



NGĀI TAHU SEAFOOD
Mō tātou, ā, mō kā uri ā muri ake nei
For us and our children after us



MISSION
ESTATE WINERY
SINCE 1851

Pioneer
energy | GROUP

Central Lakes
TRUST

Sanitarium
The Health Food Company



Hato Hone
St John

Submission

2025/06 Inland Revenue Department
Taxation and the not-for-profit sector (Final)
31 March 2025

About the McGuinness Institute

The Institute was founded in 2004 as a non-partisan think tank working towards a sustainable future for Aotearoa New Zealand. Project 2058 is the Institute's flagship project focusing on Aotearoa New Zealand's long-term future. Because of our observation that foresight drives strategy, strategy requires reporting, and reporting shapes foresight, the Institute developed three interlinking policy projects: *ForesightNZ*, *StrategyNZ* and *ReportingNZ*. Each of these tools must align if we want Aotearoa New Zealand to develop durable, robust and forward-looking public policies. The policy projects frame and feed into our research projects, which address a range of significant issues facing Aotearoa New Zealand. The 11 research projects are: *CivicsNZ*, *ClimateChangeNZ*, *EcologicalCorridorsNZ*, *GlobalConflictNZ*, *OneOceanNZ*, *PandemicNZ*, *PublicScienceNZ*, *ScenariosNZ*, *TacklingPovertyNZ*, *TalentNZ* and *WaterFuturesNZ*.

About the cover

This cover features logos and images from a range of not-for-profit New Zealand businesses.

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1.0 Executive Summary

How we treat the not-for-profit sector is a financially, socially and ethically significant issue for New Zealand. Society needs to have faith that charities and not-for-profits are acting ethically, that tax is paid fairly and that the economy is operating on a level playing field. Not-for-profits fulfil an important role in society for the public good; however, it is essential that we have solid checks and balances in place to ensure some are not taking advantage of the system and to ensure any tax benefits they receive are passed on to those in need.

We welcome the opportunity to explore this important topic. We are mindful that society is becoming more untrusting and divisive, and that the Government's financial position is becoming significantly challenged. From a foresight perspective, New Zealand's tax take and costs will be significantly impacted by two things: our aging population (i.e. less tax; more health costs) and climate adaptation (e.g. infrastructure, insurance and relocation costs).

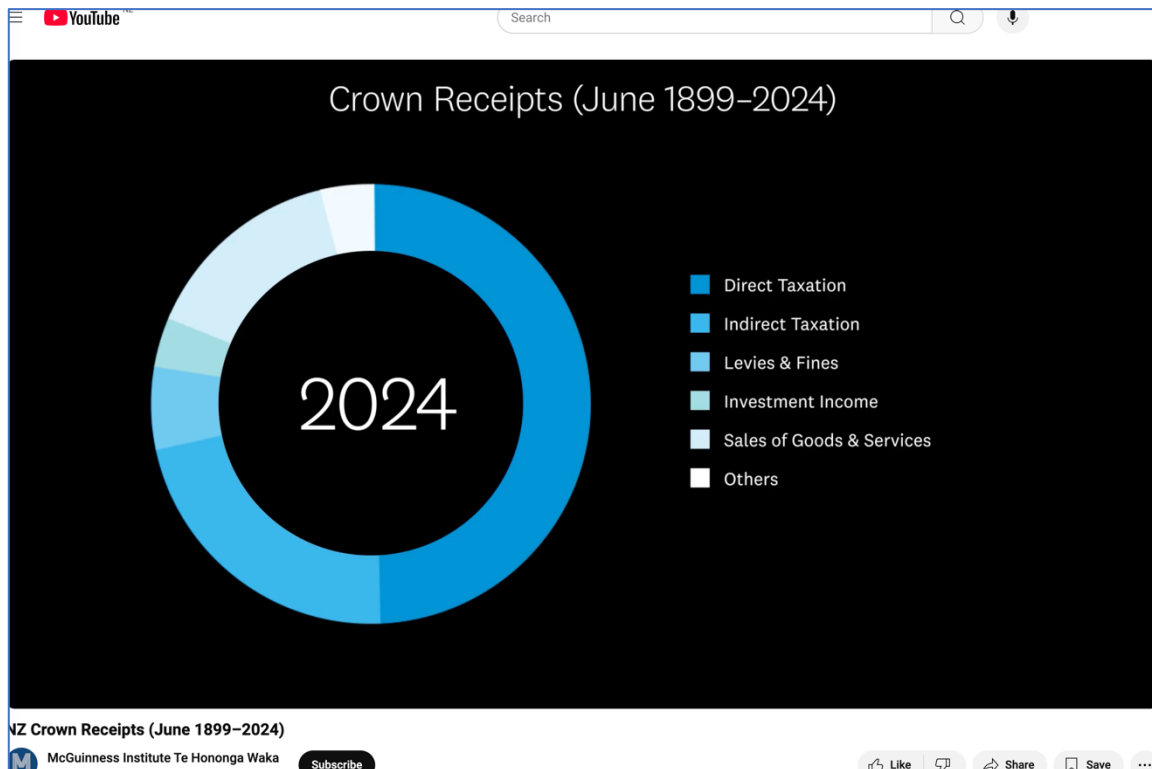
We would welcome the opportunity to meet and/or answer any specific questions in response to our submission.

Why our tax system matters

Figure 1 (below) is a screenshot of a YouTube clip the Institute has produced to show Crown receipts collected over time. It illustrates the move from indirect to direct taxation, and our dependence today on an effective and trusted direct taxation system.

Figure 1: The McGuinness Institute YouTube Crown Receipts (June 1899-2024)

Source: McGuinness Institute¹



Not-for-profits provide significant benefits for our country, with many delivering much-needed services, assisting people who need help, providing resources and supporting our communities. Although they are not financially focused, running a not-for-profit can cost a significant amount of money.

In order to support themselves, approximately 40% of not-for-profits have branched into running some form of business operation. The *Taxation and the not-for-profit sector* IRD consultation document notes that 11,700 out of 29,000 New Zealand not-for-profits reported business income in 2024, although the exact amount of income is not clearly defined.² Any business operations owned by not-for-profits, even if they are completely unrelated to the not-for-profit’s purpose, have, since 1940, been exempt from income tax.

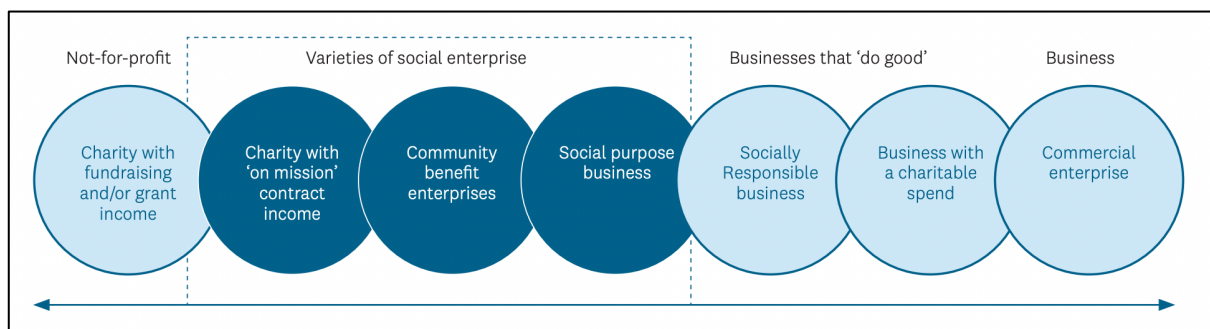
Not-for-profits in New Zealand are big business; it is estimated that the income tax exemption misses a potential of \$2 billion in taxable profit.³ The Charities Services *Annual Review 2023/2024* indicates that in the 2023/24 year, not-for-profits had total expenditure of \$25.28 billion and a total income of \$27.34 billion.⁴ To put this into context, Treasury reports that the entire New Zealand Government’s total expenditure in the 2023/24 year was \$180.1 billion.⁵

One of the most important things charities do is provide a public benefit, however, not everything that benefits the public is ‘charitable’. To qualify as a charity, an organisation has to provide a benefit to the public, which is very similar to what has been accepted as charitable by the courts. Charities Services assesses applications on a case-by-case basis in light of previous court rulings about charitable public benefit.⁶

However, for-profits also deliver a public benefit. How the Institute sees this relationship is defined in a 2020 report, *Report 17 – ReportingNZ: Building a Reporting Framework Fit for Purpose*.⁷ The report notes that not only does a social enterprise continuum exist, but that social enterprises and other ‘for-purpose’ or ‘socially responsible’ organisations are gaining traction. See Figure 2 below.

Figure 2: The social enterprise continuum

Source: McGuinness Institute (2020)⁸



The Charities Services *Annual Review 2023/2024* also states that although the largest charities in the sector make up only 1% of all registered charities, they account for over half of the sector’s annual expenditure (which is approximately \$25.3 billion in total, see Figures 3 and 4). The vast majority of New Zealand’s charities are small and rely heavily on volunteers, with around one-third of charities reporting an annual income under \$10,000.⁹

Religious activities are another example of a not-for-profit sector where society’s attitudes have changed significantly since this legislation (to exempt not-for-profits from tax) was first

introduced in 1940.¹⁰ At the time, religion played a significant role in New Zealand society and promoting religion was seen as beneficial for society. Now, religion plays a much smaller role in how society functions, with fewer people attending religious services and conflict over whether some churches should receive the benefits given to not-for-profits if their purpose is not perceived to benefit society. See, for instance, the controversy around Destiny Church's activities and the requests for them to be removed from the Charities Register, as discussed in the response to Q1 below.

The tax system must be careful not to treat all not-for-profits the same, when they operate on very different scales and for different purposes. Further, we question whether not-for-profit is the appropriate context for large charities that run businesses. We suggest that the IRD create a continuum (along the lines in Figure 2), to illustrate that all organisations create public benefits. However, some of those do so through creating charitable grants, charitable goods and charitable services – and it is only those grants, goods and services that are not taxed.

Our overall conclusion is that if a charity is using profits to reinvest back into a business, those profits should be taxed using business tax rates. Conversely, if a charity is using the mechanism of donating profits from a business enterprise to a third party (in the form of charitable grants, charitable products or charitable services), that profit should be treated as a donation and not taxed. This would require a definition of what makes a charitable grant, a charitable product and a charitable service. It would also require a definition of a third-party (along the lines of a person or organisation who is not a party to a contract or a transaction with the charity, but is a beneficiary).

Summary of Six Key Recommendations:

The six recommendations fit under four sub-groups: External Reporting Board, large charities, small charities and Charities Services. These are further expanded on under Section 4.0 below.

A: External Reporting Board

1. Create a non-GAAP standard for large charities with non-related business profits (with assistance from IRD).

B: Large charities with non-related business profits (often Tier 1 and Tier 2)

2. Tax profit that is not donated but generated from un-related income.
3. Put in place annual reporting requirements on staff, board members and other related individuals and organisations to ensure they do not gain tax-free benefits (this could be a statement that must be signed and dated, and a penalty given if the statement is found to be wrong).

C: Small Charities with no non-related business profits (often Tier 3 and Tier 4)

4. Do not tax unrelated income of Tier 3 and 4 charities.

D: Charities Services (the agency established by the Charities Act 2005)

5. Improve the quality of the Charities Annual Report, in particular differentiating between each Tier (e.g. number of charities, number of staff, number of volunteers, revenue, expenditure, assets and liabilities).
6. Create a guide that includes a clear set of principles for these two different types of charities.

2.0 Introduction

The McGuinness Institute welcomes the opportunity to offer feedback on taxation and the not-for-profit sector in New Zealand.

We would like to thank the Inland Revenue Department (IRD) for inviting public feedback on this important topic. We would welcome the opportunity to expand on any of our points and would like to speak to our submission if possible.

The Institute would like to acknowledge that McGuinness Institute Limited (registration number CC21440) is an entity controlled by The McGuinness Foundation Trust (registration number CC10457), both registered charities on the Charities Register. As such, we have a direct interest in this area. In the financial year ended 31 March 2023, the Institute reported total income of \$799,387 and total expenditure of \$793,602. This would put the Institute under Tier 3 of the XRB's tiered reporting system for charities. A more detailed discussion of this is explained under the response to Q4 below.

Please note, we consider a detailed glossary, contained in the consultation document, would have been very useful. Secondly, we felt that more research into how other countries manage the tax status of not-for-profits would have been beneficial. There may be other key documents that we are missing, so please excuse any repetition of your existing research.

3.0 Direct Responses to Questions for Submitters

Chapter 2: Charities business income tax exemption

Question 1: What are the most compelling reasons to tax, or not to tax, charity business income? Do the factors described in 2.13 and 2.14 warrant taxing charity business income?

2.13 However, there are various “second-order” imperfections in the income tax system that may need to be taken into account. For example:

- Charitable trading entities may have an advantage over non-charitable trading entities in that they do not face the compliance costs associated with a tax obligation. This lowers their relative costs of doing business.
- The non-refundability of losses for taxable businesses can result in a disadvantage for such businesses relative to tax-exempt businesses, resulting in a higher relative rate of return for non-tax paying businesses over time when there has been a loss in one year.
- The costs associated with raising external capital, such as negotiating with investors or banks, can be significant. These costs often make retained earnings the most cost-effective form of financing. Because charities’ retained earnings are higher, this may give them lower costs in raising capital. On the other hand, charities generally cannot raise equity capital (as private investors cannot receive a return).

2.14 Associated with the last bullet point, a charity could more generally have an advantage if it were to accumulate its tax-free profits back into the capital structure of its trading activities, enabling it, through a faster accumulation of funds, to expand more rapidly than its competitors. Arguably, however, such accumulation could potentially arise from any form of income earned by charities.

The issue of unrelated business income (the income a not-for-profit earns from commercial activities not related to its charitable purpose) has raised significant public and political concerns both here and abroad.¹¹ A paper prepared for the Tax Working Group in 2018 noted that ‘[i]t is not easy to identify the extent of business activity occurring in the charitable sector. Best estimates from DIA Charities Services and Inland Revenue indicate about 8,500 or 30% of registered charities are likely to have some sort of trading activities.’¹²

The IRD consultation document *Taxation and the not-for-profit sector* reports that by 2024, approximately 11,700, or 40%, of New Zealand’s not-for-profits reported some form of business income. The document states that ‘[o]nly a portion of these businesses would be carrying on activities unrelated to charitable purposes, however the exact number of unrelated businesses will be unknown until the term is formally defined’.¹³

As part of understanding this tax exemption, it would be beneficial to have updated, clearer data on how many charities undertake business activities, what kind of activities are being undertaken, their dollar value and how the income is distributed. The Institute believes a careful policy approach needs to be implemented which takes into consideration the following points:

1. The blanket tax exception is no longer appropriate

New Zealanders have been questioning the fairness of some not-for-profits not paying income tax on their unrelated trading or extensive property holdings income for a long time. Since 1940, income tax derived from charity business activities has been tax-exempt in New Zealand.¹⁴ However, it is now 2025 and the law needs to change to reflect that the way not-for-profits operate is very different. Since this law was first implemented, New Zealand society and the

purpose and scale of not-for-profits have changed significantly. A small group of not-for-profits have taken on significant trading activities, growing to be million-dollar commercial enterprises that dominate their market segments in price, size and scale. The scale at which some of these unrelated businesses are operating would have been unfathomable when this law was first conceived.

The blanket tax exemption for not-for-profits is no longer fit for purpose, as it fails to consider how differently some not-for-profits are now commercially operating in 2025 and beyond. In the modern world, not-for-profits operate at different scales and work to different purposes. Different rules should apply based on these factors. There are concerns about how this blanket tax exemption is unfair to competition (which have no choice but to pay 28% income tax), as well as ethical questions around the following:

(a) What is a ‘charitable purpose’ and what constitutes a not-for-profit?

There are questions about whether some institutions receiving tax exemptions are actually providing a benefit to the public, and if the money saved from tax exemptions flows on to those who need it. There have been public petitions for some not-for-profits to be removed from the Charities Register, such as Destiny Church.

Destiny Church is an interesting example of a not-for-profit as it qualifies as a charity under the criterion of ‘advancement of ... religion’, which has allowed its trusts and charities to be granted charitable status. The group’s controversies are extensive, and include members being charged with breaching the Covid-19 Public Health Order in 2021.¹⁵ This initial controversy, around breaching restrictions in the pandemic, led to a petition with over 69,000 signatures calling for the church’s charitable status to be revoked for its Auckland and Christchurch operations.¹⁶ More recently, another petition to remove Destiny Church from the Charities Register has received over 36,000 signatures.¹⁷ That petition arose in response to Destiny Church members storming Auckland’s Te Atatū Community Centre and library to protest a children’s science show hosted by a drag king in February 2025. Public figures including the Labour MP for Te Atatū also asked Charities Services to remove Destiny Church from the Charities Register.¹⁸

The Institute recommends there should be a close evaluation of what should be considered a ‘charitable purpose’ under the Charities Act 2005 and when the Board should grant Charitable Status. Given the ongoing public interest, additional resources should be dedicated to this evaluation.

(b) Are the profits (and money saved from the tax exemption) used appropriately, within a reasonable time frame and for a charitable purpose?

It is recommended that not-for-profits that earn an unrelated business income over a certain threshold should be required to prove that their profits, and the money saved from their tax exemption, are put towards their charitable purpose within a suitable time frame.

Some have suggested they should have to do this within the financial year; however, more research should be undertaken to understand the implications of each potential time frame. Imposing public reporting on how this money is used will improve transparency and public trust in the taxation system, but it does have complexities. Some not-for-profits, especially those with a long-term focus such as iwi and universities, have long-term purposes. For a more detailed discussion of this, refer to the Ngāi Tahu case study in Appendix 1.

More analysis is needed to understand the way charities earn income, and how much of the money saved from the tax exemption actually ends up supporting the charitable purpose of the not-for-profit. Changing this tax exemption and removing this loophole for large businesses would improve fairness, competition and transparency in the sector.

2. The tax take from removing this exemption would be significant financially; however, removing the exemption should only impact a small number of charities at the top financial level

The lost tax revenue from this exemption is a significant amount in dollar terms (estimated at \$2 billion).¹⁹ However – if this policy change is implemented carefully – it should only impact a small group of not-for-profits that report the highest levels of unrelated business income each year. We suggest that the tax exemption should be removed just for charities that operate substantial commercial activities over certain financial thresholds, in order to avoid increasing compliance costs for small not-for-profits.

The Charities New Zealand *Annual Review 2023/2024* states that ‘while the largest charities in the sector make up only 1% of all registered charities, they account for over half of the sector’s annual expenditure (approximately \$25.3 billion). Most charities are small and rely heavily on volunteers, with around one-third of charities having an annual income under \$10,000.’²⁰

Potential approaches include removing the income tax exemption only for certain thresholds of not-for-profits. Refer to the answer to Q4 below for a more detailed discussion of these options. More detailed analysis is required to understand which option would improve public trust and economic competition while mitigating impacts on the majority of New Zealand’s not-for-profits.

3. Removing the blanket tax exemption would make New Zealand compliant and consistent with international rules

It is beneficial for New Zealand to comply with international standards and to learn from policy approaches undertaken in similar countries, and the Institute recommends more detailed analysis of our overseas counterparts is undertaken. According to a 2020 OECD study, the majority of countries either have restricted the commercial activities that a charitable entity can engage in, or tax charity business income if the business income is unrelated to charitable purpose activities.²¹ These countries have typically been concerned with:

- a loss of tax revenue from not-for-profits if a broader tax exemption was applied
- unfair competition claims
- a desire to separate risk from a charity’s assets, and
- a desire to encourage charities to direct profits to their specified charitable purpose.

The Institute believes New Zealand should look at how other countries have approached this and learn from their approaches. Tax exemptions for charities under overseas tax systems provide some examples for New Zealand:

- **UK:** charities cannot undertake commercial trading activities unrelated to their charitable purposes while claiming exemption from income tax. This is to ensure fair competition among commercial activities.²²
- **USA:** ‘unrelated business income’ is subject to tax, restricting concessions to ensure the tax regime matches conventional tax policy or social welfare policy.²³
- **Australia:** charities can carry out unrelated commercial activities without paying tax (similar to New Zealand’s status quo), as long as the purpose of the activities is to generate

revenue for the charity's charitable purpose'.²⁴ Tax on the unrelated business income of not-for-profits was proposed by Australia's Gillard government in 2011, only to be postponed in 2013 and eventually abandoned by the Abbott government in 2014.²⁵ Scott Morrison, the Social Services Minister at the time, said it was because he was 'focusing on more important issues'.²⁶

4. Removing the blanket tax exemption would encourage fairness in business competition

There are concerns that the tax exemption is unfair as there is a significant competitive disadvantage for the businesses that do pay income tax on their goods and services.

Business income tax in New Zealand is 28%, a substantial cost for businesses each year.²⁷ When this part of a firm's normal cost structure is removed for not-for-profits, it has significant benefits, including:

- higher profits (which the firm can reinvest into the business, allowing it to grow faster than its tax-paying competitors); and
- an ability to charge lower costs for an identical good or service (allowing not-for-profits to dominate their competitors through price cuts).

As a result, it is very difficult for other businesses to compete with not-for-profits, which leads to unfairness in the market and discourages competition. See, for example, the case study of Sanitarium, which does not pay income tax but competes with other food manufacturers that do. This case study is discussed in more detail in Appendix 1.

Question 2: If the tax exemption is removed for charity business income that is unrelated to charitable purposes, what would be the most significant practical implications?

There will be a number of practical implications that must be considered, including:

- Higher tax revenue received by the Government. (We recommend this is accounted for directly so it is clear how society benefits from any tax changes).
- More Government funds that could be spent on the social and community sector and areas like health and infrastructure. Charities are not the only entities committed to the public benefit.
- Less money for not-for-profits to spend (as the higher earners will need to pay significant amounts of tax).
- Higher compliance and accounting costs (although this would only be for the largest charities, potentially around 200 entities).
- Not-for-profits being discouraged from starting unrelated business ventures (which may mean they either focus on their not-for-profit purpose or start a for-profit business, rather than merging the two).
- Charitable purposes needing to be reviewed.
- Penalties needing to be put in place and some form of tighter regulation being required (however, this may be no more than currently being adopted).
- Some large not-for-profits may need to change their approach to stay competitive (as some may not be able to rely on current business models), but see also below.
- A more level playing field for businesses competing against not-for-profits (which may benefit the consumer, with more choice and more competitive pricing in the long term).

The Institute recommends detailed financial analysis and consultation with the not-for-profit sector is undertaken so these practical implications are understood in more detail.

Question 3: If the tax exemption is removed for charity business income that is unrelated to charitable purposes, what criteria should be used to define an unrelated business?

An unrelated business is a business that is not connected to the charitable purpose. However, a charitable purpose in itself is difficult to define. That is why we suggest moving towards a charitable grant, a charitable product or a charitable service provided to a third party.

The criteria to define an unrelated business need to be very clear to ensure unrelated business is included and direct charity fundraising is not included. Michael Gousmett, adjunct fellow in the department of accounting and information systems at the University of Canterbury, has raised concerns about iwi organisations, such as Ngāi Tahu's seafood businesses, having tax exemptions for non-primary purpose trading. 'Seafood production is not the same thing as advancing the purposes of iwi therefore that's a non-related trade, a non-primary trade so it should be subject to tax.'²⁸

Unrelated business income is when a business is a completely separate commercial operation from the not-for-profit that runs it. The following examples illustrate this difference:

1. Cancer Society of New Zealand Incorporated (CC30617)

- This charity is a member of the group called Cancer Society of New Zealand Incorporated Group.
- On Daffodil Day (a fundraiser for the Cancer Society), people may (or may not) receive flowers, stickers or other small tokens as a thank you for their donation. This money goes towards the Cancer Society of New Zealand Incorporated and their charitable purpose.
- Charitable Purpose of the group includes:
 - Supporting, funding and promoting outcomes of research within New Zealand into cancer prevention, treatment and cure of cancer.
 - Providing supportive care and information to people affected by cancer, their families/whānau and carers.
 - Promoting education about cancer for health professionals.
 - Delivering health promotion programmes focusing on cancer prevention.
 - Leading advocacy across the cancer continuum.
 - Working with organisations who share similar goals.²⁹

2. Shotover Jet Limited (CC35587)

- This charity is a member of the group called Ngāi Tahu Charitable Group.
- People pay for a jetboat experience on the Shotover Jet. It is an individual business, which is owned by a registered charity, Ngāi Tahu Tourism, and all profits go to Ngāi Tahu Tourism. Ngāi Tahu Tourism is part of the Ngāi Tahu Charitable Trust.
- Charitable purpose: Ngāi Tahu's website identifies the group's purpose:
 - 'We invest in the capability and education of people by investing in scholarships and industry-based training programmes; we provide cadetships and internships, we provide comprehensive incentives for our people to learn te reo Māori, and we fund cultural and community-based initiatives that help our people, and their communities, grow.
 - We also provide grants to charitable entities that have been set up by our Papatipu Rūnanga (and to Papatipu Rūnanga themselves if they are charitable

entities). These grants are steadily increasing and enable charitable activities to be carried out at a local level throughout the Ngai Tahu takiwā.³⁰

Question 4: If the tax exemption is removed for charity business income that is unrelated to charitable purposes, what would be an appropriate threshold to continue to provide an exemption for small-scale business activities?

2.33 Some countries only exempt a charity's business income if the business profit is distributed towards a charitable purpose within a given time period.

Below are some possible options for thresholds and restrictions that can be imposed on the current tax exemption. More analysis is required on what implications each option would have. For instance, larger charities may just split into smaller ones to avoid paying income tax. Controls therefore must be enforced to account for subsidiary entities created with the purpose of avoiding the threshold but which are substantively the same entity or similar.

These options could either be implemented individually or together.

Option 1: Tax exemption only allowed if unrelated business income is distributed for charitable purposes within the financial year

This option may alleviate some concerns about whether the exemption benefits the charitable purpose, and will mean not-for-profits need to prove the income-tax savings benefit for the charitable purpose they are intended for.

Auckland University of Technology accounting and taxation senior lecturer Ranjana Gupta has suggested revenue from business activities by charities should be used for charitable purposes within the same year it is earned, so it should not be allowed to accumulate. 'I think companies like Sanitarium, even though they are part of Seventh-Day Adventist Church, because they are competing with Hubbards or Kellogg's, are running their business on a totally commercial model.'³¹ More detailed analysis of Sanitarium is in Appendix 1.

One issue with Option 1 is that it encourages short-term planning, potentially at the expense of long-term investment and planning for not-for-profits. This will lead to planning issues, particularly for not-for-profits that have a long-term focus spanning multiple generations (for instance, iwi- and university-run not-for-profits).

Option 2: Tax exemption removed only for the highest-earning not-for-profits

This option alleviates concerns about increased compliance costs for the majority of not-for-profits, which earn a relatively small amount of business income. It is recommended any financial tier system used to determine the tax exemption should be consistent with the External Reporting Board (XRB) Standards for Tiers.

The XRB's tiered reporting system for charities uses annual expenses or operating payments to determine the required reporting standards (see tables below). Tier 1 and 2 charities must prepare financial statements in accordance with generally accepted accounting practice (GAAP), while Tiers 3 and 4 have simplified standards. It therefore makes sense that Tiers 3–4 could still fit under the income tax exemption, with Tiers 1–2 required to pay income tax. This would benefit smaller not-for-profits that are operating on a less commercial scale; however, there is a risk not-for-profits will just break their businesses into smaller entities, creating a new loophole.

Refer to the tables on the following page for more information on the XRB's tier system and the number of not-for-profits in each tier.

Option 3: Tax exemption to be removed for all unrelated business

This option is the simplest; however, a clear definition of what is 'unrelated' is required to ensure not-for-profits do not pay income tax on grants and donations. It will also have negative impacts on a significant portion of not-for-profit sector, which may discourage people from operating not-for-profits.

Option 4: Tax exemption removed for not-for-profits with the highest levels of expenses

There is also an option to remove the tax exemption for a certain number of not-for-profits who report the highest level of expenses over the past year. A certain threshold could be set, such as the below two alternatives:

- the top 1,300 not-for-profits that each report expenses of more than \$5 million/year; or
- the top 100 not-for-profits that each report expenses of more than \$33 million/year.³²

More analysis and consultation with the sector is required to understand the implications for this option. It could also create possible loopholes which will need to be managed, such as entities splitting into smaller groups to avoid fitting into high level groups.

Figure 3: The four-tier accounting system for not-for-profits

Source: Charities Services (2025).³³

	TIER 1	TIER 2	TIER 3	TIER 4
Method of Accounting	Accrual	Accrual	Accrual	Cash
Annual Expenditure	Over \$33 million	Under \$33 million	Under \$5 million	Under \$140,000
Public Accountability	Yes	No	No	No
Accounting Standard for Reporting	Full Standard	Reduced Disclosure Regime	Public Benefit Entity Simple Format - Accrual (Not for Profit) OR Tier 3 (NFP) Standard	Public Benefit Entity Simple Format - Cash (Not for Profit) OR Tier 4 (NFP) Standard

Financial overview				
	Tier 1	Tier 2	Tier 3	Tier 4
Total assets \$86.98 billion	\$37.23 billion	\$28.87 billion	\$18.04 billion	\$2.84 billion
Total expenditure \$25.28 billion	\$13.64 billion	\$7.84 billion	\$3.4 billion	\$400 million
Total income \$27.34 billion	\$14.14 billion	\$8.44 billion	\$4.17 billion	\$590 million

Figure 4: Breakdown of 11,700 charities that reported business income in 2024

Source: Inland Revenue New Zealand (2025).³⁴

Reporting Tier	Tier 1	Tier 2	Tier 3	Tier 4
Criteria (total expenses) ⁶	Over \$33m	\$33m-\$5m	\$5m-\$140,000 (accrual-based accounting)	Under \$140,000 (cash-based accounting)
Proportion and number of charities reporting business income	1% (100)	10% (1,200)	45% (5,300)	43% (5,100)

2.29 A de minimis threshold that continues to provide tax exemption for Tier 3 and Tier 4 charities would, for example, limit the impact of a policy change to less than 1,300 charities that report annual expenses above \$5 million per annum.

Question 5: If the tax exemption is removed for charity business income that is unrelated to charitable purposes, do you agree that charity business income distributed for charitable purposes should remain tax exempt? If so, what is the most effective way to achieve this? If not, why not?

Yes, however it needs to be a donation in the form of a charitable grant, a charitable product or a charities service to a third party. If the profit is being reinvested back into the business, it must be taxed. More detailed analysis is needed to understand how this would operate in practice; however, it is suggested that the Six Key Recommendations outlined below are taken into consideration. It is particularly important that all relevant terms are very clearly defined to make compliance easy for small not-for-profits, and to minimize loopholes.

4.0 Six Key Recommendations

The six recommendation fit under four sub-groups: External Reporting Board, large charities, small charities and Charities Services.

A: External Reporting Board

1. Create a non-GAAP standard for large charities with unrelated business profits (with assistance from IRD).

The External Reporting Board could establish a special reporting standard for large charities that run businesses not directly related to their charitable purpose. The so-called Large Charities Standards (or Business Charity Standards, or similar), could rely on Section 18 in the Financial Reporting Act 2013 (see Figure 5). These new standards could be developed in a similar way to the Aotearoa New Zealand Climate Standards – creating a threshold based on size/scale, number of staff and/or income/profit earned that is not related to the purpose of the charity. The threshold could be informed by the feedback from this consultation and best practice internationally.

This way, the profit that is not donated to a third party (in the form of charitable grants, charitable products and charitable services) could be taxed. This will improve transparency, provide additional government funds and build public trust. Arguably, much of Government funding is for charitable purposes. See the size of the social and community sector in Figure 6.

It will improve public trust and ensure greater transparency on who is receiving an exemption if financial statements include clearer reporting on expenses used towards their ‘charitable purpose’. It is essential these statements continue to be publicly available and filed on the Charities Register.

Figure 5: Section 18 of the Financial Reporting Act 2013

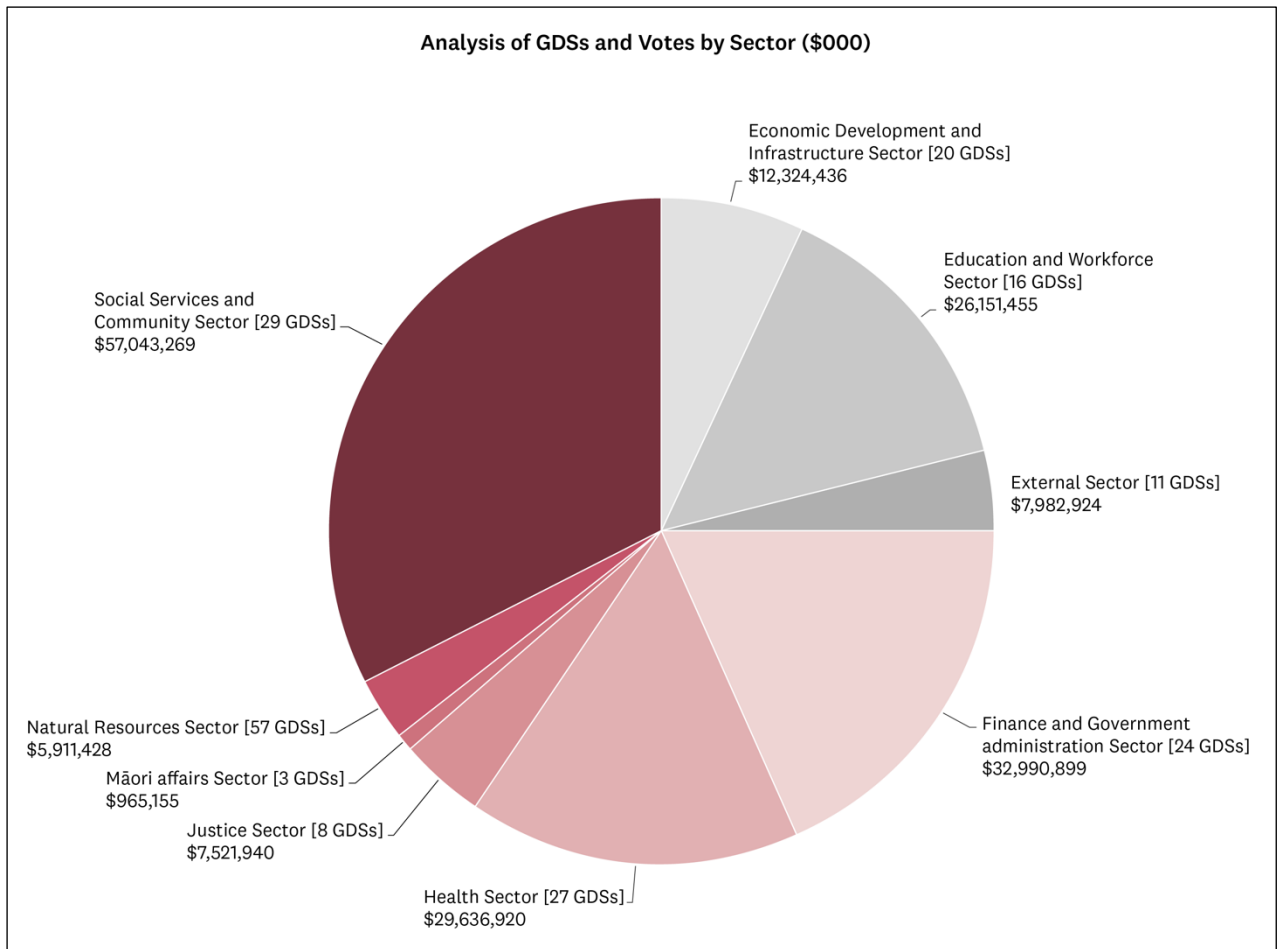


The screenshot displays the official website for the Financial Reporting Act 2013. At the top, the title "Financial Reporting Act 2013" is prominently displayed in a dark red font. To the right of the title, there are links for "Order a commercial print" and "Print/Download PDF [665KB]". Below the title, a message states: "If you need more information about this Act, please contact the administering agency: Ministry of Business, Innovation, and Employment". A yellow warning box contains the text: "Warning: Some amendments have not yet been incorporated". A search bar is present with the placeholder text "Search within this Act" and a "SEARCH" button. Below the search bar, there are navigation tabs: "By sections" (selected), "View whole (334KB)", "Versions and amendments", and "Secondary legislation". Underneath these tabs, there are buttons for "Contents", "Previous section", "Next section", "Tag section", "Remove", "Previous hit", and "Next hit". The main content area shows the text of Section 18, titled "18 Non-GAAP standards", followed by four numbered paragraphs:

- (1) A financial reporting standard may state that it is a non-GAAP standard.
- (2) A non-GAAP standard may be expressed to apply to an entity even if the financial statements of the entity are not required to comply with generally accepted accounting practice.
- (3) A non-GAAP standard must specify the provisions of the enactments in relation to which the standard applies.
- (4) This section does not limit [section 15](#).

Figure 6: Analysis of GDSs and Votes by Sector

Source: The Treasury (2024)³⁵



B: Large charities with unrelated business profits (often Tier 1 and Tier 2)

- 2. Tax profit that is not donated but generated from un-related income.**
- 3. Put in place annual reporting requirements on staff, board members and other related individuals and organisations to ensure they do not gain tax-free benefits. (This could be a statement that must be signed and dated, with a penalty given if the statement is incorrect).**

This will prevent smaller charities needing to pay income tax and increasing their compliance costs, while ensuring the larger ones pay their fair share of tax (see case studies in Appendix 1, Sanitarium and Ngāi Tahu). Controls should be enforced to account for subsidiary entities created with the purpose of avoiding the threshold but which are substantively the same entity or similar.

This is a difficult one, however we believe it is necessary to ensure charitable trust status is not used as a front to pay excessive benefits tax-free to related parties. This is arguably outside of the ambit of the consultation and maybe more appropriately part of DIA or MBIE's responsibility.

We also suggest that all Tier 1 charities be required to provide an annual statement of benefits received by employees whose salary is above a specific figure (e.g. salary and benefits in excess of \$100,000).

This recommendation is also suggested in the 2020 OECD *Taxation and Philanthropy Report*, which ‘provides a detailed review of the tax treatment of philanthropic entities and philanthropic giving in 40 OECD member and participating countries’.³⁶ There is a risk of losing public trust in charities and not-for-profits if the executives receive high salaries. Excessive salaries mean people are less likely to donate, as their money is going to executives rather than to a charitable purpose. Executive salaries should be publicly available on the Charities Register.

The *New Zealand Herald* published analysis into charities’ executive pay, examining the Charities Register to find entities with both annual revenues and assets of over \$70 million. The 32 charities investigated reported over \$8 billion in combined annual revenues, managed more than \$25 billion in assets, and employed 51,740 people full- and part-time.³⁷

The survey included a broad range of charitable structures, including health and social service providers, Māori and iwi groupings, religious orders, most of the country’s universities, and several commercial businesses geared towards charitable ends (such as BestStart Educare, cereal maker Sanitarium [see case study in Appendix 1], Christchurch’s Isaac Construction, and kiwifruit grower and dairy grouping Trinity Lands).³⁸

The *Herald* found the highest-paid executives were from Te Whānau o Waipareira Group (linked with Destiny Church), with an average executive salary of \$510,679 per year. This is especially of concern considering the not-for-profit has one of the smallest staff levels, asset bases and annual revenues of entities surveyed.³⁹

In comparison, the *Herald’s* research found the Salvation Army was at the bottom of charity executive pay, barely paying its key executives a living wage. Despite the charity turning over \$242 million annually in donations and social service contracts, and employing nearly 2500 staff, each key manager was reportedly paid an average of only \$63,103 per year.⁴⁰

C: Small Charities with no unrelated business profits (often Tier 3 and Tier 4)

4. Do not tax unrelated income of Tier 3 and 4 charities.

It may be appropriate to create a small threshold – say \$100,000 of unrelated income per year – as the general idea is that these entities are not in the business of operating the entity with the aim of creating a profit.

There is a challenge in ensuring this new legislation will close loopholes and target specific issues without negatively impacting well-functioning not-for-profits. The majority of small not-for-profits are already pressed for resources, and it is in society’s interests to encourage not-for-profits to continue their work. Excessive compliance costs, and imposing income tax on all not-for-profit income may put people off operating them. This would be a substantial loss to our society, as not-for-profits provide a public good, filling in gaps that government and private businesses often leave.

Consultation with the not-for-profit sector is essential to ensure any negative impacts are minimised.

D: Charities Services (the agency established by the Charities Act 2005)

5. **Improve the quality of the Charities Annual Report, in particular differentiating between each Tier (e.g. number of charities, number of staff, number of volunteers, revenue, expenditure, assets and liabilities).**
6. **Create a guide that includes a clear set of principles for these two different types of charities.**

There are a number of other entities that might help guide this type of reporting and guidance (e.g. NZX, XRB and the FMA). In addition to clearly drawing a distinction between large and small charities, here are a few additional recommendations:

1. **Clearly define charity, public benefit and charitable purpose**

If we clearly define terms, loopholes can be identified and managed. Any policy change needs to clearly define ‘related’ vs ‘unrelated’ income and ‘active’ vs ‘passive’ business income. For instance, charities investing in bonds, equities, term deposits, etc. also benefit from ‘passive’ yet ‘unrelated’ income. Will this be taxed? Clear definitions will avoid loopholes in this area.

Charity definition: A charitable company is currently defined as a private limited liability company registered under the Corporations Act and meeting the definition of a charitable entity. In New Zealand, a charitable company has been registered as a charity on the Department of Internal Affairs Charities Register, and is eligible to receive a tax exemption.⁴¹

2. **Uphold fairness, economic competition and equity in the market**

New Zealand needs to create a fair regulatory environment for the operation of for-profit organisations and businesses. Under the current legislation, New Zealand charities that are registered with Charities Services providing fully charitable activities can access a tax exemption for income from business and trading activities. This has been considered unfair for a number of reasons, particularly as a number of high-profile charities run large, unrelated trading operations that compete with non-charitable businesses that do not receive the same tax exemptions. Refer to case studies in Appendix 1, including analysis of Sanitarium and Ngāi Tahu-run businesses, which are commonly cited as examples of not-for-profits that take advantage of the tax exemption.

3. **Balance short- and long-term interests of not-for-profits**

For not-for-profits that plan to grow and benefit the community over the long term, investment for the future may decrease if they must use their income within a certain time period. For instance, iwi organisations are designed to support future generations as well as current members. This balance needs to be considered.

4. **Maintain the not-for-profit sector’s public trust and social licence**

As not-for-profits provide a public good, it is essential society places trust in them and their social licence to operate. This is especially true as they receive such a significant tax benefit. If even a small number do not comply with public policy and ethics, public trust will be lost and people are less likely to make donations to not-for-profits.

5.0 Conclusion

The Institute supports IRD opening up this complex issue for public discussion. It is necessary to reassess whether the income tax exemption for not-for-profits remains fit-for-purpose and delivers benefits for society. Any new policy changes need to be developed carefully in order to avoid increasing compliance costs for small not-for-profits.

New policy governing this sector needs to be designed to balance the following:

- Supporting not-for-profits in their work to help the community.
- Ensuring public trust in the sector.
- Imposing accountability and transparency.
- Closing (real and perceived) tax loopholes and maintain fair competition in the market.

The financial numbers we are looking at here are significant – currently \$2 billion, and this sector is likely to increase over time – which makes this an immensely important financial, social and ethical issue for New Zealand. Society needs to have faith that charities and not-for-profits are acting ethically, that tax is paid fairly and that the economy is a level playing field. Not-for-profits fulfil an important role in society for the public good, and it is essential we have checks and balances to ensure some are not taking advantage of the benefits they receive.

Appendix 1: Case Studies of Two Charities in New Zealand

Below are two examples of charities registered on the Charities Services Charities Register. These case studies review the 2024 revenue and income tax, and explore the possible income tax each charity might have been required to pay using the standard income rate of 28%.⁴² Importantly, this work is not intended to be any more than an attempt to explore a few practical examples.

Case Study 1: Seventh Day Adventist Church in New Zealand 1 – Registration Number: CC42121

‘Seventh Day Adventist Church in New Zealand 1’ includes 13 group members, including Sanitarium Health Food Company (CC42122). Over the last decade, the media has observed and commented on Sanitarium’s tax-exempt status, largely due to it dominating the New Zealand food industry as the producer of goods like Weet-Bix and Marmite.⁴³ The group’s business ventures are significant as it was one of the top 15 New Zealand charities by revenue in 2021.⁴⁴

The charitable purpose of the group is listed on the Charities Register as ‘to facilitate the mission of the Seventh-Day Adventist Church within New Zealand’.⁴⁵ The group describes its activities as including making grants to organisations, providing services such as care and counselling, providing advice, information and advocacy, providing other finance such as investment funds, providing facilities, and commercial activities for raising funds to promote and educate healthy eating and healthy living.⁴⁶

Seventh Day Adventist Church reported a consolidated revenue of NZ\$281,881,879 in the financial year that ended 30 June 2024 in New Zealand.⁴⁷ Of this revenue, NZ\$224,602,635 (79.7%) came from the sale of goods and services.⁴⁸ Within its financial statement, Seventh Day Adventist Church was unclear about which expenses were from business operating activities and which were from facilitating the group’s charitable purpose. Seventh Day Adventist Church reported its expenses (in \$NZD) as follows:

- Adventist Development & Relief Agency expense (\$6,179,345)
- Education expenses (\$6,308,004)
- Aged Care expenses (\$7,409,947)
- Appropriations to other Seventh-day Adventist Church entities (\$5,553,798)
- Denominational expense (\$36,403,913)
- Impairment of goodwill –
- Nutrition, wellbeing & health food activities expenses (\$212,884,851)
- Finance costs (\$2,970,718)
- Other expenses (\$4,785,192)⁴⁹

Seventh Day Adventist Church confirmed that under the Charities Act 2005, the joint reporting group is able to access tax concessions, except for New Zealand Wholistic Health and Wellbeing Company Limited, which was to pay certain US taxes due to its investment in Asklepiion Pharmaceuticals, LLC.⁵⁰ Seventh Day Adventist Church was reported to be operating at a deficit of NZ\$613,899,000 for the financial year ended 30 June 2024.⁵¹ Inland Revenue Department states that companies operating at a loss don’t have to pay income tax and, on meeting certain conditions, can carry a loss forward to future years.⁵²

Operating at such a large scale raises questions about the fairness of Sanitarium being tax exempt when its competitors such as Kellogg’s and Nestle are not. If the law changed to require large

charities to pay income tax, significant tax could be paid in years in which Sanitarium is not operating at a loss.

Case Study 2: Ngāi Tahu Charitable Group – Registration Number: CC35565

Ngāi Tahu Charitable Group is one of the largest registered charitable groups in New Zealand and was reported as the third-largest charity by revenue in 2021.⁵³ Ngāi Tahu Charitable Group has 49 member charities including CNI Tourism Limited (CC49674), Helicopters Queenstown Limited (CC54439), Ngai Tahu Farming Limited (CC35601), Ngai Tahu Property Limited (CC35570) and Ngai Tahu Seafood Limited (CC35579).⁵⁴ The Charitable Group has business operations in a range of areas including tourism, farming, seafood, honey and property.

Ngāi Tahu's website contains a Deed, which states the group's charitable purpose:

We invest in the capability and education of people by investing in scholarships and industry-based training programmes; we provide cadetships and internships, we provide comprehensive incentives for our people to learn te reo Māori, and we fund cultural and community-based initiatives that help our people, and their communities, grow.

We also provide grants to charitable entities that have been set up by our Papatipu Rūnanga (and to Papatipu Rūnanga themselves if they are charitable entities). These grants are steadily increasing and enable charitable activities to be carried out at a local level throughout the Ngai Tahu takiwā.⁵⁵

Ngāi Tahu Charitable Group reported a combined revenue of \$347,300,000 in the financial year that ended 30 June 2024, of which \$252,736,000 (72.8%) came from the sale of goods and services.⁵⁶ Their financial statement specified that zero income tax was paid during this period. Had it been legislated for the group to pay income tax of 28% on their profit of \$190,323,000, the tax might have totalled \$53,290,440.⁵⁷ Ngāi Tahu recorded a \$17,051,000 expense in Tribal, Rūnanga & Whānau Distributions and Expenses in the 2024 financial year, which is equivalent to 9% of the group's gross profit.⁵⁸

It is important to support charities that exist for the long-term purpose of supporting and promoting our culture and our people. However, there is a concern about fairness of competition when large charities are operating million-dollar businesses in five different industries that appear, at first glance, unrelated to their charitable purpose.

Appendix 2: List of Questions not answered

Chapter 3: Donor-controlled charities

Q7. Should New Zealand make a distinction between donor-controlled charities and other charitable organisations for tax purposes? If so, what criteria should define a donor-controlled charity? If not, why not?

N/A

Q8. Should investment restrictions be introduced for donor-controlled charities for tax purposes, to address the risk of tax abuse? If so, what restrictions would be appropriate? If not, why not?

N/A

Q9. Should donor-controlled charities be required to make a minimum distribution each year? If so, what should the minimum distribution rate be and what exceptions, if any, should there be for the annual minimum distribution? If not, why not?

N/A

Chapter 4: Integrity and simplification

Q10. What policy changes, if any, should be considered to reduce the impact of the Commissioner's updated view on NFPs, particularly smaller NFPs?

For example:

- increasing and/or redesigning the current \$1,000 deduction to remove small scale NFPs from the tax system,
- modifying the income tax return filing requirements for NFPs, and
- modifying the resident withholding tax exemption rules for NFPs.

N/A

Q11. What are the implications of removing the current tax concessions for friendly societies and credit unions?

N/A

Income tax exemptions

Q12. What are the likely implications if the following exemptions are removed or significantly reduced:

- local and regional promotional body income tax exemption,
- herd improvement bodies income tax exemption,
- veterinary service body income tax exemption,
- bodies promoting scientific or industrial research income tax exemption, and
- non-resident charity tax exemption?

N/A

FBT exemption

Q13. If the compliance costs are reduced following the current review of FBT settings, what are the likely implications of removing or reducing the exemption for charities?

N/A

Tax simplification

Q14. What are your views on extending the FENZ simplification as an option for all NFPs? Do you have any other suggestions on how to reduce tax compliance costs for volunteers?

N/A

Q15. What are your views on the DTC regulatory stewardship review findings and policy initiatives proposed? Do you have any other suggestions on how to improve the current donation tax concession rules?

N/A

Endnotes

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