Charities taxation

March 2025

Tirohanga Whānui | Overview

The New Zealand Council of Christian Social Services (NZCCSS) welcomes the opportunity to provide feedback on the topic of taxation and the not-for-profit sector.

- We oppose the proposal to tax income intended to be used for charitable purposes and to institute Fringe Benefit Taxes (FBT) for charities.
- We urge that if the proposal proceeds, that it is carefully scoped to ensure that resources are maintained to support vulnerable New Zealanders.

Whakaaro | Discussion

The proposal would impact charities providing vital community services

New Zealand has high rates of social need that are increasing due to the current cost of living pressures and increasing unemployment [1]. This has very real impacts in terms of human suffering and reduced life chances, including for children and the elderly. Ministry of Health data show that in 2024, in our fair country, 1 in 4 children often or sometimes go without food [2]. This is not acceptable.

NZCCSS represents organisations who are responding to the increasing need and complexity of individuals and families across Aotearoa New Zealand. NZCCSS has more than 100 member organisations providing community social services from the Anglican Care Network, Baptist Churches of New Zealand, Catholic Social Services, Presbyterian Support, the Methodist Church and the Salvation Army.

Nationally, the range and scope of our member networks is extensive, delivering services in most towns and cities throughout New Zealand. Our members employ around 5,000 full-time staff, 6,400 part-time staff and coordinate around 2.4 million volunteer hours each year. Together they have an annual expenditure of more than $1 billion.

Our members aim to advance a just and compassionate New Zealand by supporting people experience need in our communities. This includes support related to:

- Addiction and mental health
- Aged care and home help
- Bereavement
- Child and family social services
- Childcare
- Disability
- Employment
- Family violence, victim support and anger management
- Food banks, budgeting and other basic needs
- Health services
- Social housing and emergency accommodation

- Youth services and mentoring.

Most of this support is offered free or at low cost. Many of our members partially fund these supports with income from activity that could be deemed in scope of 'unrelated business activity'. This includes:

- Op shops
- Early childhood education
- Counselling services
- Accommodation, include social housing, disability and residential support services
- Aged care and retirement villages
- Adventure activities and youth programmes
- Social enterprises, such as for adaptive clothing, or supported employment.

The income generating activities of our members are strongly related to their charitable purposes. For example, an op-shop is a practical way to help people with low-incomes afford quality second-hand clothing and household goods as well as a potential source of fundraising income.

The lack of income tax on these activities allows charities to maximise their charitable activities and minimise their reliance on government contracts, direct donations and passive income sources.

Many of our members also benefit from the exemption from the Fringe Benefit Tax. They use it to attract and reward mission orientated staff willing to work at comparatively low rates, by offering other benefits such as the private use of a work vehicle. This enables them to keep their staffing costs low, freeing up resources for their charitable purposes.

The proposal would harm vulnerable New Zealanders

If the proposal is workable (discussed below), taxation of charities' 'unrelated business income' and application of Fringe Benefit Tax to those working for charities would reduce the resources available to the charitable sector to achieve charitable purposes.

The charitable purposes that would be impacted for our members and the wider social sector are those mentioned above of feeding the hungry, housing the unhoused, comforting the grieving, supporting those experiencing mental illness and family violence, helping parents avoid their children going into state care and helping low-income older people live lives of dignity.

Every day our members are walking alongside struggling New Zealanders. Reducing the resources available to provide this support would harm the most vulnerable New Zealanders. Many social sector organisations operate with narrow margins, the proposal could threaten their viability, further reducing the supports available to communities.

Recommendation 1: We recommend that this proposal does not proceed. It risks significant negative impacts on vulnerable New Zealanders by removing resources for community support.

Recommendation 2: If these proposals proceed, we urge that they are carefully scoped to avoid reducing the resources available to deliver community social services.

The proposal would likely harm the taxpayer

The government's social investment approach is building towards better decision making about where to invest for the best possible outcomes. The proposal would remove resources from charities delivering social services in a way that is very ad hoc and not in line with the social investment approach.

Government funding for social services is frequently below the true cost of both contracted delivery and the scale of delivery needed to meet community needs, relying on charities to be able to bring their own resources, including volunteers, to respond to social problems [3].

Often charities can also deliver preventative social services effectively and reach those who otherwise may not receive support. Some New Zealanders may be apprehensive of government services, but charitable community organisations can form effective trusted relationships that support positive change and deliver social impact.

There is a broad literature suggesting that social services can deliver positive returns on investment in improved outcomes and avoided future social costs. Whether this is the improved life chances support can achieve for a child born into a struggling family, or aged care effectively keeping the elderly out of expensive hospital beds.

If charities have reduced resources to deliver community support, this is likely to require some replacement activity by government. However, the total amount of support available would likely decrease. This would result in:

- new increased direct costs, from replacement activity
- less effectiveness for the total invested, to the extent that the community sector can be more cost-effective
- increased future costs to society and government from the reduction in total effective support.

These would be experienced directly by New Zealanders in increased costs and indirectly by increased social issues and needs around them and their communities.

Recommendation 3: We urge officials to clearly communicate to Ministers the credible risks of increased fiscal and social short-term and future costs to New Zealand if these proposals impact social services.

The proposal will result in confusion, compliance burdens and low revenue gathering

The proposal aims to increase tax revenue. However, on the face of it, the proposal is likely to be unworkable, resulting in very limited revenue gathering.

The paper specifically notes that ‘unrelated business income’ may to be able to avoid tax by distributing it for charitable purposes (2.30 - 2.35). This distribution already happens in most cases.

We have also received advice that charities may be able to move their ‘unrelated business’ income into a company structure and reduce taxable income from unrelated business income by some combination of charitable donation deductions, interest payments and management fees back to the charity [4].

It therefore does not seem as though the proposal is likely to achieve its purpose of increasing government tax revenue.

The scope of what counts as unrelated business income is unclear in the discussion document. There are likely to be difficulties in clarifying this scope. The charitable sector is diverse and as noted for our members, many ‘unrelated business activities’ can be reasonably linked to a charitable purpose in some way. This could result in significant confusion, and litigation and compliance costs in determining the tax outcomes.

The proposal is likely to create compliance burdens on a wide scale. The increased compliance will require time and money, reducing the resources available to help struggling New Zealanders. Smaller charitable entities will bear the brunt of compliance costs and likely bear any resulting taxation where restructuring their activities is impractical.

Recommendation 4: We urge officials to clearly communicate to Ministers the risk that the proposals are ineffective and may fail to attract significant new revenue but will impose significant compliance costs on charities.

The proposal is the wrong solution, to an unclear policy problem

It is unclear what problem this proposal is seeking to solve, beyond pure revenue gathering. Noting the intention of the wider review (1.5), we recommend rigorous cost benefit analysis including both the fiscal and social implications of potentially removing hundreds of millions of dollars out of the social sector.

There is a lack of an evidenced need for change, and it is unclear what the scale of the issue is. The discussion document makes a good case that the status quo is not creating competition problems (2.12). If it is just a few bad actors, then the answer is greater enforcement of the current settings rather than changing them.

Recommendation 5: We urge a reconsideration of the policy goal and a more rigorous analysis of potential options to achieve it.

Rārangi pātai | Discussion questions

Below we've answered specific discussion paper questions, reiterating some of the points we have made above.

Charities business income tax exemption

Q1. 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?

New Zealand has high rates of social need that are increasing due to the cost-of-living pressures and increasing unemployment [1]. This has very real impacts in terms of human suffering and reduced life chances, including for children and the elderly.

Our members aim to advance a just and compassionate New Zealand by supporting people experience need in our communities. They do this by feeding the hungry, housing the unhoused, comforting the grieving, supporting those experiencing mental illness and family violence, helping parents avoid their children going into state care and helping low-income older people live lives of dignity.

Tax free charity business income enables our social service members to better resource their work with the most vulnerable New Zealanders and minimise their reliance on government contracts, direct donations and passive income sources. Removing these resources will directly reduce the amount of support we can provide to struggling people and families.

We strongly urge an in-depth exploration of the scale of the impact of any changes, including the likely short-term flow-on impacts for a need for increased government funding, and the future costs of reduced life chances on those who would otherwise have been supported.

We oppose the proposal to tax income intended to be used for charitable purposes.

Q2. If the tax exemption is removed for charity business income that is unrelated to charitable purposes, what would be the most significant practical implications?

If the tax changes impact social services, it will result in less support available to vulnerable New Zealanders in their communities. For struggling people and families, this will result in avoidable hardship and suffering. This will likely also increase costs to the taxpayer now and in the future.

It will reduce the ability of social services to deliver support by reducing resources to hire and retain staff, to source accommodations for staff and clients, and to invest in research and innovation. Practically this may require layoffs of social support workers, higher caseloads, lower wage and benefit packages, and challenges competing for staff. Organisations may defer maintenance and reduce investment in training and continuous improvement.

Flow on costs for government of reduced social support are likely. Replacing some of this support will be unavoidable, for example elderly people requiring hospital care where they otherwise would have been able to stay in the community. In other instances, there may be long term impacts that impact the wellbeing and productivity of people, and New Zealand as a whole.

The proposal is likely to create compliance burdens on a wide scale. The increased compliance will require time and money, reducing the resources available to help struggling New Zealanders. Smaller charitable entities will bear the brunt of compliance costs and likely bear any resulting taxation where restructuring their activities is impractical.

Q3. 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?

We urge that all settings are carefully scoped to avoid reducing the resources available to deliver community social services.

In the case of the criteria for an 'unrelated business', this could be achieved in most cases by excluding activity where some link can be made between the business activities and the charitable purpose.

Most of the income generating activities of our members are related in some form to their charitable purposes. For example, an op-shop is a practical way to help people with low-incomes afford quality second-hand clothing and household goods as well as a source of income. Having control of an op-shop means that the local social service can easily donate quality goods to their clients as needed. This clearly relates to the charitable purpose of alleviating poverty.

We recommend the following activities are defined as 'related', rather than 'unrelated' business activities:

- Op shops
- Early childhood education for low-income families
- Low-cost counselling services
- Community social housing
- Disability and other residential support services (incl. addiction treatment)

- Aged care and retirement villages
- Adventure activities and youth programmes targeted at disadvantaged and struggling young people
- Social enterprises, such as for adaptive clothing, or supported employment, including for disabled people and disadvantaged and struggling young people.

Q5. 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?

We strongly agree that charity business income distributed for charitable purposes should remain tax exempt. In this case, the simplest approach would be for all income distributed for a charitable purpose to remain tax exempt. A more complicated approach would be to exempt tax specifically for the charitable purpose of relief of poverty.

As outlined in the discussion document (2.31), the sector has clearly communicated in the past that there are many good reasons that charities could need to accumulate capital. We recommend ensuring that this remains possible, and that additional complexity is avoided in this space.

If the tax changes impact charitable social services, it will have a significant impact on the wellbeing of New Zealanders. For struggling people and families, this will result in avoidable hardship and suffering. This will likely also increase costs to the taxpayer now and in the future.

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?

Removing the FBT exemption for charities would significantly increase staffing costs for social services who use fringe benefits to attract and retain staff. These increased costs will come at the direct cost of reduced support available to struggling New Zealanders.

If the tax changes impact charitable social services, it will result in less support available to vulnerable New Zealanders in their communities. For struggling people and families, this will result in avoidable hardship and suffering. This will likely also increase costs to the taxpayer now and in the future.

We oppose the proposal to institute FBT for charities.

Ngā Tohutoro | References

[1] The Salvation Army *State of the Nation 2025: Kai, Kāinga, Whānau | The Basics—Food, a Home, Family*. Access March 2025. Available: www.salvationarmy.org.nz/SOTN2025

[2] Ministry of Health Manatū Hauora. *'Health Survey 2024—Annual Data Explorer.' Children Topic: Household food insecurity*. Accessed March 2025. Available: https://www.health.govt.nz/publications/annual-update-of-key-results-202324-new-zealand-health-survey

[3] Chevalier-Watts, J. & Scrimgeour, F. University of Waikato. *The viability of some charities could rest on how they're taxed – we should be cautious about changing the rules* https://theconversation.com/the-viability-of-some-charities-could-rest-on-how-theyre-taxed-we-should-be-cautious-about-changing-the-rules-251137

[4] Personal communication. Mike Shaw, Tax advisor. March 2025.

[5] SPCA op shops generate around $7 million in profits for animal care. *Taxing charities' business income would have 'devastating' impact on communities.* https://newsroom.co.nz/2025/01/16/taxing-charities-business-income-would-have-devastating-impact-on-communities/

Ko wai tātou | Who we are

NZCCSS has six foundation members; the Anglican Care Network, Baptist Churches of New Zealand, Catholic Social Services, Presbyterian Support and the Methodist and Salvation Army Churches.

Through this membership, NZCCSS represents over 100 organisations providing a range of social support services across Aotearoa. Our mission is to call forth a just and compassionate society for Aotearoa, through our commitment to our faith and Te Tiriti o Waitangi.

Further details on NZCCSS can be found on our website - www.nzccss.org.nz.

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