



PO Box 11543
Wellington
New Zealand
Ph 04 385 8722
www.commmunityhousing.org.nz

31 March 2025

Taxation and the not-for-profit sector
C/- Deputy Commissioner, Policy
Inland Revenue Department
policy.webmaster@ird.govt.nz

RE: 'Taxation and the not-for-profit sector' consultation paper

Who we are

1. Community Housing Aotearoa (CHA) is an Incorporated Society and a peak body for the community housing sector. To achieve our Vision of 'all New Zealanders well-housed', we have a strategic focus on supporting a responsive housing system underpinned by Te Tiriti o Waitangi and the Right to a Decent Home. We are also mindful of the broader institutional and regulatory context within which our members and other community organisations operate.
2. Our member organisations provide homes for nearly 30,000 people nationally across 26,000 homes and our partner members include developers, consultants and local councils. Community Housing Organisations are primarily registered Charities or not for dividend entities that develop, own and/or manage social and affordable housing stock, with a variety of tenure offerings.
3. CHA is a proud Tangata Tiriti organisation and works closely with national Māori housing advocate Te Matapihi, that represents iwi-based and Māori community housing organisations.

Key submission points

The taxation of charity business income should not progress any further

4. The consultation document provides no evidence of an unfair competitive advantage for charitable trading entities. The consultation document references a 'cost' to Government for the lack of taxation on Charity business income but is silent on the significant benefits provided from the income derived supporting charitable purposes. Charities already face

significant regulatory and public disclosure requirements. Any revenue derived from taxation is unlikely to equal the significant additional costs imposed on and reduction in services provided by Charities.

5. The very short time given to respond to the complex issues raised in the document is a concern. As an Incorporated Society, seeking input from our members is core to our ability to represent their common interests. Our ability to fully engage has been limited by the timing allowed for this consultation.

Responses to Consultation Questions

1. We do not believe there is any compelling reason to tax charity business income in New Zealand. For our members who are Charities providing affordable housing, potentially all their income from providing below market rate homes could be subject to tax. The practical implications from taxing charity business income are an increase in their compliance costs and less revenue to carry out their charitable purposes. The proposed taxation ignores the fact that all charity income must be used in support of their purposes, whether from business activities or other sources.

Housing costs in New Zealand are amongst the least affordable in the OECD and further taxing this charitable activity would result in fewer homes affordable to low-income households. A likely consequence is a further rise in homelessness and higher costs shifted onto Government. We expect a similar result of reduced services resulting in higher costs to Government across a range of other charitable activities.

The imperfections noted in 2.13 and 2.14 do not warrant taxing Charity business income. Affordable housing providers are currently disadvantaged compared to for-profit housing developers in their ability to raise equity required to develop new homes. They face the same land and building costs whilst receiving lower revenues from the affordable homes they operate. The analysis in the document ignores the benefits provided by Charities which we believe are significantly higher than any potential tax revenue.

2. The practical implications from taxing charity business income that is unrelated to charitable purposes is also likely to be significant. Apart from the difficulty of defining related and unrelated business income, this also ignores the fact that all Charity income must be deployed in support of their purposes, whether from unrelated business activities or other sources.

If it were adopted, we see the potential for significant compliance costs to differentiate related and unrelated business income. For example, if an affordable housing provider develops a subdivision and sells a portion of the homes at market rates to subsidise the affordable homes, how would this be categorised? What if they provide tenancy management

services for a local council with a few homes rented at market rates based on the council's policies? What if a provider leases from a private landlord, delivering tenancy and property management services in exchange for a fee, but subleases these homes at below market rents to lower income families? If the provider operates an op-shop selling goods including recycled building materials amongst other items, how would related and unrelated articles be confirmed with certainty?

3. The examples in 2 above demonstrate the difficulty of establishing workable criteria to define unrelated business income. This is further confirmed in 2.21-2.24 and the fact that an interpretation statement was necessary for the more limited FBT rules. The difficulty of establishing criteria across the range of charitable organisations and activities will result in increased compliance costs, greater uncertainty and fewer services provided. Some small Charities may no longer be viable.
4. As stated above, we do not support removing the tax exemption for Charity business income, whether related or unrelated to charitable purposes. Should Government choose to proceed with taxing unrelated business income we agree with exemptions for Tier 3 and Tier 4 Charities. We also support a full exemption for other Tiers if the unrelated business income is below 25% of the organisation's income from all sources.
5. All charitable income, from every source, must be used to advance the charitable purpose of the organisation. Charities providing affordable housing need to accumulate millions of dollars to undertake even a modest sized development. Adding complicated rules about the timing of distributions and transfers to a parent entity will drive up compliance costs and reduce the amount available for charitable purposes. Providing relief for charity business income distributed for charitable purposes highlights the folly of the taxation proposal in the first place.
6. We urge caution when considering overseas examples of limited partnerships. As noted above, the development of affordable homes is capital intensive and limited partnerships are sometimes used by Charities to develop affordable homes. Structures which vest the ownership in a Charity ensuring the on-going retention of affordable homes should not be penalised. The delivery of mixed income developments reliant upon a portion of market sale homes to subsidise below market homes should also not be penalised.
7. No comment.
8. No comment.
9. No comment.
10. The current \$1,000 deduction for small scale NPFs seems out of date. Revising the level to align with Tier 4 reporting requirements seems to be a reasonable starting point.
11. No comment.

12. No comment.
13. We oppose removing the FTB exemption regardless of potential reductions in compliance costs. Some of our members provide vehicles for employees to carry out their duties, including letting properties, responding to maintenance requests and property inspections. Removing the exemption will increase their costs and impact on the ability to provide affordable homes.
14. Expanding the FENZ simplification seems reasonable, so long as FENZ has found this beneficial and that there are not unintended consequences.
15. We support the policy-related recommendations to make it easier to apply for Donation Tax Credits.

Ngā mihi



Paul Gilbert, CEO, Community Housing Aotearoa – Ngā Wharerau o Aotearoa

