Submission

To: Deputy Commissioner, Policy Inland Revenue Department
On: **Taxation and the Not-for-Profit Sector Consultation**
Date: 31 March 2025
From: New Zealand Construction Industry Council (NZCIC)

About NZCIC

NZCIC is a not-for-profit industry association of associations in the building and construction, design and property sectors. It is the collaborative voice of the construction industry in New Zealand and operates at the interface between government (central and local) and industry. NZCIC members are not-for-profit organisations and peak bodies for professions involved in the delivery of our built environment – designers, and specifiers (architects, engineers, designers etc.) contractors and suppliers (manufacturers, distributors, contractors, builders, sub-contractors etc.) and a range of other building professionals (in the areas of building compliance, research, surveying, and development).

NZCIC is making this submission on behalf of its members. We acknowledge that our members have a range of views on this issue. This is not a summary of our members' concerns and does not claim to be representative of all of them; however, this submission reflects the general tenor of the concerns raised by our members and, through them, the wider construction industry.

Introduction

The construction sector is a key contributor to the New Zealand economy:

- **Significant Economic Contribution**: The construction sector accounted for 6.2% of New Zealand's real GDP in the year ended March 2024.
- **High Economic Value**: In 2024, the sector contributed over $17 billion to the economy in wages and salaries; suppliers to the industry received $70 billion in sales; and the total industry turnover was $99.4 billion.
- **Major Employer**: Directly and indirectly employs 576,000 people, making up 20% of the total workforce (StatsNZ August 2024).
- **Critical to National Growth**: A key driver of economic development and job creation across the country.

The scale of the sector and its proportion of the economy is reflected in its engagement with not-for-profit membership organisations. There are around 100 membership organisations in the construction sector that range considerably in scale from large sub-sector organisations to very small niche groups that might focus on one specific trade. All, regardless of size, are important to the industry, the wider public, the economy and the government. Given this scale it is essential that the voice of the construction sector is heard. NZCIC, through its member organisations, represents 70% of the sector and this submission is the work of our members; their voice is our voice.

While the consultation focuses on charities, it's important to recognise incorporated societies governed by the Incorporated Societies Act 2022. These organisations support industries, professions, and communities in ways closely aligned with charitable goals. Though not always classed as charities, their strong governance and contributions are essential to New Zealand's economic resilience and social well-being.

Membership organisations exist to support their members, disseminate information, inform the public and advise government through engagement with ministries and sector advocacy. All of these activities cost money and most cost more than the membership fees any single membership orgnisations receives. Consequently most membership organisations offer wider services and events (webinars, conferences etc) to its members and also to non-members.

We note that Inland Revenue's current public view is that 'not-for-profits do not need to include membership fees or subscriptions in annual income tax returns or pay tax on them. The longstanding approach has been that subscription income is not taxable.'[1] It is noted that the current policy consultation is focused on simplification measures for smaller not-for-profits and that 'Inland Revenue is not seeking submissions on whether subscriptions are taxable'[2], we are concerned that taxing subscriptions is presaged and will be addressed in the draft operational statement that will clarify when 'subscription income may be taxable under ordinary tax rules, based on established principles.'[3]. How is it possible to consult on one aspect, but not the other? Surely, membership subscriptions, other activities and simplification measures need to be seen in the same light and at the same time? It is disingenuous to call for feedback about the meal based on the hors d'oeuvres, while in the kitchen, the main course is being sliced up and the portion sizes reduced.

While this current consultation is not looking to tax membership subscriptions (yet…), any attempt to tax other activities will have a direct effect on the membership fees charged and the ability for membership organisations (particularly small ones) to deliver core services to their members. Any additional (non-membership subscription-related) activities are not done to make a profit, but simply to be sustainable and to survive. Taxing these activities would be perverse, especially when there is a downturn on the economy, leading to fewer businesses and therefore, fewer members of organisations.

The not-for-profit sector delivers significant public benefits that often reduce costs to government—for example, through the work of membership organisations that boost productivity and prevent harm. This contribution is far more valuable than any potential fiscal gain from taxing the sector. Many associations do more than serve members; during natural disasters like floods or earthquakes, construction professionals—such as engineers and surveyors—volunteer their expertise, coordinated by these organisations. In times of crisis, public-good providers are essential. Imposing vague or additional tax burdens risks weakening these organisations, threatening their sustainability and limiting their ability to serve both members and the wider community. Recognising and supporting their role is critical to ensuring they can continue to respond when New Zealand needs them most.

There is a fine line between those additional services that are an appropriate use of membership fees (conferences, say) and activities that might be deemed commercial (a consumer advice service…?). Using a blunt object on a fine line risks destroying the organisations and diluting the benefits they offer. Any proposed tax needs to understand and reflect the nuances of membership organisations. We applaud the intent of the proposal, but not its breadth which, as written, is too all-encompassing.

NZCIC supports tax and regulatory settings that empower charities and incorporated societies to deliver public good. Policies should enhance, not restrict, their capacity to serve communities, ensuring long-term sustainability and continued contribution to New Zealand's social and public wellbeing.

[1] Q and As - Taxation and the not-for-profit sector - V3 – updated 18/03/2025, p1
[2] Q and As - Taxation and the not-for-profit sector - V3 – updated 18/03/2025, p2
[3] Q and As - Taxation and the not-for-profit sector - V3 – updated 18/03/2025, p2

Discussion questions

Chapter 2: 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?

The issues identified in 2.13 and 2.14 do not generally apply to membership organisations in the construction sector as there is very little competition between representative membership organisations. There is no disadvantage that needs to be corrected through taxation.

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?

Notwithstanding that the tax exemption should not be removed, any taxation of charity business income must be carefully assessed to avoid discouraging reinvestment in public benefit initiatives.

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?

The tax exemption should not be removed.

Q4. 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?

The tax exemption should not be removed.

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?

The tax exemption should not be removed.

Q6. 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?

Integrity and simplification measures should enable – not hinder – legitimate not-for-profits, with compliance requirements scaled to their size and role. Tax exemption reviews must protect mutual organisations and professional associations that reinvest in member and public-benefit services. Rising compliance costs are a concern; new rules should avoid creating financial or administrative burdens that reduce these organisations' ability to deliver value.

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?

Donor-controlled charities play a vital role and should not face excessive regulation that hinders their support for community-driven initiatives.

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?

NZCIC has no view on this issue.

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?

NZCIC has no view on this issue.

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.*

Currently, not-for-profits without full tax exemption can deduct up to $1,000 of income before tax applies, creating an administrative burden for smaller organisations with minimal surplus revenue. Raising this threshold to $10,000 would better reflect the financial realities of small and medium not-for-profits, many of which rely on membership fees, fundraising, or sponsorships. This change would ease compliance costs, support financial sustainability, and allow more resources to be directed toward community-focused services rather than tax administration.

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

Friendly societies and credit unions have long delivered vital financial and community services, operating under mutual, not-for-profit models that reinvest in their members and communities. Their tax-exempt status recognises their role in promoting financial inclusion, social cohesion, and member wellbeing. Removing these concessions could undermine their financial sustainability and ability to offer affordable services, forcing costs onto the communities they support.

Such a move would also set a troubling precedent for other mutual organisations, including professional associations, trade bodies, and incorporated societies, many of which provide critical, non-commercial services. Taxing friendly societies could signal broader changes for the sector, creating uncertainty and discouraging reinvestment in public benefit initiatives. Retaining their tax-exempt status is essential to preserving their community impact.

Maintaining tax exemptions for friendly societies and credit unions is vital, as their mutual, community-focused structures align with many incorporated societies. These organisations contribute significantly to New Zealand's social and economic wellbeing, and tax changes should not undermine their ability to operate effectively or continue delivering public benefit.

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?*

NZCIC has no view on this issue.

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?

While this question targets charities, many incorporated societies and membership organisations also provide employee fringe benefits. Removing or reducing FBT exemptions could unintentionally impact associations that reinvest all income into member services. Simplifying the FBT framework is positive, but any changes must be carefully assessed to avoid disadvantaging not-for-profit organisations through increased costs or compliance burdens.

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?

Reducing tax compliance burdens for volunteer-led organisations is essential. Member groups depend on volunteers, and complex requirements can discourage participation and create unnecessary administrative strain on already limited resources. We recommend simplifying volunteer reimbursement reporting and ensuring such payments aren't unfairly taxed. A clear, minimal tax-exempt threshold should be introduced to encourage volunteerism without creating excessive administrative burden.

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?

While donation tax concessions mainly support charities, some incorporated membership organisations also fundraise for sector-wide initiatives. We urge that any changes avoid restricting associations that deliver public and professional benefits. Concessions should be maintained for groups serving the public good, even if not formal charities. Professional and industry associations support education, advocacy, and workforce development, and changes must not penalise those relying on sponsorships and fundraising to sustain their work.

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