



Information Sheet

This information sheet explains the current policy proposal included in Budget 2026. The proposal may change as the legislation moves through the parliamentary process. The information is up to date as at 28 May 2026.

Charities and not-for-profits

Changes to donation tax credit

What is the proposed change?

The proposed change would introduce a maximum entitlement of donations eligible for a donation tax credit to the lower of \$100,000 or the donor's taxable income. The current tax credit rate of 33 $\frac{1}{3}$ % is being retained. This results in a maximum annual credit of \$33,333.33.

This change would apply to donations made on or after 1 April 2027.

Why is this change needed?

The purpose of the donation tax credit is to encourage and reinforce charitable giving. The policy settings could be better targeted to improve value for money, integrity of the tax system, and fiscal sustainability. For example, better targeting would limit tax planning risks that can arise when a donor makes a gift to a charity that they control.

Who would this affect?

The introduction of the cap would affect about 350 donor entitlements (or 0.1% of donors).

Changes to tax settings for taxable not-for-profits

Membership subscriptions and levies

What is the proposed change?

This change would ensure that membership subscriptions and levies received by taxable not-for-profits remain non-taxable.

This change would take effect from 1 April 2027 for most taxpayers.

Why is this change needed?

Inland Revenue is updating its interpretation of the law relating to the tax treatment of membership subscriptions and levies. If this updated interpretation were to be finalised, many membership subscriptions and levies would be taxable. The proposed legislative change is therefore required to maintain the status quo position, and ensure that taxable not-for-profits are not taxed on, what is for many, the primary source of funding for the work that they do.

Who would this affect?

This change would benefit taxable not-for-profits like clubs and societies that charge membership subscriptions and levies.

Increasing effective tax-free threshold for smaller not-for-profits.

What is the proposed change?

This change would increase the effective tax-free threshold for not-for-profits from \$1,000 to \$10,000. Not-for-profits with income of more than \$10,000 will not be eligible.

This change would take effect from the 2027–28 income year.

Why is this change needed?

The current \$1,000 effective tax-free threshold had not been reviewed since 1979. Increasing the threshold to \$10,000 means many not-for-profits would not have any tax to pay even if they have some income that would otherwise be taxable. This would reduce compliance costs for eligible not-for-profits and would increase the amount of money they have available to apply to the purposes they were set up for.

Why would the new threshold only be available to not-for-profits with income of \$10,000 or less?

The proposed new effective tax-free threshold would be significantly more generous, so the new threshold is being targeted at smaller not-for-profits that are often run by volunteers.

Filing obligations for taxable not-for-profits

What are the proposed changes?

This change would mean that taxable not-for-profits with income of \$10,000 or less would not be required to file an annual tax return unless specifically requested to do so by Inland Revenue. Financial institutions would also be required to provide Inland Revenue with interest income information for RWT-exempt customers.

This filing exemption would apply from the 2027–28 income year and the requirement for financial institutions to provide interest income information for RWT-exempt customers would apply from 1 April 2028.

Why would smaller not-for-profits be exempt from return filing?

Inland Revenue's current operational guidance is that taxable not-for-profits are not required to file an annual tax return if they have income of \$1,000 or less. However, this operational approach is not supported by current legislation. This change would address this inconsistency and reduce compliance costs for smaller taxable not-for-profits, which are often run by volunteers.

What if a taxable not-for-profit has income of more than \$10,000?

If a taxable not-for-profit has income of more than \$10,000, it would continue to be required to file an annual tax return.

Could a not-for-profit still file a tax return if it wishes to?

Yes, taxable not-for-profits with income of \$10,000 or less could still choose to file a tax return if they wish to, for example if they have losses that they wish to carry forward to offset against income in future years.

Why would financial institutions be required to provide the interest income information for RWT-exempt customers to Inland Revenue?

Financial institutions already provide interest income information to Inland Revenue in relation to many customers. Having this additional information would allow Inland Revenue to monitor whether not-for-profits are entitled to the increased effective tax-free threshold and whether they should be filing an annual income tax return.

Simplifications for donors and volunteers

Donation tax credit refunds

Donation tax credit in-year refunds

What is the proposed change?

This proposal would allow Inland Revenue to refund approved donation tax credits periodically during the tax year, limited to a third of the individual's reportable income. Receiving in-year refunds would be optional.

The proposal would apply from 1 April 2028.

Why is this change needed?

Providing donors with an option to receive their donation tax credit refund during the year would help Inland Revenue progress claims quicker, making the donation tax credit more accessible and timelier for donors, and more effectively encourage giving to support the charitable, community and voluntary sectors.

Who would be eligible to receive donation tax credit in-year refunds?

In-year refunds would only be available to individual donors who earn reportable income (for example, salary and wages) during the year. The maximum entitlement of donations eligible for an in-year donation tax credit refund would be the lower of \$100,000 or the donor's reportable income earned from the start of the year to the time of the donation tax credit claim.

Donors with only non-reportable income (for example, self-employed income) would not be able to make use of this change. Their donation tax credit refunds would continue to be assessed and refunded by Inland Revenue after the end of the year.

Donors who have a mix of both reportable and non-reportable income could make use of this change up to the value of any reportable income earned in the year. At the end of the year, if a donor's taxable income is higher than their reportable income, they would be entitled to further tax credits up to one-third of their taxable income.

Example 1: Claiming in-year donation tax credit refunds with a mix of reportable and non-reportable income

Alex earns salary and wages and self-employment income from a business they run. They donate to approved charities.

During the year Alex earns \$10,000 of wages (reportable income). Alex also earns \$30,000 from their business (which is not reported to Inland Revenue during the year). Their taxable income is \$40,000.

Alex donates \$1,000 a month (\$12,000 in total) to approved charities and uploads their donation receipts as soon as the donations are made.

What is Alex's donation tax credit?

During the year, Inland Revenue would refund \$3,333.33 donation tax credits on donations of \$10,000, which is the total amount of Alex's reportable income from salary and wages. It would not refund donation tax credits on the remaining \$2,000 of donations during the year because the \$10,000 reportable income is the cap for the in-year refund proposal.

At the end of the year, Alex files their income tax return and reports total taxable income of \$40,000. Based on their taxable income, Inland Revenue would refund \$666.66 donation tax credits on the remaining \$2,000 of donations.

Alex's total donation tax credit refund is \$4,000 on donations of \$12,000, which is the same as before the proposed policy change. However, Alex has received most of the donation tax credit much earlier.

How could donors claim an in-year donation tax credit refund?

Donation credit in-year refunds would only be available through the receipt upload feature in myIR.

Would charities be required to provide receipts more frequently?

No. Charities would not be required to change how or when they issue receipts. However, donors may request receipts earlier from charities.

Would this proposal affect donation tax credits claimed through payroll giving?

No. The proposal would not affect payroll giving arrangements.

Transferring donation tax credit refunds to charities

What is the proposed change?

This proposal would allow donors to request Inland Revenue to transfer their donation tax credit refund directly to the charity they supported, simplifying the process for donors and encouraging giving to support the charitable, community and voluntary sectors.

The proposal would apply from 1 April 2028.

Why is this change needed?

Currently, there is no mechanism allowing a donor to transfer their donation tax credit refund back to the charity they originally donated to. This means that if the donor wants the charity to receive the donation tax credit, they must manually donate it back to the charity.

How would a donor transfer their donation tax credit refund back to the charity they donated to?

This proposal is optional. Donors who choose to transfer their donation tax credit refund to the charity they donated to would make a simple yes/no election at the time a donation receipt is uploaded in myIR.

How would transferred donation tax credit refunds be paid to charities?

Transferred donation tax credit refunds would be paid as a single deposit into the charity's nominated Inland Revenue bank account. Transferred donation tax credit refunds would be anonymous.

All charities that would like to receive transferred donation tax credit refunds would be required to provide Inland Revenue with a bank account. If a charity does not have the required bank account set up

when the donation tax credit refund becomes payable, the donation tax credit refund would instead be transferred to the donor.

Could a transferred donation tax credit refund qualify for another donation tax credit?

No. A transferred donation tax credit refund to a charity would not qualify for another donation tax credit.

Volunteers and honoraria

What is the proposed change?

This proposal would simplify volunteers' tax obligations by providing not-for-profit organisations with the option to treat honoraria as salary or wages, instead of treating them as schedular payments for tax purposes.

The proposal would apply from 1 April 2028.

Why is this change needed?

Currently, honoraria paid to volunteers of not-for-profit organisations are treated as schedular payments for tax purposes. This can be confusing for volunteers and creates unnecessary compliance costs, particularly around PAYE and ACC levy obligations.

A similar approach was introduced in 2019 for Fire and Emergency New Zealand volunteers. This proposal seeks to extend this optional treatment of honoraria as salary and wages to all not-for-profits.

Repeal of income tax exemption for non-resident charities

What is the proposed change?

Non-resident charities that do not carry out charitable purposes in New Zealand can currently apply for an income tax exemption on their non-business income sourced in New Zealand. This includes dividend, interest, or rental income.

This change would repeal the income tax exemption for non-business income that is sourced in New Zealand by non-resident charities.

This change would apply from 1 April 2028.

Why is this change needed?

There is no compelling reason to provide this exemption to non-resident charities who do not benefit New Zealanders, when other non-resident entities are taxed on their New Zealand sourced income.

Who would this affect?

Approximately 350 entities have historically sought approval, but it is unclear how many still hold investments in New Zealand. These entities are typically universities, religious organisations and private charitable foundations that are tax-exempt in their own jurisdiction. Most are in the United States, the United Kingdom and Australia.

What would this mean for non-resident charities?

Non-resident charities that are established here or have a strong connection to New Zealand may be able to register under the Charities Act 2005 and be income tax exempt.

Non-resident charities with no charitable purpose carried on in New Zealand will generally be liable for non-resident withholding tax on their non-business income sourced in New Zealand, such as for income from interest, dividends, and royalties. In the case of interest, non-resident charities may choose instead to have approved issuer levy of 2% paid on qualifying interest.

Trust income allocations to tax-exempt beneficiaries

What is the proposed change?

The rule would require private trusts that allocate beneficiary income to tax-exempt beneficiaries to pay the beneficiaries in money within a specified period to be tax-exempt. If the money is not paid within that period, it would be taxed at the trustee rate.

This would apply from the 2028–29 income year.

What is the proposed specified period?

The specified period would be the later of six months after balance date, or the earlier of the actual or required filing date of the trust's tax return. If the trust uses a tax agent with an extension of time, then this would be 31 March in the year after balance date.

What are the current settings?

Under current law, it is possible for trustees of a trust to allocate income to a beneficiary, despite the income remaining in the trust for the trustees' use. This raises integrity risks when the beneficiary is tax-exempt, for example a registered charity, because the income receives a tax exemption despite not actually being paid to the charity and made available for charitable purposes.

Would this apply to all trusts?

No. This rule would only apply to private trusts that allocate income to tax-exempt beneficiaries.

How many trusts would this affect?

Approximately 400 trusts allocate income to tax-exempt entities each year. Inland Revenue expects only a small proportion of these, who do not pay that income to the tax-exempt entities within a specified period, would be affected.

Example 2: Trust allocation to charity not paid within the required timeframe

The Ōrangitea Charitable Trust (a registered charity) is a discretionary beneficiary of the Ōrangitea Family Trust. The Ōrangitea Family Trust earned \$500,000 in investment income for the income year ended 31 March 2028.

The trustees of the Ōrangitea Family Trust allocate \$200,000 of the income to the Ōrangitea Charitable Trust, and journal entries are made recording the allocation. The trustees use a tax agent who has an extension of time to file the 2028 return until 31 March 2029, and the return is filed on 31 March 2029.

As at 31 March 2029, no payment in money has been made to the Ōrangitea Charitable Trust. Since the income allocation was not paid in money by the date the return is filed, the \$200,000 would be treated as trustee income and taxed at the trustee rate of 39%.