26OIA1568

28 November 2025

[redacted]

Dear [redacted]

Thank you for your request made under the Official Information Act 1982 (OIA), received on 1 November 2025. You requested the following information, referring to your previous OIA request reference 25OIA2239:

> *I understand that policy decisions have now been made (as announced by the Minister of Revenue.)*
>
> *Please treat this as a request for the same information but specifically for the costing work done by IR.*

Information being released

I am releasing, attached as **Appendix A**, the relevant parts of three documents in scope of your request as detailed in the table below. Some information has been withheld under the following sections of the OIA, as applicable:

- 9(2)(a) – To protect the privacy of natural persons.
- 9(2)(f)(iv) – To maintain the constitutional conventions for the time being which protect the confidentiality of advice tendered by or to or between Ministers of the Crown and officials.
- 18(c)(i) – The making available of the information requested would be contrary to the provisions of a specified enactment, specifically section 18(3) of the Tax Administration Act 1994. The Commissioner of Inland Revenue is not required to disclose any item of revenue information if the release of the information would adversely affect the integrity of the tax system or would prejudice the maintenance of the law.

Please find enclosed the following documents:

Item	Date	Document	Decision
1.	March 2025	202503 – Unrelated Business Income – 2024 Update – Costing summary	Released
2.	10/03/2025	202503 Taxing charities unrelated business profits	Released with some information refused under sections 9(2)(a) and 18(c)(i).

Item	Date	Document	Decision
3.	04/04/2025	IR2025/146 – Taxation and the not-for-profit sector – submission summary and next steps	Partially released, with some information withheld under sections 9(2)(a), 9(2)(f)(iv) and 18(c)(i).

As required by section 9(1) of the OIA, I have considered whether the grounds for withholding the information requested are outweighed by the public interest. In this instance, I do not consider that to be the case.

Right of review

If you disagree with my decision on your OIA request, you have the right to ask the Ombudsman to investigate and review my decision under section 28(3) of the OIA. You can contact the office of the Ombudsman by email at: info@ombudsman.parliament.nz.

Publishing of OIA response

We intend to publish our response to your request on Inland Revenue's website (ird.govt.nz) as this information may be of interest to other members of the public. This letter, with your personal details removed, may be published in its entirety. Publishing responses increases the availability of information to the public and is consistent with the OIA's purpose of enabling more effective participation in the making and administration of laws and policies and promoting the accountability of officials.

Thank you again for your request.

Yours sincerely

Charlies Ngaki
Policy Lead

Appendix A
Item 1

Summary data

Assumes everyone is at 28%

Includes losses

Excludes losses

	2020/21	2021/22	2022/23	2023/24	Average
1. Monitored charities	52.9	38.5	27.2	37.3	39.0
2. New significant charities	0.4	1.2	0.1	1.2	0.7
3. Other charities with trading income	10.1	10.1	10.1	10.1	10.1
Total	**63.3**	**49.8**	**37.4**	**48.6**	49.8

Lower bound	**31.3**
Upper bound	72.0

Upper bound with unrelated income set at 20% for the 521 entities

	2020/21	2021/22	2022/23	2023/24	Average
1. Monitored charities	52.9	38.5	27.2	37.3	39.0
2. New significant charities	0.4	1.2	0.1	1.2	0.7
3. Other charities with trading income	17.2	17.2	8.8	8.8	13.0
Total	70.4	56.9	36.1	47.3	52.7

Estimate for other persons	2.2
Etimate for company income tax	47.5

Sum of tax on related business income and on all business income for charities with service income (excluding individually tracked entities.

Row Labels	Sum of Tax unrelated business income (values gt $0)	Sum of Tax all business income (values gt $0)
Tier1	3,733,082	77,755,609
Tier2	6,318,535	99,974,503
Tier3	40,558	405,577
Tier4	-	-
Grand Total	10,092,174	178,135,690

Item 2

Policy costing process template

Security: In-Confidence (Includes taxpayer specifics)

Topic: **Taxing charities unrelated business income**

Requestor: Steward Donaldson and Geoff Leggett

Date of request: 10 March 2025

Forecasting Lead Analyst: Chris Fitzgerald

Agreed timeframe: By 1 April 2025 to meet a paper to Ministers on 4 April

--- Fiscal table --

Fiscal impact of taxing charities on their unrelated business income from 1 April 2027, by June year ($million)

	$ million increase / (decrease)				
Vote Revenue Minister of Revenue	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29 & Outyears**
Tax Revenue:					
Company income tax	0.000	0.000	12.00	48.000	48.000
Other persons	0.000	0.000	0.500	2.000	2.000
Total operating	**0.000**	**0.000**	**(12.500)**	**(50.000)**	**(50.000)**

The fiscal range for the revenue is **between $30m and $70m** with an average of $50m used in the fiscal table above.

Note for requestor:

It is very important that we are kept informed about progress of this policy proposal. Ministerial sign off and Cabinet decisions trigger several steps in the forecast process, both for the IR and Treasury forecasting teams and for the non-departmental accounting team. Please keep us updated on progress and provide proof (copies of signed memos/Cabinet minutes) as they come available.

The costing is based on limited policy design and includes limited behavioural assumptions. As the policy design is progressed the costing will need to be reviewed.

Information to include in Policy reporting

N/a

--- Part One ---- Commissioning information------------------------------

Context:

In February 2025, Inland Revenue released a discussion document to review the income tax exemption for income charities earned from unrelated businesses that the charities own or run. The policy proposal being investigated is to consider whether the business income of unrelated businesses (e.g. dairy farms, food and beverage manufacturing) should be taxed for charities with total expenses over $5 million.

The two key design components included in this costing are that:

- Charities with unrelated business income will be taxed on their net surplus (after donations and grants) less any distributions made to their charitable owners.
- There will also be a general anti-avoidance rule to limit the ability of businesses owned by charities to distribute all their earnings and then have some of those earnings reinvested back into the business.

No other design considerations are known at the time this costing was developed (e.g. how carryforward losses will be treated when entering the tax base, is investment activity a related or unrelated business).

Agreed analytical specification:

This costing specifically requests fiscal estimates should the unrelated business income of charities be taxed from 1 April 2027. A fiscal cost expressed as a range has been requested rather than a specific point estimate.

Agreed level of QA required

- Review of the costing models by analyst within Forecasting and Analysis
- Approval of the costing by Policy Lead Forecasting and Analysis
- Chief Economist to approve the costing.

--- Part Two --- Model Development and record of iterative consultation ---------

The costing has been developed using financial accounts reported by charities to the Charities Office. The extract has been reduced to focus on charities reporting trading income in their accounts. A review of larger charities submissions to the discussion document has identified a small number of large charities that have unrelated business income that have not reported trading income. It is recommended that further work is completed in the next costing to identify and include other charities with unrelated business income (e.g. rental income) in the costing.

Schools and universities were deleted from the population as these entities are exempt from income tax under the Education Act.

General Assumption used in the costing:

- A definition of unrelated business activity has not been defined. Therefore, for the purpose of this costing, unrelated business activity includes:

- Ownership of a business that is not related to the charitable purpose e.g. a church owing a dairy farm.

- A charity running an unrelated business within their existing structure e.g. a charity running a retail store.

- Income from rental activities. Note that income charities earn from rental activities is generally not included in trading income and needs to be separately collected from charities financial records. This has been completed only for the larger charities.

- But does not include investment income of the charity.

The definition of unrelated business income will be developed as part of the policy design process and may vary from the assumptions used in this costing.

- Within the financial accounts data sourced from the Charities Office there is information on revenue obtained from trading activities, including rental income, but no information that defines unrelated business income. Therefore, the following assumptions have been made:

    - The financial accounts of 31 charities have been reviewed and a judgement has been made to calculate the net surplus from unrelated business income. More detail on these charities is provided in the modelling section under "20 charities monitored by Legislative Drafting and Business" and section "11 new charities added…".
    - The financial accounts for approximately the largest 30 charities included in the costing, and not included in the above, have been reviewed to estimate the amount of trading income that is earned from unrelated business activities. Based on the financial information, a judgement has been made for each charity on the percentage of trading income arising from unrelated business activities that ranges from 0% to 100%.
    - For all the charities in the costing, it has been assumed that 10% of the trading income is from unrelated business activities.

- The costing assumes a minimum total expenditure of $5m in line with the costing request. The model should be adjusted to allow for different minimum threshold policy settings.

- Tax rates used in the model have been derived in the following way:

    - Entities owned by Māori charitable trusts are assumed to elect to become Māori Authorities and taxed at 17.5%.
    - Five charities known to be established as a trust are taxed at the trustee tax rate of 39c.
    - All other charities with "trust" in their name are taxed at a composite tax rate of 33c. This is because having trust in their name is not necessarily reflective of the entity's type, with several observations of entities with "trust" in their name being an incorporated society or a local government entity. In essence, this 33% rate reflects a likelihood function with approximately 50% of these entities assumed to be trusts and taxed at 39%, and the remainder being companies/incorporated societies and taxed at 28%. The composite rate of 33%

which results also happens to be the rate applied to smaller trusts (below the de minimis).
  - All other entities are taxed at 28c, the company and incorporated society tax rate.

- For the purpose of the costing, tax losses are treated as $0 tax collected and not carried over into subsequent years. This assumption impacts the calculation of the average tax collected by approximately $0.4 million pa.

- Behavioural assumptions:

  - Māori charitable trusts will elect into the Māori Authority regime.
  - There are no changes to distribution and donation policies of the unrelated businesses owned by charities following the proposal going ahead.

  No other behavioural assumptions have been made.

Model structure disclosures:

The model has been structured around three different segments of charities – with underlying information in all cases derived from the charities register.

1. 20 charities monitored by Legislative Drafting and Business
2. 11 new charities added to the above list through this process, having been identified as being in the purpose of raising funds for other charities and having trading income.
3. 521 other charities with total expenses over $5 million and have trading income.

The overarching aim is to derive an estimate for "unrelated" (and retained) business income. This is achieved through a mix of unit-record judgements for the larger charities, and overarching assumptions for the smaller (but still above the $5m threshold) charities. Detailed overview of the analysis undertaken for each of the 3 categories above is provided below.

20 charities monitored by Legislative Drafting and Business

Legislative Drafting and Business have compiled a list of 20 charities with known income from unrelated business activities. 18(c)(i) [redacted]

16 of the business entities are relatively simple entities in that the charity owns a business or businesses that are unrelated to its charitable purpose and then makes grants and donations to other charities. Two of these businesses also make dividend payments to their shareholder charities and these are treated as a charitable distribution.

These charities are taxed at the applicable tax rate (17.5%, 28% or 39%) on their net surplus after charitable distributions, with the net surplus total adjusted for any non-taxable income asset revaluations (e.g. fair value revaluation of property and market valuation adjustments of shares).

The taxable net surplus of four charities that have consolidated group reporting are taxed differently. In all four cases an attempt has been made to separate out the net surplus of the unrelated business activities from the wider charity. An overview of each of the four charities is below:

18(c)(i) [redacted]

a) The net surplus of each operation is available from the annual report 18(c)(i) [redacted] and was adjusted for non-taxable valuation adjustments.
b) The net surplus of each business activity (including losses, and excluding investment activity) was added together to create a total net surplus. Losses are assumed to be offset within a commonly owned entity.
c) It is assumed that 10% of the net surplus from (b) is retained by the business and becomes taxable (i.e. 90% distributed to the parent charity).
d) Tax is calculated at 18(c) [redacted] % of (c).

18(c)(i) [redacted]

18(c)(i) [redacted]

iv. I note that expenses for running 18(c)(i) [redacted] are likely to be included in the net operating surplus. I have assumed these to have a minimal impact on the overall taxation result 18(c)(i) [redacted]

b) It is assumed that 10% of the net surplus from (b) is retained by the business and becomes taxable (i.e. 90% distributed to the parent charity).
c) Tax is calculated at 18(c) [redacted] % of (b).

18(c)(i) [redacted]

[redacted]

c) It is assumed that 10% of the net surplus from (a) is retained by the business and becomes taxable (i.e. 90% distributed to the parent charity).
d) Tax is calculated at 28% of (c).

18(c)(i)

[redacted]

b) It is assumed that 10% of the net surplus from (a) is retained by the business and becomes taxable (i.e. 90% distributed to the parent charity).
c) Tax is calculated at 28% of (b).

11 new charities added to the above list

11 new charities were identified from the Charities Office as being charities that have trading income and have stated that their purpose is to raise funds for other charities. Expenses of the charities range from $2m to $30m.

Four years of information on the income, expenses and net surplus from the short form annual return filed with the Charities Office was collected. Tax was calculated as applying the applicable income tax rate (17.5%, 28% or 33%) to the full net surplus total for charities with total expenditure greater than $5m.

This group contributes approximately $1.2m tax revenue to the costing.

Other charitable entities with trading income and total expenses over $5m

There are 521 other charities with total expenses over $5m and reporting trading income in their returns to the Charities Office.

In order to calculate the net surplus subject to income tax the following steps were undertaken:

1) Calculated the amount of *unrelated business income percentage*

- The top 25 charities were investigated to see what proportion of their trading income arises from unrelated business activities, with the outcomes ranging from 0% to 100%. This group were handled individually for the costing.
- For every other charity it is assumed that 10% of their income is from unrelated business activities. This is a judgement percentage also based on the observation within the 25 cases that as charities became smaller, the amount of unrelated business income reduced.

2) The *net surplus percentage* for the charity was calculated as

(total income – total expenses) / total income

3) The amount of net surplus attributed to unrelated business activities was calculated as

$$\text{Net surplus} = \text{Trading income} * \textit{net surplus percentage} * \textit{unrelated business income percentage}$$

4) Tax is calculated as the net surplus from (3) above multiplied by the applicable tax rate (17.5%, 28% or 33%).

Data for the 2022 and 2024 returns were used.

Results:

Using the above methodology the following table outlines the estimated tax that would have been collected over the 2021 to 2024 income tax years.

$m	2020-21	2021-22	2022-23	2023-24	Average
1. 20 monitored charities	52.9	38.5	27.2	37.3	39.0
2. 11 new monitored charities	0.4	1.2	0.1	1.2	0.7
3. Other charities with trading income	10.1	10.1	8.8	8.8	9.4
Total	**63.3**	**49.8**	**36.1**	**47.3**	49.1

The final costing value uses the four year average and has been **rounded up from $49.1m to $50m** reflecting the uncertainty around the costing.

<u>*Determining a range for advice to Ministers*</u>

The costing does not have any behavioural assumptions other than those charities able to elect into the Māori Authority regime.

In determining a lower bound for the costing, I have assumed the following about the 3 groups:

1) The 18(c)(i) [redacted] is classified as a related business.
2) The effects of the economic cycle are reflected, and the 2022-23 year is chosen as the lower point.

The lower bound is therefore calculated at $30m pa.

In determining the upper bound I have assumed that

1) The highest year is chosen being the 2020-21 year at $63.m.
2) The 10% of profits retained by 18(c)(i) [redacted] is increased to a 20% assumption.
3) That the assumption that 10% of trading income for the 521 charitable entities is doubled to 20%. Note this does not impact the top 25 with individually determined percentages.

The upper bound is therefore calculated at $70m pa ($72m rounded down to $70m).

Fiscal costs are based on the average value over the last four years with no growth factor applied given the volatility in the potential tax collected from 2020-21 to 2023-24.

Timing uses the new accrual methodology for timing. Assumed application date is 1 April 2027.

	$ million increase / (decrease)				
Vote Revenue **Minister of Revenue**	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29** **& Outyears**
Tax Revenue:					
Company income tax	0.000	0.000	12.00	48.000	48.000
Other persons	0.000	0.000	0.500	2.000	2.000
Total operating	**0.000**	**0.000**	**(12.500)**	**(50.000)**	**(50.000)**

--- Part Three ---- Finish and Handover ----------------------------------

Complete when results are sent to requester

Special issues to note:

The costing has been developed with limited policy design (applied to unrelated business income for charities with total expenses over $5m) and limited behavioural assumptions.

Many charities have begun to report consolidated financial reports to the Charities Office e.g. 18(c)(i) while other entities continue to report on an unconsolidated basis e.g. 83 entities for the 18(c)(i) with 82 entities have expenses less than $5m, but would total $76m on a consolidated basis. A policy design decision for group consolidation may have a material impact on the policy costing (either positive or negative).

Further costing work to be completed for the June 2025 report should also look at larger charities that have not reporting trading income to the Charities Office, to identify if they have trading income reported in a different category and rental income.As financial accounts prepared under accounting standards have been used for this costing, there will be some differences with tax accounts that will impact on the costing:

- For the 20 charities monitored by Legislative Drafting and Business, changes in asset valuations (e.g. property, investments) has been removed from the calculation of net surplus. However, these valuations will be included for all other charities. This may lead to overstatement of the costing.
- Building deprecation expenses included in accounting net surplus has not been removed from the costing. This may lead to an understatement of the costing.
- No other policy items being considered in Budget 2025 have been included in the costing. This may lead to an overstatement of the costing.

Further policy design and behavioural assumptions once policy design is known may have a material impact on the costing. However, the impact of behavioural changes is reflected in the costing range.

Quality checking statement:

Checked by Sean on 31 March. Cell references spot checked and minor issues corrected. Modelling approach seems sound.

Sandra reviewed this document and made a couple of suggestions on disclosures but nothing material to the chosen fiscal.

Policy cost sheet updated? Yes

Handover sign out:

Forecaster

9(2)(a) [redacted]

Signed / 1 April 2025

Chief Economist sign out/ Manager sign out (smaller costing)

9(2)(a) [redacted] **1 April 2025**

Item 3

POLICY

Tax policy report: **Taxation and the not-for-profit sector - submission summary and next steps**

Date:	4 April 2025	**Priority:**	High
Security level:		**Report number:**	IR2025/146

Action sought

	Action sought	Deadline
Minister of Finance Minister of Revenue	**Agree** to recommendations **Note** the contents of this report	7 April 2025

Contact for telephone discussion (if required)

Name	Position	Telephone	Suggested first contact
Stewart Donaldson	Principal Policy Advisor	9(2)(a)	☒
Peter Frawley	Policy Lead		☐
Phil Marshall	Senior Policy Advisor		☐

4 April 2025

Minister of Finance
Minister of Revenue

Taxation and the not-for-profit sector: submission summary and next steps

Purpose

1. This report provides a high-level overview of the submissions received on the five topics covered in the officials' Issues Paper, *Taxation and the not-for-profit sector* (the Issues Paper).

2. We recommend that you direct officials to provide detailed reports on each of the five topics by the end of June 2025, followed by further consultation where required, with a view to Ministers making final policy decisions in December 2025.

Background

3. The Government's tax and social policy work programme (TSPWP), published on 13 November 2024, included a project focusing on elements of charities and not-for-profits (NFPs). In January 2025, Ministers confirmed that the Issues Paper would cover the following topics (BN2025/030 refers):

   3.1 the charity business income exemption;

   3.2 donor-controlled charities;

   3.3 NFP member transactions and related matters;

   3.4 exemptions that may not be fit for purpose; and

   3.5 tax simplification for volunteers and donation tax concessions.

4. On 24 February 2025, Cabinet approved the release of the Issues Paper that same day together with a five-week consultation period ending on 31 March 2025.

Consultation and submissions

5. Not in scope [redacted]

6. In total, over 900 written submissions were received, with over 400 on the final day. In addition, during the consultation period, officials met over 40 peak bodies, sector groups and large charities during the consultation period.

7. Not in scope [redacted]

8. Common general themes from submitters were:

8.1 *Timeframe and process:* Many submitters said the consultation needs more time to deal with such complex issues. It was also submitted that a large number of small charities and NFPs may not have been aware of the Issues Paper and will therefore not have had an opportunity to make their views known to officials. Submitters suggested that further consultation with the sector and other stakeholders should be undertaken before any decisions are made to proceed.

8.2 *NFPs provide a net benefit, not a net cost, for 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 Government. Some submitters said a full cost/benefit analysis should be undertaken to determine the true net position for Government.

8.3 *There is an insufficient problem definition:* Some submitters said the Issues Paper lacked clarity about the "problem case" especially since the paper stated that no competitive advantage is afforded to tax-exempt charitable businesses.

8.4 *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.

8.5 *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.

Analysis

9. The submission themes and officials' initial comments for the five topics covered in the Issues Paper are outlined below.

A. Charity business income tax exemptions

10. This issue was the most complex and was the primary focus for most submissions and discussions with officials.

Observations, concerns and potential impacts

11. Typical observations and concerns raised by submitters were:

11.1 *Views on competitive advantage*: While some submitters, including economists, agreed with Inland Revenue's view outlined in the Issues Paper that the charity business tax exemption did not give charity businesses a competitive advantage, other submitters disagreed on this point. Some submitters provided examples of competitive advantages charities held in parts of the building, food and healthcare sectors. Some charities acknowledged that when a charity's annual distributions are less than the corporate tax rate, this allows a charity to grow its balance sheet faster than a private enterprise. Some thought that any advantage from the tax exemption was nonetheless offset by restrictions faced by charities in terms of raising equity, borrowing, and by the additional scrutiny and transparent reporting requirements of registered charities.

11.2 *A change is not warranted:* Some submitters said New Zealand's charitable framework has traditionally followed a "destination of income" approach, recognising that what matters is where the money ultimately goes, not its original source. It was also submitted that the proposals in the Issues Paper represented a fundamental shift from this principle that would have far-reaching consequences.

11.3 *Complexity including definitional issues:* Many submitters said the definition of "unrelated" business activity would need to be clear to avoid ongoing litigation. For example, the submission from 18(c)(i) stated their business activities are in early childhood education, which directly relates to the charitable purpose of advancing education. It was also submitted that there would need to be apportionment of income and costs if business activity was not quarantined within a separate entity.

11.4 *Cases for exclusions for iwi and certain groups:* Certain groups said they should be excluded from any proposed changes due to their specific circumstances. This included various Treaty settlement entities that are charities, some of which have investment arrangements with external investors that rely on the current arrangements (also refer to **Appendix A** for specific points made by large iwi).

11.5 *It is unlikely that any substantial revenue would be collected:* A number of submitters were sceptical that much revenue would be collected if the charity business income tax exemption was removed.

11.6 *Alternative proposal – minimum distribution rule:* Several submitters, including charities that run large commercial businesses, 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. One charity suggested this minimum distribution rate be above the corporate (28%) or trust (39%) tax rates to "increase the impact of charities in our community today and negate any comparative advantage a charitable business has with the private sector".

12. Typical potential impacts of change identified by submitters were:

12.1 *Additional government investment would be required:* Removing the charities business income tax exemption would likely result in the Government having to allocate further funding to deliver the essential services currently provided by charities to avoid social costs.

12.2 *Change would impact on delivery and growth and have international investment implications:* A change could raise concerns among international investors who are attracted to New Zealand's stable investment environment and therefore undermine economic growth. Change would result in restructuring and add "deadweight" accounting regulatory costs that distract affected charities from carrying out their charitable purposes. Change would also result in a reduction in the number of staff or charitable programmes.

12.3 *Investment bias:* A change would reduce the appetite for charities to invest in riskier business activity and instead invest more in passive investments.

Conclusions

13. There is nothing raised in submissions that changes our initial advice, which was **not to** progress this initiative (IR2024/199 refers). Submissions have reinforced the issues relating to complexity and compliance costs, and raised an argument for

specific exemptions for income derived from Treaty Settlement assets. In our view, the primary rationale for continuing work in this area remains twofold:

13.1 to examine why New Zealand should be an international outlier in its approach to exempting charity business income; and

13.2 to ensure the amount of support the Government provides charities through a business income tax exemption is appropriate.

B. Donor-controlled charities

14. The idea of introducing integrity rules for donor-controlled charities received both positive and negative support from submitters. Not in scope [redacted]

Observations, concerns and potential impacts

15. Typical observations and concerns raised by submitters were:

15.1 *There was an acknowledgment that some integrity issues need to be addressed*: Submitters that supported proposed changes agreed that the integrity concerns we have observed need to be addressed.

15.2 *Specific rules are not warranted:* Some submitters took the view that the existing legislative regime for registered charities is already rigorous and robust enough. They said creating specific rules would impose unnecessary compliance costs for all donor-controlled charities. Other submitters said they had not observed integrity concerns with donor-controlled charities and felt they could not support specific rules without detailed analysis of the scale of the problem.

15.3 *There are legitimate reasons to accumulate:* Some submitters said there are a number of legitimate reasons why a charity may delay the release of funds, such as accumulating for long-term infrastructure and sustainability. It was submitted that any minimum distribution requirement must recognise the extent to which an affected charity's asset base is already committed.

15.4 *Definitions must be clear:* Definitional issues were raised by submitters, for example:

15.4.1 an overly wide definition runs the risk of capturing a number of Māori organisations and charities controlled by another organisation or charity;

15.4.2 there should be clarity about whether donor advised funds (such as the 18(c)(i) [redacted] could be affected;

15.4.3 compliance costs could reduce if the "control" definition was consistent with New Zealand accounting standards (NZ IFRS 10 Consolidated Financial Statements); and

15.4.4 there is also complexity in what type of expenditure would qualify as a distribution, such as time spent advising other charities, or the social return on impact investing.

16. Typical potential impacts of change identified by submitters were:

16.1 *Donations may not be made:* Some submitters said rules for donor-controlled charities would discourage and hinder private, proactive philanthropy. Some donors would want to have conditions attached to a donation to their private foundation, 18(c)(i) [redacted] It was submitted that some may not donate if these conditions were prohibited.

16.2 *Minimum distribution rules increase compliance costs:* Some submitters said if an asset threshold is used for a minimum distribution rule, smaller charities would need to revalue their assets and incur more compliance costs.

16.3 *A minimum distribution would erode their asset base:* It was submitted that some charities would not be able to meet a minimum distribution requirement without selling assets. This would reduce their ability to provide future charitable distributions, and some charities may not survive in the long term.

16.4 *Prohibiting related-party investments limits growth of charities*: Some submitters pointed out that many related-party investments are on terms favourable to the charity involved, and this supports the long-term financial growth of the charity. Instead, it was submitted, investments should be required to be at market rates rather than prohibited outright.

9(2)(f)(iv) [redacted]

[redacted]

[redacted]

[redacted]

C. NFP and friendly society member transactions and related matters

20. This issue attracted a lot of interest, with broad support for making changes to reduce compliance costs for NFPs. Submitters wanted further details about Inland Revenue's updated view, referred to in the Issues Paper, that member subscriptions could be subject to tax in some circumstances.

21. Although the Issues Paper did not seek views on the technical aspects of the updated view, a number of submitters disagreed with the correctness of Inland Revenue's updated view. Some submitters emphasised that further consultation with the sector is required before any changes in approach are made.

Observations, concerns and potential impacts

22. Typical observations and concerns raised by submitters were:

22.1 *Take all NFPs out of the income tax system:* Some submitters said NFPs should receive a full income tax exemption, as is the case for amateur sports bodies, on the basis that they also provide important benefits to the community.

22.2 *Member subscriptions should remain non-taxable*: If Inland Revenue's updated view is confirmed, meaning that membership subscriptions would be potentially taxable, some submitters said a law change should be considered to ensure they remain non-taxable, in recognition of the important role NFPs provide to their communities.

22.3 *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. 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 charities.

22.4 *Support for simplification of filing requirements:* There was also broad support for simplifying filing requirements for small-scale NFPs as well as the retention of the RWT exemption.

23. Typical potential impacts of change identified by submitters were:

23.1 *Financial pressure:* If Inland Revenue's updated view is confirmed, and member subscriptions were to become taxable, this would place a significant amount of financial pressure on NFPs. Smaller NFPs may face closure on the basis that they would no longer be financially viable. Other NFPs may increase prices for membership subscriptions.

23.2 *Reduction of services:* Financial pressure could result in the reduction of services and benefits provided to members and the community.

9(2)(f)(iv)

[redacted] [redacted]

[redacted] [redacted]

D. Tax exemptions that may no longer be fit for purpose

26. The fringe benefit tax (FBT) exemption attracted significant interest, while fewer submissions were received in relation to the other six income tax exemptions.[1] The majority of submitters were against the removal of the exemptions, with only the veterinary services exemption receiving more balanced feedback.

27. Some submitters said the exemptions are not justified due to integrity and fairness concerns. 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. They said to remove the exemptions would impose significant compliance, restructuring and administrative costs without raising a large amount of revenue.

[11] The Issues Paper discussed the income tax exemptions for friendly societies/credit unions, veterinary service bodies, local/regional promotional bodies, herd improvement bodies, promoting scientific/industrial research bodies, and non-resident charities.

Observations, concerns and potential impacts

28. Typical observations and concerns raised by submitters were:

28.1 *FBT exemption:* Submitters said this exemption should be retained because it allows charities to attract and retain staff. Many submitters expressed significant concerns that any changes to the exemption would increase compliance costs and reduce service delivery, and that any decision should only take place after the broader FBT policy review.

28.2 Veterinary service bodies exemption: NFP veterinary clinics submitted that this exemption should be retained whereas private veterinary clinics submitted that the exemption should be removed.

28.3 Non-resident charity tax exemption: Some submitters expressed support for reviewing the exemption due to perceived fairness and integrity concerns resulting from the lack of reporting requirements for these entities compared to New Zealand-resident charities.

28.4 Friendly societies and credit unions exemption: Submitters on this issue almost universally expressed significant concerns that removing this exemption would undermine the core purpose of friendly societies and credit unions to support their members. 18(c)(i) [redacted] said it would weaken their ability to compete in a concentrated financial market where they already have a disadvantage due to their smaller size and restrictions on raising capital.

29. Typical potential impacts of change identified by submitters were:

29.1 *FBT exemption:* Removal of this exemption would require reviewing and renegotiating remuneration policies and employees' remuneration. This would detract from charities focusing their time and resources on delivering services that are of public benefit.

29.2 Veterinary services bodies exemption: NFP veterinary clinics submitted that the removal of the exemption would result in the consolidation of public and private vets and therefore reduced competition. Alternatively, private veterinary clinics said removing the exemption would result in less price undercutting and fairer competition.

29.3 Non-resident charity tax exemption: Submitters said removal of this exemption may discourage large overseas charities from making passive investments in New Zealand, which would be an economic loss for New Zealand.

29.4 Friendly societies and credit unions exemption: Submitters said if this exemption was removed, these entities would have to pass the additional taxation and compliance costs onto their members.

29.5 Local and regional promotional bodies exemption: Local and regional promotional bodies and Business Associations said removal of this exemption would reduce the delivery of local economic development activities and investment into community safety.

9(2)(f)(iv) [redacted]

[redacted]

[redacted] 9(2)(f)(iv) [redacted]

E. Tax simplification for volunteers and donation tax concessions.

Observations

32. Several suggested simplification ideas were proposed by submitters, including:

    32.1 *PAYE treatment for volunteers:* There was support for further work to extend the PAYE treatment of payments to volunteers for all in the NFP sector and to provide a simpler method of exempting volunteers from paying ACC levies. While most submitters considered this change would reduce compliance costs, further consultation may be required to confirm this.

    32.2 *Honoraria:* There was support for a review of the tax treatment of honoraria. Some submitters suggested introducing a tax-free threshold for honoraria, while others were more specific about simplification measures, such as a progressive rate and extended payment and filing dates.

    32.3 *Donation tax concessions:* There was specific support for:

        32.3.1 a proposal to refund donation tax credits (DTCs) prior to year-end and closer to the time donations are made;

        32.3.2 allowing Inland Revenue to collect data from donee organisations to pre-fill claims; and

        32.3.3 introducing a three-month grace period for deregistered charities.

    However, some submitters said any impact on charities, especially smaller charities, must be carefully assessed against the benefits. For example, assessing whether earlier DTC refunds would increase the compliance costs on charities due to the increased frequency of issuing compliant tax receipts to donors.

9(2)(f)(iv) [redacted]

[redacted]

Fiscal impacts

34. If Ministers direct officials to do further policy work on the topics contained in the Issues Paper, there will not be any fiscal impacts for Budget 2025.

35. The current fiscal impacts associated with proposals in the Issues Paper are shown in Table A below. This is an update on fiscal impacts provided in prior reports (BN2025/047, BN2025/026 and IR2024/199 refer). These costings are preliminary.

Table A: Fiscal impacts of proposals subject to consultation

	Topic	Fiscal impact (pa)	Comment
A	Charity business income tax exemption	$50m	The costing is a range of $30m to $70m with a midpoint of $50m. It assumes the exemption will be removed for "unrelated" business income with a de minimis of $5m total expenditure and that there are no changes to distribution or donation policies. Until the policy is finalised there is a high level of uncertainty involved.

9(2)(f)(iv)

[redacted]

Next steps

36. Subject to your agreement, we will begin preparing detailed reports on the five topics covered in the Issues Paper, with the intention of providing these to you by 30 June 2025.

37. Our proposed future milestones are:

- ***April 2025:*** Inland Revenue begins consultation on its draft operational statement for NFPs and member transactions.
- ***May 2025:*** Budget announcements (if any).

- ***June 2025:*** Officials provide detailed reports to Ministers, recommending consultation on policy detail (where necessary).

- ***December 2025:*** Consultation ends; final reports to Ministers and Cabinet.

Recommended action

We recommend that you:

1. **agree** that officials will provide you with detailed reports on each of the five topics covered in the Issues Paper by 30 June 2025.

   Agreed/Not agreed   Agreed/Not agreed

2. **note** that Inland Revenue will now publicly consult on operationalising its new interpretation of the law concerning the tax treatment of member transactions and membership subscriptions.

   Noted   Noted

3. **refer** a copy of this report to the Minister for the Community and Voluntary Sector.

   Referred/Not referred   Referred/Not referred

9(2)(a)
[redacted]

Stewart Donaldson
Principal Policy Advisor
Policy

Hon Nicola Willis
Minister of Finance
/04/2025

Hon Simon Watts
Minister of Revenue
/04/2025

Appendix A: Notable points from large iwi submitters

18(c)(i) [redacted]

The Issues Paper fails to give any consideration to the unique nature of iwi and Maaori entities that have been established to receive, manage and deliver the benefits of the settlement of historical grievances under Te Tiriti o Waitangi (Te Tiriti).

…Put simply, the proposals in Chapter Two should not apply to post-settlement governance entities (PSGEs) and their related entities, including marae. In addition, we consider that there may be unintended implications for asset holding companies and mandated iwi organisations under the Maaori Fisheries Act 2004, iwi aquaculture organisations under the Maaori Commercial Aquaculture Claims Settlement Act 2004, and Maaori reservations under Te Ture Whenua Maaori Act 1993.

The Coalition Agreement between the parties who form the present Government included a clear commitment to uphold Treaty Settlements, recognising their significance in addressing historical injustices. However, the policies being implemented fail to honour this commitment, undermining the relationship and trust established as a result of Te Tiriti settlements…

The purpose of Te Tiriti settlements is to acknowledge, apologise for, and address, historical injustices of the Crown in breach of Te Tiriti o Waitangi. However, such settlements did not, and could never, fully compensate for the full extent of what was lost or for the associated intergenerational pain and suffering.

As such, the redress (by way of money and assets) provided under Te Tiriti settlements is necessarily only a “seed” fund, with the clear understanding and intention that this will be held, managed and used to restore and uplift the iwi through subsequent, intergenerational recovery and investment activity…Charitable status was granted to PSGEs as a redress mechanism to enhance that work, which ultimately benefits the wider community as well.

18(c)(i) [redacted]

18(c)(i) [redacted] does not support the removal of the tax exemption for charity business income that is unrelated to charitable purposes…

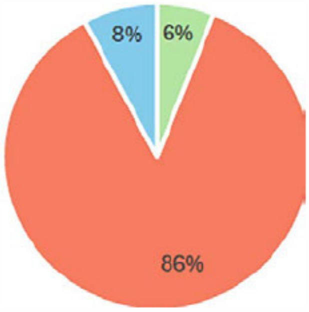
…removal of this exemption would: (i) be a tax on the most vulnerable in society; (ii) be a tax on economic growth; (iii) be a tax on the regions; (iv) be an attack on treaty settlements and mean they are no longer full and final; and (v) exponentially increase compliance costs in the charities sector.

Appendix B: Submission insights for specific topics

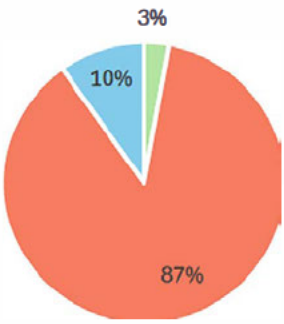
A total of **901** submissions were received by the due date. These pie charts show that the most significant opposition from submitters related to removing the exemption for charity business income and removing the FBT exemption.

Legend
Submitters that indicated support
Submitters that indicated opposition
Submitters with neutral or no clear position

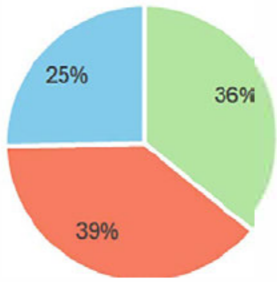
Remove exemption for charity business income unrelated to charitable purposes
(n=615)



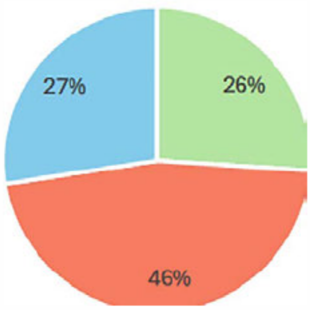
Remove/reduce FBT exemption for charities
(n=214)



Distinguish between donor-controlled charities and other charitable organisations for tax purposes
(n=170)



Introduce mandatory minimum distribution for donor-controlled charities
(n=142)



Restrict investments for donor-controlled charities for tax purposes
(n=115)