



22 August 2024

[Redacted]
[Redacted]

Dear [Redacted]

Thank you for your request made under the Official Information Act 1982 (OIA), received on 19 August 2024. You requested the following:

I note reference in a weekend [Press article](#) to IR's release of a redacted report to the Minister on charities and tax, but it does not appear to be amongst IR's published OIA request responses nor published anywhere else. Has the report been publicly released, or will we need to make an OIA request to obtain a copy?

Please find attached a copy of the document referenced in the article you have linked. Some information has been withheld under the following sections of the OIA:

- 9(2)(a) – to protect the privacy of natural persons, and
- 9(2)(f)(iv) – to maintain the constitutional conventions for the time being which protect the confidentiality of advice tendered by Ministers of the Crown and officials.

As required by section 9(1) of the OIA, I have considered whether the grounds for withholding the information requested is outweighed by the public interest. In this instance, I do not consider that to be the case.

Right of Review

If you disagree with my decision on your OIA request, you can ask an Inland Revenue review officer to review my decision. To ask for an internal review, please email the Commissioner of Inland Revenue at: commissionerscorrespondence@ird.govt.nz.

Alternatively, under section 28(3) of the OIA, you have the right to ask the Ombudsman to investigate and review my decision. You can contact the office of the Ombudsman by email at: info@ombudsman.parliament.nz.

If you choose to have an internal review, you can still ask the Ombudsman for a review.

Publishing of OIA response

We intend to publish our response to your request on Inland Revenue's website (www.ird.govt.nz) as this information may be of interest to other members of the public. This letter, with your personal details removed, may be published in its entirety. Publishing responses increases the availability of information to the public and is consistent with the OIA's purpose of

enabling more effective participation in the making and administration of laws and policies and promoting the accountability of officials.

Thank you again for your request.

Yours sincerely



Peter Frawley

Policy Lead – Legislative Drafting and Business

[IN CONFIDENCE]



POLICY AND REGULATORY STEWARDSHIP

Tax policy report: Charities and not-for-profits overview

Date:	20 March 2024	Priority:	Low
Security level:	In Confidence	Report number:	IR2024/110

Action sought

	Action sought	Deadline
Minister of Revenue	Note the contents of this report Refer a copy of this report	19 April 2024

Contact for telephone discussion (if required)

Name	Position	Telephone
Stewart Donaldson	Principal Policy Advisor	s 9(2)(a) [Redacted]
Samantha Putt	Policy Advisor	s 9(2)(a) [Redacted]

20 March 2024

Minister of Revenue

Charities and not-for-profits overview

Purpose

1. This report provides you with an overview of the charities and not-for-profits (NFPs) sector and related tax policy matters. This context may be useful for future tax policy reports and for matters that may be raised with you by stakeholders and other Ministers.
2. This report does not purport to contain a detailed analysis and description of each matter. Rather, it seeks to inform you of the potential range of matters and makes some comment on their attributes so that you can discuss which matters you want to further consider. The appendix contains a summary of these items.
3. We recommend you note this report and invite you to meet with officials to discuss the contents.

Background

Charities and NFPs framework

4. Charities and NFPs make important contributions to the wellbeing of New Zealanders. The sector supports efforts to bolster our social, human, and natural capital. The economic activities of the sector also affect the accumulation of physical and financial capital in the New Zealand economy. These factors form the basis for the tax exemptions and deduction frameworks provided to charities and NFP organisations.
5. The broad policy setting for this sector is that the Government supports charities and NFPs by providing targeted tax concessions. Inland Revenue administers charitable tax exemptions from income tax, fringe benefit tax, goods and services tax and resident withholding tax. We also approve donee status, which gives tax benefits to people donating to these organisations. NFPs that benefit from the widest range of tax concessions will be registered charities that are well regulated, publicly transparent and provide public benefit. Donation tax incentives have the objective of reinforcing and encouraging giving to approved donee organisations. Income tax and donation benefits for charities with charitable purposes outside New Zealand are restricted.
6. Some of the policy options for this sector will need to be considered in the context of broader objectives the Government has for the sector.

Charities and NFPs statistics on Inland Revenue systems

7. There are approximately 90,000 NFPs on Inland Revenue's system. These include:
 - 7.1 29,000 tax-exempt charities. Based on accounts filed on the public charities register for 2022–23, tax-exempt charities control \$81 billion of assets, employ 138,000 people full time (5% of the New Zealand workforce), benefit from 170,000 volunteers each week and contribute about 5% of GDP.

- 7.2 20,000 tax-exempt amateur sports bodies.
- 7.3 1,000 tax-exempt local and regional promotion bodies (beautification societies).
- 7.4 28,000 NFPs that are not tax exempt. About 24,000 of these have net income below a \$1,000 deduction threshold available for NFPs, so they do not file income tax returns or pay income tax. About 4,000 file income tax returns and report a taxable income, taxable loss or zero net income.

Recent legislative and regulatory change for the sector

- 8. This sector has been subject to legislative and regulatory change over recent years. Significant changes include:
 - 8.1 The Incorporated Societies Act 2022, which requires approximately 23,000 incorporated societies to re-register by April 2026 and annually report using the same accounting standards as registered charities.
 - 8.2 The Charities Amendment Act 2023, which introduced a number of changes for 29,000 registered charities. The changes include a new requirement for large charities to report the reasons why they are accumulating funds.
 - 8.3 The External Reporting Board (XRB) has introduced changes to the threshold size of some reporting tiers for registered charities, incorporated societies and other public benefit entities. The focus has been to make it easier for small charities to apply the standards and for larger charities to adopt new service performance reporting standards.

Current policy work

- 9. There are three projects involving this sector that our policy staff are currently involved with.

Disposals of trading stock at below market value

- 10. In January 2024, you agreed to progress work related to disposals of trading stock at below market value. Cabinet agreed to the changes on 26 February 2024. These changes will benefit donee organisations because businesses will be able to donate trading stock to them and claim tax deductions on an ongoing basis. These changes are being progressed in an Amendment Paper to the Taxation (Annual Rates for 2023–24, Multinational Tax, and Remedial Matters) Bill.

Requests for overseas donee status

- 11. Every year there are requests from New Zealand charities with overseas purposes to be granted overseas donee status. Overseas donee status is an exception to the current law that restricts tax benefits for donations to charities with New Zealand purposes. Decisions to give overseas donee status that meet certain Cabinet criteria, such as the relief of poverty, sickness, or the ravages of war or natural disaster, or other overseas development aid objectives, require legislative change.
- 12. We plan to report to you in April 2024 about the next tranche of requests for overseas donee status for inclusion in the next taxation Bill, scheduled for introduction in August 2024. s 9(2)(f)(iv)

Regulatory stewardship

- 13. Later this year Inland Revenue will complete a regulatory stewardship report on donation tax credits. While this report is not primarily policy-related, it may contain policy recommendations that you decide to include on a future Tax and Social Policy Work Programme.

Future policy work

- 14. A range of potential tax policy matters affecting this sector are identified in the Appendix. Two of these matters will be reported to you shortly and are summarised below.

s 9(2)(f)(iv) [Redacted]

- [Redacted]

- [Redacted]

- [Redacted]

- [Redacted]

- [Redacted]

- [Redacted]

[Redacted]

- [Redacted]

22. s 9(2)(f)(iv)

23. s 9(2)(f)(iv)

Next steps

24. s 9(2)(f)(iv)

25. We would welcome the opportunity to discuss any other matters raised in this report with you.

26. We are aware that Minister Louise Upston may write to you on certain tax matters and both she and Minister Nicola Willis have an interest in this sector. We recommend you share this paper with them, so that they are kept informed of this context.

Consultation with the Treasury


27. The Treasury was informed about this report.

Recommended action

We recommend that you:

28. **note** the contents of this report, and
Noted
29. **refer** a copy of this report to the Minister of Finance for their information, and
Referred/Not referred
30. **refer** a copy of this report to the Minister of Community and Voluntary Sector for their information.
Referred/Not referred

s 9(2)(a)



Stewart Donaldson
Principal Policy Advisor
Policy and Regulatory Stewardship

Hon Simon Watts
Minister of Revenue
/ /2024

s 9(2)(f)(iv)

s 9(2)(f)(iv)

