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Taxation and the not-for-profit sector  
C/- Deputy Commissioner, Policy  
Inland Revenue Department  
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## Retail NZ submission: Taxation and the not-for-profit sector

### Overview

1. Retail NZ is a membership organisation that represents the views and interests of New Zealand's retail sector. We are the peak body representing retailers across Aotearoa, with our membership accounting for nearly 70% of all domestic retail turnover. New Zealand's retail sector comprises approximately 27,000 businesses and employs around 220,000 Kiwis.
2. Retail NZ's membership includes large organisations that operate as charities but run significant retail enterprises as part of their fundraising and public good activities. We consulted our membership in the preparation of this submission.
3. The consultation is also directly relevant to Retail NZ as a not-for-profit organisation.
4. Retail NZ appreciates the opportunity to provide feedback on this consultation document. We have focused our response on the sections most relevant to both our members and ourselves, particularly Chapter 2 - Charity Business Income Tax Exemption; and on Chapter 4 - Integrity and Simplification. We also make brief comment on donor-controlled charities to the extent that they impact on our members.
5. We strongly advocate for a tax and regulatory environment that enables both charities and incorporated societies to continue delivering social and public good. Tax settings should support, rather than hinder, our ability to serve our communities effectively, ensuring that our organisations remain sustainable and continue to contribute to the broader public interest.
6. Compliance costs must also be considered, as increasing regulatory and tax obligations would be fiscally challenging for many charities and incorporated societies. Any new measures should not create undue financial or administrative burdens that could limit their effectiveness.

### Retail NZ responses to consultation questions

#### Chapter 2: Charities business income tax exemption

7. Overall, we are concerned that adjusting charity settings could have unintended negative effects, reducing funding, discouraging donations and burdening small charities with compliance costs.
8. In many cases, charities can deliver services more effectively than government, particularly where flexibility, community engagement and specialised expertise matter.

9. Also, charities often operate with lower overhead costs, being deeply embedded in local communities, and enjoying the ability to rely on volunteer networks. This allows them to respond quickly and efficiently to specific needs. Their mission-driven approach and ability to attract private donations and partnerships can also lead to more innovative and tailored solutions compared to government or commercial business initiatives.
10. Changes to charity tax exemptions may create the consequence of a net cost to Government accounts once the full range of costs have been taken into account. Taxing charities brings the strong likelihood that their ability to respond to community needs would be severely impeded.
11. For example, the Red Cross is frequently called on to respond to disasters around Aotearoa New Zealand. The income it derives from its chain of retail stores ensures it can be ready to respond immediately and that it has an established network already in place in affected communities. Additional taxation would reduce available income and directly reduce the services that Red Cross could undertake.
12. Similarly, if the income from Hospice New Zealand's shops was cut back by taxation, the organisation would be forced to cut its services. In turn, that would create the risk of more end-of-life patients taking up hospital beds at the government's cost, and impact on the quality of life at a critical time for patients and whanau.
13. Retail operations run by charities provide a relatively reliable source of income to the charity which can then be used to offset their costs and to contribute to their charitable purposes.
14. Charity shops provide a wide range of social benefits. People volunteer to give themselves a purpose and value in their life and community. Volunteers benefit from training in retail skills and customer service that can support them to get into the paid workforce. Retail customers benefit from the availability of cost-effective clothing and other goods.
15. Charity shops sell secondhand goods at low prices and low profit margins. Their stores provide significant environmental benefits by establishing a market for recycled goods and clothing. Without the ease of access to outlets for such goods, donors would likely dispose of them to landfill.
16. Some charity shops may become unviable if they are taxed, resulting in a loss of income to the charity and subsequent services.
17. While Retail NZ appreciates the requirement that charities apply all their income and assets to charitable purposes, in reality this does not mean the charitable purpose will always fit into the current financial year. The reasons for retaining some funds in reserve are varied. Often it is simply to ensure financial stability and continuity of services. Unexpected events, such as economic downturns, reduced donations, or emergency situations can create funding shortfalls. The most obvious recent example is the Covid-19 pandemic when retail shops could not open and charity events could not be held, severely impacting charities' income streams.
18. By maintaining reserves, charities can continue operating even when revenue fluctuates, allowing them to support beneficiaries without disruption.
19. Some long-term projects - for example, building a new hospice facility - require sustained funding, meaning charities must strategically allocate resources over multiple years rather than spend all income within a single financial year.

20. Reserves also enable charities to invest in future growth and innovation. By setting aside funds, they can develop new programmes, expand their reach, or improve infrastructure without relying solely on uncertain funding sources. It is often the case that grants for major projects require upfront investment, making reserves essential for securing long-term impact. Significantly, keeping a financial cushion helps charities adapt to changing circumstances, ensuring they remain resilient and effective in fulfilling their mission over time.
21. With regard to the de minimis exemption for small-scale trading activities, it is difficult to see why a charity that has reported business income of \$4.9 million should be treated differently to a charity with an income of \$5.1 million. Any tiered system will create inequities so we recommend that any charity that can demonstrate that business income is clearly and consistently being used for charitable purposes should be exempt.
22. Under current legislation, New Zealand charities are required to provide complete disclosure. Therefore, if there are concerns about particular charities not complying with the law, a more obvious solution would be to enforce the law that already exists, or to review charities sector legislation.

### **Chapter 3: Donor-controlled charities**

23. Donor-controlled charities should be recognised for their contributions and not subjected to excessive regulatory burdens that may limit their ability to provide charitable grants.

### **Chapter 4: Integrity and simplification**

24. We urge that the long-standing tax treatment of not-for-profit business associations is maintained, ensuring that these essential organisations can continue to serve their members and the wider New Zealand economy effectively.
25. Retail NZ is an NFP organisation that engages with Ministers and MPs, government officials, and other decisionmakers on a daily basis, to ensure our members' interests are represented throughout the policy making process. What we do benefits the wider New Zealand economy, and supports our members to operate their businesses.
26. The retail sector comprises thousands of SMEs who rely on Retail NZ's support to manage the numerous challenges of running their businesses, including employment, health and safety requirements, and meeting a wide range of regulatory and legislative requirements. We provide business updates, advice, advocacy, financial savings, upskilling and insights.
27. No single member business would be in a position to respond to all government consultations that might impact their business operations, or to keep abreast of the continual stream of requirements and updates they need to be aware of.
28. The proposal to tax subscription income of not-for-profits represents a significant departure from well-established principles. Such a shift would weaken Retail NZ's ability to support the businesses we serve, at the same time as increasing compliance costs.
29. As an NFP business association, Retail NZ operates on a tight budget, where member subscriptions primarily cover operating costs. Taxing our subscription income would impose unnecessary financial strain and limit our ability to invest in services for our members.

30. While we strive towards making an annual surplus, the reality is that the subscriptions and other member funds received are typically enough for only a small surplus if everything goes according to plan, with little room for unexpected costs.
31. Retail NZ reinvests any surplus revenue into the organisation in order to continue the benefits for our members. Therefore, taxing these funds would be counterproductive, as it would reduce the resources available for the initiatives that benefit retailers.
32. As with many other associations, Retail NZ has not been untouched by the current economic environment. Membership fees are often among the first expenses cut by businesses during cost-saving measures. The ability to build up reserves during more favourable economic times means we retain a buffer to continue operations that might otherwise be curtailed during economic downturns. This is standard practice for NFP businesses and ensures sustainability to meet ongoing member needs. The proposed changes to the tax treatment of NFPs threaten this ability to create reserves that we can rely on in times of need.
33. As highlighted in Business NZ's submission, we also question the inconsistency in tax treatment between different types of not-for-profit organisations. Inland Revenue has confirmed that sports clubs and societies promoting amateur games will continue to be tax-exempt, yet business associations could be treated differently. Both types of organisations typically reinvest any surplus into their mission rather than generating private profits, and both provide critical services to their members. Treating them differently from a tax perspective seems both unfair and illogical.
34. Adjustments to the NFP tax settings could lead to not only increased tax payment obligations, but also increased compliance costs, causing increased strain on limited resources. This could force Retail NZ to divert resources from core activities like advocacy, advice and networking events to tax management.

## Conclusion

Thank you for the opportunity to make a submission. Retail NZ is happy to discuss any aspect of this submission further.

No part of this submission should be withheld under the OIA.

Sincerely,



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