

Taxation and the not-for-profit sector

1. Introduction

This document provides an overview of the current situation regarding this topic. Please note that it reflects both personal opinions and thoughts of the InterChurch Bureau and therefore does not constitute legal or tax advice. I encourage you to seek independent legal and tax advice to determine the applicable implications for your church or charity. Respond accordingly based on your specific circumstances.

The Charities Act 2005 categorises charitable purposes into four areas:

1. Relieving poverty
2. Advancing education
3. Advancing religion
4. Other purposes that benefit the community

Churches reflect activities in all of these.

2. General

As you are aware, there have been some statements made by the Prime Minister and certain of his Ministers regarding the examination of the current tax and charitable status regulations in the charitable sector. The media has also sought to draw attention to this matter with, shall we say, some less than accurate statements about charities and churches. This has caused anxiety and concern for many of us.

The ACT party has publicly expressed its belief that there are loopholes for charities in relation to the taxation of business income. It is important to note that this does not pertain to donation income. Additionally, there are other groups, such as the Taxpayer Union, that advocate for the taxation of charities on their business income.

We have not received direct communication from the government regarding the purpose of this review. It is unclear whether it is intended to generate tax revenue (which it feels like it actually is), conduct a compliance exercise to identify "bad charities," or serve another objective. New Zealand already possesses robust tax and charity laws, including the Charities Services and a registration process. Perhaps a potential solution would be to enhance the resources of Charities Services to assist in the identification and removal of any charities pertaining to be charitable when in fact they are not. If there a few charities suspected of flouting the law then deal to them, not have the attitude that the whole sector needs reviewing.

Following the absence of definitive communication from the government and the lack of an opportunity for consultation, the Inland Revenue (IR) released an issues paper on February 24th, inviting submissions by March 31st. There is also speculation that a Taxation Bill may be introduced during the 2025 budget in May.

Last week, a group from the InterChurch Bureau (ICB) met with the IR policy team, which provided valuable clarification on certain aspects of the issues paper.

3. Inland Revenue Issues Paper

<https://www.ird.govt.nz/updates/news-folder/2025/public-consultation-on-taxation-and-the-not-for-profit-sector>

Currently, the third most downloaded paper on the IR website. This paper raises significant interest issues with implications of this paper extending to all charities.

It is important to clarify that this document represents an IR paper and does not reflect the official government stance. It is not a legislative proposal; rather, it presents policy recommendations at this stage. No definitive decisions have been made. During our recent meeting with the IR policy team, they informed us that the Minister of Finance had stated that no decisions have been made yet and that there are no predetermined outcomes. The government will carefully consider the feedback provided by this issues paper and determine whether any modifications should be made to existing regulations. Any changes made will require inclusion in a future Taxation Bill, which will be subject to further public submissions. The IR will ensure that affected entities are adequately informed throughout the process.

The issues paper is structured into distinct chapters that address the following key topics:

Chapter 2: Charity business income exemption

Chapter 3: Donor-controlled charities

Chapter 4: Integrity and simplification

Chapter 2

This chapter examines the income tax exemption for charitable organisations and the rationale behind it. It specifically focuses on business income unrelated to the charitable purpose. Our primary concern is the definition and boundary of “business” income.

The IR has assured us that their paper does not target donation income, so tithes and offerings are not affected by its suggestions.

The ICB and other organisations express concerns that while this paper targets charity business income unrelated to its purposes, it could potentially expand its scope to include all charity business income, including passive income such as interest on investments. This expansion could potentially broaden the definition of “business” to capture more tax opportunities from charities.

It is commendable that the IR in this chapter addresses that they see no “competitive advantage” for charitable businesses, which is an argument frequently used to advocate for changes in this area for charitable businesses.

The IR proposes a de minimis threshold based on the current Tier reporting structure. For instance, charities reporting business income with annual expenses below \$5 million may not be subject to any changes. If the de minimis threshold proposal outlined in the issues paper were to proceed then it will affect most of us as our current structure and the way we registered under the Charities Act was not done from a tax perspective and organisations will need to think about this when making their submission.

It is essential to clarify that for the purposes of this issues paper, business income is distinct from donation income.

Interesting to note that if the government were to implement a single set of rules for religious charities and churches while applying different regulations to other charities, this could be considered discriminatory against religion.

Chapter 3

This chapter focuses on donor-controlled charities. These entities are distinct from churches and are registered charities governed by the donor, their family, or associates. They are commonly referred to as private foundations overseas.

Chapter 4

This chapter examines other aspects of the tax system and how IR considers potential changes to these areas. It includes Fringe Benefit Tax (FBT), donations tax credits, and honoraria.

a. Fringe Benefit Tax

Charities are currently exempt from FBT on benefits provided to employees, like vehicles, medical insurance, life insurance, funeral funds, farewell gifts and more, providing the employee is working for the charitable purposes of the organisation. This exemption has been in place since 1985, although it was temporarily suspended in 1990.

The IR is currently conducting a review of the FBT rules and compliance. Therefore, this chapter is considered part of that broader review. The IR seeks to understand the impact of removing this exemption on charities and compliance costs.

The ICB believes that removing this exemption will have a significant impact on charities, add extra compliance costs, and the diversion of funds away from charitable purposes. We disagree with the view that there are weak efficiency grounds for maintaining this exemption, as it distorts the labour market. This exemption is not intended to reduce tax liability but rather to help enable charities to offer competitive benefits to attract and retain skilled staff, as they cannot compete with corporations in terms of remuneration.

b. Volunteers and Honoraria

The ICB supports the IR's efforts to simplify the tax compliance process for the payment of honoraria. Most churches pay honoraria for visiting speakers and tax these payments as required. However, this process can be cumbersome, and individuals may inadvertently incur additional costs, like ACC invoices. The ICB believes that implementing changes in

this area would make it easier for organisations and charities to manage their tax obligations for honoraria.

c. Donation Tax Credit (DTC)

The IR is exploring ways to increase awareness of the DTC, which allows individuals to claim a tax credit for donations to registered charities. Many people are unaware of this scheme, and only one in five donors claim the DTC. The IR has proposed several options to enhance awareness, but all of these options appear to create additional administrative burdens for the IR and charities. The ICB believes that the current system for the DTC is adequate and does not require any changes.

This chapter does not discuss or suggest the removal of the DTC scheme.

4. Submissions

Submissions must be made by 31st March.

<https://www.taxpolicy.ird.govt.nz/consultation/2025/taxation-and-the-not-for-profit-sector>

The ICB will be submitting a response on behalf of churches, which we will be happy to share. However, we strongly encourage each church national body, local churches, and charities to submit their own submission. The IR issues paper provides a comprehensive list of questions that can be easily answered. It is crucial to consider the potential impact of any proposed changes on your church or charity. The Minister of Finance is keen to hear stories and examples of "if this happens, then this will happen"; so, give practical examples in your submission.

There are some thoughts above on what you could submit on however always best to have examples from your own charity on the impact of such changes.

Of course, the obvious point is that NZ charities are already heavily regulated and any more compliance or tax is just going to divert funds from our charitable purposes.

Steven Moe and the ParryField Lawyers team have generously provided resources to assist you in your consideration of the submission. These resources are available for your perusal:

Charities and Tax Guide - examining the foundations of how and why we empower charities to have positive impact

<https://www.parryfield.com/wp-content/uploads/2025/02/PARRY-FIELD-Charities-and-Tax.pdf>

Video of a Tax & Charities session held before the IR paper was released:

<https://youtu.be/rp040LanLIY>

Video of briefing on the consultation paper:

<https://www.youtube.com/watch?v=mlCz7fzYGwI>

More detailed paper on the IR consultation paper:

<https://www.dropbox.com/scl/fi/qk1hnaum2fiu4w29nv27j/Tax-and-the-not-for-profit-sector-issues-paper-thoughts-10-March-2025.pdf?rlkey=wclju86m4aj6wzetzg2kibaru&st=ibyuurjq&dl=0>

This report was presented last year which has some helpful figures and stats about the Church and Christian charity sector:

<https://faithinaction.org.nz>

5. What else can we do?

a) Engage in a meeting or compose a letter to your MP, sharing the positive impact of your church or charity's initiatives within their electorate as well as across Aotearoa. While it is important to address religious concerns, focus on the tangible stories of transformed lives and improved communities. Emphasise the potential consequences if these discussions regarding "taxing charities" were to materialise.

I believe it is false economy to start taxing churches and charities to increase tax revenue for the government, as on the other hand the government would need to pay more in social services, so will cost more. It is well proven that charities carry out services more effectively than the government.

List of current MPs:

<https://www.parliament.nz/en/mps-and-electrates/members-of-parliament/>

b) Inform the public about the positive contributions of charities and churches to the community and the nation. Share this information at various social gatherings, such as dinners, barbecues, and other events. Unfortunately, there is a significant amount of negative publicity and inaccurate media coverage regarding charities and churches. So let's engage in efforts to alter the public's perception, any opportunity we can.

A group of us are currently collaborating on op-eds for the media that will present a more positive view of the good work of churches.

c) Pray. Let's take a moment to pray for our government leaders, including the IR and Charity officials. As 1 Timothy 2:1-2 reminds us, it's important to pray for those in authority over us. Let's lift them up in our prayers.

6. Final Thoughts

It is highly probable that this will not be the end of this conversation. As previously mentioned, this document is an Inland Revenue issue paper, not the government's official stance. While we may observe some recommended changes or exemptions for charities

by the Inland Revenue, the government may have additional considerations or ideas. It is crucial that we remain proactive in this area and seize any opportunity to remind the public, our local councils, and the government of the invaluable contributions that churches make to our communities.

There does appear to be an overall lack of vision from the government for the charity sector with constant tweaks and talk of a problematic sector. There is nothing wrong with the current charity law we have, and it is fit for purpose. It would be good to see more support from the government instead of more regulation and suspicion.

Throughout history, it has been widely recognised that communities thrive when churches are actively engaged in communities.

Ps Chris Bethwaite
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