QUEENSTOWN LAKES DISTRICT COUNCIL

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31 March 2025
Via email: policy.webmaster@ird.govt.nz

SUBMISSION TO INLAND REVENUE (TE TARI TAAKE) ON TAXATION AND THE NOT-FOR-PROFIT SECTOR

Thank you for the opportunity to present this submission on the proposed changes to the tax treatment of unrelated business income for registered charities.

The Queenstown Lakes District Council (QLDC) acknowledges the Inland Revenue Department's intention to explore ways to strengthen the integrity and fairness of the tax system. QLDC strongly opposes the removal of the tax exemption for unrelated business income earned by registered charities. This proposal risks undermining financial sustainability, with a potential to impact the diverse range of community services and increasing pressure on already stretched community funding. The ambiguity in defining "unrelated business" creates compliance risks, especially for volunteer-reliant organisations, while the fiscal return is uncertain and likely outweighed by social and administrative costs.

This submission outlines key points that are supported by QLDC and key points that QLDC would recommend for further consideration. The following recommendations are explained in more detail in the body of the submission:

- The current tax exemption for unrelated business income generated by registered charities should be retained.
- Non-regulatory options to strengthen oversight of charities should be considered, such as improved reporting requirements or targeted investigations into misconduct, rather than sector-wide tax changes.
- Direct engagement with the charitable sector to co-design sustainable funding approaches that reinforce, rather than undermine, innovation and community impact is recommended.

QLDC is available to be contacted by Inland Revenue to discuss the points raised in this submission.

Thank you again for the opportunity to comment.

Yours sincerely,

Kenneth Bailey
GM, Community Services
Queenstown lakes District Council

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1.0 Context

1.1 Queenstown-Lakes District (QLD) is a district with an average daily population of 70,205 (visitors and residents) and a peak daily population of 99,220. By 2053 this is forecast to increase to 150,082 and 217,462 respectively[1].

1.2 The district has a rich network of charitable organisations that play an essential role in social cohesion, community resilience and wellbeing, and service delivery. There are more than 500 formally recognised not-for-profit organisations operating in the Queenstown Lakes District. These charities operate in areas such as housing, health, mental and physical wellbeing, education, community connection, arts and culture, and the environment. Many of these groups have adapted by establishing business arms or pursuing unrelated income-generating activities to secure their sustainability in a challenging funding environment.

1.3 QLDC also acknowledges the significant role that play, active recreation, and sport organisations play in community wellbeing and cohesion. Many of these organisations, including local sports hubs, regional trusts, and foundations, are registered charities that rely on a mix of funding sources including donations, grants, and business income from unrelated activities such as events, merchandise, or sponsorships.

1.4 These income-generating activities help keep community groups and sport accessible and affordable, particularly for children, youth, and underserved groups. Taxing unrelated business income risks placing these organisations under even greater financial pressure and may undermine their capacity to deliver inclusive and equitable access to communities. This would be a step backward in terms of promoting physical and mental wellbeing across the community.

2.0 The sustainability of the charitable sector must be supported

2.1 QLDC strongly supports the principle that charitable organisations should be encouraged to develop sustainable income streams, including through business activities, regardless of whether those activities are directly related to their charitable purpose.

2.2 Introducing a tax on unrelated business income would create a significant disincentive for innovation, enterprise, and financial self-sufficiency within the sector. It risks undermining the ability of charities to be financially resilient, particularly smaller organisations that are already operating on limited resources. These charities often seek unrelated income to reduce reliance on grants and donations, ultimately reinvesting all surplus funds back into initiatives that benefit communities.

2.3 The current approach recognises that all income earned by charities is ultimately used for charitable purposes, subject to regulatory safeguards. Registered charities undergo a rigorous application process and are required to submit transparent annual reporting. These mechanisms already ensure public trust and accountability.

3.0 The proposal introduces risks due to definitional ambiguity and compliance burden

3.1 QLDC is concerned that the proposal introduces uncertainty regarding what may be deemed "unrelated" income, and how such definitions will be applied. This ambiguity risks placing a disproportionate compliance burden on charities and may deter them from pursuing legitimate and socially beneficial business ventures.

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[1] https://www.qldc.govt.nz/community/population-and-demand

3.2 There is a particular risk for charities engaged in commercial activity that is closely integrated with their broader mission, such as hiring out facilities, selling merchandise, or offering fee-based services. These activities often exist within a grey area where the boundary between “related” and “unrelated” is difficult to determine in practice. Greater clarity and legal certainty are essential if compliance costs and unintentional breaches are to be avoided.

3.3 There is also concern that the introduction of this tax could establish a basis for broader taxation of related income or passive income streams in the future, eroding the foundational principle that income applied to charitable purposes should be exempt from tax.

4.0 Financial and social consequences of taxing reinvested business income

4.1 Any short-term fiscal gains to the Crown are likely to be outweighed by long-term costs if charities reduce services or close operations, shifting pressure onto central and local government. Charities often deliver services more efficiently due to strong community ties and volunteer support.

Across the district, most major community grant funding rounds are now oversubscribed by two to four times, and the gap between demand and available funding continues to grow. As expectations on councils increase, limited funding tools such as ratepayer revenue make it difficult to meet rising community needs. Taxing charities risks compounding this unfunded mandate without addressing the underlying structural funding shortfall.

4.2 This is particularly true for charities that use business income to cross-subsidise free or low-cost services. For example, a community theatre may hire its venue for weddings in order to fund free youth performances; a charitable trust may run a café to support job training for rangatahi; or a regional sports trust may sell advertising space or run commercial tournaments to keep participation fees affordable. Taxing this income will limit the ability of these organisations to reinvest in their communities and maintain affordability and inclusion.

4.3 The proposed changes could create perverse incentives, whereby organisations either scale back revenue-generating efforts or restructure in ways that obscure business income – neither of which serve the intent of tax transparency or public good.

5.0 Further points of consideration

5.1 QLDC recommends a more holistic review of the funding ecosystem for charities, including examining ways to better support the sector's long-term sustainability. Rather than taxing charities for seeking independence, it recommends that the government focus on encouraging investment in capability-building, innovation, and sustainable income development.

Recommendations:

R.1. Retain the current tax exemption for unrelated business income generated by registered charities.

R.2. Clarify and uphold the principle that income used for charitable purposes should remain tax-exempt, regardless of the source.

R.3. Consider non-regulatory options to strengthen oversight of charities, such as improved reporting requirements or targeted investigations into misconduct, rather than sector-wide tax changes.

R.4. Engage directly with the charitable sector to co-design sustainable funding approaches that reinforce, rather than undermine, innovation and community impact.