UNITED FIRE BRIGADES' ASSOCIATION

27 March 2025

Inland Revenue Department
Wellington

via email: policy.webmaster@ird.govt.nz

Taxation and the Not-for-Profit Sector

Response Summary

The United Fire Brigades Association of New Zealand (UFBA) has 661 volunteer fire brigade and operational support unit members made up of various forms of incorporation. Incorporation of volunteer fire brigades varies including registered charities, incorporated societies or entities that are informal in status. The latest proposed tax changes affecting the volunteer fire sector will have three significant impacts on volunteer fire brigades.

- Potential taxation of brigade business income not related to the brigade's charitable purpose.
- Increasing brigade tax compliance obligations.
- Taking charitable funds from the volunteer fire brigade sector reducing the ability of brigades to respond in times of emergency need in the community.

In terms of future tax law, it is important there is a clear definition of business income not related to a charities purpose. At present it is not clear if fund raising for fire brigades using community assets are included or excluded from the business income definition?

We recommend setting the De-minimis for small scale trading activities amount for entities with expenditure of up to $5.0 million. The imposition of further tax compliance would then only affect Tier 1 and Tier 2 registered charities.

The compliance cost in terms of volunteer time and accounting costs would add no value to the operation of a volunteer fire brigade. The main purpose of our volunteer fire brigades is to protect life, property and the environment, not complete income tax returns. Community-based volunteer fire brigades serve the combined communities of New Zealand through Fire and Emergency New Zealand (FENZ). The volunteers comprise 86% of the FENZ frontline workforce and their annual financial contribution to New Zealand if monetised is over $800 million.

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United Fire Brigades Association's questions responses [in bold]:

Chapter 2: Charities business income tax exemption

Q1. What are the most compelling reasons to tax, or not to tax, charity business income? Do the factors describe in 2.13 and 2.14 warrant taxing charity business income?

Taxing business income used for charitable purposes will reduce the pool of funds available for the charities sector. This is at a time when funds available for the charities sector have been reduced significantly due to difficult economic conditions.

Q2. If the tax exemption is removed for charity business income that is unrelated to charitable purposes, what would be the most significant practical implications?

Less funding in the economy for charitable purposes. This will reduce the ability of charities to fill the increasing community welfare/services gap created due to poor economic conditions and reduced government expenditure.

Q3. If the tax exemption is removed for charity business income that is unrelated to charitable purposes, what criteria should be used to define an unrelated business?

Business income generated

- **outside the circle of charity membership (mutuality principle)**
- **in competition with other non-charitable organizations/ businesses**

Excluded business income

- **One off community fund raising activities using community assets.**

Volunteer fire brigades often use community assets to fundraise to purchase new brigade equipment. If it can be shown that income is directly used for charitable purposes, then that income is not taxable.

Q4. If the tax exemption is removed for charity business income that is unrelated to charitable purposes, what would be an appropriate threshold to continue to provide an exemption for small-scale business activities?

Tier 3 and Tier 4 charitable entities are exempted from accounting for business income unrelated to its charitable operations. Entities with annual expenditure below $5 million.

Q5. If the tax exemption is removed for charity business income that is unrelated to charitable purposes, do you agree that charity business income distributed for charitable purposes should remain tax exempt? If so, what is the most effective way to achieve this? If not, why not?

Treat the distributed income as a tax-deductible expense.

Q6. If the tax exemption is removed for charity business income that is unrelated to charitable purposes, what policy settings or issues not already mentioned in this paper do you think should be considered?

None.

Chapter 3: Donor-controlled charities

Q7. Should New Zealand make a distinction between donor-controlled charities and other charitable organisations for tax purposes? If so, what criteria should define a donor-controlled charity? If not, why not?

N/A to the volunteer fire brigade sector.

Q8. Should investment restrictions be introduced for donor-controlled charities for tax purposes, to address the risk of tax abuse? If so, what restrictions would be appropriate? If not, why not?

N/A to the volunteer fire brigade sector.

Q9. Should donor-controlled charities be required to make a minimum distribution each year? If so, what should the minimum distribution rate be and what exceptions, if any, should there be for the annual minimum distribution? If not, why not?

N/A to the volunteer fire brigade sector.

Chapter 4: Integrity and simplification

Q10. What policy changes, if any, should be considered to reduce the impact of the Commissioner's updated view on NFPs, particularly smaller NFPs? For example:

- *increasing and/or redesigning the current $1,000 deduction to remove small scale NFPs from the tax system,*
- *modifying the income tax return filing requirements for NFPs, and*
- *modifying the resident withholding tax exemption rules for NFPs.*

The current $1,000 deduction limit should be revised to exempt all charitable entities that have annual expenditure up to $5 million. The limit for other not for profit entities for example sports clubs, the limit should be increased to $10,000.

Q11. What are the implications of removing the current tax concessions for friendly societies and credit unions?

N/A to the volunteer fire brigade sector.

Income tax exemptions

Q12. What are the likely implications if the following exemptions are removed or significantly reduced:

- *local and regional promotional body income tax exemption,*
- *herd improvement bodies income tax exemption,*
- *veterinary service body income tax exemption,*
- *bodies promoting scientific or industrial research income tax exemption, and*
- *non-resident charity tax exemption?*

N/A to the volunteer fire brigade sector.

FBT exemption

Q13. If the compliance costs are reduced following the current review of FBT settings, what are the likely implications of removing or reducing the exemption for charities?

There will be less funding in the charities sector which will impact the ability of charities to contribute to their areas of charitable purpose.

Tax simplification

Q14. What are your views on extending the FENZ simplification as an option for all NFPs?

We agree extending the FENZ simplification as an option for Charities. The current tax rules treating honorarium payments as schedular income complicates tax for volunteers who often do not understand why they receive an ACC invoice after paying withholding tax on the honorarium/schedular income.

Do you have any other suggestions on how to reduce tax compliance costs for volunteers?

Q15. What are your views on the DTC regulatory stewardship review findings and policy initiatives proposed? Do you have any other suggestions on how to improve the current donation tax concession rules?

No.

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