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Inland Revenue Department  
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## Retail NZ submission: Mutual transactions of associations (ED0265)

### 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 appreciates the opportunity to provide feedback on ED0265. The consultation is directly relevant to Retail NZ as a not-for-profit association.
3. 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.
4. 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.
5. 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. Retail NZ does this on behalf of our members to ensure that their interests are represented through the legislative process.

### Retail NZ response to ED0265

6. Retail NZ strongly advocates for a tax and regulatory environment that enables associations like ourselves 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.
7. 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.

8. 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.
9. 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.
10. Increasing regulatory and tax obligations would be fiscally challenging for associations. Any new measures should not create undue financial or administrative burdens that could limit our effectiveness.
11. As an NFP business association, Retail NZ operates on a tight budget, where member subscriptions account for approximately 50% of our income and primarily cover operating costs. Taxing our subscription income would impose unnecessary financial strain and limit our ability to invest in services for our members.
12. 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.
13. 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.
14. 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 associations 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.
15. We also question the inconsistency in tax treatment between different types of NFP 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 important services to their members. Treating them differently from a tax perspective seems both unfair and illogical.
16. Turning to the DV8 threshold, the current \$1,000 deduction for retained earnings is outdated and does not reflect the operational scale or inflationary pressures on associations like Retail NZ. We support lifting this to \$100,000 as recommended by BusinessNZ and the New Zealand Society of Association Executives (NZSAE).
17. This change would remove small organisations from the tax net, reducing IRD's administrative burden from low-return compliance. It would also recognise that most associations reinvest all surpluses back into member services.
18. If IRD decides to proceed with this change in how associations are taxed, we strongly recommend a phased implementation period over several years, accompanied by targeted education and support.

19. This would give Retail NZ and other associations the necessary time to update financial systems, understand our obligations, rework our budgets to take account of the new tax treatment of membership subscriptions, and avoid unintentional non-compliance.

## **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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