

31 March 2025

Taxation and the not-for-profit sector
C/- Deputy Commissioner, Policy
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via e-mail: policy.webmaster@ird.govt.nz

Submission on “Taxation and the not-for-profit sector”

Introduction

1. Thank you for the opportunity to provide feedback on the proposed changes to tax the not-for-profit sector.
2. Energy Resources Aotearoa is New Zealand’s peak energy sector advocacy organisation. We are an incorporated society, not-for-profit entity. We represent participants from right across the energy system, providing a strategic sector perspective on energy issues and their adjacent portfolios. Our purpose is to enable constructive collaboration to bring coherence across the energy sector through and beyond New Zealand’s journey to net zero carbon emissions by 2050.
3. This submission is our response to *Taxation and the not-for-profit sector*, dated 24 February 2025. We specifically address the proposals set out in chapter 4.
4. While we cover some points below, we strongly support the Business NZ submission on the topic.

Key messages

5. Without overstatement, the proposed taxation changes would be disastrous for the not-for-profit sector. As a membership-based organisation, the catastrophic consequences of these changes would be financially ruinous and undermine our long-term financial viability and ability to continue to be New Zealand’s leading energy sector advocate.
6. If implemented they would not only have long lasting detrimental effects on organisations such as ours, but also the broader economy which, in turn, would

undermine the contributions these entities and their members make to our society and democracy.

7. We feel there needs to be a clear evidence-based approach taken when reviewing and setting the taxation of charities and not-for-profit organisations to ensure any potential new policies are fit for purpose. Significant analysis must be undertaken to clearly identify possible significant negative flow-on effects from the outlined recommended changes.

Submission

8. We fundamentally oppose the changes outlined in the consultation document. The financial ruin of membership-based organisations will touch all parts of the economy and wider society should the changes proposed be implemented.
9. Incorporated societies are financially fragile, often 'hand-to-mouth' organisations running almost as a matter of course on thin margins and dependent on annual membership revenue to survive. Profits, especially large ones, are unusual in this ecosystem and when they occur, tend to do so from one-offs such as events and are used to (re)build reserves. Taxation on profits from these entities will diminish their ability to effectively smooth economic peaks and troughs (as this has direct implications for membership levels and revenue). These profits are vital for building reserves and the ability for such organisations to deliver on their stated, often industry or public-good, purposes over economic cycles. Such profits are the key to organisational longevity and financial wellbeing.

The risks arising from the proposals

10. Strong not-for-profit entities are efficient channels for communication and advice. These entities act on behalf of the collective around whatever topic they speak to, minimising transaction costs.
11. Membership based organisations collaborate with the private sector and often work alongside businesses, academic institutions, and government bodies to drive innovation and solve complex societal/economic challenges. By limiting funds and therefore the operational flexibility of not-for-profits, these changes will hinder collaborative efforts that contribute to overall economic progress, especially in the energy sector.
12. Not-for-profit organisations are significant employers, especially in regions where the public sector may not be able to provide sufficient services. The changes outlined in the proposals could lead to job cuts, reduced hiring, and the destabilisation of established organisations that are critical to the economy and the many sectors within it.
13. The unintended consequence of implementing these policy changes will also create perverse and undesirable incentives. Many not-for-profits are unsophisticated operations. The proposals risk creating a culture of minimising

profits to avoid taxation, weakening the vital role not-for-profit organisations and their members play in our economy and society. The prosperity of the economy will be severely impacted while the tax derived from the changes will be minimal.

The implications for a well-functioning democracy

14. The proposals have the risk of undermining democracy. Often the members of such organisations do not otherwise have the ability, or sophistication to have their voice heard on legislative and regulatory changes. Not-for-profit entities play this role on their behalf ensuring that the diaspora of views can participate in our Parliamentary democratic processes. The weakening of collective representative bodies will ultimately weaken the voice of their erstwhile members while at the same time shifting the burden back to them leading to worsening legislative, regulatory and ultimately democratic outcomes.

Concluding remarks

15. We urge the Government to reconsider these proposals and recognise the essential role that not-for-profit organisations play in fostering economic stability and growth. Do not implement policies that will stifle our economy and democracy.
16. We ask the government to acknowledge the critical role thriving not-for-profit and membership-based organisations such as ours play now and into the future as we transition to sustainable, low emissions economy.