

Taxation and the not-for-profit sector – IRD consultation

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Submitter details:

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Submission:

Introduction

1. The New Zealand Recreation t/a Recreation Aotearoa is a registered charity and the organisation responsible for providing leadership, advocacy and professional development opportunities for those involved in the broader recreation sector. We work at an agency, industry and professional level to build capability, develop partnerships, and equip individuals and organisations with the skills they need to deliver high quality recreation experiences that engage participants.
2. Recreation Aotearoa's membership includes recreation policy makers, territorial local authorities, voluntary organisations, regional sports trusts, outdoor recreation businesses, and others involved in the delivery of recreation throughout New Zealand.
3. Our mission is enhancing wellbeing through recreation.
4. Recreation generates significant value for society across several of the wellbeing domains and outcomes expressed within NZ Treasury's Living Standards Framework: Health; Subjective Wellbeing; Income Consumption and Wealth; Work, Care, and Volunteering; Family and Friends; Safety.
5. Findings from a Social Return on Investment study reveal that each dollar allocated to play, active recreation, and sport yields a social return of \$2.12 in New Zealand. In essence, every dollar invested in these activities results in more than a twofold social return.
6. Greater understanding of these benefits and their downstream impacts, along with awareness of how laws and regulations can influence recreation delivery, are key to ensuring that New Zealand's recreation opportunities remain among the world's best.

General Comments

7. Recreation Aotearoa broadly supports the objective of ensuring a fair and effective tax system. However, we have significant concerns regarding the potential implications of the proposed changes outlined in the Issues Paper for the play, active recreation, and sport sector.
8. We are particularly concerned about the proposal to remove the tax exemption for business income received by a charity where this income

is 'unrelated to the entity's charitable purpose'. This change could affect registered charities within the recreation sector, including many Regional Sports Trusts (RSTs) and National Recreation Organisations (NROs), which may currently benefit from charitable status but are unable to meet the criteria for other specific income tax exemptions.

9. It is crucial to recognise that within the recreation sector, organisations often undertake commercial activities, such as events or facility rentals, to subsidise community access and participation. The distinction between 'related' and 'unrelated' business income lacks clear definition, creating uncertainty for organisations in our sector. Without clear guidance and examples from the IRD, it is difficult to reliably categorise income streams, potentially leading to increased compliance costs and administrative burden.
10. Furthermore, the proposed minimum threshold based on annual accounting expenditure (e.g., \$5 million or more) may still impact a number of recreation organisations, including those with substantial community reach. The specific threshold and whether it relates to overall expenditure or business income requires careful consideration to avoid disproportionately affecting organisations that play a vital role in community wellbeing.

Specific Comments

11. Recreation Aotearoa submits that there is inadequate clarity of the term "Unrelated Business Income". The IRD must provide clear definitions and illustrative case studies to distinguish between income from activities related to a charity's purpose and unrelated business income. This is crucial for the recreation sector, where revenue-generating activities often directly support the delivery of charitable outcomes.
12. Recreation Aotearoa submits that the proposed threshold for applying the new rules on unrelated business income requires careful consideration. We recommend that the IRD explores thresholds based on business income directly, rather than solely on overall annual expenditure, to better target the intended entities and minimise the impact on smaller community-focused organisations. The threshold should be set at a level that genuinely captures larger commercial operations and avoids imposing undue burdens on organisations primarily focused on not-for-profit recreation delivery.

13. Recreation Aotearoa submits its particular concern for the potential impact on smaller charities within the recreation sector, many of which operate with limited reserves and volunteer support. The IRD should provide a clear analysis of how these smaller organisations will be affected and consider exemptions or simplified compliance measures for them.
14. Recreation Aotearoa notes and commends the fact that the income tax exemption for organisations established mainly to promote an amateur game or sport is not currently proposed for change. However, we emphasise the critical importance of retaining this exemption for the many organisations in the broader play, active recreation and sport sector that rely on it.

Conclusion

15. Recreation Aotearoa is committed to working constructively with the IRD to ensure that any changes to the taxation of the not-for-profit sector are fair, equitable, and do not inadvertently hinder the vital contributions of recreation to the health, wellbeing, and economy of New Zealand. We urge the IRD to carefully consider the perspectives outlined in this submission as it progresses with its review. We would welcome the opportunity to discuss these matters further.