions and encouraging volunteerism, without adding the burden and compliance costs of paying a volunteer as an employee.*

*Our volunteers generously offer their time, and since we operate in a low-risk environment (except for travel), additional ACC levies are unnecessary as compliance with the Health and Safety Act is sufficient.*

*We suggest Inland Revenue provides clearer guidelines for stipends so they specifically cover internships for student volunteers and disabled young people. We think this could be an excellent way for charities to be encouraged to offer disabled school leavers the opportunity to gain part time work experience in a way that values their contribution at a better rate than the minimum wage exemption currently in use.*

*With over 1 million volunteer hours donated weekly in New Zealand, low compliance cost options for volunteerism are essential for charities and NGO's to offer cost effective services, particularly for disabled people and their families.*

**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 welcome all three policy related changes to donation tax credits, particularly delinking DTC from income tax and allowing pre-filled DTC claims. Streamlining the process for donations is beneficial for us administratively and will allow us to promote the immediate benefit of a tax rebate. Making the process easier for donors to claim their tax rebate is also welcome. We encourage donors to consider donating their rebate too.*

Thank you

I am happy to be contacted by Inland Revenue in relation to this submission.

**Mike Potter**  
C.E.O.

s 9(2)(a)

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Charities Commission Registration Number CC52189

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

**TO:** Inland Revenue Department

**DATE:** 28 March 2025

### **ADDRESS FOR SERVICE**

Rev Allister Lane | St John's in the City | s 9(2)(a)

St John's in the City, Presbyterian Church  
Wellington, New Zealand

## **1. INTRODUCTION**

- 1.1 St John's in the City welcomes the opportunity to submit on the Inland Revenue's discussion document Taxation and the Not-for-Profit Sector.
- 1.2 As a registered church and a charitable organisation, we are deeply embedded in the fabric of Wellington, serving not only our congregation but also the most vulnerable members of our community.
- 1.3 Through our activities and financial support to community and international NGOs, we provide food assistance, housing support, counselling, addiction recovery services, and pastoral care to those in need. Our mission extends beyond the walls of our church, and any changes to the tax treatment of charities will directly impact our ability to continue this essential work.
- 1.4 We recognise the Government's desire to ensure tax rules for charities remain clear and equitable. However, we have concerns that some proposed changes could create unintended consequences for faith-based organisations and the communities we serve.
- 1.5 Churches like ours play an irreplaceable role in social support networks, and any shift in policy must acknowledge this contribution.

## **2. SUMMARY OF RECOMMENDATIONS**

2.1 St John's in the City recommends the Inland Revenue Department:

- a. Maintains the tax-exempt status of church income, including donations, bequests, investment and other related income, and fundraising activities.
- b. Ensures church contributions remain tax-exempt, recognising that they are voluntary expressions of faith and not transactional payments.
- c. Retains fringe benefit tax (FBT) exemptions for clergy housing and other necessary provisions provided to church employees.
- d. Recognises the benefit of churches beyond religious worship, including social services, counselling, and community outreach.
- e. Supports the legitimate accumulation of reserves for future use.
- f. Affirming overseas charitable giving as exempt.
- g. Ensures administrative and compliance obligations for churches remain practical and manageable so they do not create unnecessary burdens on faith-based organisations.

## **3. GENERAL COMMENTS**

- 3.1 St John's in the City acknowledges the clarification distinguishing donor-controlled charities from traditional ones, ensuring faith-based organisations avoid unintended tax consequences.
- 3.2 We also appreciate insights from Simon Bowden<sup>1</sup>, Head of Philanthropic Services at Forsyth Barr, on investment income. The IRD discussion paper suggests investment income is unlikely to be considered business income for charities unless they operate as an investment business.
- 3.3 We support this interpretation, which reassures churches that typical investment activities, such as holding shares or receiving interest from endowments, will not trigger taxation under the proposed rules.
- 3.4 Churches like St John's in the City are more than places of worship—they are hubs of community care, offering pastoral support, crisis counselling, and housing assistance. These services fill critical social gaps, particularly for vulnerable populations, and reflect the public benefit rationale underpinning charitable tax exemptions. Taxing donations, bequests, or investment-related income would burden churches and limit their ability to provide essential support.

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<sup>1</sup> [https://www.linkedin.com/posts/simon-bowden-7518171b\\_investment-income-is-unlikely-to-be-business-activity-7306046804633034752-DWyn?utm\\_source=share&utm\\_medium=member\\_desktop&rcm=ACoAAAR2rPsB3VmfoxWf4EgBx2zarFaobTk8\\_Y](https://www.linkedin.com/posts/simon-bowden-7518171b_investment-income-is-unlikely-to-be-business-activity-7306046804633034752-DWyn?utm_source=share&utm_medium=member_desktop&rcm=ACoAAAR2rPsB3VmfoxWf4EgBx2zarFaobTk8_Y)

#### **4. CHURCH INCOME AND BUSINESS TAXATION**

- 4.1 Churches rely on a mix of donations, bequests, facility hire, and small-scale fundraising activities to sustain their work. Any move to classify passive income—such as interest from endowments, rental income, or modest fundraising—as taxable would impose undue financial strain on churches and introduce unhelpful complication with an artificial distinction between charitable and commercial activity.
- 4.2 Many churches receive passive investment income from endowments or managed funds, built over decades through donations. This income must remain tax-exempt when used for charitable and religious purposes.
- 4.3 **We recommend IRD maintains the tax-exempt status of church income, including donations, bequests, investment income, facilities hire, and fundraising activities.**

#### **5. MEMBERSHIP CONTRIBUTIONS AND TAX TREATMENT**

- 5.1 Churches do not operate like commercial membership organisations. Contributions from members are not the same as club subscriptions or commercial service fees—they are given voluntarily, faithfully, and purposefully, to support the church's mission and activities.
- 5.2 If membership contributions to churches were taxed, this creates significant financial strain on faith-based organisations, reducing the ability to serve communities.
- 5.3 **We recommend Church contributions should remain tax-exempt, recognising that they are voluntary expressions of faith and not transactional payments.**

#### **6. FRINGE BENEFIT TAX (FBT) FOR CHURCH STAFF**

- 6.1 Many churches provide housing and other necessary provisions to clergy to enable them to carry out their pastoral duties effectively. Current FBT exemptions acknowledge that housing and related provisions are essential for clergy who are on-call, community-embedded, and often live where they minister. Taxing these would impair churches' ability to attract and support pastoral staff.
- 6.2 If churches were required to pay FBT on these provisions, it would create an undue financial burden and potentially reduce availability of clergy to serve communities in the way they do.
- 6.3 **We recommend the IRD retains fringe benefit tax (FBT) exemptions for clergy housing and other necessary benefits provided to those who serve the purposes of churches.**

## **7. RECOGNISING THE PUBLIC BENEFIT OF CHURCHES**

- 7.1 Churches contribute significantly to their communities beyond religious services, providing demonstrable social good that clearly satisfies the public benefit test under New Zealand charitable laws. Through our activities and financial support for NGOs, St John's in the City provides counselling, refugee support, addiction recovery assistance, youth work, and other essential social services.
- 7.2 Restricting the definition of 'charitable purpose' to exclude faith-based services would disregard long-standing legal recognition of religious organisations as charitable and undermine their holistic contribution to public wellbeing and social cohesion.
- 7.3 We recommend the IRD recognises the benefit of churches beyond religious worship, including social services, counselling, and community support.**

## **8. ACCUMULATION OF RESERVES**

- 8.1 In the consultation document, the IRD raises valid concerns about income accumulation. While hoarding resources should be addressed, it must be recognised that legitimate accumulation for future mission delivery, building repairs, or sustainability should be protected.
- 8.2 Many churches plan long-term missions, need property upgrades, or build reserves for resilience. For example, St John's in the City recently moved to a partial self-insurance model due to rising insurance costs in Wellington. These are responsible governance practices, and are not for private benefit, and IRD policy must not penalise reasonable financial planning.
- 8.3 We recommend the IRD recognises the importance of accumulation of reserves, provided they transparently report their intentions.**

## **9. OVERSEAS CHARITABLE GIVING**

- 9.1 While the IRD discussion paper does not directly propose to tax the treatment of overseas charitable giving, the broader policy climate and earlier reviews have raised questions about whether overseas-directed funds qualify as charitable in New Zealand.
- 9.2 Churches frequently support international aid, disaster relief, theological education, and poverty alleviation abroad. These charitable efforts enhance New Zealand's global reputation - especially in developing nations, and taxing such donations would undermine our country's contribution to reducing human suffering and support for international NGOs.



- 9.3 We recommend the IRD confirm in future guidance or legislative updates that charitable donations sent overseas for public benefit will remain exempt, provided they align with the organisation’s charitable purposes.**

## **10. ADMINISTRATIVE BURDENS AND COMPLIANCE**

- 10.1 Many churches do not have large administrative teams. Any increase in reporting or compliance obligations should reflect a proportional compliance burden, considering the limited administrative capacity of small to medium sized faith-based charities and their relatively low-risk financial profiles.
- 10.2 Churches are already subject to governance and reporting standards through the External Reporting Board and Charities Services, and, for St John’s in the City, the Presbyterian Church of Aotearoa New Zealand. Additional compliance should be proportionate and practical.
- 10.3 We recommend the IRD ensures that administrative and compliance obligations for churches remain practical and manageable.**

## **11. CONCLUSION**

- 11.1 St John's in the City is more than a place of worship—it is a cornerstone of Wellington’s social support network, providing food, shelter, counselling, and companionship to those in need.
- 11.2 Our work extends beyond Sunday services, reaching deep into the community to support the most vulnerable. Any tax policy changes must recognise the vital role churches play in filling gaps where government and private services fall short. Taxing the very resources that fund this work would weaken community support.
- 11.3 We welcome further engagement and appreciate the opportunity to contribute.**

28 March 2025



To: Deputy Commissioner, Inland Revenue Department

Submission on: Taxation and the Not-For-Profit Sector

I write this submission on behalf of the following organisations:

1. Printing Industries NZ Incorporated (NFP, Industry Association)
2. Packaging Council of NZ (NFP, Industry Association)
3. Community Newspapers Association (NFP, Industry Association)
4. Trust4Skills Trust Board (Registered Charity providing funding for education)

We are deeply concerned at the proposal to tax the subscription income of charities and not-for-profits, including industry associations. These proposals represent a substantial change to the long-standing operational parameters of these organisations and have the potential to impact their financial viability and defer funds into non-core business.

We exist to support the businesses and individuals that make up the membership in our respective industries by offering advocacy, research, training and mentoring opportunities that these businesses would otherwise be unable to access. This assists them to ensure they meet their compliance obligations and operates within the rules, making better businesses for NZ Inc.

Both incorporated societies and charitable organisations already operate under strict governance and accountability standards and the proposed changes would potentially place financial strain on many of these organisations across New Zealand, who operate on very fine margins without seeking a profit.

We strongly advocate for a tax and regulatory environment that enables both charities and incorporated societies to continue to deliver services to their members with neither increased financial pressures nor additional compliance requirements.

While we are not able to answer all the specific questions included in the submission, we would like to make the following comments that reflect our overarching stance on this subject matter.

- Where a charity/not-for-profit operates to provide community/industry driven initiatives this should be recognised and not subjected to unnecessary regulatory burdens.
- Any review of tax exemptions should protect mutual organisations and professional associations that reinvest all their revenue into member services and public-benefit activities.
- Applying an additional tax burden to these organisations would restrict their ability to provide core services to their membership.

- Increasing regulatory and tax obligations will be fiscally challenging for many charities and incorporated societies who already operate on limited resources that have been designed around the current financial settings.
- If changes are to be implemented, these should only be applied to much larger scale charities who have the professional expertise to navigate any changes. Placing this burden on smaller charities and not-for-profits would only add cost and line the pockets of external contractors.

While we support initiatives to minimise tax avoidance, we do not support the revision of policies for small charities and not-for-profits and do not believe that the proposals would meet the stated objectives of simplifying tax rules and reducing compliance costs.

## Conclusion

We appreciate the opportunity to provide input on this consultation and strongly urge Inland Revenue to recognise the distinct nature of incorporated societies and membership organisations and the benefits they deliver across New Zealand Inc.

Kind regards

Ruth Cobb

Chief Executive

PrintNZ

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First Floor, 60 Wilkinson Road, Ellerslie, Auckland

PO Box 58280, Botany, Auckland 2163, New Zealand



**From:** Joseph Habgood s 9(2)(a)  
**Sent:** Friday, 28 March 2025 2:39 pm  
**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,

Thank for the opportunity to give feedback on the issue of taxation and the not-for-profit sector. My feedback will focus on one specific question within the issues paper.

*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?*

VUWSA fully supports this change.

An indirect implication of honoraria being treated as schedular payments is that it currently influences the way “self-employment” is interpreted for the purposes of the current immigration instructions delegated under s22 of the Immigration Act 2009 and outlined in the Immigration New Zealand Operational Manual, specifically U13.1 (c)(i) - *“The holder of a student visa with work conditions is not permitted to work in self-employment.”*

In essence, the fact that Inland Revenue classifies honoraria as schedular payments is a core part of the reasoning behind Immigration New Zealand’s current position that receiving honoraria is “self-employment”, and therefore not available to students on an international student visa.

The consequence of this position is that international students are excluded from the NFP sector in a way that constitutes a reputational risk for New Zealand. This has a wide range of negative flow-on effects for the New Zealand economy, not least of which is the potential reduction of revenue from international student fees arising from their exclusion from paid roles in student associations.

VUWSA is optimistic that if the FENZ simplification is extended as an option to all NFPs, this will inform Immigration New Zealand's interpretation of the relevant rules, and students on international student visas will be able to participate fully in the NFP sector - everything from school boards to sports clubs.

Happy to discuss further, and kind regards,

**Joseph Habgood**

Senior Representation Advisor (he/him)

Victoria University of Wellington Students’ Association

Te Aka Tauira

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

31 March 2025



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

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

Dear Mr Carrigan

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

Waihora Rugby Football Club ("Waihora") has been a cornerstone of our local community for 112 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 a number of additional tournaments during the course of the year and bring people from all over the South Island to Waihora. 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 believe it is important to give teenagers, and younger, a place to call home, to give them a sense of belonging. The club has a history of helping every member from whatever walk of life, to help and guide all the way through to adulthood.

## 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. Waihora 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)

**Jon Lewis**  
Club President  
Waihora Rugby Football Club  
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28 March 2025  
David Carrigan  
Deputy Commissioner, Policy  
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## **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.

Rugby first appeared in the Manawātū region in 1878 when clubs were set up in Feilding and Palmerston North. As new clubs continued to form in the region in the 1880s, the Manawātū Rugby Union was formed in 1886 to administer the game. In 2025, Manawātū Rugby's role continues to foster, encourage and support the game of rugby within its boundaries. We support all clubs and rugby related schools in the Manawātū Rugby Union region and the referee association that participate in the organised competitions we manage in our community game. We also organise development and representative programmes that enable our finest to represent their province, region and country against the best of New Zealand and beyond.

The Manawātū Rugby Union vision is 'bringing our community together through rugby' and are working towards our 2028 goals of a highly engaged rugby community, increased rugby game formats, more than 7000 registered participants, achieved sustained financial performance, have international representatives and to have championship winning teams.

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**

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

Our clubs, 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 and our clubs support a number of community events, fundraisers, and social initiatives and activities. These activities bring communities together and generate economic activity for local businesses throughout the year, not just on game day.

Provincial Unions and Rugby clubs are also at the forefront of addressing important societal issues in our communities. Campaign/programs that include mental health awareness and domestic and family violence prevention.

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

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

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

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

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

Yours sincerely,

s 9(2)(a)

Doug Tietjens  
Chief Executive  
Manawātū Rugby Union  
s 9(2)(a)



**TO:** INLAND REVENUE DEPARTMENT: [policy.webmaster@ird.govt.nz](mailto:policy.webmaster@ird.govt.nz)

**FROM:** Birthright Hawke's Bay Child and Family Care Trust

**RE: TAXATION AND THE NOT-FOR PROFIT SECTOR**

**DATE:** 28 MARCH 2025

Tēnā koe

**Birthright Hawke's Bay** has been providing charitable services for 70 years as a social service organisation.

While we welcome a review of current policies, we are concerned by the lack of detail in the proposals. This lack of clarity risks creating unintended consequences for organisations like ours, which are committed to exploring sustainable income streams that will support our charitable purpose and meet the growing demand for our services in the community.

The charitable sector is the backbone of New Zealand, delivering critical support and services to some of the most vulnerable individuals and communities. Despite its vital role, this sector is often misunderstood and consistently underfunded. There needs to be a fundamental shift in mindset, fostering an environment where the sector can seek sustainable income and move from dependence to independence. Any final decisions arising from this review should consider this shift as a core principle.

We believe further consultation and analysis directly with the sector is essential before any changes are finalised. If our sector is challenged to divert income or cannot rely on income generated by unrelated activities, as outlined by IRD, the unintended consequences could be widespread closures of charities, job losses, and further strain on our already burdened community services.

Given the uncertainty surrounding the definitions and the potential for future tax implications, it is essential that any proposals do not erode the tax position of charities, even in small ways. Such changes could have severe consequences for organisations like ours that are already operating on tight budgets. For instance, there should have been clearer proposed definitions for "related" vs. "unrelated" activities so that the impact could be better understood and considered. Additionally, the introduction of new definitions, special rules, and thresholds will undoubtedly complicate the current tax framework, which may result in higher compliance costs.

At **Birthright Hawke's Bay**, none of our activities generate business income that is not charitable in nature. We rely heavily on government funding to pay our professional and qualified staff who deliver services such as social work, financial mentoring, and early childhood education. While we ensure that we pay equitable wages, this funding does not fully cover the costs of our services, which are based on community need. We also face challenges in funding our internal infrastructure, which is often not supported by government contracts, as these are based on service use or sessions.

As a result, we depend significantly on donations and grants from other charitable organisations mentioned in the consultation paper. We could not continue to operate without their support. It is crucial that any changes to tax exemptions take into account the role these donations play in

sustaining the charitable sector. These funds are often reinvested to generate returns that are distributed to as many charities as possible to further their work.


In relation to FBT as a salary incentive for staff, we continue to pay equitable wages that reflect the nature of the work our staff do. This ensures we attract and retain the qualified professionals necessary to provide the highest level of service to our clients and meet our contractual obligations in a transparent and ethical manner.

**Recommendations:**

More work and consultation needs to be undertaken with sector experts to further develop ideas, definitions and costs and to work through any potential unintended consequences with a overarching principle any changes should not discourage charities from seeking sustainable income streams and being innovative.

Nāku, nā

s 9(2)(a)



Fiona Parrant  
Birthright Hawke's Bay Chief Executive

## **Submission on Taxation and the not-for-profit sector consultation**

**Mike Brummitt**

**Community Care Trust Aotearoa**

**28<sup>th</sup> March 2025**

Dunedin - 278 King Edward Street, PO Box 2304, South Dunedin 9044 | Phone 03 466 3055  
Central Lakes - Cromwell Resource Centre, 5 Murray Terrace, Cromwell 9310 | Phone 03 445 1690  
Invercargill - 58 Yarrow Street, P.O. Box 128, Invercargill 9840 | Phone 03 211 0021

**[www.cct.org.nz](http://www.cct.org.nz) | 0800 800 001**

## **About Us**

Community Care Trust Aotearoa supports people with varying disabilities throughout the South Island from Southland to Nelson/Marlborough. We believe that every person has the right to determine and remain in charge of their own life, living and participating as valued members within the community.

Our support can range from one hour per week to double staffed 24/7 and is tailored to meet the unique and individual needs of each person. People are supported in several different living situations from one-bedroom flats to rural homes. Our philosophy is to work with people to find out what they want to achieve in life and then provide the support they need to get there. Where possible and wanted, we support people to live within their own means in their own homes and have their own lives.

In addition to our adult services, we have specialised Youth services providing transitional accommodation as well as bespoke placements for Oranga Tamariki referred children and young people. Community Care Trust is also a regional Intellectual Disability Supported Accommodation Service (RIDSAS) provider. This service provides support and rehabilitation for people who have a disability, committed a criminal offence and require a safe place to live and learn. In total we support 575 people and employ 600 staff.

## **Introduction**

Thank you for the opportunity to submit on the Taxation and the not-for-profit sector issues paper. We are pleased that consultation has been initiated, however, we do have some significant concerns about the content of the document as it stands. We will focus on the potential impacts on our charitable entity from Chapter 2 and Chapter 4 of the document.

## **Recommendations**

- We recommend that charities business income remains untaxed.
- We recommend that the Fringe Benefit Tax exemption remains for charities.

## **Proposed changes**

Proposing that charities unrelated business income be taxed seems an inappropriate and excessive response to what appears to be a very small number of organisations that overtime have not acted in good faith. Whilst we do not run any business activities that are not directly related to our charitable purposes it is unclear how interest from investments or potential rent or Board payments made by disabled people will be treated. This would add significant uncertainty and administrative burden to the Community Care Trust and if the proposed changes proceed, that it will have a negative impact on not only the people we support, but the wider disability community.

**We therefore recommend that charities business income remains untaxed.**

Removing the FBT exemption would directly reduce funds available to support disabled people's choice to participate in society. Disabled people are already less likely to be able to participate in society due to systemic barriers; reducing the funds we as an organisation have available will only exacerbate that further.

We have chosen not to sign write our vehicles as this is inappropriate for the services we provide as this would lead to significant privacy concerns for the people we support and staff. Often, these vehicles are used to travel to and from the person we support home, to accompany them to appointments, and generally participate in society, and having a prominently sign written vehicle is risking a vulnerable person's privacy being breached. Disabled people have the right to privacy regarding their support and access needs.

It is widely accepted that in the NFP sector, and in particular the Disability sector revenue is tight and worsening and attracting the right talent is difficult and becoming near to impossible. 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.

With all of this front of mind, we are firmly opposed to the proposed change.

**We recommend that the FBT exemption remains for charities.**

## **Conclusion**

While we appreciate the opportunity to submit on the not-for-profit sector consultation, we do not believe taxation of business income or the removal of the FBT exemption for charities is appropriate. We understand the need to address those who are exploiting the charitable tax rules; however, the proposed changes are a significant over-correction and will negatively impact our ability to support disabled people. Instead of addressing the specific issue that a limited number of organisations are acting in poor faith, these changes tar the whole charitable sector with the same brush with little acknowledgement of the enormous financial and administrative burden that it will place on already under resourced charities. The overall impact on disabled people will be negative, and this comes at a time where they are already dealing with other changes that the disabled community see as highly inappropriate and negative. We are opposed to the proposed changes and urge the Government to reassess their current approach to tax reform for the not-for-profit sector.

Mike Brummitt

Chief Executive

## CHRISTIAN BROADCASTING ASSOCIATION TRUST (CBA)

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

In response to the IRD consultation paper issued 24.2.25

#### *By way of background:*

The mission of the Christian Broadcasting Association Trust (CBA), is to share the heart of the Christian faith in New Zealand's mainstream media. We have a 55-year history of operating in the charitable space in NZ, primarily involved in the following areas:

- Our historical bread-and-butter is making programmes for mainstream (secular) radio – mostly Newstalk ZB, for example, our Christmas and Easter programmes which reach more than 300,000 listeners throughout the country, and our weekly Sunday night shows, which have been going for more than 20 years.

*Last financial year we produced 30 hours of Christmas and Easter specialty programming along with 96 individual regular shows.*

- We have a wide range of high-rating podcasts, including a few hosted by well-known Christian broadcasters, and we are working towards having a greater impact with the younger generation through a wide array of social media channels.

*Last financial year 53 individual podcast episodes were produced covering a range of topics including:*

- *Sunday Sanctuary - a fortnightly spiritual sanctuary podcast,*
- *Are you Mental - series on Mental Health,*
- *Grey Areas - topical issues for women, focusing on mental, physical, emotional and spiritual health,*
- *Re-covering - NZ journalists discussing the one story that impacted them most.*

*We also facilitated the production of Paipera Tapu recordings, a project aimed at recording the complete Māori Bible in audio format.*

- We've built up a network of 300 Christians working in NZ media – who we support with pastoral care, mentoring and small and larger gatherings. We also provide scholarships to young Christians who are studying for a career in media/broadcasting.
- Ten years ago, we began **Media Chaplaincy NZ**, which now has 15 Chaplains throughout the country. This has become a large part of CBA's media ministry – it works quietly in the background, but is having a profound impact within NZ's media industry.

*Last financial year there were 439 pastoral care contacts, and 414 care initiatives to individuals and newsrooms.*

- Nearly three years ago, we began "xvox" – which means 'Christian voices' – drawing upon articulate, and highly credentialed people of Christian faith, while also establishing great relationships with reporters, journalists, and editors – then seeking to connect them, in order to deepen the discourse on matters relating to faith.



*Last financial year 111 presentations, interviews and articles were completed as well as five training sessions provided.*

- We also have various prayer initiatives: we run [Media Prayer Day](#) every second year, asking the churches of NZ to pray for the people of NZ's media. Last year we helped with the founding of the first Global Day of Prayer for Media, involving 14 countries. And every week, we contact one or two NZ media professionals and let them know we are praying for them.

So in summary, we have a long history of doing great work in the NZ media landscape. We look to provide hope, light and encouragement in Aotearoa through our various channels. We encourage, we bless and we serve many who work in the media industry, a space adversely affected by restructuring and budget cuts in recent years.

***In response to the 15 questions raised:***

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

We believe there are compelling reasons not to tax charity business income:

- Charities provide services to our country which are a necessary part of the framework of society. They have a long history of positive work in New Zealand. Changes to tax rules for charity business income could affect their ability to provide their charitable services. If service provision is reduced, the Government may be required to fill the gap or society will be disadvantaged by the reduction or absence of those services.
- Charities are heavily reliant on philanthropic giving of individual Donors, Trusts and Foundations, along with Government and Private contracts for provision of services. In an effort to diversify income streams, they often generate income from investments or some business income. This gives steady cash flow which has the benefit of stability and reducing reliance on donations alone, which in harder economic times is critical. Taxing business income seems to be contrary to the concept of deriving diversified income sources and reducing reliance on any one income source. Taxing charities would likely reduce innovation and their drive for an element of self-reliance, as well.
- The result would be reduced funds available and increased compliance costs, in a sector that already works hard to make every dollar count.

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

- No evidence or estimate of quantities has been provided with the consultation process. We would be interested in some statistics in this area.
- What is the cost versus benefit of these changes - has this research been done?
- Banking facilities may actually be harder to obtain for charities than non-charitable trading entities, as banks would not necessarily fund based on donations, and also securities and guarantees may not be able to be given.

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

The most significant practical implications for our organisation would be:

- Potential reduction in donations by some of our largest donors who could be affected by the removal of the tax exemption for charity business income.
- Confusion as to the definitions of what would be caught by any changes, i.e. related versus unrelated income, and passive versus active income. These would require clear guidance and interpretation. Otherwise any grey areas could be open for interpretation and inconsistent application.
- Increased compliance time and therefore administrative costs.
- Potential increased costs for the use of external professional services outside of our organisation.
- Difficulty determining the cost of the provision of the unrelated business income. How would our costs be allocated etc?
- Potentially reduce our available cash for the provision of services.

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

We would prefer an approach that ensures income is applied to charitable purposes as opposed to a blanket approach of taxing unrelated business income.

We believe there would be difficulty determining what is truly unrelated. It seems like it could be quite subjective.

In our situation, here are some examples where we are currently unclear as to the what the treatment would be:

- some revenues generated from podcasts that further our charitable purpose i.e. Sunday Sanctuary,
- other revenues for commercial work we may do from time to time to build relationships within the media industry and provide some minimal funding for our more charitable works,
- allowing another charity to rent our studio space
- treatment of NZ On Air grants
- passive investment income.

***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?***

Has any statistical quantification been provided? How much income is involved, at what level, and how is that spread over the charities sector? It is difficult to comment on a threshold without having some statistical analysis to consider. If 95% of charities have a very small amount of business income then what is the cost of these changes and what should be the recommendation etc. Perhaps this is needed before any changes are considered.

Also, what would the administrative costs be to the IRD of the changes? How does the resulting revenue relate to the administrative costs?

Tier 3 and 4 charities should definitely be exempt.

However as above, we prefer an approach that ensures income is applied to charitable purposes.

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

Yes, we believe it should remain in place if income is used for charitable purposes.

This would be difficult to enforce in reality because of the subjective nature of the interpretation of "distributed for charitable purposes".

Sometimes income may be accumulated for very good reason, i.e:

- to provide stability for more difficult fundraising years (such as we are currently experiencing),
- for investment in passive income-generating assets in order to reduce reliance on fundraising,
- for investment in premises for the charity
- or for purchase of equipment.

So how would the word 'distributed' be determined and enforced?

***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?***

- Increased compliance costs for both charities and IRD/Government
- Difficulting in determining the cost of that business income
- The impact of voluntary labour and pro bono labour.
- Charities are already required to comply with reporting requirements over and above other forms of business. This is specifically for public transparency.

***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?***

As above, we prefer an approach that ensures income is applied to charitable purposes as opposed to a blanket approach of taxing unrelated business income.

We understand some donor controlled charities provide significant resources and services and some have a long history of positive work in Aotearoa.

Perhaps the requirement should be for active independent governance when dealing with donor-controlled charities.

Are there statistics available in this area? Is it a big sector of the Charities within NZ and if so what level of income is being considered?

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

No comments in this area at this stage.

**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?**

As above, it is difficult to put in place blanket requirements when sometimes income is accumulated for good purposes, etc.

**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:**

In general, smaller charities often operate on very small budgets, they will often not have the staff, expertise or resources to cover further compliance costs.

- **increasing and/or redesigning the current \$1,000 deduction to remove small scale NFPs from the tax system,**

\$1,000 seems like a very outdated threshold and should be reviewed.

- **modifying the income tax return filing requirements for NFPs, and**
- **modifying the resident withholding tax exemption rules for NFPs.**

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

No comments in this area at this stage.

**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?**

No comments in this area at this stage.

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

For our organisation the effect would be:

- Increased outgoings in the form of FBT on the CEO vehicle
- Increased compliance cost regarding the same.

***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?***

No comments in this area at this stage.

***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?***

For our organisation, we currently send annual donations receipts for total giving for the tax year (@ 1,500 receipts per annum).

Changing the rules to allow claiming donations receipts at the time of donation would increase our staff administrative costs, as well as postage and stationery.

From our perspective, it is more efficient to communicate with our donors throughout the year and issue tax receipts annually.

If the rules were changed to allow claiming donation receipts at the time of donation, we would assume this would not benefit all taxpayers, i.e. wage and super earners could potentially receive credits throughout the year, but business earners would still have to wait until after the end of their tax year to receive any refund.

We would assume there would also be a lot higher cost to the IRD in terms of administration and compliance.

Has any analysis been done to see possible impact on donations claimed, and costs of the changes?

### ***Conclusions:***

Thank you for the opportunity to be involved in the consultation process. We look forward to the dialogue on submissions received from the charities sector.



Te Uniana Whakanama Pirihimana

**POLICE HELPING POLICE**

27 March 2025

Deputy Commissioner, Policy  
Inland Revenue Department  
PO Box 2198  
Wellington 6140  
Email: [policy.webmaster@ird.govt.nz](mailto:policy.webmaster@ird.govt.nz)

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

### **Purpose of this paper**

1. This paper is intended as a formal submission from Police Credit Union (PCU) to Question 11 in Section 4 of the consultation paper from the IRD regarding Taxation and the not-for-profit sector ... “What are the implications of removing the current tax concessions for friendly societies and credit unions?”.

### **Summary of submission**

2. Credit unions play a significant role in the communities they serve to enable and promote financial wellbeing and literacy and help tackle issues of financial equity and inclusion.  
Removal of income tax exemption would:
  - 2.1. Dilute the benefits PCU’s members (ie. Police, NZ Defence personnel, and Wellington Free Ambulance staff and volunteers) receive, such as fee-free banking services, competitive saving and lending rates, and investment in financial literacy ... designed to help them get ahead financially.
  - 2.2. Make it harder for PCU to meet prudential obligations for financial stability through building and maintaining appropriate capital reserves and liquidity ratios.
  - 2.3. Further undermine PCU’s ability to compete with profit-making banks operating at a vastly different scale.
  - 2.4. Undermine PCU’s ability to invest in resources (our people) that can look past credit defaults and historical mistakes members have made, with the intention of providing access to lending facilities at very competitive rates when other financial providers will simply say no.

### **Understanding PCU and its role for members and the community**

3. PCU is one of three remaining credit unions in Aotearoa, established 51 years ago by a group of Police officers that understood the financial issues their colleagues and the industry faced. They also understood that Police officers were willing to place their savings with an institution that would benefit their wider Police community and families.
4. Over time, PCU’s eligibility rules have expanded so it can serve other first responders of Aotearoa that make significant sacrifices to serve our communities and society. This includes NZ Defence, ambulance services (Wellington Free and Hato Hone St John), and their families.
5. Our mission is to make a real difference helping our members get ahead financially, and we understand this also means being there and working with them when circumstances mean other banks will not.
6. We provide access to fee-free banking services like transaction and savings accounts, debit cards, and mobile and internet banking. We also provide easy access to higher interest-

bearing term deposits to encourage good savings behaviours, where members just need \$500 to invest rather than the \$5,000 to \$10,000 required by banks.

7. We provide lending products aimed at helping members when they need it most, for example personal lending with rates well below alternative short-term debt facilities, particularly for those for whom options with banks are limited, and first home buying options with an interest free home deposit boost.
8. We have also run MoneyWise courses, free to our members, aimed at improving financial literacy and essential budgeting skills for members from all life stages and have regularly committed funds for scholarships – typically helping younger members as they invest in their own financial futures.

### **The importance of income tax exemption for PCU**


9. PCU has grown to look after c. 19,000 members who have placed more than \$100 million of their savings with us and we meet around \$35 million of their lending needs. We serve them with a small team of less than 20 people that provide call centre, administration, lending assessment, and other critical business services. We are constantly managing our expense base to counter the high cost of regulatory compliance and investment in systems that provide these essential services to members.
10. PCU is a not-for-profit, so any surplus is used to reinvest into member services, maintain competitive rates, subsidise fees, provide financial education, employ a suitably skilled workforce, and maintain capital reserves. While our aim is to consistently achieve a financial surplus, our reality is that we may often experience a financial deficit. Every dollar is important to our financial performance, and we cannot afford to dilute a financial surplus when we make one.
11. Maintaining income tax exemption is not only critical to PCU's financial stability and viability over the longer-term, but also to the positive impact we can make on Police, other important first responder segments, and their families.

### **The consultation process**

12. It is not clear whether IRD is seriously considering removal of tax exemption for credit unions. Very little of the consultation paper was geared at this specific issue, and it was very light on analysis to support the question posed. Given the gravity of the issue, and the critical nature of this to the viability of credit unions and the execution of their community-focussed purpose, we highly recommend a more thorough consultation regarding tax exemption if there is a desire from the government to change the rules.
13. We welcome further engagement on this issue.

Kind regards

s 9(2)(a)



Mike Davy  
Chief Executive  
Police Credit Union



Society of Mary  
NEW ZEALAND  
Te Rōpū o Meri, Aotearoa

28 March 2025

The Commissioner  
Inland Revenue Department  
Wellington

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

Dear Commissioner

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

The Society of Mary submission is attached for your review and consideration.

Please let us know if you would like further clarification on our submission.

Yours faithfully

s 9(2)(a)

Michael Smith  
Chief Financial Officer

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## Submission to IRD

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

#### Executive Summary

- The Society of Mary does not support the taxation of unrelated business income.
- As noted in the discussion paper, there is no evidence that charity businesses have an unfair advantage over their competitors.
- Taxation of unrelated charity business income will reduce charity funds available for charitable works.
- Compliance costs for charities need to be considered when making any law change.
- We support further protections/rules being put in place to ensure donor-controlled charities and associated transactions are at arms-length.
- The FBT exemption should remain for charities.
- A strong charitable sector lessens the burden on central government, and ultimately the taxpayer.

#### Introduction

##### Who are we:

The Society of Mary is a Catholic “religious congregation” made up of Marist Fathers and Brothers. Established in France in 1816, a small group of French Marists arrived in NZ in 1838.

Marists seek to model their lives on the person of Mary, the mother of Jesus, and seek to, as it were “be” Mary and do her work.

The Society of Mary’s focus has been and continues to be with youth, education and parishes throughout NZ. We currently own 3 Catholic Colleges, St Patrick’s, Kilbirnie in Wellington, St Patrick’s College, Silverstream in Upper Hutt, and St Bede’s in Christchurch.

We have two main Charitable Trusts – **The Society of Mary Trust Board and The Society of Mary General NZ Trust.**

The Society of Mary General NZ Trust is the owner of a charitable business, the **Mission Estate Winery**. The Winery was established by our Marist missionaries in 1851. It is operated by a charitable company called Marist Holdings (Greenmeadows) Limited. Dividends from this company are used to support the charitable works of the Society of Mary here in New Zealand.

#### Submission

We note that the discussion paper has the following objectives:

1. Simplifying tax rules
2. Reducing compliance costs and
3. Addressing integrity issues.

The Society of Mary supports these objectives.

## **General comments:**

The charitable sector makes a huge difference for thousands of New Zealanders. This includes work carried out by religious and secular charities. We are concerned that central government often seems to undervalue the contribution charities make to the betterment of individuals and communities across New Zealand. Without charities, much of the charitable work would need to be undertaken by central Government and funded by taxpayers.

There may be a small number of charities flouting existing charity laws, and we would support more resources being allocated to Charities Services to focus on those entities, rather than wholesale changes to the current law.

We will address the questions posed in the Discussion Document. Some are more relevant to the Society of Mary.

## **Charities and Business Income**

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

Charities operate businesses to generate income for charitable purposes. There is no credible evidence that suggests charity owned businesses have an unfair advantage over tax paying competitors. The current Charities legislation requires surpluses generated to be applied to charitable activities now or in the future. Taxation of charity business income will reduce their ability to carry out charitable works.

The Society of Mary, as do all charities, must disclose to Charities Services details of activities including business activities. This disclosure requirement means we are more transparent than commercial entities, because our annual reports are published on the Charities Register website.

The other thing to note is that Charities already pay tax through PAYE on staff wages and GST on the sale of goods or services produced by the charity owned business.

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

Firstly, defining “unrelated” could be challenging.

Secondly, as noted in Q1 above, if business income is taxed, it will mean the charity has less income available to use for charitable purposes here in New Zealand.

Charity businesses are there to provide an important income source for charitable works. If charity businesses are subject to tax, there will be negative consequences. It would likely see charitable business being pressured to distribute all surpluses (profits) to their parent charity and in doing so weaken the sustainability of the business. Tax paying businesses are not required to distribute all profits to shareholders, and many retain profits to grow their businesses and to provide a buffer when economic times are tough. This should be kept in mind when looking at charity business income.

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

We don't believe charity business income should be taxed. However, if this was the case, then what an "unrelated" business is, must be clearly defined. Our view is that investments should not be defined as unrelated business income. Investments would include investments in term deposits, bonds, equities and property. Diversification of investments is prudent management of funds held for future charitable purposes.

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

88% of NZ charities are Tier 3 and Tier 4 charities. That means charities with expenses under \$5m. As a minimum, Tier 3 and Tier 4 charities that have unrelated business income should be exempted from any income tax regime.

A number of local and national charities run Op Shops to raise money and to support low income members of their community. Op Shops owned by a charity should be exempted from any income tax regime.

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

As noted earlier, we don't support taxation of charity business income.

However, if charitable business income is to be taxed, then any funds distributed for charitable purposes should definitely be tax exempt.

We would go further and say there should be an income tax exemption on all charity business income if the charity business distributes at least the equivalent of tax payable by a taxable entity to the parent charity. (E.g. 28% for companies) No income tax payable if at least 28% of surplus is distributed to the parent charity.

E.g. If xyz charitable business generates a \$100 surplus for the year. If it distributes at least \$28 to the parent charity, then no income tax would be payable on the \$100. This allows the business to retain \$72 for reinvestment in the business if it so wishes similar to a commercial company/business.

If income tax exemptions are removed, charities should be given a credit for the volunteer or semi-pro bono labour hours based on the living wage, when calculating their business surplus. In many cases, when the true costs are included there will be little or no surplus.

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

Compliance costs for charities will rise, as will the cost for the government to oversee compliance. More compliance required by government increases public service costs which is contrary to what government is wanting to achieve. Is it worth it?

**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?**

The discussion paper suggests donor-controlled charities can give rise to tax avoidance issues for the IRD. We are not aware of the size of this problem. However, we would support further protections/rules being put in place to ensure donor-controlled charities and associated transactions are at arms-length.

The fundamental basis of Charitable Law and the concessions granted to Charities relies on the premise that no individual can personally benefit. If it is perceived that these structures are being exploited and individuals are benefitting, government should tighten up these rules.

**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?**

Again, we are not aware of the extent of this problem. We would support some protections/rules being put in place to address the risk of tax abuse.

**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?**

A minimum distribution each year could be problematic. The accumulation of surpluses can often be justified if the charity is doing so for a specific project. E.g. a new facility or a future programme expansion. Reserves are also necessary to meet unexpected needs or deal with economic recessions.

A Charity may for instance, purchase a property for a group undertaking charitable purposes to occupy. This is not technically a distribution but the surplus retained funds are being used for charitable purposes.

Non-distribution of funds could have a maximum time period, but with exemptions for certain situations. Looking at other countries for workable solutions would be sensible.

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

We support a review of this. However, the tax revenue gained is likely to be very small for IRD.

Compliance costs need to be considered for small NFPs.

The \$1,000 threshold seems well out of date. There needs to be a sensible threshold where income from subscriptions and transactions with members remain non-taxable.

For amateur sports clubs, associations etc.- we would like to see the threshold being quite high. Clubs will revise subscriptions up or down based on past surpluses/losses and future outgoings. As long as surpluses can't be returned to members, then tax exemptions should continue.

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

Compliance issues.

Sensible thresholds should be in place.

**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 have no view on the implications.

**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?**

Independent remuneration surveys<sup>1</sup> show that remuneration in the NFP sector is significantly below remuneration paid for similar roles in the Public Sector and often in the Private Sector.

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<sup>1</sup> Strategic Pay Remuneration Surveys

The exemption from FBT has historically and continues to be a way for a charity to bridge the salary gap at a lower cost to the charity.

Removing the FBT exemption would increase the payroll cost for charities.

We support the exemption continuing.

Removal of the exemption would harm charities as it would mean less funds are available for their charitable works.

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

Honoraria payments should not require volunteers to pay ACC levies. Therefore, the FENZ approach is sensible.

We also note that Honoraria payments seldom fully compensate the recipient for the actual time involved in carrying out particular duties for the NFP. We suggest Honoraria being tax free income up to \$5,000 per annum.

**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 concessions?**

In principle, we support the policy-related recommendations for Donation Tax Concessions as detailed in para 4.36.

It is surprising that only 57% of taxpayers are aware of the tax rebates available on donations. We believe the charity sector needs to better inform its donors that they can apply for tax rebates.

**Submitter contact names and details:**

Society of Mary New Zealand

Fr Tim Duckworth sm (Provincial & Trustee)

Michael Smith (CFO)

28 March 2025

The Little Family Foundation  
25 McDonald St  
Morningside  
Auckland 1025

To Whom It May Concern,

My name is Joel Little, and I am a songwriter, producer, and the founder of Big Fan, a music hub located in Morningside, Tāmaki Makaurau that is run by our charitable trust The Little Family Foundation.

Music has profoundly shaped my life, and establishing Big Fan was my family's way of giving back to the community that nurtured my aspirations as a musician. Our vision is to create a space where individuals can develop their craft, collaborate, and find their audience—opportunities that were scarce during my early career.

From the outset, we chose to structure Big Fan as a charitable entity. This decision reflects our belief that music should be accessible to all, not just those who can afford it. Our mission is to support a thriving, inclusive music ecosystem in Aotearoa by offering free programs and providing affordable access to world-class recording and performance facilities.

To help sustain our initiatives, we generate income through studio hires and venue bookings. Although these activities may seem commercial on the surface, they are integral to our charitable purpose. Importantly, we do not distribute revenue externally; every dollar earned is reinvested back in to Big Fan, allowing us to subsidise costs for artists, run our free programs, and maintain our facilities.

I understand that Inland Revenue is reviewing tax exemptions for charities, particularly concerning income from business activities. I urge you to consider the nuanced realities of organisations like Big Fan. Our income-generating activities are not separate from our charitable objectives but are essential for achieving them. Taxing this income would undermine our ability to serve the community and could jeopardise the very initiatives that aim to empower Kiwi creatives.

While the intent behind this reform may be well-meaning, implementing sector-wide changes risks penalising smaller charities and community organisations that lack legal, financial, or administrative support. These are often the very groups doing the most impactful work with the fewest resources.

In many ways, a music hub like Big Fan parallels sports clubs that receive tax exemptions due to their community benefits. Just as these clubs foster talent, promote health, and build community through sport, we strive to achieve similar outcomes through music. Recognising and supporting the value of both is crucial for a vibrant and diverse society.

I appreciate the opportunity to share our perspective and welcome any further dialogue to ensure that charitable organisations can continue to thrive and contribute meaningfully to our communities.

Kind regards

s 9(2)(a)



## Submission to Inland Revenue — Taxation and the Not-for-Profit Sector Consultation

### About Big Fan

Big Fan is a music hub based in Morningside, Tāmaki Makaurau, operated by the registered charitable trust The Little Family Foundation. Our kaupapa is to support a thriving, inclusive music ecosystem in Aotearoa. We run free programmes for creatives and practitioners such as Ignite, Fan Camp, and Residencies, host events and workshops for the community, and provide equitable access to high-quality recording and performance facilities.

Our charitable work is underpinned by a sustainable model that includes earned income from studio hire and venue bookings. These activities are core to our identity — not separate from our purpose, but a means to expand our reach, reduce reliance on grants, and invest in long-term community impact.

### **Response to Question 3: *Should the income tax exemption for charities be limited to income earned in the course of carrying out their charitable purposes?***

We recommend caution in narrowing the definition of what constitutes “income earned in the course of charitable purposes.” In our case, income generated from studio or venue hire may appear commercial on the surface, but we subsidise the majority of these hires because they directly support our charitable outcomes.

The current framework allows charities like ours to innovate and build sustainable models. Taxing income that is not strictly “charitable” in form but is charitable in outcome would disincentivise impact-driven organisations. It could disproportionately affect smaller, creative, or place-based charities that rely on earned revenue to survive and serve.

There are occasional commercial or private bookings that may sit outside our core mission, but these are often made by people who want to support what we do. Even “unrelated” activity is mission-aligned in intent and serves as a vital part of our funding model. Any surplus that would be generated would always stay within the Trust and reinvested into our mission — never distributed externally or for private gain.

Running a live music venue or recording studio is notoriously difficult — regardless of the climate. But we’re not here to turn a profit. We’re here to create access, uplift communities, and build a sustainable ecosystem. We are a mission-driven charity — and as a relatively new entity, we are still in the process of building a financially sustainable model. While we’re not yet generating a surplus, every step we take is focused on long-term impact and resilience.

Any reform must account for integrated models where income-generating activity supports public benefit — not distracts from it.





**Response to Question 5: Should a charity be able to claim a tax exemption if it carries out both charitable and non-charitable purposes?**

Yes — as long as the organisation meets the requirements of the Charities Act and remains registered on the Charities Register. That existing framework already provides the necessary oversight and ensures that the dominant purpose remains charitable.

Big Fan is a clear example. We operate professionally — with recording studios, a live music venue, and development programmes — all in service of our mission: supporting emerging creatives, developing music professionals, and growing an inclusive music community.

When artists or collectives hire our venue, they retain 100% of ticket income. While we charge a hire fee, it barely covers our costs. This model isn't about generating profit — it's about providing high-quality, affordable space that supports creative growth and sustainability. It's a platform for community uplift.

Taxing or rigidly separating charitable from non-charitable activity risks penalising the very organisations working hardest to modernise, stretch every dollar, and serve their communities.

Charities that reduce reliance on public funding through creative, values-driven means should be supported — not restricted.

This comes at a time of immense pressure. The current economic climate and funding landscape is forcing many charities to restructure, downsize, or close. At Big Fan, we have recently undergone a restructure to preserve our future.

Imposing further tax, compliance, or reporting obligations — even with good intentions — will only push more organisations to the brink. Scarce resources will shift from community impact to legal and financial administration. A stronger sector depends on enabling, not obstructing, those doing the work.

**Conclusion**

Charities like Big Fan exist to serve — to build stronger communities, lift future generations, and create spaces that wouldn't otherwise exist. Our work is deeply public-facing, future-focused, and built on the ability to be innovative, sustainable, and responsive to the needs of our community.

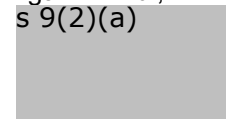
A music hub like Big Fan is no different to a sports club — we provide the facilities, community, and support for people to grow, connect, and contribute. Just as sport is recognised for its community benefit and tax-exempt status, so too should music and the arts be valued as essential pillars of development and wellbeing.

We urge Inland Revenue to protect and recognise the value of sustainable charitable models that combine entrepreneurial thinking with deep social purpose. These approaches are not loopholes — they are lifelines. They are what allow purpose-led organisations to survive, adapt, and deliver real impact. The risk is that, through well-intentioned reform, we weaken the very charities that are solving problems, supporting communities, and building the kind of Aotearoa we all want to live in.

This is not the time for additional administrative or financial barriers. It is a time for partnership, clarity, and policies that supports the organisations helping shape the Aotearoa we all want to live in.

We welcome the opportunity to provide further detail or participate in future conversations.

Ngā mihi nui,  
s 9(2)(a)



Savina Fountain  
General Manager



31 March 2025

Inland Revenue

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

**RE: TAXATION AND THE NOT-FOR-PROFIT SECTOR ISSUES PAPER**

Tenā koe,

We are writing to you on Inland Revenue's Taxation and the Not-For-Profit Sector Issues Paper.

As the representative voice of the hospitality and accommodation sector, Hospitality New Zealand (Hospitality NZ) takes immense pride in advocating for the interests of over 2,500 diverse businesses, including cafés, restaurants, bars, clubs, nightclubs, commercial accommodation, country hotels, and off-licences. With a history spanning over 120 years, we have been steadfast in our commitment to fostering a thriving and responsible sector.

The dynamic of charities and not-for-profits (NFPs) in Aotearoa have changed over time – the nature and operations of charities vary significantly. If the aim of these changes is to appropriately target charities who the Government feels aren't operating within the intent of the Charities Act, it is our view that the more fair and more efficient way to deal with any problems with how charities are operating is via the Act, not via changes to pay tax policy.

Hospitality NZ endorses BusinessNZ's submission on the paper. There are some specific areas of interest we raise below.

**Differences between charities and NFPs or occupation-based membership organisations**

There are fundamental differences between charities and not-for-profit industry or occupation-based membership organisations such as Hospitality NZ.

Charities must exist and operate at least primarily for identified purposes as contained in the Charities Act 2005. Charities commonly exist as organisations funded by donations from the public. Charities can also exist as new or established businesses, who decide they want to operate for the benefit of a charitable purposes, rather than to provide profit to shareholders.

Hospitality NZ believes more work is needed to assess:

- The utility provided by charities
- The tax take if charities were taxed
- The compliance costs that would be imposed on charities (and how that would impact on the utility they could provide).
- If charities were taxed (and subject to tax related compliance costs), how much of a disincentive this would be to people looking to set up a charity, and the loss of utility to NZ that would result.

## **The role of NFPs or occupation-based membership organisations in Aotearoa**

Historically, New Zealanders were more inclined to involve themselves in groups, for mutual support, protection and camaraderie. NFPs and occupation-based membership organisations have played an important role in helping NZ through difficult times, often performed charitable functions and have worked with Government, assisting with formulating and implementing regulation and governance.

Not-for-profit industry and occupation-based membership organisations continue to provide social utility in important and unique ways. They provide industry insights that assist Government formulate policy, strategy and regulation. They also provide important education and training to their members and their members employees, in ways that Government could not easily replicate. They are an important conduit for information and expectations, between Government and the general public on the one hand, and the industry and its members on the other. In some cases, NFPs and occupation-based membership organisations can also act as regulators, or de-facto regulators, when Government determines the need arises.

## **The importance of volunteers and donors**

Volunteers are vital for the viability of most not-for-profit membership organisations; not only industry or occupation-based, but also sports clubs and organisations with a social or religious agenda.

Most volunteers would not volunteer unless they enjoy it, and think that it is an effective and efficient use of their time. They will be less likely to volunteer their time to do an organisation's tax compliance work, or to be potentially liable for an organisation's tax obligations.

Likewise, it is self-evidence that people will be less inclined to donate money to an organisation, let alone donate an entire business to a charity, if they perceive that organisation is inefficient, subject to tax compliance work/costs, and ultimately that part of their money might be used to pay tax.

## **Summary**


As with BusinessNZ, Hospitality NZ believes that Inland Revenue's departure from its previous views on the taxation of mutual associations represents a stance that does not align with the intent and purpose of what almost all NFPs stand for. Proposed options to alleviate the impact of the Commissioner's updated view are piecemeal at best and fail to fully address the core of what NFPs, including business associations, provide both its membership and the wider economy on a daily basis.

Hospitality NZ believes taxing NFPs has limited net value to New Zealand. The tax take the Crown would receive from taxing not-for-profits organisations would likely be low. The harm to not-for-profits organisations from could be considerable (particular compliance costs, and the harm from deterring volunteers and donors). Many NFPs are already struggling, and this could impact their ongoing viability.

Given this downside, we recommend the Government does not proceed with a draft operational statement regarding the Commissioner's updated view on the tax status for not-for-profit entities.

Ngā mihi nui,

s 9(2)(a)



**Steve Armitage**  
**Chief Executive**  
**Hospitality New Zealand**

**From:** Lee Short s 9(2)(a)  
**Sent:** Friday, 28 March 2025 3:30 pm  
**To:** Policy Webmaster  
**Subject:** Submission to IRD- Taxation and the not-for-profit sector

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

Lee Short  
23 Rutherford Terrace  
Meadowbank  
Auckland 1072

28 March 2025

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

### **Submission to IRD- Taxation and the not-for-profit sector**

An in-depth review and substantial change is well overdue in this sector.

I am not an expert on Charities. However, I do have in-depth knowledge of a charity, gained during my 24 Years volunteering in various governance roles with St John. St John indeed feeds back all income into the organisation to meet the needs of the community it serves. s 18(c)(i)

I am also a business owner in both New Zealand and Australia, and I often reflect on the generous tax regime in New Zealand for businesses owned by Charities.

I then look at numerous charities running commercial enterprises, competing with regular businesses and not paying their fair share of taxes. Additionally, it has been revealed that an iwi organisation in Auckland funds a political party while claiming charitable status.

In fact, many Māori enterprises run by large tribal organisations boast about their asset growth, much of which is housed within a charitable status. This is grossly unfair to the businesses that compete with them, some of which are driven out of business because of it, leading to the public missing out on revenue that could be spent on all citizens.

All commercial activities should pay tax in the year the income is generated.

The IRD needs to implement new legislation clearly defining what qualifies for tax exemptions. Everyone must apply and justify their tax exemption to be eligible for ongoing tax reductions. This should be a standard review every three years ensuring all reapply for their reduced tax status, showing in detail the reasons why. Stiff penalties should apply to those who cannot justify their activities, have not paid tax, and are shown to not qualify under the new regulations legislation.

I can only hope that the Government, through the IRD, will address this, introduce comprehensive change, and then enforce and maintain the legislation.

Thank you

Lee Short

28 March 2025

Submission to Inland Revenue Department on IRD 2025 Issues Paper: Taxation and the not-for-profit sector.

This submission:

- Is made by Matthew Wall, Chartered Accountant and Principal of Top Edge Advisory Limited.
- Is made on behalf of the Charitable organisations served by Top Edge Advisory.
- Aims to provide feedback clearly and concisely on some, but not all of the questions posed by the IRD in the consultation paper. Questions where we have not provided a response are those where we either do not have the relevant experience or knowledge, or do not feel strongly enough about to provide detailed opinion.

### **Background:**

Top Edge Advisory is an Accounting Practice which operates solely in the Charitable/Not-for-profit/for-purpose sector.

The vast majority of Top Edge Advisory clients are Registered Charities, with the majority of these being Tier-3 (annual expenditure <\$5m) and Tier-4 (annual expenditure <\$140k) Charities. Refer <https://www.charities.govt.nz/reporting-standards/which-tier-will-i-use> for further detail.

We provide accounting and advisory services to organisations operating in a range of different settings – Churches, Community Centres, Sporting Clubs and more. These organisations have a range of different income sources.

Some, but not all of these organisations, look to supplement their core income sources with activities that might be defined as ‘business activities’.

### **Summary:**

We oppose the proposal to tax Charity business income, for the below reasons:

- The flawed argument that Charities have an unfair advantage due to not having to pay income tax. The argument seems one borne one from ideology rather than any deep understanding of the Charitable sector, or modelling/evidence.

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- Any income tax generated from the taxation of Charities is likely to be negligible, relative to the compliance regime it would create for both Charities and the IRD.
- There is likely to be an increase in the unmet social need from any taxation of Charities income. This need will then fall to Central Government, and there is broad agreement that Charities deliver more effectively as experts in their field, than Central Government can. Further, if Central Government fund this increased social need, then this dilutes any tax income generated from the taxation of Charities.

Thank you for the opportunity to provide this submission, which I am happy to be contacted in relation to.

Yours sincerely,

*Top Edge Advisory*

Matthew Wall  
CA  
Top Edge Advisory



**Format:**

Questions posed by the consultation paper are *Italicised*, and responses follow thereafter.

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?*

We see the potential reasons for taxing Charities business income to be as follows:

1. To increase the tax take for government.
2. To target certain Charities that are deemed more commercial in nature than Charitable.
3. To target certain Charities that receive negative press for their activities.
4. Because of the idea that the income tax exemption Charities receive gives them an unfair advantage, competitive or otherwise.

Our views on these reasons are (In the same order as above) are as follows:

1. Refer our response to question 4 below, however, we believe the tax generated from the taxation of Charities business Income would be minimal, relative to the compliance burden It would create for both Charities and the IRD.

The lack of any publicly available modelling or data in this proposal is concerning, as it makes it difficult to assess any potential benefit of implementation.

To truly offer an informed opinion on this, such modelling would need to be available.

2. In our view, this speaks to the heart of the definition of 'Charitable purpose'. This is already defined in the Charities Act 2005. However, if there is a view that Charities can become 'too commercial' to the point where they become more business than Charity, then perhaps this definition could be updated. For example, a threshold could be set where if a Charities business income exceeded a set % of its total income (perhaps for consecutive years), then it would no longer be deemed Charitable and would lose its Charitable status and be required to register as a Company and complete income tax returns accordingly.

3. Similar to 2 above, this is related to Charitable purpose. We are mindful of offering a legal opinion which we are not qualified to give, however speak with confidence when we say that the Charitable sector does not want to be impacted by negative press, and that there would be broad support for the de-registration of any Charitable bringing the sector into disrepute or negative light. If an aim of the proposal is to punish such Charities, then perhaps the regulator (Charities Services) should be resourced appropriately to reprimand and potentially de-register any Charities that bring the negative attention seen recently.
4. Our response to this point is multi-faceted.
  - Is there any evidence of Charities operating in a business setting and undercutting their competition? It appears to mostly be speculation.
  - Even if there is an unfair competitive advantage – the result of this would be increased funds to go towards the Charities stated purpose. Is this not a good thing? I.e., we agree with the sentiment of 2.10.
  - In many ways, Charities are at a natural disadvantage relative to their for-profit counterparts;
    - They are often volunteer led with less resources available to them
    - They cannot raise funds in the same ways businesses can
    - Charities cannot offset losses against future profits
    - Charities have a strong and incredibly transparent reporting regime. Performance reports (Year-end accounts) must be completed to XRB reporting standards which include numerous required disclosures and are publicly available once filed. Charities must also complete service reporting, where they demonstrate outputs and outcomes they have delivered. Businesses on the other hand, do not have to make their financial statements publicly available at all. Perhaps this could be looked at through a different lens – should the reporting requirements for businesses not be strengthened to a similar level is required of Charities? Perhaps one day we might see a similar consultation on the requirements for businesses to disclose more Information than they are currently required to do, and/or to be captured by some regime where they would need to demonstrate some form of 'social good' or lack of 'social harm' (for want of a better term).
  - In relation to 2.13, the consultation overlooks the fact that Charities Compliance costs can already generally be higher than businesses;
    - Accounting requirements/fees are generally the same – refer above commentary around additional disclosures.
    - Often accountability reporting is required to satisfy funders, and this comes at a cost to Charities.

By definition, the reason that Charities carry out business activities is to supplement their income sources, and to protect themselves via diversification. Surely diversification should be encouraged? This also serves to prove that these Charities operate in a challenging environment, one where they are forced to carry out activities not aligned to their core Charitable purpose.

Speaking from experience, I am 100% certain that the Charities I work with that carry out business activities, would rather have enough income to not need to 'stray outside their lane'.

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

In our view, the most significant practical implication would be that there is likely to be an increase in the unmet social need from any taxation of Charities income. This need will then fall onto Central Government, and there is broad agreement that Charities deliver more effectively as experts in their field, than Central Government can. If this was not true, then why do numerous Charities receive government funding? Further, if Central Government fund this increased social need, then this dilutes any tax income generated from the taxation of Charities, and essentially defeats the purpose of the taxation of Charities business income.

There are also 2 other potential consequences we can foresee, which will exacerbate the unmet need noted above:

1. It is likely that some Charities will cease their business operations if these are subject to income tax. This will further reduce funds available to Charities.
2. As a result of the above, some Charities might become unsustainable and will cease to exist.

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

This is a critical component of any potential taxation of Charities business income, and it is disappointing to not have this defined or potentially defined in the consultation.

In our view, if Charities business activities were to become taxable, anything remotely related to the Charities stated purpose (in its rules document) should be defined as related, and therefore exempt. I.e. if a Nexus could be established, then the activity would be deemed related.

For example:

- Fee for service – related
- Fundraising events/ticket sales – related as the Charities purpose and delivery would no doubt be on display at such an event
- Rental income on property owned – unrelated
- Op shop – unrelated

We deem it important to note that the cost and resource required of the IRD in assessing the above determinations by each Charity will be large. This should be considered against any potential income tax generated.

*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?*

Logically It would seem Tier-3 and Tier-4 entities should be excluded. However, this captures the majority of Charities that carry out business activities (Refer below table).

It should be noted that the Tiered framework was recently revised, and as such It is clearly fit for purpose. For example. Tier-3 organisations were previously entities that had annual expenditure of <\$2m. This was recently lifted to \$5m.

Refer the below table, taken from <https://johngodfreyassoc.com/blogs/f/tax-on-charities-will-only-earn-280-million> and is used in this submission to illustrate the # of Charities in each Tier reporting business income.

	<b>Tier 1</b>	<b>Tier 2</b>	<b>Tier 3</b>	<b>Tier 4</b>	<b>All Tiers</b>
DIA. (2019). <i>Modernising the Charities Act 2005: Discussion document. Table 2</i>	163	1360	8493	13838	23854
Extrapolation to arrive at 2025 figures	198	1653	10325	16823	29000
<i>Issues paper</i> % shown as reporting business income	1%	10%	45%	43%	99%
Therefore number of charities in each Tier	2	165	4646	7234	12048
Average Expenses for charities in each Tier	\$55,555,556	\$21,111,111	\$2,855,556	\$77,778	
Average Income for each Tier assuming a net surplus to expense ratio of 10%	\$5,555,556	\$2,111,111	\$285,556	\$7,778	
Hypothetical Average Earned Income (66%) \$ millions	\$3,666,667	\$1,393,333	\$188,467	\$5,133	
<b>Multiplied by the number of charities in each Tier to show TOTAL BUSINESS INCOME</b>	<b>\$7,266,007</b>	<b>\$230,372,543</b>	<b>\$875,679,208</b>	<b>\$37,134,645</b>	<b>\$1,150,452,402</b>

As you can see, just over 12,000 carry out business activities. Note that this is self-reported and subjective (some Charities may be defining the same Income types differently in their annual returns), and so this may be more or less.

Of this 12,000, less than 200 are Tier-1 and Tier-2. Therefore, if Tier-3 and Tier-4 entities are excluded by a de minimus exemption, less than 200 Charities will be captured.

If Tier-3 and Tier-4 entities are captured and no de minimus exemption applied, then the tax take is likely to be negligible. Note that the Income figure listed in the above table is total Income, not business Income. As mentioned, business Income is for most Charities a fraction of their total Income, used to supplement and diversify their Income streams. From our experience, this business income component would be an insignificant contribution to total income, often in the 0-20% range. I.e., this regime would target a fraction of the Income of the smallest Charities.

Further, these smaller Charities are the ones more likely to be volunteer led, with limited resources to cope with this increased compliance.

Without exaggeration, we work with Tier-3 organisations who generate <\$100k via their business Income. Were they to complete a tax return for this Income, we could easily allocate \$50k of direct costs related to generating this income. We would then look to allocate operating expenses to this Income stream – staff time, overheads (power, water, etc). With increased accounting fees added, the net profit could easily be <\$10k, generating the IRD a miniscule \$2-3k of Income tax, and costing the Charity a similar amount in increased compliance costs, as well as numerous sunk hours for both the Charity and the IRD.

*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 if the tax exemption is removed for unrelated charity business income that is subsequently distributed for charitable purposes, then it should remain tax exempt. Such a relief system would need to be simple and clear. For example, a donation or dividend deduction. We note that such a system would however increase compliance costs therefore reducing the overall amount able to be applied to charitable purposes.

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

We note the following issues as considerations that were not raised in the consultation paper;

1. The valuation of pro bono or semi pro bono services as input expenses. Labour cost is a significant input expense for any business. Currently many in the charitable sector receive some pro bono or semi pro bono labour. Accordingly, it would be important for charities to be able to claim the true cost of their business in any income tax return. This raises the conundrum for the tax department as to what the appropriate fair labour costs should be. It also would further reduce the income tax generated.
2. As noted on page 4 of this submission, there is currently an uneven playing field regarding transparency of reporting for Charities vs for profit businesses, i.e., Charities have to currently meet a higher level of public transparency. Failure to address this issue results in charities being at an unfair competitive disadvantage with for-profit businesses.

### Chapter 3: Donor-controlled charities

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

In our experience, donor-controlled charities are often the passion projects of their founders, who contribute large-scale donations to the Charity in order to further its purpose. I.e., no tax abuse takes place and in fact, the founder sinks their own funds into the Charity, sometimes on a perpetual basis.

However, if any tax abuse were to be identified in relation to donor-controlled-charities, or any Charity for that matter, that Charity should be reprimanded accordingly. Further, as a general observation, the regulator (Charities Services) should be appropriately resourced to reprimand Charities. This would strengthen the sector as hopefully public confidence would increase as a result.

## Chapter 4: Integrity and simplification

### *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?*
- *FBT exemption*

In our view, there does seem to be some logic in introducing FBT for Charities. Charities are, more often than not, forced to pay market rates to attract employees. The same as which a commercial entity might have to. Occasionally, a Charity might have a commercial partnership or other means by which to offer an employee a fringe benefit. This does appear to, on face value at least, present an unfair advantage to a Charity over a commercial entity.

However, and to answer the question directly, the implementation of FBT on Charities would without doubt increase compliance costs (Accounting fees) and along with the cost of returning FBT itself, reduce the funds available for Charities to channel towards their Charitable purpose.

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

### *Tax simplification*

The likely implications of removing or reducing the exemption for Charities will be significant for some Charities in their ability to compete for appropriate labour resource with the for-profit sector. It will also increase compliance costs in accounting for any fringe benefits that may still be provided.

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





## Introduction

Visionwest welcomes the opportunity to provide feedback on the **Taxation and the Not-for-Profit Sector** consultation document. As an organisation committed to **transforming lives and building healthy communities** by addressing homelessness, poverty, food insecurity, financial hardship, and social isolation, we recognise the importance of a fair and effective tax framework that supports the sustainability of charities and not-for-profits in New Zealand.

We acknowledge the Government's efforts to ensure tax fairness and compliance in the sector. However, we have concerns about the potential impact of the proposed changes, particularly on small and medium-sized charities that rely on business income to sustain charitable activities. It is crucial that any reforms balance the need for transparency and integrity while ensuring that not-for-profits can continue delivering vital services to communities in need.

In this submission, we will address the key proposals outlined in the consultation document, highlight potential implications for our organisation and the wider sector, and provide recommendations to ensure that any changes support the ongoing work of not-for-profits in New Zealand.

We appreciate the opportunity to contribute to this discussion and look forward to engaging further on these important matters.

## Findings and recommendations

### General

In summary, the most pressing matter is that the consultation document fails to clearly define what is termed as business income. We believe further clarity and more detailed definitions are needed to ensure robust implementation of any changes. In this instance additional dialogue and feedback is needed once such definitions are proposed through another phase of consultation. Importantly, we contend that if an organisation provides a government service with community benefit through a funded government programme (housing or healthcare), a distinction should be made depending on how "business income" is treated. We believe that any income that directly furthers a charity's core purposes should remain untaxed, given that the modest surpluses made within such programmes are used to build capacity, grow capability, and strengthen service delivery, improving overall outcomes year on year.

At Visionwest, we reinvest any revenue we generate back into the organisation to support our communities, including the clients we serve and the whānau we house. We currently do not have adequate clarity from the consultation document provided on this matter.

## **Charity Business Income Tax Exemption**

We support tax exemptions for charity business income, as this income is ultimately reinvested into charitable purposes.

*Removing this exemption could:*

### **Reduce financial sustainability for charities to fund other services.**

We rely on a mix of donations, funding, and goodwill. Taxing one income stream will have detrimental effects overall, weakening our financial sustainability and limiting our ability to support those in need.

### **Impact our ability to provide wraparound services.**

Our home healthcare and housing teams frequently encounter clients with urgent needs beyond their funded services. For example, if a support worker visits a tenant without food, they do not ignore it—they connect them to food banks or social supermarkets. Taxing surpluses from contract revenue would diminish our ability to subsidise and resource these essential wraparound services where government funding is not always available, impacting overall well-being rather than just fulfilling named contract deliverables.

### **Increase compliance costs, especially for smaller charities.**

Any surplus income generated is always reinvested into supporting our communities. Currently, we do not allocate management expenses to specific income-generating activities. Under the existing model, shared operational support services—such as HR, IT, health and safety, and training—are absorbed into overall organisation management. If this exemption were removed, we would need to restructure operations, separate service support units, and implement internal billing systems at huge cost and disruption. This would add unnecessary complexity and cost, diverting resources away from our core mission.

### **Limit our ability to grow our services.**

Government funding for social housing through community housing providers (CHPs) like Visionwest requires organisations to maintain a surplus for reinvestment. Since we do not have access to unlimited borrowings, building up surpluses is critical to have a greater impact in terms of providing additional social housing places over time. Taxing CHPs would hinder our ability to plan, develop and build more homes, limiting our capacity to do our part to address the housing crisis in New Zealand.

Similarly, in our Home Healthcare Service, we recently transitioned from paper timesheets to digital systems—an investment that increased efficiency, client responsiveness, while helping to attract and retain employees. However, as a NFP organisation, the transition was delayed due to competing financial priorities. If surpluses were taxed, this upgrade might not have been possible at all, making it harder to provide an ongoing exceptional service to our clients. Furthermore, without modest surpluses in such contracts being able to be invested for service

development, risks mount for the organisation being able to retain valuable staff and ultimately this impacts our capacity to provide holistic, best-practice support.

### ***Working example***

If we assume for a moment that our Home Health Care and Housing Services revenue would be redefined as ‘business activities’ and, between them, we generated \$1m surplus after allocating overheads, then we estimate the taxable costs to Visionwest as at least \$400k per annum:

- \$280k Income tax (assuming current rate of 28%)
- \$60k Fringe Benefit tax (relating to the vehicle fleet)
- Upwards of \$60k compliance costs (incremental personnel, systems and audit fees to meet additional compliance activities)

### ***Recommendation***

Taxing charity organisational income would undermine the financial sustainability of many organisations like Visionwest, whose main service delivery work is at the request and obligation to government via multi-year contracted services. If such service revenue streams were taxed, there would be significant restrictions on capacity to deliver essential, safe, and enduring services for community benefit. Therefore, we suggest the following recommendations:

- Retain the tax exemption for organisational income used exclusively for charitable purposes. The tax proposed is too broad and we believe it needs to be narrowed to only apply where a charity undertakes a business or trading activities unrelated to its charitable purpose, or government contract obligations.
- Policies should encourage reinvestment of surplus funds, ensuring enduring impact, capacity growth and financial independence of the sector and various programme types over the long-term.
- Implement clear guidelines to distinguish between related and unrelated organisational income activities to prevent unintended tax burdens.

### **Integrity and Simplification**

We support efforts to reduce tax avoidance while simplifying tax compliance for NFPs. However, removing certain exemptions may **increase administrative burdens and financial strain on charitable organisations.**

Within the context of Visionwest the elements of this section which are of importance to us are:

### **Fringe Benefit Tax (FBT) – Visionwest’s Approach to Vehicles**

We provide several vehicles to staff in the form of both pool cars and branded vehicles. While personal vehicles are subject to Fringe Benefit Tax (FBT), our cars are for the benefit of the intended organisational activities requiring transport with the smaller benefit of personal use included. Removing or taxing the personal usage would have significant operational and financial impacts.

- **Competitive Compensation Without High Salaries** - As a not-for-profit, we are unable to offer the high salaries that many other for-profit organisations provide. However, in appropriate circumstances, offering vehicles which can be used for personal use after work hours, can help to attract and retain skilled staff with a valuable, practical benefit. If we transitioned entirely to pool cars:
  - Employees would face longer commutes impacting on client well-being and operational efficiencies, especially for social work and nurse cares, as staff would need to collect a vehicle before starting their workday.
  - Additional infrastructure, such as secure storage sites for pool cars, would be required, adding further parking and storage costs to our fleet management.
- **Lower Administrative Costs** - If we were taxed on personal usage of our vehicles, we would struggle to determine what is and is not personal use given our employees often work on our mission whilst ‘off the clock’. If the taxation caused us to move to personal cars for business usage i.e. rather than pool cars, they could use their own vehicles then the impact would be:
  - Greater administrative complexity and workload for processing vehicle expense claims.
  - Potential financial strain due to fluctuating fuel and maintenance costs.

By providing vehicles, we simplify operations and reduce unnecessary paperwork.

While FBT is a consideration, the advantages of providing vehicles—both for employee satisfaction and operational efficiency—far outweigh the costs. Maintaining this approach allows Visionwest and other like-minded organisations to continue delivering essential services while supporting our workforce effectively.

### **Recommendation**

- Maintain the **Fringe Benefit Tax (FBT) exemption** for charities like Visionwest, to ensure they can continue attracting skilled employees despite offering lower salaries.

### Donation Tax Credit System

Although the Donation Tax Credit system in NZ is underutilised, it is significantly valuable as an incentive on why people should donate. It also gives the ability for us to use that claim back as part of our donor's journey. Sometimes donors gift this money back to us when they receive a rebate.

We appreciate the idea of "claim as you go" as this will allow us to communicate more frequently and personally with each donor. Often people forget about their tax credit by the time March rolls around again.

### Recommendation

- Improve awareness and accessibility of the **donation tax credit system** to encourage charitable giving.

### Conclusion

While we support tax integrity and transparency, it is crucial that any reforms do not hinder the ability of charities and not-for-profits to operate effectively. We urge the Government to ensure that tax policies continue to support the vital role that NFPs play in strengthening New Zealand communities.

We appreciate the opportunity to contribute to this consultation and would welcome further engagement on these issues.



28 March 2025

The Commissioner  
Inland Revenue Department  
Wellington

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

Dear Commissioner

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

The attached submission is on behalf of the following Catholic Congregations/Charities:

- Sisters of the Little Company of Mary – New Zealand
- Cenacle Sisters Trust Board
- Presentation Sisters of New Zealand Trust Board
- Marist Fathers and Brothers of the Society of Mary General NZ Trust & The Society of Mary Trust Board

Please let us know if you would like further clarification on our submission.

Yours faithfully

s 9(2)(a)

Michael Smith

s 9(2)(a)

## **Submission to IRD**

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

#### **Executive Summary**

- We do not support the taxation of unrelated business income.
- As noted in the discussion paper, there is no evidence that charity businesses have an unfair advantage over their competitors.
- Taxation of unrelated charity business income will reduce charity funds available for charitable works.
- Compliance costs for charities need to be considered when making any law change.
- We support further protections/rules being put in place to ensure donor-controlled charities and associated transactions are at arms-length.
- The FBT exemption should remain for charities.
- A strong charitable sector lessens the burden on central government, and ultimately the taxpayer.

#### **Introduction**

##### **Who are we:**

This submission is on behalf of the following Catholic religious congregations:

The Society of Mary (Marist Priests and Brothers)

The Cenacle Sisters

The Presentation Sisters

Sisters of the Little Company of Mary

#### **Submission**

We note that the discussion paper has the following objectives:

1. Simplifying tax rules
2. Reducing compliance costs and
3. Addressing integrity issues.

We are supportive of these objectives.

#### **General comments:**

The charitable sector makes a huge difference for thousands of New Zealanders. This includes work carried out by religious and secular charities. We are concerned that central government often seems to undervalue the contribution charities make to the betterment of individuals and communities across New Zealand. Without charities, much of the charitable work would need to be undertaken by central Government and funded by taxpayers.

There may be a small number of charities flouting existing charity laws, and we would support more resources being allocated to Charities Services to focus on those entities, rather than wholesale changes to the current law.

The other thing to note is that Charities are already significant tax contributors through PAYE on staff wages and GST on the sale of goods or services produced by the charity owned business.

We will address the questions posed in the Discussion Document. Some are more relevant to us as Catholic Congregations/Catholic Communities than others.

## **Charities and Business Income**

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

Charities operate businesses to generate income for charitable purposes. There is no credible evidence that suggests charity owned businesses have an unfair advantage over tax paying competitors. The current Charities legislation requires surpluses generated to be applied to charitable activities now or in the future. Taxation of charity business income will reduce their ability to carry out charitable works.

Charities must disclose to Charities Services details of activities including business activities. This disclosure requirement means we are more transparent than commercial entities, because our annual reports are published on the Charities Register website.

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

Firstly, defining “unrelated” could be challenging.

Secondly, as noted in Q1 above, if business income is taxed, it will mean the charity has less income available to use for charitable purposes here in New Zealand.

Charity businesses are there to provide an important income source for charitable works. If charity businesses are subject to tax, there will be negative consequences. It would likely see charitable business being pressured to distribute all surpluses (profits) to their parent charity and in doing so weaken the sustainability of the business. Tax paying businesses are not required to distribute all profits to shareholders, and many retain profits to grow their businesses and to provide a buffer when economic times are tough. This should be kept in mind when looking at charity business income.

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

We don't believe charity business income should be taxed. However, if this was the case, then what an “unrelated” business is, must be clearly defined. Our view is that investments should not be defined as unrelated business income. Investments would include investments in term deposits, bonds, equities and property. Diversification of investments is prudent management of funds held for future charitable purposes.



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

88% of NZ charities are Tier 3 and Tier 4 charities. That means charities with expenses under \$5m. As a minimum, Tier 3 and Tier 4 charities that have unrelated business income should be exempted from any income tax regime.

A number of local and national charities run Op Shops to raise money and to support low income members of their community. Op Shops owned by a charity should be exempted from any income tax regime.

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

As noted earlier, we don't support taxation of charity business income.

However, if charitable business income is to be taxed, then any funds distributed for charitable purposes should definitely be tax exempt.

We would go further and say there should be an income tax exemption on all charity business income if the charity business distributes at least the equivalent of tax payable by a taxable entity to the parent charity. (E.g. 28% for companies) No income tax payable if at least 28% of surplus is distributed to the parent charity.

E.g. If xyz charitable business generates a \$100 surplus for the year. If it distributes at least \$28 to the parent charity, then no income tax would be payable on the \$100. This allows the business to retain up \$72 for reinvestment in the business if it so wishes similar to a commercial company/business.

If income tax exemptions are removed, charities should be given a credit to account for the volunteer or semi-pro bono labour hours based on the living wage, when calculating their business surplus. In many cases, when the true costs are included, there will be little or no surplus.

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

Compliance costs for charities will rise, as will the cost for the government to oversee compliance. More compliance required by government increases public service costs which is contrary to what government is wanting to achieve. Is it worth it?

**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?**

The discussion paper suggests donor-controlled charities can give rise to tax avoidance issues for the IRD. We are not aware of the size of this problem. However, we would support further protections/rules being put in place to ensure donor-controlled charities and associated transactions are at arms-length.

The fundamental basis of Charitable Law and the concessions granted to Charities relies on the premise that no individual can personally benefit. If it is perceived that these structures are being exploited and individuals are benefiting, government should tighten up these rules.

**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?**

Again, we are not aware of the extent of this problem. We would support some protections/rules being put in place to address the risk of tax abuse.

**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?**

A minimum distribution each year could be problematic. The accumulation of surpluses can often be justified if the charity is doing so for a specific project. E.g. a new facility or a future programme expansion. Reserves are also necessary to meet unexpected needs or deal with economic recessions.

A Charity may for instance, purchase a property for a group undertaking charitable purposes to occupy. This is not technically a distribution, but the surplus retained funds are being used for charitable purposes.

Non-distribution of funds could have a maximum time period, but with exemptions for certain situations. Looking at other countries for workable solutions would be sensible.

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

We support a review of this. However, the tax revenue gained is likely to be very small for IRD.

Compliance costs need to be considered for small NFPs.

The \$1,000 threshold seems well out of date. There needs to be a sensible threshold where income from subscriptions and transactions with members remain non-taxable.

For amateur sports clubs, associations etc.- we would like to see the threshold being quite high. Clubs will revise subscriptions up or down based on past surpluses/losses and future outgoings. As long as surpluses can't be returned to members, then tax exemptions should continue.

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

Compliance issues.

Sensible thresholds should be in place.

**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 have no view on the implications.

**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?**

Independent remuneration surveys<sup>1</sup> show that remuneration in the NFP sector is significantly below remuneration paid for similar roles in the Public Sector and often in the Private Sector.

The exemption from FBT has historically and continues to be a way for a charity to bridge the salary gap at a lower cost to the charity.

Removing the FBT exemption would increase the payroll cost for charities.

We support the exemption continuing.

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<sup>1</sup> Strategic Pay Remuneration Surveys

Removal of the exemption would harm charities as it would mean less funds are available for their charitable works.

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

Honoria payments should not require volunteers to pay ACC levies. Therefore, the FENZ approach is sensible.

We also note that Honoraria payments seldom fully compensate the recipient for the actual time involved in carrying out particular duties for the NFP. We suggest Honoraria being tax free income up to \$5,000 per annum.

**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 concessions?**

In principle, we support the policy-related recommendations for Donation Tax Concessions as detailed in para 4.36.

It is surprising that only 57% of taxpayers are aware of the tax rebates available on donations. We believe the charity sector needs to better inform its donors that they can apply for tax rebates.

**Submitter contact names and details:**

Little Company of Mary - New Zealand	Sr Kathleen Cotterill (Trustee) and Pauline Loach-Ponga (Business Manager)
Cenacle Sisters Trust Board	Sr. Clare O'Connor (Trustee)
Presentation Sisters of New Zealand Trust Board	Sr Veronica Casey (Trustee)
Society of Mary Trust Board	Michael Smith (CFO)
Society of Mary General NZ Trust	Michael Smith (CFO)

25/03/2025

Taxation and The Not For Profit Sector  
c/- Deputy Commissioner Policy  
Inland Revenue Department  
PO Box 2198  
Wellington 6140

Dear Sir/Madam,

The following is a submission to the deputy commissioner supporting a removal of the non-taxable status of veterinary clubs currently operating in New Zealand.

The background to the submission is to address the inequity that has been in place over the last 60 years, penalising the private veterinary service providers particularly the primary production industries in providing a competitive service to customers. The initial reasons for introducing this tax exemption to veterinary clubs was to give an opportunity for veterinary services to be economic in the then marginal economic areas without such services. This time has long past and now despite these entities being supposedly limited to 'local' geographical areas are now very aggressively competing with huge advantage against the private tax paying businesses.

This is not conducive to fair and equal trading in any shape or form, and it is most unfair that private businesses in all spheres should be subsidising this activity.

If required to expand I am always available to discuss further.

Yours sincerely, s 9(2)(a)

T W Pearce BVSc BAgSc

# Taxation and the Not-For-Profit Sector

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**Date:** 28 March 2025  
**Submitted by:** Glenys Talivai, Chief Executive, Public Trust

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This submission is Public Trust's response to the IRD's Officials' Issues Paper "Taxation and the not-for-profit sector".

## About Public Trust

Public Trust is an Autonomous Crown Entity, established under the Public Trust Act 2001. As New Zealand's largest and oldest trustee organisation, we have been helping people to protect their legacies for over 150 years. We are charitable trust experts, being the trustee for 430 charitable trusts. Public Trust welcomes the opportunity to discuss any of the contents of this submission.

## Charity Business Income Tax Exemption

Currently charities that derive income from business activities are exempt from paying tax on that income to the extent that the charity's charitable purposes are carried out in New Zealand. Tax Information Bulletin Vol 36 No 10 states "Charities that engage in activities on a continuous or ongoing basis, commit time, money and effort to those activities, and conduct a large volume of transactions with the intention of making a surplus are carrying on a 'business'". Examples of 'business' activity identified in Tax Information Bulletin Vol 36 No. 10 include buying and selling shares.

The review focuses on tax-exempt business activities that are unrelated to the charitable purpose of the charity, such as a dairy farm or retail shop.

Public Trust's response to the questions in the issues paper are below.

### 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 (of the discussion document) warrant taxing charity business income?**

Public Trust does not support taxing charity business income. Charities in New Zealand currently have the ability to invest in a range of different activities, and trustees or officers have the freedom to manage those activities for the benefit of the charitable objects that make up their purpose. Some testators whose wills contain testamentary charitable trusts have included directions that their business assets (such as farms) are retained to provide income for a charitable purpose.

For charities that can decide how to invest, taxing income from unrelated businesses will have the effect of driving investment decisions to those activities that are tax exempt. The investment discretion given to the trustees will be curtailed as they will only use those activities that are tax exempt.

We do not consider that the factors described in 2.13 and 2.14 warrant taxing charity business income.

2.13 states that “Charitable trading entities may have an advantage over non-charitable entities in that they do not face compliance costs associated with tax obligations. This lowers their relative costs of doing business.” However, this statement does not consider that charities do incur significant compliance costs. These include meeting XRB reporting requirements, often being subject to audits, and adhering to Charities Services compliance. It could be argued that some charities are disadvantaged due to these additional compliance costs and the transparency of reporting, which other private businesses are not subject to.

The wide definition of “business income” is not limited to large trading companies, but also many businesses and farming operations. Such small businesses and farming operations already have the added costs of the charitable trust structure, and charities filing obligations, that other similar businesses do not have. Trustees and officers make decisions regarding retained earnings, balancing the need to invest in the business with making distributions to achieve their charitable objects. The revenue earned by and distributed by charities benefits the community. None of these factors justify taxing the income.

2.14 indicates that a charity can accumulate tax free profits to accumulate funds and grow faster. However, the primary objective of many charities is not necessarily to grow faster, but to build sustainability for the future. This sustainability is crucial to enable the charity to continue providing a benefit over the long term. As the discussion document states, any charity with the discretion to do so can invest income into the capital. The intention is to inflation proof the assets and to generate more revenue for the charitable purpose over time. Taxing non-associated businesses will not prevent this.

Importantly, charities are filling critical gaps in our communities, providing essential services and support. Taxing unrelated business activities will reduce the ability of charities to fill these gaps, which if unmet, will ultimately fall back to Government and local bodies.

### **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?**

Public Trust’s view is that there are several significant practical implications. The most significant include increased compliance costs from both a tax and income tax perspective. These costs would be in addition to the existing compliance costs imposed by XRB reporting requirements and Charities Services costs. The additional financial impacts would result in reduced funds available to be applied to charitable purposes, thereby potentially diminishing the charity’s ability to provide public benefit.

Philanthropic individuals will be less likely to gift assets for charitable purposes that will be caught by the change in tax treatment. Some trustees may decide to sell businesses due to the financial impact, and the proceeds redirected into investments that are not taxed.

### **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?**

Public Trust does not consider that unrelated business activities of charities should be taxed. However, if this did occur, we consider that fundraising activities to promote and raise money for the benefit of a charity, businesses run by unpaid volunteers, and business that sell donated goods and services should not be taxed. These activities are operated by charities that distribute

income for the benefit of the community, and taxing revenue received through these means would unfairly penalise the individuals who donate their time and their resources.

Actively traded investments should also not be taxed. Investing in financial products is a common attempt by trustees to invest prudently, diversifying risk while providing for capital growth and income. Many charitable trusts receive funds from settlors in cash, and trustees make decisions about investment that in most cases will involve a diversified investment portfolio. There does not seem to be a compelling reason to tax profits from share trading and we do not support the suggestion.

Business assets settled into a testamentary charitable trust by a testator, and operated by the trustee, should not be considered an unrelated business. These assets are typically operated by the testator before their death, and the charitable purpose is commonly aligned either to the area in which they operate, or to the industry. For example, a testamentary charitable trust that owns a dairy farm operated in partnership with a sharemilker, that provides income to support the public hospital closest to the farm.

#### **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?**

If the tax exemption is removed for charity business income that is unrelated to charitable purposes, an appropriate threshold should be established to continue providing an exemption for small-scale business activities. The proposed de minimis thresholds, excluding tier 3 and tier 4 charities, would alleviate the additional compliance burden of extra reporting for small charities. Linking the thresholds to the tier system is a more practical approach, as the criteria thresholds could be adjusted via the Charities Services requirements. Focussing on tier 1 and tier 2 charities targets the higher income earning charities, ensuring a focussed approach to the top 1,300 charities.

#### **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?**

Public Trust's strongly considers that charity business income distributed for charitable purposes should remain tax exempt. The reason that charity income has been tax exempt is to recognise the benefit that it provides to the community, and that it removes a burden of cost from the Government for assistance to vulnerable members of the community and other beneficial activity. We argue that whether income distributed for charitable purposes is derived from businesses or other income, the reason to exempt it from tax is the same.

Public Trust also considers that accumulated income used for investment into the business should not be taxed. Smaller charities that operate businesses (for example a dairy farm) would commonly distribute most of their income but can also need to use some of the income to fund capital expenditure to ensure compliance with regulations or to replace capital assets. It would be inequitable to tax this income as the expenditure is required either to comply with legislation so that the activity can continue or will enable the farm to continue to operate with adequate infrastructure. Both reasons enable income to continue to be produced that is distributed for charitable purposes.

Where there is business activity, it is prudent management to ensure sufficient funds are available for foreseeable capital expenditure. This is crucial to ensure the continued operation of the



business, allowing it to generate income that can subsequently be applied for charitable purposes. As an operating business, the charity will be required to meet a variety of external compliance standards, such as Health and Safety (H&S) regulations. Therefore, it is imperative to ensure that the business arm has sufficient funds to cover these additional costs and to meet other legislative requirements.

We consider that income earned by a charity from a business that is directly operated by the charity should be exempt. For example, investment income where the charity owns the investments, a commercial or rural property owned by the charity that is leased to a third party, or a farm owned and operated by the trustees. These charities make decisions considering capital needs and income to be distributed every year. They may need to set aside income to cover planned capital expenditure in the future and it would be illogical to tax that income, thus impairing the ability to maintain earning capability and ultimately contribute to charitable purposes.

#### **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?**

The definition of “business” should be tightened to exclude investments in shares/investment funds/ bonds etc, residential rents, commercial leases and rural leases.

An example of the effect of taxing rental income is a testamentary charitable trust with the object of providing pensioner housing at a reduced rent to aged people of modest financial means. Taxing this income would make the trust uneconomical.

#### **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?**

Public Trust does not consider that there should be a distinction between donor-controlled charities and other charitable organisations for tax purposes. Concerns have been raised by Inland Revenue about circular arrangements that benefit donors. To address this, further controls could be implemented around donation monitoring and linking donations to the donor’s personal tax positions.

#### **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?**

To address the Inland Revenue’s concern about tax abuse, it could explore implementing more checks and balances for donations. This could be achieved through enhanced policing by the Inland Revenue system and direct oversight by Charities Services. This approach would reduce the reporting burden on charities, as the necessary information could be sourced directly between Inland Revenue and Charities Services.

#### **Question 9**

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

This approach should be consistent with other charities, focussing on the Inland Revenue’s policing of donations rather than limiting the financial operations of charities to meet their

charitable purposes. This ensures that the primary mission of providing public benefit is not compromised while maintaining fairness and accountability across all charitable organisations. We do not consider that there should be a minimum distribution each year.

#### Question 10

What policy changes, if any, should be considered to reduce the impact of the commissioner's updated view of Not-for-profits (NFP), 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.

Public Trust's view is that it is of benefit to reduce compliance requirements and cost for the operations of small NFP's.

#### Question 11

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

Public Trust does not have a view on this question.

#### Question 12

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?

If the non-resident tax exemption is removed or significantly reduced, it would ensure that New Zealand taxpayers are not bearing the financial burden of non-resident services, aligning with the review's purpose. This change could increase Government revenue, which could be redirected to support local charitable activities and public service. Additionally, non-resident charities often have less transparency and accountability compared to resident charities, so removing the exemption could encourage better reporting and compliance. However, non-resident charities might face higher operational costs, potentially reducing their ability to support their charitable missions and affecting the purpose of their services. Overall, this policy change would support transparency, accountability and fair distribution of financial burdens.

#### 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?

Imposition of FBT on charities will increase compliance costs and reduce the amount of income available for distribution.

#### 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?

Public Trust does not have a view on this question.

#### 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?

Allowing tax claim refunds closer to the time of payment is a positive move that could encourage the public to make more donations by providing financial benefits sooner. Additionally, the suggestion for recipient organisations to prefill DTC forms could streamline the process, making it easier for donors to claim their tax credits. These changes would enhance the efficiency and attractiveness of the donation tax concession system, potentially increasing charitable contributions.

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

This submission on the review of *Taxation and the not-for-profit sector* is from The Clergy Trust Fund for the Roman Catholic Diocese of Christchurch – Registration no CC34610 (“The CTF”).

The purpose of the CTF is to support the clergy of the Catholic Church of the Christchurch Diocese (“the Diocese”).

All parishes within the Diocese pay one third of parishioner gifting to the CTF. The balance of the parishioner gifting remains with the individual parish for its own operational needs in fulfilling its own charitable purpose. There are also some specific collections taken up during the year which are remitted in full to the CTF.

The CTF provides a centralised point from which all incardinated clergy of the Diocese receive:

- A standardised personal allowance - there are no differences, and a member of the clergy in a small parish is paid at the same rate as any other
- A housekeeping allowance to cover food, electricity and living costs, with excess returned to the CTF
- Health care.

The CTF also pays various religious orders who provide clergy to operate in the Diocese, in agreement with our Bishop.

The CTF supported 39 priests in active ministry, semi-retired or retired, and three priests in rest home care; and supported 27 house trust accounts. The CTF also paid to source an additional four priests from religious orders. The CTF provided health care subsidies to 25 priests. (All figures FY24).

Donations and fundraising revenue amounted to \$1.645m in FY24 (\$1.477m in FY23) and accumulated funds were \$3.4m in FY24 (\$3.1m in FY23). The increase in funds was largely due to unrealised gains on investment of \$165k in FY24 (a loss of \$121k in FY23).

The CTF is dependent on donations to support the Diocesan clergy. Consistent with prudent management, the trustees determine and pay appropriate allowances and have built up the assets of the CTF – but accumulated funds at 31 March 2024 represent cover for only 22 months expenditure.

The CTF is concerned that it might be caught up in changes in taxation for charities.

Much of our current income comes from donations and our key function is to support the clergy of the Diocese. These clergy undertake significant charitable works – providing the

Eucharist and other sacraments including marriages and funerals; supporting Catholic parishes and the wider community; providing counselling; providing youth support in Catholic schools and in the wider community; providing visitations for housebound, elderly and sick; and a wide variety of other charitable works.

If our non-donation receipts, such as our investment income were to be taxed, the CTF would:

- face a reduction in income, lessening our ability to support our clergy
- necessarily incur additional administration costs associated with tax compliance.

The reality is that the realised gains from our investments are not large but moving to income tax compliance will impose significant compliance costs relative to the amount of tax which would be paid on them.

If income from our investment sources were to decline, we will have to seek additional funding from parishioners – in an already stressed economic environment this will be challenging.

We consider that the charitable work undertaken by the CTF and the charity sector generally provides an economic benefit to our country which significantly outweighs the tax concessions currently provided to those charities.

The works provided by our clergy, supported by the CTF, provide a significant societal benefit at a minimal cost to the taxpayer.

Yours sincerely

s 9(2)(a)



Graeme Wilson

Trustee

The Clergy Trust Fund for the Roman Catholic Diocese of Christchurch

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

Seed The Change | He Kākano Hāpai  
P.O Box 12-180, Beckenham  
Christchurch 8242  
Aotearoa New Zealand

21 March 2025

Tēnā koe,

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

Seed the Change | He Kākano Hāpai is a registered charity (CC55476), and we are pleased to submit our response to IRD's consultation and the Officials' Issues Paper issued on 24 February 2025.

Our submission includes our responses to the questions asked in the Officials' Issues paper. In addition to these, we also would like to note the following general comments and considerations.

1. We note that Inland Revenue and Not-for-profits and Charities' goals are intrinsically linked by contributing to the economic and social wellbeing of New Zealand (see Not-for-Profit and Charities Landscape, Sharing Insights, IRD, July 2020).
2. Numbers vary, but the Charity and Not-for-Profit sector contributes up to 4.4% of GDP. (Statistics New Zealand, 2016), with 4% of New Zealanders employed by charities.
3. We welcome a review on whether the tax settings for the not-for-profit sector are working as intended, including the benefits that are flowing through to communities.
4. The Paper implies that there is significant loss of revenue occurring. There has been no quantification of this loss to give an indication of the scale of the issue.
5. The Paper is based on the premise that "rogue" charities are widespread. Without data to refer to, it is likely that these will be a very minor percentage of organisations that are manipulating the current settings. Rather than addressing this issue through taxation rules, increasing funding to the regulatory body, Charity Services, would enable this issue to be addressed, with the ability to deregister these "rogue" entities.
6. It is the experience of members of our team, having worked in the charity sector for the past 30 years with wide networks nationally and internationally, that charities provide a significant benefit to society, and reduce the cost to the government in delivering services and public benefit. We welcome a cost / benefit analysis to inform any changes to the tax settings. Thus providing context in which charities operate.

7. The Paper refers to overseas jurisdictions without the fuller context of their overall system and principles of taxation. Selecting policies from international experience, and implementing one part of their system here could very well produce unintended consequences.
8. We note the consultation period is open for a very short period with the Officials' Issues Paper released on 24 February and submissions closing on 31 March 2025. It is likely that many charities will not have capacity to respond in such a short window due to programme delivery priorities, the volunteer nature of many charities, and simply either not hearing about this consultation or being aware of this too late in the process.
9. Given the diversity of the sector, we do not consider a blanket approach to be useful without comprehensive consultation with the sector.
10. We endorse the following insight, taken from IRD's July 2020 paper:  
*"INSIGHT 02 Not-for-profits and Charities feel a great deal of responsibility that their funds and resources are used as effectively as possible to further their cause. As funding can be lean, they often run on limited resources so need to spend money wisely. However, many Not-for-profits and Charities are spending more time and money than they would like on administration and complying with tax and other government obligations. Some struggle to meet obligations by themselves, so incur costs for support such as accounting services or software. This at a time when greater competition for funding and donor expectations means that more than ever, they need to demonstrate where money went and what was achieved with it. Some Not-for-profits and Charities need more guidance to help them meet obligations. They need rules to be simple, and streamlined processes to reduce time and money spent on administration and compliance."*
11. We welcome the continuation of simplicity, to reduce the compliance burden on charities.

We now outline our responses to the questions posed in the Officials Issues Paper.

#### Charity business 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?*

- A1.1 Business income is a significant income stream for charities. This helps charities move towards self-sufficiency and sustainability at a time when funders are looking for charities to have a sustainable and diversified income model.
- A1.2 Taxing business income for charities will significantly increase the compliance costs for charities. The context in which the majority of charities are operating in today sees the sector needing rules to be "simple, and streamlined processes to reduce time and money spent on administration and compliance".

- A1.3 We are concerned that Business Income could be interpreted as both active and passive income, which then raises the question on whether investments in funds are to be treated as Business Income? This has significant implications for many charities who have endowment funds, or rely on their investments to provide funds to cover the often unfunded overhead costs.

*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?*

- A2.1 Defining “unrelated” business income and the demarcation of related and unrelated activities is problematic. For example, one of our projects sold tea-towels as there was an alignment with the mission of the [Share Kai](#) programme. The programme did not require tea-towels to operate, so would this be considered an unrelated business activity? The revenue generated from the sale of tea-towels was 0.25% of total income for the project. The compliance cost to ring-fence this activity as taxable income, far outweighs the tax paid.
- A2.2 Defining unrelated business income raises questions on whether some fundraising activities could be then deemed as unrelated business income. For example, would a sausage sizzle be deemed an unrelated business activity through the sale of food and beverages which may be unrelated to the charity’s purpose?

*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?*

- A3.1 If the tax exemption is removed for unrelated business income we welcome clear and meaningful definition, alongwith guidelines to inform and support the sector with this change. For example does this include active and passive income? Clear examples of what is considered unrelated, and why.
- A3.2 We recommend a working group made up of a representative sample of the charity sector is convened to support IRD in the setting the criteria of definitions.

*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?*

- A4.1. We do not endorse the removal of the tax exemption for charity business income, as this provides significant opportunity for charities to move towards financial sustainability.
- A4.2 If there was to be an exemption, we recommend Tier 3 and 4 charities be exempt. A significant amount of charities in these tiers rely on volunteers to resource their activities. For example volunteer treasurer roles. Charities rely on the volunteer experience to be a positive one.



*“[GST] is pretty scary for people who are VOLUNTEERING their time and energy. Quite frankly it’s exhausting.”* (Source Not-for-profits and Charities Landscape research 2019)

- A4.3. We also welcome consideration of an exemption for small-scale business activities to be 33% of income. This would loosely align with the overhead costs of a charity. It is generally agreed that best practice is to have no more than 1/3 of total expenses being allocated to overheads. Aligning the small-scale business exemption to support overhead costs is a significant contribution to a charity’s financial position. This is in the context of many funders, including central government funds, not allowing grants to be spent on on-going operating costs.

*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?*

- A5.1 It is our view that charitable business income, both related and unrelated, should remain tax exempt. Simplicity is paramount for the sector.
- A5.2 We agree that charity business income distributed for charity business should remain tax exempt. If this were to be taxed there would be significant implications to the levels of giving from charity and non-charity businesses.

*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?*

- A6.1 Compliance costs for the charity and for government will be incurred. Ultimately this will reduce funds available for public benefit and the charitable purposes.
- A6.2 Charities should be able to claim the true cost of their business, including pro-bono or volunteer hours. With close to 160 million volunteer hours a year unpaid labour worth about \$4billion in savings to the entities deploying them. Those savings are shared with the nation when those entities are contracted by government, which a sizeable proportion of not-for-profits are (source STATE OF THE SECTOR 2022 Community and Voluntary Sector Survey Report).
- A6.3 Will charity businesses be exempt from the transparency of reporting, as non-charity businesses are? If the tax exemption is removed then a level playing field is only fair and just. Either requiring transparency for all businesses, or exemption of transparency in reporting for all businesses.

#### 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?*

- A7.1 The Officials' Issues Paper outlined concern that there is an issue here. Without quantification of the issue it is hard to understand how this is a significant issue that warrants changes as suggested.
- A7.2 Furthermore we do not believe a distinction between donor-controlled charities and other charitable organisations will be a useful distinction. It is widely accepted that philanthropic giving strengthens civil society and so should be encouraged. Simplicity is encouraged. Through our networks we have observed that the current structures and settings encourage philanthropy by donors.
- A7.3 We acknowledge and highlight the work of donor advised platforms such as [The Gift Trust](#) and Community Foundations, that hold and distribute significant level of funds for charitable purposes without issue.

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

- A8.1 Without quantification of the size of the issue, we do not endorse investment restrictions. We have not seen the abuse of these settings within donor-controlled charities. For example, we are aware of donor-controlled charities who are seeking novel solutions within the current structures, but they have always acted in good faith and sought legal advice to ensure they are operating within the remit of Charity law and tax regulations.
- A8.2 The paper refers to circular arrangements. We counter that the donors within our networks regift their tax donation rebate, amplifying the impact of their donation, which encourages giving.
- A8.3. The context of circular arrangements is not addressed. Investing in businesses may be furthering the charity's purpose, which we fully encourage.
- A8.4 It is our experience that donor-controlled charities benefit from ongoing donations from the donor that can be the financial difference of ensuring the sustainability of the organisation.
- A8.5 We note the related party transactions requirements of charities on an annual basis and consider that any "rogue" actors taking advantage of circular arrangements are few, and best addressed by the charity regulator.

*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?*

- A9.1 In relation to accumulating funds, there are many reasons that a charity may need to accumulate funds. In our experience charities accumulate funds to build up an endowment, or to build up cash reserves to see it through an often lumpy funding environment. Accumulated funds become even more important if a charity's business income is taxed, reducing the amount available for public benefit.
- A9.2 It is logical to expect that there is public benefit being received today from funds that were accumulated years ago, and it can be argued greater public benefit and impact made will likely have increased to the growth of accumulated funds. Adopting a linear approach has its limitations.
- A9.3 We encourage the adoption of a reserves policy in all charities, not just donor-controlled charities, going above and beyond the Charity Services requirements. This will clearly state why funds are being held, and adds to the transparency and trust in the sector.
- A9.4 Provided that accumulated funds are not restricted to a specific purpose (as stated in a reserves policy), we encourage distribution of funds each year, but do not consider this should be enforced by IRD, but best dealt with under reporting requirements in Charity Services. This will also add to the transparency and trust in the sector.
- A9.5 We encourage distributions be made by all charities, not specifically a donor-controlled charity, but again at the charity's discretion as there may be reasons that a charity cannot distribute in a given year. You would not want to create a situation where charities are forced to waste funds on unworthy projects because of an arbitrary statutory timeline.
- A9.6 Clear definition of "distribution of funds" is required here.

### 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.*

- A10.1 We recommend that the current \$1,000 deduction be increased to enable small scale not for profits to be removed from the tax system. Any figure needs to be commensurate with both today's pricing and fit for purpose for the next 20 years.
- A10.2 As noted in our opening statements, many smaller not for profits will likely be unaware of this consultation or have capacity to respond.

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

A11 We do not have experience with friendly societies and credit unions so do not feel we are in a position to offer an opinion.

We will not respond to Q12, Q13, Q14 as we have not had experience in these areas.

*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?*

A15. We welcome changes to the Donor Tax Concessions that will increase awareness of these settings, that encourage giving, and will enable donors to regift their rebates.

A15.2 We welcome the delinking of donor tax concessions from Income Tax, and consider real-time payments will be only beneficial for the donor and the charity involved.

A15.3 We encourage selected third parties to be able to interact with IRD systems (with strong controls in place) to enable them to claim tax donor concession on behalf of the donor. Initiatives such as Supergenous were well placed to add significant value to donors and charities, but were faced with structural roadblocks interacting with IRD.

A15.4 We welcome reforms that make tax incentives on charitable giving simpler. We go further to recommend increasing the amount of donations tax incentives. We note Australia has a 100% and Singapore a 250% rate (whilst noting these are different tax systems – and refer to our point 7 in our general comments).

In conclusion Seed the Change | He Kākano Hāpai urges the reconsideration of any proposed changes to the taxation settings for charities in New Zealand. There is significant potential negative consequences on the delivery of programmes to the charities' beneficiaries, a high administrative burden, the levels of confidence and giving, and reducing fiscal agency, which in our view outweigh the benefits that may be accrued from the proposed changes.

We welcome continued engagement with the sector to ensure the system is improved for and by those it serves.

Ngā mihi

Claire Newman

Manager

Seed the Change | He Kākano Hāpai

s 9(2)(a)

**From:** Franco Vaccarino s 9(2)(a)  
**Sent:** Friday, 28 March 2025 3:55 pm  
**To:** Policy Webmaster  
**Subject:** Discussion paper: Taxation and the Not-For-Profit Sector  
**Attachments:** Master Submission – Discussion Paper Taxation and the Not-for-Profit sector.pdf;  
Support Letter Taxation.pdf

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

Tēnā koe

As a charitable organisation, City Mission Palmerston North is submitting a letter of support for the attached document from Community Networks Aotearoa—**Discussion Paper: Taxation and the Not-For-Profit Sector**.

Furthermore, we endorse the following statement:

**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?

*Options that allow charitable organisations to minimise tax compliance costs for volunteers enable us to better fulfil our charitable purposes. We welcome extending the FENZ simplification to all NGO's, though in our situation stipends and honoraria are highly effective for recognising contributions and encouraging volunteerism, without adding the burden and compliance costs of paying a volunteer as an employee. Our volunteers generously offer their time, and since we operate in a low-risk environment (except for travel), additional ACC levies are unnecessary as compliance with the Health and Safety Act is sufficient. One suggestion we have is for Inland Revenue to provide clear guidelines for stipends that specifically cover internships to both boost the use of stipends and reduce tax compliance costs in the case of student volunteers and disabled young people. We think this could be an excellent way for disabled school leavers to gain part time work experience while being valued for their contribution. Much better option than the minimum wage exemption currently used in the for-profit sector. With over 1 million volunteer hours donated weekly in New Zealand, low compliance cost options for volunteerism are essential for charities and NGO's to offer cost effective services, particularly for disabled people and their families.*

Ngā mihi nui  
Franco

Rev Dr Franco Vaccarino  
City Missioner

338 Church St • PO Box 549  
Palmerston North



# Submission on the Discussion Paper 'Taxation and the Not-For-Profit Sector'

By Community Networks Aotearoa

## Contact Person:

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## Addressed To:

Inland Revenue  
POBox 2198,  
Wellington 6140



## Dear Sir or Madam,

Community Networks Aotearoa is the national office or umbrella organisation for non-profit networking organisations provincially and Wellington based. We are a national organisation, a communication agent, a partner with our members, a connector with our members and hopefully a catalyst for change. We provide our members with the opportunity to have their voice heard in the national arena.

We have 80 network members across the country, and considering their provincial members we believe we may reach over 10,000 organisations.

We have addressed numerous issues including questions as highlighted within the Issues Paper.

We understand that the Minister has asked for examples to our points and clarity about how this suggestion would affect Charities. To that point, this submission has more examples and discussion regarding cases in point than perhaps would normally be in a submission.

Although we recognise that there are some positive points for Charities overall, we are very concerned by this paper. This paper has some glaring flaws which need addressing, and it is also our opinion that there is a basic lack of understanding about how this sector works, and how the regulator Charities Services ensures that the majority of Charities work within all legal structures and with integrity.

This discussion paper feels like the 'thin edge of the wedge' about making inroads into Government support to the Charitable Sector. What happens if due to this consideration, multiple charities providing essential work to their communities at extremely low rates, end up closing down? Is Government prepared or interested in filling those gaps which will result as charities close, or have to charge higher rates, or are they considering using commercial companies whose basis of success is how much they can make for their stakeholders, rather than the well-being of their customers. Many in the Charitable Sector are already working on 'the smell of an oily rag'. Funding is harder and harder to access, Government does not fund contracts with cost of living adjustments nor reasonable wage allowance, and has not done so for many years. The charitable sector is already providing more for less to a point where viability is based on innovative and sometimes 'unrelated' revenue streams. Jeopardising those revenue options, could result in serious long-term consequences for the sector and for the people we serve.

It is very interesting that Inland Revenue seems interested in where the money comes from rather than the clear distinguishing interest from Charities Services of where the money goes. This shows a lack of understanding about how Charities are regulated and could create a clash of legislations making it extremely difficult for Charities to find a legislative path to follow.



## Abuse in the system.

This paper appears confused regarding abuse in the system.

We have not seen any shred of data to back up this claim in the discussion paper. Some of the points raised were already addressed by last year's change to the Charities Act eg: accumulated funds. There does not need to be yet another set of regulations overlaying what is already there, already working, and has a dedicated part of Government working on this.

Any proven abuse within the system, should be addressed through the Charities Regulator under existing Charities Law. We need these issues appropriately identified so the right means are used to address them. At the moment there is a lot of discussion about Inland Revenue using a blanket approach using taxation rules to address concerns with only with a small number of Charities.

Compliance is a heavy burden for charities already, and we have heard many times over the years promises from respective governments that this will be resolved. Instead, we are hit with even more compliance.

**"Every Tax Concession has a cost, that is it reduces Government revenue and therefore shifts the tax burden to other taxpayers."**

This statement has sparked significant discussion and once again highlights how little understanding there is about the charitable sector. This paper seems to be extremely one-sided, and this sentence is an example.

We would like to reframe this to:

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

The original statement reflects a particular way of thinking, where charities are framed in a way that makes it harder for the sector to develop diverse income streams and build some sustainability into their models of operation.

## Related & unrelated income.

There is no clarification about what related or unrelated income is. This makes a response to the discussion difficult. The paper infers that any Charity with business income should prove profits provided to the Charity are directly related to the organisation's purpose. This raises a number of questions for us at Community Networks Aotearoa.

**Q –** Are Girl Guide biscuits related or unrelated to the aims of the organisation?

**A –** One could say that the mission of the Girl Guides (we enable girls and young women to develop into confident, adventurous and empowered leaders in their local, national and global communities) does not mention biscuits, and therefore their fundraising is not related to mission, that is of course unless you consider this is learning new and innovative ways to fund their organisation or if you consider selling biscuits might teach them how to become confident, adventurous and empowered in which case maybe it is related. How do you draw that line?

**Q –** Does the SPCA Op shop make related or unrelated money?

**A –** Purpose – To advance animal welfare and prevent cruelty.

One could say that raising money at the Opshop is not related to that purpose. However, if SPCA is unable to advance animal welfare and prevent cruelty because of closure, then the money is definitely related to the ability to meet that purpose. Not to mention that 2nd hand clothing is reused to make dog beds. Are some second hand items (cat beds, leashes, water bowls) animal related and some items (tea pots etc) are not, will the charity be required to audit every item to determine what is related income and what is unrelated income?

SPCA has 28 centres, with over 30,000 animals coming through their centres each year and they need \$66 million a year to operate. With only 10% contribution from the government each year, they need to raise 90% of their funding. If they are taxed on whatever they raise, how will they survive?

These two examples are simply to show that unexplained concept of 'related' and 'unrelated' income, and fairness issues along with lack of clarity about what exactly is intended to be achieved. This issue needs to be thought about very carefully and with consideration for unintended consequences.

## **Charities with fringe benefit tax exemptions.**

The question is for many Charities is "how do we compete for staff in a world where for-profit businesses and Government can offer better wages, better terms, and other benefits to attract competent staff?".

Take for example the wage difference between Oranga Tamariki seeking counsellors for staff a few years ago, where they offered thousands more in wages than the non-profit sector could. When this happened, there was a loss of non-profit staff to Government agencies that caused a crisis in the Charitable Sector.

Staff working for government agencies received higher salaries. Fringe Benefits often are one of the few benefits that charities can use to attract good staff. Taxing this benefit runs the risk of further disadvantaging the Charitable Sector.



## **This imaginary \$2 billion rolling around the sector.**

Once again, this claim highlights how little the sector is understood. The idea that there is an "extra" \$2 billion floating around appears to come from a simplistic calculation of income minus expenses, treating the difference as untaxed profit. It's concerning that the media has picked up on this misleading narrative.

In reality, this amount includes donations, timing differences, and funds earmarked for future events or projects beyond the financial year. It is money raised for specific purposes, not excess profit.

Most importantly, this calculation completely ignores the immense contribution of volunteer labour. Recent figures indicate that volunteers contribute 1.4 million hours per week. If even the minimum wage were applied to this, the so-called \$2 billion would quickly shrink.

## **Accumulated surpluses.**

On one hand Government has strongly encouraged Charities to find alternative sources of funding other than Government contracts. Social Enterprise was deemed the responsible path for non-profit organisations to fund the good they do in the community. Additionally, it has been considered prudent for Charities to maintain healthy reserves to ensure continuation of business and the ability to plan into the future. On the other hand, there seems to be a level of discomfort when this is achieved.

Most funding sources allow only one or two chances a year to apply for funding and if you are lucky enough to be the recipient of this funding, it will usually preclude you from reapplying in that same fiscal year. Some funders will not fund a charity for more than 3 years in a row, with a view that they do not want to create a 'dependence' on that funding. Alternative and self-sustaining funding sources can therefore be critical to the survival of a charity.

Charities have had to find innovative and other ways to not only top up the shortfall in Government contracts (Martin Jenkins 2019), but to ensure their fiscal security. Social Enterprise has been an encouraged and at times, favoured method that has been used by Charities now for years. Charity Social Enterprises are not taxed on their income because that income cannot go out to private pecuniary gain. Instead, that income is directed towards Charitable purposes. Any abuse of that, is appropriately directed towards Charity Services (the regulator) to investigate.

Over a financial year there are many reasons why surpluses might accumulate. Saving a year's operating costs is policy that CNA has, and we have given a dollars and cents amount to this saving in those policies. We also may have money that carries over towards projects and bills to be paid in the next financial year.

Community Networks Aotearoa have produced an on-line training programme called Tick for Governance (it is our belief that this fits the aims of our organisation) and we charge \$10.00 per module. This has become part of our income that we apply towards the annual charge for the platform where our training programme is held. So far this income has not covered the annual cost, even though we have over 1,000 people take up the programme. Taxing this income could result in the platform being unaffordable – and a very valuable and affordable governance training tool could be lost to the sector.

How is this problem solved? Charities Services had a change in law last year requiring Charities explain the purpose of their accumulated funds in their annual performance review. Why is Inland Revenue trying to come in over the top of these regulations with more blanket legislation that is currently unnecessary?

What if a Social Enterprise is not a direct line to the purpose of the Charity, yet without it the Charity does not have enough funding to continue. Then surely the Charitable business is, in fact, a direct line to the purpose of the Charity. This is a grey area, that Inland Revenue seems to have no explanation for.

The sector aims to promote sustainability and innovation, but imposing taxes based on questionable reasoning could lead to unintended consequences that may not have been fully thought through.

- We question if Charities should provide services for the vulnerable and if those services should be run by local communities or by Government.
- Taking away business income directly affects their financial sustainability.

Some for-profit business owners claim that charitable businesses with tax exemptions have an unfair advantage—but this is a myth.

First, charities face significantly higher compliance costs and scrutiny than for-profit businesses. Unlike businesses that receive government contracts, charities are often subjected to the argument that “taxpayers fund you, so you must comply with public demands.”

Additionally, charities rely on fundraising and street appeals to support their work—something businesses never have to do just to operate. They also navigate complex and sometimes contradictory regulations from multiple government agencies.

If the tax-exempt status of charities truly created a competitive edge, we would expect to see businesses rushing to establish op shops or small social enterprises. Yet, that isn't happening.

- Stopping the innovation required via taxing income from Charity business will put pressure on both Government and philanthropic entities to meet the need that Charities are currently addressing.



- Charities are much more cost effective and if Government reduces the support settings for Charities, then Charities capacity to provide services will be lessened. This could be a political risk for the government.

If charities can no longer rely on their existing income sources to meet their needs, competition among them will intensify. This will place even greater strain on fundraising efforts, which are already becoming increasingly difficult to secure for charitable purposes. Charities need to work together for public benefit, not in competition.

- The current simplicity of the New Zealand tax system enables efficiency. This proposal is not simple.
- This suggested tax change will benefit lawyers, accountants and auditors who Charities would need to navigate the system. Most charities have huge trouble finding affordable professional services without this additional compliance requirement.
- Any tax exemption must remain aligned with statutory financial reporting tiers.

At this point we would like to reiterate the summary of thoughts on each of the 15 questions in the Tax Consultant paper as considered by Craig Fisher a member of the External Reporting Advisory Panel of XRB and Steven Moe, Barrister and Solicitor and partner at Parryfield Lawyers. CNA and other signatories to this submission agree with the following:

Charities business income tax exemption	Thoughts to ponder for submissions
<p><b>Q1.</b> What are the most compelling reasons to tax, or not to tax, charity business income? Do the factors described in 2.13 and 2.14 warrant taxing charity business income?</p>	<ul style="list-style-type: none"> <li>• Taxing charity business income discourages them from being innovative and seeking sustainable income streams</li> <li>• It will increase compliance costs while not meaningfully increasing revenue</li> <li>• It perpetuates a view of charity that donations are their only domain</li> <li>• This may open the door to other changes e.g. why not tax passive income from investments in funds which are unrelated to the charities purposes?</li> </ul>

<p><b>Q2.</b> If the tax exemption is removed for charity business income that is unrelated to charitable purposes, what would be the most significant practical implications?</p>	<ul style="list-style-type: none"> <li>• How to define what is “unrelated” would be challenging.</li> <li>• Wouldn’t a company just find other ways to do the same thing e.g. donating out profits to the charity, so it wasn’t taxed – so what is gained?</li> <li>• What are the objective measures and figures on these proposals, how much is even involved?</li> </ul>
<p><b>Q4.</b> If the tax exemption is removed for charity business income that is unrelated to charitable purposes, what would be an appropriate threshold to continue to provide an exemption for small-scale business activities?</p>	<ul style="list-style-type: none"> <li>• Consider your context and how this line might be drawn.</li> <li>• Monetary limit?</li> <li>• Tier 3 and 4 charities (the smaller ones) being exempt?</li> </ul>
<p><b>Q5.</b> If the tax exemption is removed for charity business income that is unrelated to charitable purposes, do you agree that charity business income distributed for charitable purposes should remain tax exempt? If so, what is the most effective way to achieve this? If not, why not?</p>	<ul style="list-style-type: none"> <li>• While this seems logical it begs the question as to what is being achieved as wouldn’t a business just do this?</li> <li>• If this were not allowed, then would it impact on charitable giving from non-charity businesses as well reducing the amount they give</li> </ul>
<p><b>Q6.</b> If the tax exemption is removed for charity business income that is unrelated to charitable purposes, what policy settings or issues not already mentioned in this paper do you think should be considered?</p>	<ul style="list-style-type: none"> <li>• This will increase compliance cost for both government and charities, reducing funds available for charitable purposes.</li> <li>• the valuation of pro bono or semi pro bono services as input expenses. Labour cost is a significant input expense for any business. Currently many in the charitable sector receive some pro bono or semi pro bono labour.</li> <li>• Accordingly, it would be important for charities to be able to claim the true cost of their business in any income tax return. This raises the conundrum for the tax department as to what the appropriate fair labour costs should be.</li> </ul>

	<ul style="list-style-type: none"> <li>Currently there is not a level playing field as regards transparency of reporting with for-profit businesses, i.e. charities have to currently meet a higher level of public transparency. Failure to address this issue results in charities being at an unfair competitive disadvantage with for-profit businesses.</li> </ul>
<b>Chapter 3: Donor-controlled charities</b>	
<p><b>Q7.</b> Should New Zealand make a distinction between donor-controlled charities and other charitable organisations for tax purposes? If so, what criteria should define a donor-controlled charity? If not, why not?</p>	<ul style="list-style-type: none"> <li>Very unclear extent to which this is a major issue, or if there are just a few examples or instances.</li> <li>Will a distinction be helpful or add additional complexity without much real impact?</li> </ul>
<p><b>Q8.</b> Should investment restrictions be introduced for donor-controlled charities for tax purposes, to address the risk of tax abuse? If so, what restrictions would be appropriate? If not, why not?</p>	As above
<p><b>Q9.</b> Should donor-controlled charities be required to make a minimum distribution each year? If so, what should the minimum distribution rate be and what exceptions, if any, should there be for the annual minimum distribution? If not, why not?</p>	<ul style="list-style-type: none"> <li>Perhaps policy question should be whether this should apply for all charities not just donor-controlled?</li> <li>To determine the figure perhaps continue with looking at what is done in other places.</li> </ul>

Chapter 4: Integrity and simplification	
<p><b>Q10.</b> What policy changes, if any, should be considered to reduce the impact of the Commissioner's updated view on NFPs, particularly smaller NFPs? For example:</p> <ul style="list-style-type: none"> <li>• Increasing and/or redesigning the current \$1,000 deduction to remove small scale NFPs from the tax system,</li> <li>• Modifying the income tax return filing requirements for NFPs, and</li> <li>• Modifying the resident withholding tax exemption rules for NFPs.</li> </ul>	<ul style="list-style-type: none"> <li>• Many of these points will be specific for small charities and mutuals so consider your context and if it will impact your situation.</li> <li>• As a policy point, these smallest of small charities probably won't be aware of the consultation or have the capacity to review and submit on the points raised.</li> <li>• We note that the \$1000 deduction seems both small and a very old number. As such if this is designed to remove small scale in NFPs from the tax system it will likely require increasing.</li> </ul>
<p><b>Q11.</b> What are the implications of removing the current tax concessions for friendly societies and credit unions?</p>	<p>As above</p>
Income tax exemptions	
<p><b>Q12.</b> What are the likely implications if the following exemptions are removed or significantly reduced:</p> <ul style="list-style-type: none"> <li>• Local and regional promotional body income tax exemption,</li> <li>• Herd improvement bodies income tax exemption,</li> <li>• Veterinary service body income tax exemption,</li> <li>• Bodies promoting scientific or industrial research income tax exemption, and</li> <li>• Non-resident charity tax exemption?</li> </ul>	<p>These are quite specific provisions – for those mentioned it could have big implications so suggest if you are one of these entity types consider submitting on how it would impact your ability to operate.</p>



FBT exemption	
<p><b>Q13.</b> If the compliance costs are reduced following the current review of FBT settings, what are the likely implications of removing or reducing the exemption for charities?</p>	<ul style="list-style-type: none"> <li>• This does make policy sense but if your charity will be impacted greatly then suggest you explain how and why.</li> <li>• The likely implications of removing or reducing the exemption for charities will be significant for some charities in their ability to compete for appropriate labour resource with the for-profit sector. It will also increase compliance costs in accounting for any fringe benefits that may still be provided.</li> </ul>
Tax simplification	
<p><b>Q14.</b> What are your views on extending the FENZ simplification as an option for all NFPs? Do you have any other suggestions on how to reduce tax compliance costs for volunteers?</p>	<p>This is not an issue we have seen talked about regularly before as an issue.</p>
<p><b>Q15.</b> What are your views on the DTC regulatory stewardship review findings and policy initiatives proposed? Do you have any other suggestions on how to improve the current donation tax concession rules?</p>	<ul style="list-style-type: none"> <li>• These seem like sensible suggestions so worth endorsing and adding any other suggestions on improving donation tax credit system.</li> <li>• Perhaps due to so many steps there is a lot unclaimed – there is the lag of giving, getting a donation receipt, then claiming at year end (easy to lose receipts, forget to claim).</li> </ul>

Community Networks Aotearoa appreciates the opportunity to provide input into this consultation and strongly encourages Inland Revenue to consider the distinct nature of Charities in any tax reform. We would welcome further discussion and engagement to ensure that New Zealand's tax settings remain fit for purpose and support the sustainability of the Charities sector.

**Ros Rice**

**Executive Officer**

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## Supporting signatories to this submission.



# Submission on the Discussion Paper 'Taxation and the Not-For-Profit Sector'

By Community Networks Aotearoa

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## Dear Sir/Madam

Our organisation CITY MISSION PALMERSTON NORTH would like to forward this Letter of Support of the submission from Community Networks Aotearoa forwarded to IRD on Wednesday 26.3.25 at 3.54pm.

Name: FRANCO VACCARINO

Organisation Name: CITY MISSION PALMERSTON NORTH

Address: 338 CHURCH STREET  
PALMERSTON NORTH

Signature: s 9(2)(a)

Community Networks Aotearoa appreciates the opportunity to provide input into this consultation and strongly encourages Inland Revenue to consider the distinct nature of Charities in any tax reform. We would welcome further discussion and engagement to ensure that New Zealand's tax settings remain fit for purpose and support the sustainability of the Charities sector.

## **Ros Rice**

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## **Supporting signatories to this submission.**







# Submission to Inland Revenue: Taxation and the not-for-profit sector

Submitter: Ka Puta Ka Ora Emerge Aotearoa

## About Ka Puta Ka Ora Emerge Aotearoa

Ka Puta Ka Ora Emerge Aotearoa (Emerge Aotearoa) is the trading name for the charitable Emerge Aotearoa Trust Group (CC54096) which, through a number of entities, delivers a broad range of health, housing, and wellbeing services.

As a trusted provider to a broad range of government agencies, we have a track record of delivering services that produce positive outcomes for tāngata whaiora and whānau. As one of Aotearoa's largest non-governmental organisations, our 1500 kaimahi support thousands of people from diverse communities across Aotearoa.

## Summary of major points and recommendations

- Tax concessions to charities are not a cost or burden to other taxpayers. They are an investment in a better Aotearoa. The conversation around tax concessions should be premised on an intent to empower and enable charities to do more, rather than to limit and restrict them.
- There's an implication in the Issues Paper that retained earnings are in some way inappropriate. Our view is that if retained earnings are used to achieve charitable purposes, they positively compound Aotearoa's return on the investment made into the charitable sector by way of tax concessions.
- It is critical that any changes to tax rules – whether by deliberate intent or as a result of unintended consequences – do not disincentivise or hamper innovation being driven by those charitable organisations that have the resources and capability. Could technology-driven innovation, for example, be held back by a) business model complexity or b) uncertainty and risk aversion driven by tax considerations? An optimal charitable sector needs an environment that encourages money being put to work to have greater impact.
- We believe it is cleaner and easier to use the Charities Act/Charities Law to determine if an organisation should be assessed as charitable or not, rather than adding new and different hurdles by way of tax-driven rules and definitions. If abuse of tax concessions is the primary issue, then ensuring regulators have sufficient resources to investigate and act on alleged abuses would be the more effective approach.

I welcome further discussion with Inland Revenue officials regarding this submission.

John Cook  
Group Chief Executive  
s 9(2)(a)



## Responses to Issues Paper questions

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

Section 1.1 of the Issues Paper states that tax concessions to charities and not-for-profits “*support organisations that provide public benefit*”. We would argue that such concessions are, in fact, an investment in organisations that provide public benefit. Without this investment, the for-purpose/charitable sector would have greatly reduced capacity and New Zealand would be poorer as a result.

Section 1.4 of the Issues Paper says “*Every tax concession has a “cost”, that is, it reduces government revenue and therefore shifts the tax burden to other taxpayers.*” This is wrong thinking. Many charities cost-effectively address community need and provide essential services, without which Aotearoa would be carrying an even heavier social and economic burden.

Tax concessions to charities are not a cost or burden to other taxpayers. They are an investment in a better Aotearoa. The conversation should be premised on an intent to empower and enable charities to do more, rather than to limit and restrict them.

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

There’s an implication in this question that retained earnings are in some way inappropriate. Our view is that if retained earnings are used to achieve charitable purposes, they positively compound Aotearoa’s return on the investment made into the charitable sector by way of tax concessions. Emerge Aotearoa, for example, has used retained earnings to proactively address gaps in mental health and housing provision in Aotearoa.

- Since 2019 the Emerge Aotearoa Trust Board has launched and nurtured a new social enterprise with the express purpose of enabling better access for workers to mental health and wellbeing services. Today that business, Ignite Aotearoa, provides tens of thousands of Kiwis with access to a network of service providers through Employee Assistance Programmes, Association Schemes and Tertiary Institution initiatives.
- EaseUp is a service supporting rangatahi experiencing challenges with mental wellbeing, alcohol and/or other drugs. The service was the result of an investment made by Emerge Aotearoa Trust using retained earnings to fill what the Trust saw as a large and unmet community need. From small beginnings the service now receives Te Whatu Ora funding and operates in a growing range of locations in Auckland and the Waikato.
- Emerge Aotearoa has been a major investor in the development of new social housing in recent years using retained earnings. This has taken the form of grants to the Emerge Aotearoa Housing Trust (an entity within the Emerge Aotearoa Trust Group) which, through steady growth in recent years, is now a substantial social housing provider and a Strategic Partner to the Ministry of Housing and Urban Development as it seeks to grow Aotearoa’s social housing pool.



These examples demonstrate the compounding benefit that results from investment made by way of tax concessions for charities; funds are retained and re-invested to have impact and make a difference. It is critical that any changes to tax rules – whether by deliberate intent or as a result of unintended consequences – do not disincentivise or hamper initiatives and innovation being driven by those charitable organisations that have the resources and capability.

In particular, any change that effectively forces charities to spend accumulated funds would be counterproductive.

- Firstly, like any business, charities need to have a pool of ‘rainy day’ funds to draw on in case of adverse events. The larger the business, the larger those ‘rainy day’ funds need to be. For charities like Emerge Aotearoa, which contracts with Government to provide services in the community, retained earnings are an essential risk management mitigation due to the short term nature and 90 day “termination for convenience” clauses in those contracts.
- Secondly, if a charity has aspirations to do more for the benefit of its communities, it needs funds to fuel that aspiration. An optimal charitable sector needs an environment that encourages money being put to work to have greater impact.

Recent changes to the regulatory environment for charities would appear to be attacking Inland Revenue’s questions from a different perspective. Updated accounting standards requiring Statements of Service Performance and the 2023 amendments to the Charities Act requiring organisations to explain accumulated funds are a potentially more useful starting point for the discussion around tax exemptions. Both initiatives are mechanisms that could be used to identify targeted interventions. If abuse of tax concessions is the primary issue, then ensuring regulators have sufficient resources to investigate and act on alleged abuses would be a more effective approach than creating blanket tax rules that impact the whole NFP sector.

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

All Emerge Aotearoa Group business income is generated from activities that directly relate to our charitable purposes. Nevertheless, we are concerned that systems or processes established by Inland Revenue to police this carve-out could create new compliance hurdles. For example:

- Could opportunities to strengthen a charitable business through vertical or horizontal diversification be inhibited or avoided because of perceived compliance risks or additional legal and accounting costs required to manage those risks?
- Could the development and distribution of technology-driven innovation in the community sector be held back by a) business model complexity or b) uncertainty and risk aversion driven by tax considerations?



Any impacts that inhibit new thinking and approaches to service delivery would erode the value the charitable sector can deliver for Aotearoa.

**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 question the logic of defining related and unrelated businesses.

Sections 2.7 to 2.12 of the Issues Paper indicate a more-or-less level playing field for tax paying and tax exempt entities. Sections 2.13 and 2.14 discuss “second order imperfections” in the tax system which are arguably immaterial. Hence, competitive advantage is not the reason driving this discussion. Why, then, should it be necessary to draw a distinction between business income from related businesses and unrelated businesses?

The important point is whether or not all business income is used to advance the charity’s purposes. This should be assessed using Charities Law and regulation, rather than adding new hurdles in the form of tax-driven rules and definitions.

Inland Revenue’s implied direction raises the prospect of additional complexity and compliance costs as well as unintended consequences that could impact the return on Aotearoa’s charitable tax concession investment. For this reason, we believe maintaining the current exemption for all registered charity business income makes best sense, and the concerns implicit in the Issues Paper should be addressed through Charities Law and the Charities Services regulatory framework.

Thank you for the opportunity to participate in this consultation.