Inland Revenue
Te Tari Taake

Regulatory Impact Statement: Tax policy settings for taxable not-for-profits – statutory deduction and related measures

Decision sought	*Final Cabinet decisions*
Agency responsible	*Inland Revenue*
Proposing Ministers	*Minister of Finance, Minister of Revenue*
Date finalised	*26 August 2026*

Description of the Ministers' regulatory proposal

To keep smaller not-for-profits out of the tax base and to reduce compliance and administrative costs, the Ministers' regulatory proposal is to increase the statutory deduction (effectively a tax-free threshold) for not-for-profits from a maximum of $1,000 (available to all not-for-profits) to a maximum of $10,000, but targeting the deduction at not-for-profits with net income of $10,000 or less. As a consequence of this proposal, Ministers also propose exempting not-for-profits with income of $10,000 or less (before applying the statutory deduction) from having to file income tax returns unless requested to do so by Inland Revenue, and to require financial institutions to report interest income information to Inland Revenue for resident withholding tax (RWT)-exempt customers.

The proposals in this statement were developed in conjunction with related tax setting options for ensuring membership subscriptions and levies remain non-taxable for not-for-profits. Those options are considered in more detail in the Regulatory Impact Statement, "Tax policy settings for taxable not-for-profits – membership subscriptions and levies".

Summary: Problem definition and options

What is the policy problem?

Not-for-profits, particularly smaller not-for-profits, are often run on limited budgets and rely on part-time staff and volunteers to meet their tax obligations. It is therefore desirable to reduce their compliance costs when possible. At the same time, Inland Revenue needs to be able to ensure not-for-profits are meeting their tax obligations.

Profits from member trading transactions and all non-member transactions continue to be taxable for not-for-profits (unless they qualify for a specific income tax exemption, such as charities and amateur sporting bodies). Currently, all not-for-profits meeting certain criteria, regardless of size, are entitled to claim a statutory deduction of up to $1,000 against their net income. The value of this statutory deduction has not increased since 1979 and has therefore not kept pace with inflation. Today, more not-for-profits will have income over $1,000 resulting in them entering the tax base. Accordingly, the compliance cost reduction benefit of the statutory deduction to the sector overall is diminishing with the passing of time. We also consider that the statutory deduction is not well-targeted and that there is no sound policy rationale for giving large not-for-profits a statutory deduction to offset against their income.

Settings for the statutory deduction have flow-on effects relating to other tax settings for not-for-profits, namely, eligibility for the income tax return filing and RWT exemptions.

What is the policy objective?

The objective behind considering a change to the value of the statutory deduction is to ensure the statutory deduction remains an effective compliance cost reduction measure by keeping not-for-profits with smaller amounts of income out of the tax base. A second objective is to ensure the statutory deduction is appropriately targeted and represents good value for money in a constrained fiscal environment.

What policy options have been considered, including any alternatives to regulation?

Both statutory deduction options considered in this RIS would increase the statutory deduction to a maximum of $10,000. Although other values were considered, such as an inflation-adjusted increase to approximately $6,900, the $10,000 value received the most support from submitters during public consultation. We consider that $10,000 represents the most appropriate value. The two options considered therefore differ in respect to which not-for-profits would be eligible for the statutory deduction, as follows:

- **Option 2:** Increase the statutory deduction to a maximum of $10,000 targeted at not-for-profits with net income of $10,000 or less.
- **Option 3:** Increase the statutory deduction to a maximum of $10,000 available to all taxable not-for-profits that meet the current statutory deduction eligibility criteria.

Because increasing the statutory deduction would have flow-on consequences for other not-for-profit tax settings, additional consequential proposals are included as part of Options 2 and 3 to further reduce compliance costs while allowing Inland Revenue to monitor compliance. The consequential proposals considered are a tax return filing exemption for not-for-profits with income of $10,000 or less, and a requirement that financial institutions report interest income information for RWT-exempt customers to Inland Revenue.

What consultation has been undertaken?

The proposals in this document have been informed by three rounds of public consultation:

- Issues paper “Taxation and the not-for-profit sector” was released in February 2025 and over 900 submissions were received.
- Draft operational statement, ED0265 “Mutual transactions of associations (including clubs and societies)”, was released in April 2025 and 73 submissions were received.
- Targeted consultation on the detailed design commenced in November 2025 and 140 submissions were received.

The majority of submitters considered the statutory deduction should be increased to $10,000 and that it should be available to all not-for-profits, not targeted at those with income of $10,000 or less. There was broad support for the consequential proposal to exempt smaller not-for-profits from having to file tax returns. Financial institutions said that they would prefer not to have to report interest income information for a wider group of customers but, if required to do so, they asked that reporting be for all RWT-exempt

customers, not just not-for-profits eligible for the statutory deduction, and that sufficient lead time be given to allow the necessary system changes to be made.
Is the preferred option in the Cabinet paper the same as preferred option in the RIS? Yes.

Summary: Ministers' preferred option in the Cabinet paper

Costs (Core information)
Outline the key monetised and non-monetised costs, where those costs fall (e.g. what people or organisations, or environments), and the nature of those impacts (e.g. direct or indirect) Under Option 2, increasing the statutory deduction to a maximum of $10,000 for not-for-profits with net income of $10,000 or less is expected to have a revenue cost to the Crown of $0.990 million over the forecast period. Approximately 200 not-for-profits that with net income over $10,000 would no longer be eligible for the statutory deduction. The consequential proposals do not have a fiscal cost. There is not expected to be any increase in administrative costs for these proposals. We note that there would be a cost involved for financial institutions to make the necessary system changes to report interest income information for RWT-exempt customers.
Benefits (Core information)
Outline the key monetised and non-monetised benefits, where those benefits fall (e.g. what people or organisations, or environments), and the nature of those impacts (e.g. direct or indirect) Under Option 2, there would be compliance cost savings because not-for-profits with income of $10,000 or less before applying the statutory deduction will be outside the tax base and returns would not need to be filed. We note the compliance cost reduction may not be as significant for incorporated societies, or for other not-for-profits with income close to $10,000. For incorporated societies, this is because they would still be required to prepare, and in some cases file, financial accounts under the Incorporated Societies Act 2022. For not-for-profits with income close to $10,000, this is because they would still need to take steps to determine what their income is to ascertain whether they qualify for the statutory deduction and filing exemption. An increase in integrity and compliance is also expected under Option 2 because smaller not-for-profits would need to consider their tax obligations each year when determining if they are eligible for the statutory deduction and filing exemption. This is expected to address the misconception, particularly among smaller not-for-profits, that they are wholly tax exempt. This misconception has arisen under the status quo settings and would continue under Option 3 given its universal entitlement design. Because of the targeting of the standard deduction under Option 2, the above benefits would be delivered for a lower fiscal cost than under Option 3.
Balance of benefits and costs (Core information)
The preferred option is expected to deliver net benefits by increasing the statutory deduction to a maximum of $10,000 targeted at smaller not-for-profits, together with a legislated filing

exemption and interest reporting for RWT-exempt customers, reducing compliance and administrative costs as well as improving integrity.

The main cost is the fiscal cost of increasing the statutory deduction for eligible not-for-profits. Financial institutions would also face implementation costs from the interest income reporting requirement. On balance, these costs are considered proportionate because the preferred option targets relief to smaller not-for-profits and gives Inland Revenue better information to monitor compliance.

Implementation

How will the proposal be implemented, who will implement it, and what are the risks?

There is a risk some small not-for-profits may continue to believe they are wholly tax exempt or tax exempt on all member trading transactions. Guidance from Inland Revenue, and the targeted statutory deduction, will mitigate this risk and improve certainty about the current law.

It is intended that all changes would come into effect for the 2027–28 income year, except for the interest income reporting proposal, which would come into effect from 1 April 2028. This later application date is intended to give financial institutions additional time to make the necessary system changes to report interest income information for RWT-exempt customers.

Limitations and Constraints on Analysis

Relevant data on the taxable not-for-profit sector is somewhat limited. The not-for-profit sector includes 26,000 entities, ranging from very small local clubs to large national organisations, that are not eligible for income tax exemption. Income tax returns are not filed by approximately 22,000 of these taxable not-for-profits because they have, at some point, informed Inland Revenue their net income is $1,000 or less and Inland Revenue has not required them to file income tax returns. This means that current Inland Revenue data is limited for this group of not-for-profits (for example, it will only exist if they are registered for other taxes such as GST or PAYE). Although incorporated societies do submit detailed financial accounts to the Registrar of Incorporated Societies, they account for approximately one third of the 22,000 taxable not-for-profits and the financial information is provided in PDF format, so it is not possible to analyse it without manual intervention.

The choice of options has been constrained because the policy problem has not been identified from a first-principles review of the existing legislation but from Inland Revenue's new draft interpretation of existing law.

I have read the Regulatory Impact Statement, and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits, and impact of the preferred option.

Responsible Manager's signature: s 9(2)(a)

Charles Ngāki
Policy Lead
26 August 2026

Quality Assurance Statement	
Reviewing Agency: Inland Revenue	**QA rating:** Meets

Panel Comment:

The quality assurance panel from Inland Revenue has reviewed the regulatory impact statement (RIS) titled "Tax policy settings for taxable not-for-profits – statutory deduction and related measures" prepared by Inland Revenue and associated supporting material on 25 August 2026. The panel considers that the information and analysis summarised in the RIS **meets** the quality assurance criteria.

The analysis is supported by extensive consultation and available administrative data. While there are limitations in Inland Revenue's data for a significant proportion of smaller taxable not-for-profits, these limitations are clearly identified and appropriately discussed. In our view, the evidence available is sufficient to support the assessment of the options and the conclusions reached, and the uncertainty arising from data constraints is not material enough to alter the overall policy recommendations.

Section 1: Diagnosing the policy problem

What is the context behind the policy problem and how is the status quo expected to develop?

1. Not-for-profits, particularly smaller not-for-profits, are often run on limited budgets and rely on part-time staff and volunteers to meet their tax obligations. It is therefore desirable to reduce their compliance and tax costs. At the same time, Inland Revenue needs to ensure taxpayers meet their obligations and therefore protect the integrity of the tax system.

2. Since 1972, the policy settings for taxable not-for-profits have included an exempt income de minimis, effectively a tax-free threshold, available to all not-for-profits. It was introduced to reduce the compliance costs of paying tax on small amounts of interest and dividends. However, it is not limited to offset interest and dividend income and can also offset profits from member trading transactions and services and all non-member transactions, which continue to be taxable for not-for-profits (unless they qualify for a specific income tax exemption, such as charities and amateur sporting bodies).

3. Since 1979, the de minimis has been set at the lesser of the not-for-profit's taxable income and $1,000. The de minimis became a statutory deduction when the Income Tax Act 1994 was enacted.

4. Settings for the statutory deduction have flow-on effects relating to other tax settings for not-for-profits, namely, an income tax return filing exemption for smaller not-for-profits and an RWT exemption.

5. Currently, membership subscriptions and levies are treated as non-taxable under the common law mutuality principle. Inland Revenue has consulted on a draft updated interpretation on the application of the mutuality principle that, if finalised, could mean membership subscriptions and levies could be taxable for certain taxable not-for-profits. However, Ministers' preferred proposal, detailed in the RIS, "Tax policy settings for taxable not-for-profits – membership subscriptions and levies", is for a law change to ensure membership subscriptions and levies remain non-taxable.

What is the policy problem or opportunity?

6. Over time, inflation has eroded the real value of the $1,000 statutory deduction. This means the statutory deduction no longer has the same compliance cost reduction benefit it once did.

7. Reviewing the statutory deduction also provides an opportunity to better target it at smaller not-for-profits. Under current settings, large, well-resourced not-for-profits are entitled to the same statutory deduction as small, volunteer-run not-for-profits. In a constrained fiscal environment, it is important to consider whether providing the deduction to all not-for-profits represents good value for money, particularly if the value of the statutory deduction is increased significantly, as proposed in Options 2 and 3.

8. The erosion of the statutory deduction's value has flow-on effects for other not-for-profit tax settings that reference the deduction. As a result, the tax return filing exemption and RWT exemption no longer reduce compliance and administrative costs for as many not-for-profits as originally intended.

9. Inland Revenue's operational practice is that taxable not-for-profits do not need to file tax returns if they qualify for the $1,000 statutory deduction and have net taxable income of $1,000 or less before the application of the deduction. As a result of this operational practice, approximately 22,000 not-for-profits do not file income tax returns. However, this operational practice is not supported by legislation and technically all taxable not-for-profits are required to file income tax returns even if they have no taxable income. If the statutory deduction is increased, there is an opportunity to further reduce compliance and administrative costs for smaller not-for-profits by legislating the operational filing exemption to reflect the increased statutory deduction threshold.

10. Furthermore, not-for-profits eligible for the statutory deduction and with net income under $1,000 are also entitled to an RWT exemption so that RWT is not deducted at source from interest and dividends income they receive. Although financial institutions provide Inland Revenue with interest income information for many customers, they are not required to do so for customers with RWT exemptions. In the absence of income tax returns, this limits Inland Revenue's ability to determine if a not-for-profit remains eligible for an RWT exemption.

What objectives are sought in relation to the policy problem?

11. The objective is to ensure the statutory deduction continues to keep not-for-profits with smaller amounts of income outside the tax base so that it remains an effective compliance cost reduction measure. A second objective is to ensure the statutory deduction is appropriately targeted and represents good value for money in a constrained fiscal environment. Consequential objectives are to consider flowing through any increase in the statutory deduction to related not-for-profit tax settings to reduce compliance and administrative costs while still ensuring Inland Revenue can monitor compliance.

What consultation has been undertaken?

12. The proposals in this document have been informed by three rounds of public consultation:

    12.1 Issues paper "Taxation and the not-for-profit sector" was released in February 2025 and over 900 submissions were received.

    12.2 Draft operational statement, ED0265 "Mutual transactions of associations (including clubs and societies)", was released in April 2025 and 73 submissions were received.

    12.3 Targeted consultation on the detailed design commenced in November 2025 and 140 submissions were received.

13. As part of consultation on the February 2025 issues paper, there was near-universal support from those that submitted on this topic that the $1,000 statutory deduction was too low and should be increased. Proposed options ranged from $2,000 to $100,000, with most supporting a threshold of around $10,000. Other submitters suggested linking the threshold to the tiered approach used for charity reporting.

14. As part of targeted consultation in November 2025, the majority of submitters again supported an increase to $10,000, but at the same time, were strongly opposed to the proposal to target the deduction at those not-for-profits with net income of $10,000 or less. Submitters were concerned it could incentivise income manipulation to prevent the

$10,000 threshold being crossed, that it could penalise small not-for-profits with uneven income from year to year and that it would make budgeting difficult. They felt that a fairer approach would be to have an abating threshold.

15. There was broad support for the consequential proposal to exempt smaller not-for-profits from having to file returns.

16. The financial institutions said they would prefer not to have to report interest income information for a wider group than the current group of customers, but if required to do so, would prefer reporting for all RWT-exempt customers, not just not-for-profits eligible for the statutory deduction, and that sufficient lead time be given to allow the necessary system changes to be made.

17. Over the consultation period (February 2025 to February 2026) more than 100 meetings were held with stakeholders. The proposals in this statement are heavily informed by the submissions received.

Section 2: Assessing options to address the policy problem

What criteria will be used to compare options to the status quo?

18. The criteria chosen to evaluate the proposed options are:

- **Certainty:** The law should be clear as to the obligations of affected taxpayers.
- **Compliance and administrative costs**: The tax system should be as simple and low cost as possible for taxpayers to comply with and for Inland Revenue to administer.
- **Fiscal impact**: Tax reforms should be affordable given fiscal constraints, and the tax system should raise sufficient revenue.
- **Integrity:** The rules should minimise the opportunity for tax planning and avoidance.

What scope will options be considered within?

19. The two options considered in this RIS would increase the statutory deduction to $10,000 but differ as to whether the statutory deduction would be targeted at smaller not-for-profits or continue to be available to all not-for-profits regardless of income.

20. The $10,000 figure is more generous than an inflation adjustment of the current $1,000 figure (which would be approximately $6,900) and includes a degree of future proofing not provided by a purely inflation adjusted amount. The $10,000 figure also aligns with the $10,000 de-registration tax asset threshold that applies to charities. As noted above, the majority of submitters supported a $10,000 figure. In the context of related proposals that would see membership subscriptions and levies remain non-taxable, higher figures (such as $50,000 and $100,000 suggested by some submitters), were not considered to be appropriate.

21. Other options were considered but discounted at an early stage. For example, linking the threshold to the tiered approach used for charity and incorporated societies reporting or introducing an abating statutory deduction approach were discounted on the basis they would be complex from both a compliance and administrative perspective. An option to repeal the statutory deduction was discounted because it would bring a significant number of smaller not-for-profits back into the tax base and increase compliance and administrative costs.

22. The options considered in this statement were developed in conjunction with related tax setting options for ensuring membership subscriptions and levies remain non-taxable for not-for-profits. Those options are considered in more detail in the RIS, "Tax policy settings for taxable not-for-profits – membership subscriptions and levies".

What options are being considered?

23. The options being considered are:

- Maintaining the current statutory deduction at the lesser of taxable income and $1,000 without any targeting (Option 1– status quo).
- Increasing the statutory deduction to the lesser of taxable income and $10,000 and targeting the deduction at not-for-profits with net income of $10,000 or less (Option 2).
- Increasing the statutory deduction to the lesser of taxable income and $10,000 without any targeting (Option 3).

Consequential proposals

24. When assessing Options 2 and 3 against the status quo, we have also included two consequential proposals, summarised below and discussed in more detail in the appendix.

25. The first consequential proposal relates to the filing requirements for not-for-profits. Current Inland Revenue operational guidance is that not-for-profits that are eligible for the statutory deduction and with income of $1,000 or less are not required to file an income tax return. This practice is not supported by legislation. It is proposed that a not-for-profit with net income equal to or less than the proposed $10,000 statutory deduction, that would otherwise be filing a nil return, would not be required to file an income tax return unless specifically requested to do so by Inland Revenue. This proposal would reduce compliance and administrative costs, increase certainty for the sector, while still enabling Inland Revenue to monitor compliance and protect the integrity of the tax system. We note that not-for-profits that are not prohibited from distributing to members are still required to file tax returns as is the case under the status quo position.

26. The second consequential proposal relates to the provision of interest information from financial institutions. Currently, not-for-profits eligible for the statutory deduction and with net income under $1,000 in the previous tax year are eligible for an RWT exemption. This means that RWT is not deducted at source from interest and dividends paid to these not-for-profits. With the proposal to increase the statutory deduction to $10,000, the RWT exemption would become available to more not-for-profits. Therefore, in the context of fewer not-for-profits needing to file income tax returns, the second consequential proposal would require financial institutions to provide interest income information for RWT-exempt customers to give Inland Revenue better oversight of who is claiming the RWT exemption and whether they are entitled to do so. It would also provide additional data that would assist Inland Revenue to monitor compliance in relation the filing exemption threshold.

Option 1: Status quo

27. Maintaining the status quo would involve keeping the statutory deduction at $1,000 available to all qualifying not-for-profits regardless of their size.

28. **Certainty:** Leaving the current statutory deduction settings unchanged would continue to provide certainty and not-for-profits would not be required to change their current practices. The universal entitlement to the statutory deduction also provides certainty around eligibility from year to year. In relation to the return filing exemption, there would be a degree of uncertainty because the current operational approach is not supported by legislation. There is also the possibility that Inland Revenue could change its operation practice and enforce existing compliance obligations, reducing certainty for the sector.

29. **Compliance and administrative costs:** Although the universal entitlement to the statutory deduction means it is easy to apply, the current $1,000 value of the deduction has eroded in real terms, meaning more not-for-profits are entering the tax base over time and will be required to file income tax returns. If Inland Revenue were to enforce existing compliance obligations, compliance and administrative costs would increase. We note for completeness that the Incorporated Societies Act 2022 requires incorporated societies to prepare financial accounts, and for larger incorporated societies to file these accounts with the Ministry of Business, Innovation and Employment (MBIE). As such, the compliance costs for incorporated societies may be less significant.

30. Compared with Options 2 and 3, Inland Revenue will have a higher administrative cost associated with processing tax returns and policing filing obligations for not-for-profits with income between $1,000.01 and $10,000. Additionally, because of the link between the statutory deduction and the RWT exemption for taxable not-for-profits, fewer not-for-profits will be eligible for that RWT exemption over time as their incomes surpass the statutory deduction value.

31. **Fiscal impact:** If the status quo was to be maintained, there would be no fiscal impact.

32. **Integrity:** Many small not-for-profits currently believe they are wholly tax exempt or tax exempt on all member trading transactions. Maintaining the status quo will not improve tax integrity in this regard. Additionally, current Inland Revenue operational guidance is that not-for-profits eligible for the statutory deduction and with income of $1,000 or less are not required to file an income tax return. This is not supported by legislation and poses a risk to the integrity of the tax system.

Option 2: Increasing statutory deduction to $10,000 targeted at smaller not-for-profits

33. Option 2 is to legislate to increase the statutory deduction to the lesser of taxable income and $10,000 but eligibility would be limited to not-for-profits that have net income of $10,000 or less (before applying the statutory deduction) in the relevant tax year. This is sometimes referred to as a cliff-edge design. By way of example, if a not-for-profit had net income of $10,000 of net income it would be entitled to claim a statutory deduction of $10,000 taking their taxable income to zero. On the other hand, a not-for-profit with $10,001 of net income would not be eligible and would be required to pay tax on the full $10,001.

34. **Certainty**: Compared with the status quo and Option 3, this option changes the design of the statutory deduction that not-for-profits are already familiar with and would therefore provide a lesser degree of certainty in terms of how the statutory deduction works, at least in the short term. Inland Revenue guidance will help mitigate this uncertainty. Some submitters stated through consultation that this lack of certainty would present budgeting issues for not-for-profits because they may not be able to ascertain whether they would have a tax bill until their financial statements had been prepared. We note that

there is precedent for this type of cliff-edge design in other tax situations, such as the GST registration threshold and the foreign investment fund income test. This option (like Option 3) would provide more certainty in terms of filing obligations by legislating the filing exemption for not-for-profits with net income of $10,000 or less, before applying the statutory deduction.

35. **Compliance and administrative costs**: Option 2 would keep more not-for-profits outside the tax base than the status quo option and therefore reduces compliance costs. In light of the consequential filing exemption proposal, not-for-profits with net income of $10,000 or less would benefit from the reduction in compliance costs due to no longer needing to file an income tax return. The compliance cost reduction may not be as significant for incorporated societies, or for other not-for-profits with net income close to $10,000. For incorporated societies, this is because they would still be required to prepare, and in some cases file, financial accounts under the Incorporated Societies Act 2022. For not-for-profits with income close to $10,000, this is because they would still need to take steps to determine what their income is to ascertain whether they qualify for the statutory deduction and filing exemption.

36. The compliance costs for those not-for-profits that have net income over $10,000 before applying the statutory deduction would be unchanged because they would continue to be in the tax base and to have return filing obligations. However, in addition, approximately 200 not-for-profits would no longer be eligible for a statutory deduction.

37. The second consequential proposal would allow Inland Revenue to monitor the eligibility for the statutory deduction, and the filing and RWT exemptions.

38. An increased non-filing income threshold would also reduce Inland Revenue's administrative costs associated with processing additional returns and policing filing obligations.

39. **Fiscal impact**: Increasing the statutory deduction to up to $10,000 for not-for-profits with net income of $10,000 or less targets the deduction at small not-for-profits. It is forecast to cost the Crown $0.990 million over the forecast period. There would be no administrative costs associated with this option. The lower fiscal cost of this option compared with Option 3 reflects the fact that this significant tax concession would not be provided to large not-for-profits.

40. **Integrity:** Tax integrity would improve because many small not-for-profits currently believe they are wholly tax exempt or tax exempt on all member trading transactions, resulting in non-compliance with their tax obligations. This change, along with draft guidance from Inland Revenue, would improve certainty about the current law and reduce compliance costs for small not-for-profits. Filing requirements would also reflect legislative obligations. We note that there may be a secondary integrity concern associated with not-for-profits that are close to the threshold reducing their net income to ensure they have net income of $10,000 or less. However, we do not consider this to be significant because of the relatively small amounts of revenue at stake and the fact that many not-for-profits have broader regulatory obligations – for example, as incorporated societies.

Option 3: Increasing statutory deduction to $10,000 available to all not-for-profits

41. Option 3 is to legislate to increase the statutory deduction to the lesser of taxable income and $10,000, while retaining the current eligibility criteria that would allow all not-for-profits to claim the deduction so long as the other eligibility requirements for the statutory

deduction are met (for example, the entity not being able to make distributions to members).

42. **Certainty**: Compared with the status quo this option would provide the same degree of certainty because the universal entitlement design means that not-for-profits would know they can claim the deduction regardless of their income for a particular year. This would be more so for not-for-profits with net income over $10,000.

43. **Compliance and administrative costs**: Option 3 would keep more not-for-profits outside the tax base than the status quo and would therefore reduce compliance costs. In light of the consequential filing exemption proposal, not-for-profits with income of $10,000 or less would benefit from the reduction in compliance costs associated with not needing to file a tax return. The compliance cost reduction may not be as significant for incorporated societies, or for other not-for-profits with income close to $10,000. For incorporated societies, this is because they would still be required to prepare, and in some cases file, financial accounts under the Incorporated Societies Act 2022. For not-for-profits with income close to $10,000, this is because they would still need to take steps to determine what their income is to ascertain whether they qualify for the statutory deduction and filing exemption.

44. The compliance costs for those not-for-profits that have net income over $10,000 before applying the statutory deduction would be unchanged because they will continue to be in the tax base and to have return filing obligations. However, they would be eligible for the $10,000 statutory deduction to offset against their income.

45. The second consequential proposal would allow Inland Revenue to monitor the eligibility for the statutory deduction, and the filing and RWT exemptions.

46. The increase of the income threshold over which not-for-profits would not be required to file tax returns would reduce Inland Revenue's administrative costs associated with processing additional returns and policing filing obligations.

47. **Fiscal impact**: Increasing the statutory deduction up to $10,000 for all not-for-profits is forecast to cost the Crown an additional $3.4 million over the forecast period compared to the status quo. This is $2.5 million more than the fiscal cost of Option 2 over the forecast period. Higher fiscal costs reflect an untargeted approach that provides a significant tax concessions for large not-for-profits when the concessions are not justified. There are no administrative costs associated with this option.

48. **Integrity:** This option raises similar integrity concerns to the status quo. Because of the universal nature of the statutory deduction, many not-for-profits may continue to incorrectly assume they are tax exempt and not report income in years when they have income over $10,000 before applying the statutory deduction. We note that compared to Option 2, there may be a secondary integrity benefit because not-for-profits close to the threshold would not be incentivised to reduce their net income to access the statutory deduction.

49. This option was preferred by the majority of submitters who were opposed to the "cliff-edge" design of Option 2.

How do the options compare to the status quo/counterfactual?

	Option 1: Status quo	Option 2: Increasing statutory deduction to $10,000 targeted at smaller not-for-profits	Option 3: Increasing statutory deduction to $10,000 available to all not-for-profits
Certainty	0	+ Slight change to status quo settings for statutory deduction. Improved certainty around filing exemption	+ Eligibility settings unchanged from status quo. Improved certainty around filing exemption
Compliance and administrative costs	0	+ Reduced compliance costs for smaller NFPs and reduced administration costs for Inland Revenue	+ Reduced compliance costs for smaller NFPs and reduced administration costs for Inland Revenue
Fiscal costs	0	- $0.99m over forecast period	-- $3.4m over forecast period
Integrity	0	+ Reduces misconceptions of wholly exempt status	0 Misconceptions of wholly exempt status expected to persist
Overall assessment	0	++	0

Key for qualitative judgements:

++	much better than doing nothing/the status quo/counterfactual
+	better than doing nothing/the status quo/counterfactual
0	about the same as doing nothing/the status quo/counterfactual
-	worse than doing nothing/the status quo/counterfactual
- -	much worse than doing nothing/the status quo/counterfactual

What option is likely to best address the problem, meet the policy objectives, and deliver the highest net benefits?

50. Increasing the statutory deduction to the lesser of net income and $10,000 and targeting the deduction at not-for-profits with net income of $10,000 or less (Option 2) is considered the best option.

51. We consider Option 2 to be an improvement compared with the status quo by ensuring the statutory deduction and related tax settings for not-for-profits continue to be effective compliance and administration cost reduction measures. It achieves this at a lower fiscal cost than Option 3 by not providing a significant tax concession to larger not-for-profits that do not need the same degree of support as smaller not-for-profits. The targeted approach under Option 2 is also considered to provide a higher degree of integrity compared to the status quo and Option 3 by addressing the misconceptions that not-for-profits are wholly tax exempt.

Is the Minister's preferred option in the Cabinet paper the same as the agency's preferred option in the RIS?

52. Yes.

What are the marginal costs and benefits of the preferred option in the Cabinet paper?

Affected groups *(identify)*	**Comment** *nature of cost or benefit (e.g., ongoing, one-off), evidence and assumption (e.g., compliance rates), risks.*	**Impact** *$m present value where appropriate, for monetised impacts; high, medium, or low for non-monetised impacts.*	**Evidence Certainty** *High, medium, or low, and explain reasoning in comment column.*
Additional costs of preferred option compared to taking no action			
Regulated groups – not-for-profits	Costs involved with understanding the change in rules (One-off); approximately 200 organisations with net income over $10,000 would no longer receive a statutory deduction to offset against their net income (Ongoing)	Medium	Medium
Regulators – Inland Revenue	Costs of developing and providing guidance; policing the rules (Ongoing)	Low	Medium
Financial institutions	System changes (one-off) and providing RWT information to Inland Revenue (Ongoing)	Low	High

Crown	Increasing the statutory deduction to $10,000 targeted at smaller not-for-profits	$0.990m over forecast period relative to status quo	High
Total monetised costs		$0.990m over forecast period	High
Non-monetised costs		*Medium*	*Medium*
Additional benefits of preferred option compared to taking no action			
Regulated groups	Reduce compliance costs (e.g. return filing) for smaller not-for profits (ongoing); reduces the tax liability for not-for profits with net income of $10,000 or less (Ongoing)	$0.990m over forecast period relative to status. quo	High
Regulators – Inland Revenue	Administrative costs reduced by removing a greater number of smaller not-for-profits from the tax base. Receiving interest income information from financial institutions in relation to RWT-exempt customers would provide additional information to monitor compliance in the sector (Ongoing)	High	High
Others (eg, wider government, consumers, etc)	N/A		
Total monetised benefits		$0.990m over forecast period	High
Non-monetised benefits		*High*	*High*

Section 3: Delivering an option

How will the proposal be implemented?

53. The preferred option would be delivered by legislative amendments to the Income Tax Act 2007 and the Tax Administration Act 1994. The amendments would be included in the 2026–27 Annual Rates Bill, to be introduced in September 2026. Detailed guidance will be issued by Inland Revenue aimed at improving overall compliance. Inland Revenue will remain responsible for administration of the rules.

54. It is intended that all changes would come into effect for the 2027–28 and later income years, except for the interest income reporting proposal, which would come into effect from 1 April 2028. This later application date is intended to give financial institutions additional time to make the necessary system changes to report interest income information for RWT-exempt customers.

How will the proposal be monitored, evaluated, and reviewed?

55. Inland Revenue will monitor the effectiveness of the policy through feedback from external stakeholders including professional and general compliance activity. Indicators might include the number of not-for-profits seeking assistance when the revised guidance has been made available.

56. Inland Revenue will also use the information from financial institutions to monitor compliance among not-for-profits claiming the statutory deduction, as well as accessing the income tax return filing and RWT exemptions. If there are any uncertainties or difficulties in applying the law, we will consider providing additional guidance or recommend remedial amendments if necessary.

Appendix – consequential proposals

57. This part of the statement outlines consequential proposals that result from a decision to increase the statutory deduction under Options 2 and 3. These proposals seek to reduce compliance costs for smaller not-for-profits while still ensuring the integrity of the not-for-profits tax rules can be maintained.

Simplified filing requirements for not-for-profits with income of $10,000 or less

58. Currently, the Tax Administration Act requires all taxable not-for-profits to file annual returns. However, Inland Revenue guidance is that not-for-profits qualifying for the statutory deduction and with income of $1,000 or less are not required to file income tax returns. Because both Options 2 and 3 would see the statutory deduction increase to $10,000, it is necessary to consider whether this threshold increase should be flowed through to increase the income threshold for not-for-profits exempted from having to file a tax return.

59. To clarify the rules and reduce compliance costs, we considered two options:

- Introduce a short-form return for not-for-profits eligible for the statutory deduction and with income of $10,000 or less (being the maximum value of the proposed statutory deduction increase). The short-form return would require a not-for-profit to confirm they qualify for the $10,000 statutory deduction, and that they have income of $10,000 or less. A legislative change would not be required for this option because Inland Revenue has the ability to prescribe the form of annual tax returns.

- Amend the Tax Administration Act to exempt a not-for-profit eligible for the statutory deduction and with income of $10,000 or less from needing to file an annual income tax return while giving Inland Revenue the ability to require a not-for-profit to file a tax return on request.

60. Short-form filing for not-for-profits with income of $10,000 or less would have the effect of requiring approximately 22,000 not-for-profits to file a return (albeit in a simplified form) when previously they have not been required to do so.

61. This would align Inland Revenue operational guidance with legislative requirements. It would keep the compliance costs down for small not-for-profits that would otherwise have to file a full income tax return and would give Inland Revenue more visibility of who is claiming the deduction.

62. The downside of a short-form return is that it would represent a significant behaviour change for upwards of 22,000 smaller not-for-profits (often run by volunteers who may be put off by the added compliance burden). There is a reasonable chance of non-compliance at least in the short term and this would require Inland Revenue to apply resources to follow up unfiled returns and potentially apply late filing penalties. It is difficult to make a case for this given that all not-for-profits using the short-form return would effectively be filing nil returns meaning resources would need to be applied without any corresponding increase in revenue collected.

63. As part of the November 2025 targeted consultation, we sought feedback on a proposal that smaller not-for-profits (those with income of $10,000 or less) would only be required to file a short-form tax return. Although submitters supported reduced filing obligations (compared with having to file full tax returns), an exemption from filing was preferred. In

response to submitter feedback and discussions within Inland Revenue's operational and systems domains, we shifted our focus to a filing exemption. However, to address operational concerns about not receiving any tax information from a significant number of not-for-profits, the ability for Inland Revenue to require not-for-profits to file a tax return on request was added to the final filing exemption proposal. An example of when a return might be requested is when there are grounds for believing that a not-for-profit has earned above the level of the statutory deduction but not filed a return.

64. We consider that this combination strikes a reasonable compromise between lowering compliance costs for smaller not-for-profits while still providing Inland Revenue with tools for monitoring compliance if it is considered necessary to do so.

65. Under this approach, not-for-profits would still be entitled to file a tax return if they choose to do so. For example, if a not-for-profit anticipated its income in a future year would exceed the $10,000 threshold, it might decide to file a return to carry forward losses from the current year to offset against that future income. Not-for-profits that are not prohibited from distributing to members are not eligible for the statutory deduction and are still required to file tax returns as is currently the case.

Interest reporting for RWT-exempt customers

66. Not-for-profits eligible for the statutory deduction and with taxable income under $1,000 are entitled to a RWT exemption in the following year. This means RWT is not deducted at source from interest and dividends paid to them.

67. Although financial institutions provide Inland Revenue with interest income information for many customers, they are not required to report on interest earnt by entities with RWT exemptions, such as not-for-profits that are eligible for the statutory deduction and with taxable income under $1,000. This limits our ability to determine if a not-for-profit continues to be eligible for an RWT exemption. If the statutory deduction were to be increased to a maximum of $10,000, and eligible not-for-profits with income of $10,000 or less are exempt from filing tax returns, there is a case for requiring additional income data for those claiming an RWT exemption.

68. Requiring financial institutions to provide Inland Revenue with interest income information in relation to RWT-exempt not-for-profits was consulted on as part of the November 2025 targeted consultation. Financial institutions said that they would prefer not to have to report interest income information for a wider group of customers and instead preferred RWT-exempt not-for-profits providing that information to Inland Revenue directly. However, if required to do so, financial institutions asked that reporting be for all RWT-exempt customers, not just RWT-exempt not-for-profits because of practical difficulties identifying who these customers were. They also asked that sufficient lead time be given before the change took effect, to allow the necessary system changes to be made. This proposal was revised to reflect this feedback.