



31 March 2025

Inland Revenue Department

Via: policy.webmaster@ird.govt.nz

Tēnā koutou

JBWere NZ Submission – IRD 2025 Issues Paper: Taxation and the not-for-profit sector

JBWere thanks the IRD for the opportunity to make the attached submission in relation to the IRD 2025 Issues Paper: Taxation and the not-for-profit sector.

The JBWere Philanthropic Services team conducts research and advises charities, other for-purpose organisations and philanthropic clients. We provide sector data, insights and advice to for-purpose clients who have entrusted more than \$5bn in New Zealand to JBWere – this money exists explicitly to enable those organisations in their ongoing support of social and environmental outcomes.

In preparing our response we have drawn on the experience within the firm and canvassed the view of our clients, connections, and collaborators across the broader social impact ecosystem.

We would be grateful if you could acknowledge receipt of our submission and are happy for Inland Revenue officials to contact us to discuss the points we raise.

Yours sincerely | Nā māua noa, nā

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Summary

The Inland Revenue Department's ***Issues Paper: Taxation and the not-for-profit sector February 2025*** raises significant questions about the future of charity income tax exemptions, particularly around business income, and compliance for organisations. We offer here:

- general comments on the Issues Paper and its objectives, and
- a response on the question of taxing the non-related business income of charities, particularly as it pertains to investments.

We strongly encourage the IRD to conduct a thorough policy impact assessment before implementing any significant changes to the taxation rules affecting charities. In the absence of a widespread problem the challenge lies in addressing specific issues without negatively impacting well-functioning charities.

In support of the third objective of “addressing integrity risks”, a practical first step is strengthening Charities Services and its registration processes to effectively target entities acting illegally or undermining sector integrity.

We suggest the priority should be ensuring that income generated by charities directly supports their charitable purposes, rather than focusing on types of income. We note Australia and Singapore as examples to follow.

Any changes to the current system must be carefully designed to avoid unintended consequences that could weaken the charitable sector and its ability to serve communities. We note five policy considerations for any tax reform. We are supportive of prioritising simplicity in creating a supportive and enabling policy environment for the charitable sector.

On taxing unrelated business income: We encourage IRD to provide greater clarity on what constitutes “related” or “non-related” taxable business income, supported by case studies to illustrate potential implications for the charitable sector, including any ongoing or additional accountancy and compliance costs that may arise.

In assessing the impact of taxing “non-related” business income we note six items that were not raised in the Issues Paper, four which particularly pertain to charity investment income.

1. General comments

1.1 Value of the charitable sector

The charitable sector makes a significant and valuable contribution to Aotearoa New Zealand. Any changes that reduce the ability of organisations to build a stable financial base to sustain their work are likely to have a broader impact on society.

The sector provides critical services that contribute to economic stability and mobility, and has the potential to build social cohesion and civic engagement in our communities.

Its organisations, in addition to providing a very significant paid and volunteer work force, are also its major funders, the purchasers of its products, and clients of its services.

The *JBWere Cause Report 2021*¹ which provides the latest sector wide survey, reported non-profits contributed \$12.1 billion to GDP for the year ended March 2018, equating to 4.2% of New Zealand's total GDP, inclusive of \$4.0 billion in volunteer labour – 90% of the sector relies solely on a volunteer workforce.

Charities help relieve the Government of its burden to provide welfare services and assist the disadvantaged or vulnerable in our communities. Charities have been supported by successive Governments by taxation concessions because all their resources are required to be directed towards supporting their charitable purpose, and private financial gain by members, trustees, or associates are not allowed.

1.2 Financial challenges to operationally sustain charities

The operating margin of our charity sector is not significant, and the sector remains financially fragile. In our 2021 report we observed surpluses of charities, as a percentage of income, had shown a small increase from 9% in 2013 to 10% in 2018 – having to operate on tight margins provides little room for innovation and weathering of adverse conditions that heighten social need temporarily.

Covid disruptions and the cost-of-living crisis have further challenged the sector's traditional operating model of raising philanthropic support, earning income and serving demand.

Annual giving levels have declined or remained static – middle giving is hollowing out as households give less, partly masked by a cohort of committed supporters giving more. With increasing frequency, government, private funders, businesses have not rolled over contracts that have been relied on for delivery of community services.

¹ [JBWere NZ Cause Report 2021 » JBWere](#)

Yet in dealing with the impact of the recession and austerity measures, non-profits serving households spent 7.4% more in 2024 (excl inflation), which was the fastest growing part of the economy last year².

JBWere believes that strong, well-resourced charities and other for-purpose organisations are critical to maintaining the fabric of our society, allowing it to function and prosper and, when closely connected to their communities, can catalyse growth and opportunity for those it serves.

Charities are usually highly efficient deliverers of services. They are close to their communities and due to constrained resources are commonly forced by necessity to be incredibly efficient. They are generally much more cost-effective service providers than Government in providing direct services. Undermining the sectors' ability to play this role has the potential to create considerably greater cost to society in the form of increased health and welfare needs.

The Issues Paper signals a possible reduction in Government support for the sector by suggesting a scenario of taxing the business income of charities that use that income to support those in need.

The paper brings attention to potential tax system abuse by charities. We all have a vested interest in ensuring that the tax system is fair, and support reforms that effectively target problematic entities who are either acting illegally or undermining the integrity of the charitable and philanthropic sector.

The IRD paper is framed around preventing the misuse of tax concessions and of “simplifying tax rules and reducing compliance costs” – as such, we believe a robust cost-benefit analysis of the available regulatory options, taking into account tax take costs, compliance cost by charities, and the community net benefit, is essential.

The current consultation process places the burden of demonstrating inefficiencies and unintended consequences on the charity sector and other non-government stakeholders, and within a very limited consultation time-period that coincides for many with financial year end activity.

We strongly encourage the IRD to conduct a thorough policy impact assessment before implementing any significant changes to the taxation rules affecting charities.

We would appreciate the opportunity to review case studies and financial insights that can help the charity sector gain a clearer understanding of the tax changes. In particular, it would be helpful to understand IRD's expectations of the potential revenue generated by these

² Shamubeel Eaqub. Gross domestic product: December 2024 quarter | Stats NZ

changes and how those funds are intended to be allocated to otherwise support positive social and environment outcomes.

1.3 Addressing integrity risks through Charities Services

In the absence of a widespread problem the challenge lies in addressing specific issues without negatively impacting well-functioning charities.

In support of the paper's third stated objective of "addressing integrity risks" a practical first step is strengthening Charities Services and its registration processes to effectively target entities acting illegally or undermining sector integrity. If concerns exist about registered entities, we support reforms beginning with registration and enforcement, and resourcing the Charities Commission sufficiently to investigate and ensure it can take appropriate action.

1.4 Unintended consequences

Our *Cause Reports* highlight the diversity of the charitable sector in size, structure, scope, and resources. Wholesale approaches like the taxing of unrelated income often overlook this, risking unintended consequences. If the charity sector has to divert income and/or can't rely on income generated, the unintended consequences could be more charities facing challenges in achieving financial sustainability and closure, more job losses, a continued strain on the sector, and the Government potentially needing to step in to provide additional services that charities previously delivered.

Is the Government confident it can deliver these services more efficiently and effectively than charities that are closer to communities?

1.5 International comparisons and supporting financial sustainability

The current charity business income tax exemption settings match those in Australia and Singapore. Whilst the tax concession here is more generous than UK and Canada – who do not offer unrelated business income tax exemption – the financial resources for philanthropy and giving in New Zealand are not as large or as endowed as in these countries.

Charities need to sustain themselves over time and should have the flexibility to reduce reliance on donations. Tax-exempt profits from charity-linked businesses help achieve this, and changing the rules could weaken future cash flow.

While removing the exemption won't eliminate profits entirely, it could lead to a commensurate reduction in services these charities support. Allowing charities to generate tax-exempt business income in New Zealand supports financial sustainability, fosters diversification and strengthens sector resilience.

We strongly encourage the IRD to conduct a thorough policy impact assessment before implementing any significant changes to the taxation rules affecting charities.

1.6 Absence of competitive advantage

It is commendable that the Issues Paper addresses the criticism that charitably owned businesses have an unfair competitive advantage in the market. The IRD see no such advantage for charitable businesses, which is an argument frequently used to advocate for changes in this area.

Indeed, Charities face significant financial disadvantages when operating a business as they cannot raise finance in the same way as private sector companies due to their inability to share profits. Additionally, they are further disadvantaged because they cannot offset losses against future profits, and they cannot claim imputation tax credits on the tax paid on dividends.

Charities also have to currently meet a higher level of public transparency. The paper rightly notes that charities are not subject to tax return compliance requirements; however, it does not acknowledge their separate compliance burden under the Charities Act — an obligation not imposed on other businesses.

1.7 Feedback

Any changes to the current system must be carefully designed to avoid unintended consequences that could weaken the charitable sector and its ability to serve communities.

Specifically, any reforms must not:

1. deter innovation and enterprise within the sector,
2. discourage creative approaches to non-traditional philanthropy and impact investment,
3. force charitable businesses to close, leading to job losses and reduced income for charities,
4. undermine existing financial sustainability strategies or hinder future efforts to build resilience, or
5. increase dependency on Government grants or traditional philanthropic funding sources, limiting sector autonomy and adaptability.

1.8 Prioritising simplicity in creating a supportive and enabling policy environment

The consultation proposes numerous new definitions, special rules and distinctions between types of income and assets, and thresholds – each requiring debate and detailed guidance, and introducing risk of misinterpretation and litigation.

New Zealand's simple tax system is a key strength, promoting clarity, efficiency, and compliance. Maintaining this simplicity should remain a priority in this review, as exceptions often lead to complexity and higher costs. A supportive and enabling policy environment is essential to ensuring charities can continue delivering long-term impact.

2. Taxing unrelated business income

The definition of “unrelated business income” will be critical, yet none has been proposed. The lack of clear distinctions between “related” and “non-related” activities will create uncertainty and compliance costs in categorising the business income derived by charities. Allocating expenses and income to taxable vs non-taxable will be costly, in cash or time. Auditing and enforcing “non-related” business activity will be complicated, costly and prone to public, political and legal challenges.

We encourage IRD to provide greater clarity on what constitutes “related” or “non-related” taxable business income, supported by case studies to illustrate potential implications for the charitable sector, including any ongoing or additional accountancy and compliance costs that may arise.

This issue is particularly important given the significant role of self-earned income in sustaining the sector. As highlighted in our *Cause Report 2021*, 66% of non-profit organisations' income is derived from the sale of goods or services. This revenue stream is not only the largest source of funding but also a critical enabler of both mission-driven activities and financial sustainability. With at least 30% of charities involved in some form of trading activity³, the effort that will be required within the sector to dual test – is it business and is it unrelated to purpose – will be material. **In assessing the impact of taxing “non-related” business income we note the following were not raised in the Issues Paper:**

- The policy rationale of allowing income tax exemption for “related” business activity to charitable purpose but not “non-related”.
- How investment income is to be treated. Under the proposed dual test, in what circumstances will investment income be treated as “non-related” business income?

³ Tax Working Group, 2019

- How to differentiate between income from passive versus directly held investment for determining “non-related” related charity business income. How would a direct / limited partnership investment be treated versus an investment in term deposits, bonds and shares in a listed entity?
- What are the unintended consequences for charities that are taking a ‘total impact approach’ to their balance sheet? How would impact investments be treated if funded by business income – given the investment remains on the balance sheet and is, therefore, ‘accumulated’?
- Social enterprise does not have a legal definition in New Zealand, but it involves the use of commercial models to support social or environmental goals. Does the taxation of “non-related” business income close the opportunity for the creation of a for-purpose entity attractive to investors? Refer to the Government’s last formal statement on this class of social sector/for purpose entity the Government Position Statement on Social Enterprise (2014).
- The valuation of pro bono or semi pro bono services as input expenses. Charities often rely on volunteers, pro bono services and in-kind contributions to deliver their programmes, yet these inputs are typically uncoded in financial statements. A key question is whether charities can reflect the true cost of their business operations – including fair labour costs and other advantageous terms such as peppercorn leases – in any income tax return. This raises challenges in determining appropriate valuation methodologies, particularly for labour costs.

3. Conclusion

Public consultation on IRD’s proposed changes is a positive first step, but it is only the beginning. A more comprehensive approach is needed to clearly define the problem this tax review seeks to address, explore alternative solutions – including those involving Charities Services – and assess the broader impact on communities.

It is crucial to consider what could be lost if charities face reduced income diversification and financial sustainability. New Zealand charities are already subject to significant regulation and additional tax or compliance burdens would further divert funds from their core charitable purposes.



About JBWere New Zealand

JBWere provides a wide range of investment advisory, research, and wealth management services to a substantial and diversified client base.

Our clients include charities, tangata whenua, local government, family offices, financial institutions, high-net-worth individuals, families, and other for-purpose clients across New Zealand.

We are proud to be the leading provider of philanthropic, governance, strategy, and investment advice to the for-purpose sector, who have entrusted us with more than \$5billion of their financial assets.

We recently launched The JBWere NZ Bequest Report 2025. This follows on from the JBWere NZ Corporate Support Report 2022 and the earlier reports in the JBWere NZ Cause and Support Report series. Together these reports provide for-purpose sector data to inform the decisions made by our clients, and the wider sector.

Our reputation as a market leader in supporting the for-purpose sector is founded on our commitment to excellence, our diverse service offering and the expertise of our people.

We have a long-shared history and strategic partnership with JBWere Australia and its acclaimed Philanthropic Services team.

Acknowledgement

We thank John Godfrey, Lani Evans and Community Governance Aotearoa for the opportunity to read their submissions prior to submitting. We also are grateful to Steven Moe, Craig Fisher and Jenn Chowanec for their prior briefings on the Issues Paper.

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