

31/03/2025

Taxation and the not-for-profit sector
C/- Deputy Commissioner, Policy
Inland Revenue Department
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Submission on Taxation and the Not-for-profit Sector

Tēnā koutou

Age Concern New Zealand welcomes the opportunity to submit comments on the *Taxation and the not-for-profit sector* Officials' Issues Paper. This topic is vitally important to us and the many other charities providing essential services within local communities throughout Aotearoa.

Charities, such as Age Concern, are committed to making life better for people living in Aotearoa. Many function on a shoe string budget to deliver services for the population of special interest to them. For Age Concern this is people 65 and over, their whānau and friends. Other charities may be focused on children and young people; the homeless; families in distress, or those with mental health issues, to name but a few.

Regardless of their specific focus, charities fill service gaps that would otherwise lead to greater hardship being experienced by those most in need. Funding for charities has become very constrained due to reductions in Government spending and donor and grant income impacted by the financial climate.

We're observing a trend where essential government services are increasingly being moved to the not-for-profit sector, including mental health and counselling services, the provision of social housing, and a number of support services for older people (including but not restricted to the provision of social connection, shopping support, domestic assistance, service navigation, and assistance with digital literacy.)

On the most basic level, we see core services taken up willingly and capably by the not-for-profit sector. For the government to potentially tax charities on their income seems counter-productive.

While we note that this Issues Paper deals with business earnings of charities, we're concerned that potential changes open the door to future changes such as taxing passive

income and other income related to the operation of a charity (i.e. donations or contracted services). We are concerned about the increased complexity in relation to financial reporting, and the costs aligned with extra requirements.

Not-for-profits already operate in a regulated environment, those receiving tax exemptions must be registered with Charities Services and continue to meet the requirements to remain registered.

In principle, we support the stated objectives in the Issues Paper about simplifying tax rules, reducing compliance costs and ensuring charities demonstrate integrity.

Our overall comment on the Issues Paper, particularly Chapter 2 'Charity business income tax exemption' is that there are existing mechanisms such as the Charities Act 2005, Charities Amendment Act 2023, Charities Services and the Charities Registration Board that can be used to handle any concerns about income raised by charities from businesses they operate.

A major concern we have is the perception being promoted in the Issues Paper that charities, more generally, are profiteering, rather than operating businesses to gain necessary funds to provide essential services. The ultimate result could be the undermining of the viability of services to people who need them.

A further key concern is that if changes are made to the tax rules for charities. many would become unsustainable trying to meet new accountability requirements for very little gain, financial or otherwise, to government, the not-for-profit sector or those currently benefitting from the good work carried out by charities.

Our key recommendations are:

1. Existing mechanisms are used to address any specific issues with individual charities that are causing concern.
2. Exploration of better support for the sustainability, innovation and effectiveness of the charitable sector, which is in fact, saving considerable expenditure of taxpayer funds.

About Age Concern New Zealand

Age Concern New Zealand is a trusted charity working in local communities throughout Aotearoa New Zealand to support older people, their friends and whānau. We have 29 local Age Concerns operating in 40 locations throughout the country and a national office based in Wellington.

Our strategic goal is:

Every older person feels connected, has positive choices and can age well.

Our values of Dignity. Wellbeing. Equity and Respect for older people are our guiding lights and underpin everything we do.

Our core services include advocacy and public awareness, social connection, health promotion, elder abuse and neglect prevention, and providing support through expert information, advice and referrals.

We are proud of our heritage in standing up for the rights of older New Zealanders for more than 75 years. As an organisation, our focus is on contributing to the overall wellbeing of older New Zealanders. We work to prevent the abuse and neglect of older adults; improve their health and wellbeing; end loneliness and social isolation; and advocate for older people's rights.

Our feedback

Age Concern New Zealand is pleased to offer the following feedback to questions raised in the issues paper.

We have not provided responses to every question but have used the numbering from the Issues Paper where possible.

Chapter 2: Charity business income tax exemption

1. What are the most compelling reasons to tax, or not to tax, charity business income?

- a. The issues paper does not indicate the size of the problem outlined i.e. how many charities are using business income for purposes other than the charitable purpose. For example, the issues paper states on page 6 that 'many of the 29,000 registered charities in Aotearoa raise funds through business activities, some small op shops through to significant commercial enterprises.' It would be helpful to provide data on how many significant commercial enterprises exist and how many charities are using business income for other than achieving their charitable purpose.
- b. It is suggested (Page 6, clause 2.27) that potential tax changes would only impact Tier 1 and 2 charities, however the impact could be significant on these charities in terms of compliance costs and potential tax bills that will impact their ability to operate, taking up valuable time which could otherwise be dedicated to their

charitable purposes. Even if the changes are initially restricted to Tiers 1 and 2, this opens the door to changes down the track to include the remaining tiers which puts smaller charities at risk.

- c. A better solution might be to investigate specific companies that are operating in this way, and tailor a solution to each, rather than legislating for everyone to address perceived wrongdoing by a few. If legislative change does go ahead, a de minimis threshold for small-scale trading activities is an absolute essential, achieved in such a way that future widening of categories be disallowed.
 - d. Taxing charity business income will increase compliance costs for charities for potentially little financial tax gain. This will, in turn, make running many charities less sustainable rather than more sustainable, resulting in government having to fund the service gaps charities will no longer be able to fill.
 - e. There are existing mechanisms that can be used to address specific concerns in respect to individual charities and their business income. These include the Charities Act 2005 and Charities Amendment Act 2023, Charity Services, the Charities Register and the Charities Registration Board.
 - f. We are concerned that removing tax exemptions from charity business income tax may also lead to removing other tax exemptions for not-for-profits. Again, this raises issues about the viability and sustainability of many charities.
- 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?**
- a. Defining 'unrelated' to charitable purpose would likely be a challenging, confusing and time-consuming process in some instances.
 - b. Arriving at agreed criteria for unrelated purposes would require considerable consultation and it may be unreasonably complicated to untangle the line in some instances between related and unrelated purpose.
 - c. Smaller charities would ideally be exempt from charity business income tax. They are likely to be surviving on minimal funding, struggling for their day-to-day survival and be running small businesses such as an attached op shop. Taxing their business income would likely result in some having to close their doors due to compliance costs.

- 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?**
- a. Yes, absolutely. For charities to achieve their purpose they need sustainable income sources that enable them to be sustainable and innovative rather than simply trying to stay afloat.
 - b. Not-for-profits also need to retain the ability to accumulate funds for charitable use in future years (page 11, clause 2.35). Charities may be maintaining reserves for a specified future purpose such as building new premises or extending services to new areas.
- 6. If the tax exemption is removed for charity business income that is unrelated to charitable purposes, what policy settings or issues not already mentioned in this paper do you think should be considered?**
- a. ACNZ considers transparency and reporting requirements for not-for-profits are substantial compared to private businesses who can claim business sensitivity to withhold information. These accountability and transparency requirements do not need to be increased. Charities often rely on a small number of staff, many of whom are part-time, along with volunteers. To meet increased compliance requirements charities would need to use even more of their limited funds to meet requirements rather than benefiting New Zealanders in need
 - b. The Issues Paper talks at length about the competitive advantage afforded to charities exempt from tax compared to private businesses. We are curious to hear what and where this competitive advantage occurs. Examples would have been helpful here, along with the size of the issue. Businesses themselves have many advantages and charities are not challenging the right of business to carry out their purpose which has a significant profit element for owners and shareholders.
 - c. Tax exemption changes would disincentivise organisations like Age Concerns from seeking out new business ventures (e.g. charity stores) that would further support their charitable work, on the basis that a. it would complicate their tax situation and b. potential profitability of these ventures would be compromised before we even began. This discourages innovation.

Chapter 3 Donor-controlled charities

7. **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?**
- a. Age Concerns are not donor-controlled, and we do not have sufficient information or expertise to make comment here, other than to say that again the paper does not make it clear how much of an issue there is. We note that the paper says that many countries do distinguish between donor-controlled and other charities. Is there a major issue in Aotearoa with tax avoidance amongst donor-controlled charities or is this relatively minor and therefore best handled via existing mechanisms? Increased regulation does not necessarily lead to improved outcomes for those in need.
 - b. Our question is whether a tax change for donor-controlled charities would achieve actual gain or be a time-consuming process for little if any tangible benefit. We are all for accountability and transparency, but not for bureaucracy for the sake of it.

Chapter 4 Integrity and simplification

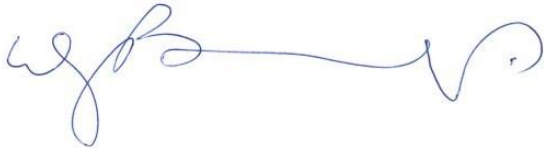
Questions 10 to 15

- a. Age Concerns are not mutual associations, and we do not have comment to make here. As a not-for-profit organisation, however, we recommend that the outcomes of the work mutual associations achieve is considered and not jeopardised by any changes. We understand that draft guidance is to come out after this consultation closes which seems unhelpful timing as it may have enabled mutual associations to make more robust comment.
- b. Entities listed under question 11 and 12 do not apply to Age Concerns and we have no feedback to offer.
- c. We support donation tax concessions (question 15) and agree that easier and timely ways be found for donors to claim tax concessions. Most charities rely on donations, and we would like to see tax benefits for donors retained.

Final comment

Thank you again for the opportunity to provide our submission on *Taxation and the not-for-profit sector*, we are very interested to hear the outcome of the consultation process.

Nāku noa, nā,



Karen Billings-Jensen
Chief Executive
Age Concern New Zealand