

Summary of submissions on the “Taxation and the not-for-profit sector” officials’ issues paper

Issued: July 2025



Inland Revenue
Te Tari Taake

Background

1. On 24 February 2025, Inland Revenue published an officials' issues paper: [*Taxation and the not-for-profit sector*](#) (the Issues Paper) that sought public views on matters relating to the charities and not-for-profit (NFP) sector. The closing day for feedback was 31 March 2025. This document provides a summary of the broad themes from submissions received.
2. On 7 July 2025, Inland Revenue released 826 submissions received in response to the Issues Paper. In general, personal contact details of individuals and information relating to the tax affairs of third parties were redacted. Additionally, several submitters requested that part, or all, of their submission be withheld; appropriate redactions were made in accordance with the Official Information Act. Some submissions were also received after the closing date for submissions and were not included in the initial analysis. These submissions were acknowledged and will be considered in future policy work, but they are not part of this proactive release.

Issues Paper submissions

3. Submissions on the Issues Paper are compiled within approximately 15 combined files on Inland Revenue's website. Specific submissions can be found via word-search within the document, or by searching a submitter's name in the website's search function.
4. The broad themes that came through from submissions are summarised below.

Common general themes from submitters

5. **Timeframe and process:** Many submitters said the consultation needs more time to deal with such complex issues. Submitters suggested that further consultation with the sector and other stakeholders should be undertaken before any decisions are made to proceed.
6. **NFPs provide a net benefit, not a net cost, for the Government:** Many submitters said that the fiscal cost of NFP tax exemptions is only one side of the equation and that NFPs save government expenditure and provide a net gain for the Government.
7. **Insufficient problem definition:** Some submitters said the Issues Paper lacked clarity about the "problem definition".
8. **It is better to focus on "bad actors":** Submitters said the focus should be on strengthening existing regulatory oversight for those abusing the current exemptions rather than introducing blanket tax measures. Some submitters suggested that narrowing the definition of "charitable purpose" in the Charities Act 2005 may be a more appropriate way to deal with "bad actors" and/or applying the existing anti-avoidance provisions.

9. **Consideration of the Treaty of Waitangi:** Submitters, including iwi, said the consultation did not consider the unique circumstances of iwi and Māori entities. This includes considering entities established to receive Treaty of Waitangi settlement assets.

Themes from the five key topics

Charity business income tax exemptions

10. **Views on competitive advantage:** While some submitters, including economists, agreed with Inland Revenue's view that the charity business tax exemption did not give charity businesses a competitive advantage, some other submitters disagreed on this point, arguing there are specific sectors where charities have a competitive advantage.
11. **A change is not warranted:** Some submitters said New Zealand's charitable framework has traditionally followed a "destination of income" approach.
12. **Complexity including definitional issues:** Many submitters said the definition of "unrelated" business activity would need to be clear to avoid ongoing litigation.
13. **Cases for exclusions for iwi and certain groups:** Certain groups said they should be excluded from any proposed changes due to their specific circumstances.
14. **Unlikely substantial revenue would be collected:** Various submitters were sceptical that much revenue would be collected if the charity business income tax exemption was removed. It was also noted that additional government funding would be required to deliver the essential services currently provided by charities to avoid social costs.
15. **Alternative proposal – minimum distribution rule:** Several submitters said setting a minimum annual distribution requirement would be a more effective policy response to address concerns the Government has on accumulation of funds within charity businesses.

Donor-controlled charities

16. **Acknowledgement of integrity concerns:** Supporters of the proposed changes agreed that some integrity concerns need to be addressed.
17. **Specific rules not warranted:** Some submitters took the view that the existing legislative regime for charities is already rigorous and robust enough. There were concerns that new rules would unnecessarily increase compliance costs.
18. **Context of scale:** Others noted that a more detailed analysis of the scale of the problem is needed before supporting specific rules.
19. **Legitimate reasons for accumulating funds:** Submitters pointed to various reasons why a charity may delay the release of its funds.
20. **Need for clear definitions:** Submitters raised several definitional challenges, for example that an overly wide definition runs the risk of capturing a number of Māori organisations.

21. **Potential implications of changes:** Introducing rules for donor-controlled charities could discourage private proactive philanthropy, increase compliance costs, erode a charity's asset base, or hinder the long-term financial growth of charities.

NFP and friendly society member transactions

22. **Take all NFPs out of the income tax system:** Some submitters said NFPs should receive a full income tax exemption on the basis that they also provide important benefits to the community.
23. **Member subscriptions should remain non-taxable:** If membership subscriptions were to be seen as taxable, some submitters said a law change should be considered to ensure they remain non-taxable in recognition of the important role NFPs provide in their communities.
24. **Support for a de minimis (tax-free) threshold:** There was near-universal support from those that submitted on the mutuality topic that the \$1,000 income tax deduction was too low and should be increased.
25. **Support for simplification of filing requirements:** There was broad support for simplifying filing requirements for small-scale NFPs as well as the retention of the RWT exemption.
26. **Financial pressure:** If member subscriptions were to become taxable, this would place a significant amount of financial pressure on NFPs, in particular smaller NFPs.
27. **Reduction of services:** Financial pressure could result in the reduction of services and benefits provided to members and the community.

Tax exemptions that may no longer be fit for purpose

28. **Integrity and Fairness concerns:** Some submitters said the exemptions are not justified due to integrity and fairness concerns.
29. **Community benefit and net gain:** However, other submitters said the exemptions are justified because they support the delivery of public services and provide a net gain rather than a loss for the Government. Submitters said that to remove the exemptions would impose significant compliance, restructuring and administrative costs without raising a large amount of revenue.

Tax simplifications for volunteers and donation tax concessions

30. **Simplification:** There was support for work to simplify the treatment of payments to volunteers, the tax treatment of honoraria, and the donation tax concession system. Various submitters also provided alternative suggestions for ways to improve these areas.
31. **Impact on charities:** Some submitters said that any impact on charities, such as administrative costs or unintended consequences, must be carefully assessed against the benefits.