

# Hon Simon Watts, Minister of Revenue

## Release of Issues Paper – Taxation and the not-for-profit sector – Information Release February 2025

### List of documents included in this proactive release

#	Reference	Type	Title	Date
01	IR2025/039	Policy Report	Cabinet Paper – Release of Issues Paper – Taxation and the not-for profit sector	11 February 2025
02	CAB-25-SUB-0038	Cabinet Paper	Taxation and the Not-for-Profit Sector: Release of Issues Paper	24 February 2025
03	CAB-25-MIN-0038	Cabinet Minute	Minute of Decision – Report of the Cabinet Committee: Period Ended 28 November 2025	24 February 2025

### Additional information

The Cabinet paper was confirmed by Cabinet on 24 February 2025.

### Information withheld

Some parts of this information release would not be appropriate to release and, if requested, would be withheld under the Official Information Act 1982 (the Act).

Where this is the case, the relevant sections of the Act that would apply are identified.

Where information is withheld, no public interest was identified that would outweigh the reasons for withholding it.

Sections of the Act under which information was withheld:

9(2)(a) to protect the privacy of natural persons, including deceased people

### Availability

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## POLICY

**Tax policy report:** **Cabinet paper – Release of Issues Paper – Taxation and the not-for profit sector**

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<b>Date:</b>	11 February 2025	<b>Priority:</b>	High
<b>Security level:</b>	Sensitive - Budget	<b>Report number:</b>	IR2025/039

### Action sought

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	<b>Action sought</b>	<b>Deadline</b>
Minister of Revenue	<b>Agree</b> to recommendations	12 February 2025
	<b>Authorise</b> the lodgement of the attached Cabinet paper	10am 20 February 2025

### Contact for telephone discussion (if required)

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<b>Name</b>	<b>Position</b>	<b>Telephone</b>	<b>Suggested first contact</b>
Stewart Donaldson	Principal Advisor	[REDACTED]	<input checked="" type="checkbox"/>
Philip Marshall	Senior Policy Advisor	[REDACTED]	<input type="checkbox"/>

11 February 2025

Minister of Revenue

## **Cabinet paper – Release of Issues Paper – Taxation and the not-for-profit sector**

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1. This report seeks your agreement to authorise the lodgement of the attached draft Cabinet paper to the Cabinet office by 10am, Thursday 20 February 2025 so that it may be considered by Cabinet at its meeting on Monday 24 February 2025.
2. The Cabinet paper seeks approval for the issues paper *Taxation and the not-for-profit sector* to be released for public consultation. The draft issues paper is attached to the draft Cabinet paper.
3. As required by the Ministry for Regulation, the Inland Revenue QA panel has reviewed the issues paper and determined that it will lead to effective consultation and enable the development of future impact analysis. Therefore, a separate regulatory impact statement (RIS) is not required at this stage.
4. Speaking notes will be provided for your use at the Cabinet meeting by Monday 17 February 2025.

### **Proactive release**

5. We propose to proactively release the Cabinet paper, Cabinet minutes, and key advice papers with appropriate redactions after Budget 2025.

### **Consultation**

6. The Treasury and DIA have been informed of the contents of the draft Cabinet paper.

### **Next steps**

7. If you agree with the draft Cabinet paper attached to this report, the next step is to authorise lodgement of the Cabinet paper with the Cabinet Office for the Cabinet meeting on 24 February 2025. Your authorisation is required before 10am on Thursday 20 February 2025 to meet this timeframe.
8. If Cabinet approves the release of the issues paper, Inland Revenue will commence public consultation on the issues paper for a period of five weeks beginning on 24 February 2025 and ending on 31 March 2025.
9. Officials will report back to Ministers on the outcome of consultation in April 2025.

## Recommended action

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We recommend that you:

- a) **authorise** the lodgement of the attached draft Cabinet paper and draft issues paper with the Cabinet Office by 10am Thursday 20 February 2025 for the Cabinet meeting on 24 February 2025; and

Authorised/Not authorised

- b) **refer** a copy of this report to the Minister of Finance and the Minister for the Community and Voluntary Sector their information.

Referred/Not referred



**Hon Simon Watts**

Minister of Revenue

/ /2025

In Confidence

Office of the Minister of Revenue

Chair, Cabinet

## RELEASE OF ISSUES PAPER – TAXATION AND THE NOT-FOR-PROFIT SECTOR

### Proposal

- 1 This paper seeks Cabinet's agreement to:
  - 1.1 the release of the **attached** draft officials' issues paper, *Taxation and the not-for-profit sector* (the issues paper) on Monday 24 February 2025;
  - 1.2 a five-week public consultation period ending on Monday 31 March 2025.

### Relation to Government priorities

- 2 The issues paper supports the Government's revenue strategy to maintain a stable and predictable revenue system. It also progresses the charities and not-for-profits (NFP) item on the Government's tax and social policy work programme, focusing on the simplifying of rules, reducing compliance costs, and addressing tax integrity risks.

### The issues paper

#### Content of the issues paper

- 3 The issues paper discusses and seeks public submissions on the following:
  - 3.1 **charity business income tax exemption:** issues related to the charity business income tax exemption, the rationale for providing such an exemption, and policy design issues that would need to be considered if the charity business income exemption were to be removed;
  - 3.2 **donor-controlled charities:** integrity issues arising from the absence of specific rules for donor-controlled charities in New Zealand, and policy design issues associated with introducing donor-controlled charity rules; and
  - 3.3 **integrity and simplification:** integrity and simplification issues aimed at protecting against tax avoidance and evasion, and maintaining stable, predictable, and where possible, simple tax rules for the not-for-profit sector.

### **Contentious topics**

- 4 The charity business tax exemption topic is likely to be highly contentious and will likely draw a significant amount of negative feedback from the charitable sector. There will likely also be a high degree of media interest in this topic. The negative response to this topic may, to a certain extent, be reduced by the discussion of a *de minimis* threshold for such a change, which would limit the impact for smaller charities.
- 5 Similarly, the section in the issues paper on the mutual association rules may also be a contentious issue for the NFP sector and may also attract media attention. The issues paper flags a change in Inland Revenue's view as to how NFPs should treat member transactions for tax purposes. Inland Revenue anticipates that a significant number of NFPs may not be accounting for tax in line with this updated view. However, as is the case for the charity business tax exemption issue, the negative response from the NFP sector may be reduced by the discussion of policy options to limit the impact on smaller NFPs.

### **Next steps**

- 6 My officials will consider all submissions received and will report to me once consultation has closed.

### **Financial implications**

- 7 The release of the issues paper will not have any fiscal implications. If I decide to take forward any policy ideas following consultation, then fiscal implications will be included in subsequent policy advice to Cabinet.

### **Legislative implications**

- 8 The release of the issues paper will not give rise to any immediate legislative implications.

### **Impact analysis**

#### **Regulatory impact assessment**

- 9 As required by the Ministry for Regulation, the Inland Revenue QA panel has reviewed the issues paper and determined that it will lead to effective consultation and enable the development of future impact analysis. Therefore, a separate regulatory impact statement (RIS) is not required at this stage. A RIS will be completed to support any changes resulting from the issues paper.

#### **Climate implications of policy assessment**

- 10 A Climate Implications of Policy Assessment is not required in relation to the release of the issues paper.

## Population implications

- 11 Releasing the issues paper will not have any population implications. If I decide to take forward any policy ideas following consultation, then population implications will be included in subsequent policy advice to Cabinet.

## Human rights

- 12 The topics discussed in the issues paper are not inconsistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.

## Consultation

- 13 The Treasury and the Department of Internal Affairs were consulted on the issues paper and this Cabinet paper.
- 14 The Ministry of Business, Innovation and Employment and the Ministry for Primary Industries have been made aware of the content of the issues paper

## Communications

- 15 Communications about this issues paper will be undertaken by Inland Revenue. The issues paper will be hosted on Inland Revenue's tax policy website, and subscribers to the Policy website will receive an automatic email informing them of the consultation and that the proposed consultation period will be open for five weeks until Monday 31 March 2025.
- 16 Media enquiries will be sent to Inland Revenue's policy communications staff, who will work with the Minister's Office to coordinate responses.

## Proactive release

- 17 I propose to delay the proactive release of this Cabinet paper, associated minutes, and key advice papers with appropriate redactions until after Budget 2025.

## Recommendations

The Minister of Revenue recommends that Cabinet:

- 1 **agree** to the release of the attached draft issues paper, *Taxation and the not-for-profit sector*, on Monday 24 February 2025;
- 2 **agree** to a five-week public consultation period, ending on Monday 31 March 2025.

Authorised for lodgement

Hon Simon Watts

Minister of Revenue



# Cabinet

## Minute of Decision

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*This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.*

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### Taxation and the Not-for-Profit Sector: Release of Issues Paper

Portfolio

Revenue

On 24 February 2025, Cabinet:

- 1 **agreed** to the release of the officials' issues paper, *Taxation and the Not-for-Profit Sector*, attached to the submission under CAB-25-SUB-0038;
- 2 **agreed** to a five-week public consultation period, from 24 February 2025 until 31 March 2025.

Rachel Hayward  
Secretary of the Cabinet