

1 April 2025

Inland Revenue

**Taxation and the not-for-profit sector**

By email: [policy.webmaster@ird.govt.nz](mailto:policy.webmaster@ird.govt.nz)

Tēnā koutou katoa

**Submission to:** Inland Revenue

**Subject:** Taxation and the not-for-profit sector

**From:** Arts Council of New Zealand Toi Aotearoa (Creative New Zealand)

**Introduction**

1. Creative New Zealand welcomes the opportunity to comment on the Officials' Issues Paper *Taxation and the not-for-profit sector* (24 February 2025).
2. This submission relates to Chapter 2, *Charity business income tax exemption*, of the Issues Paper.
3. The key contact person for matters relating to this submission is:

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**Position:** Co-Manager, Policy & Performance

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**Key points**

4. Creative New Zealand understands that Inland Revenue is considering whether the tax exemption for business income received by a charity, where this income is '*unrelated to the entity's charitable purpose*', should be removed or the current settings changed.
5. Creative New Zealand submits that:
  - (i) There would be a material impact on arts organisations should charities become subject to tax on their "business income". Many arts organisations undertake commercial or business activities to support their operations, including retail, food and beverage and venue hire, which could be considered "unrelated" to their charitable purposes. Business activities operated by arts organisations supports the charitable purposes of these entities.
  - (ii) For the arts sector, the impacts could be largely mitigated through appropriate definitions and thresholds, including maintaining the tax exemption for Tier 3 and Tier 4 charities and/or continuing a tax exemption for unrelated commercial activities that operate to raise money for the benefit of the charity or their charitable purposes.

- (iii) Should the tax-exemption be removed entirely or the threshold set below Tier 3, the impacts on the arts sector could include:
    - a reduction in the viability of arts organisations and the services they provide potentially leading to the failure of organisations and a loss of services
    - increased pressure on government agencies such as Creative New Zealand to fill any revenue or funding gap
    - increased compliance costs on already under resourced organisations.
  - (iv) If the thresholds are set low, the additional compliance costs on arts organisations and the agencies enforcing the new rules would likely outweigh the benefits in terms of additional revenue generated for the Government.
  - (v) The Issues Paper characterises tax concessions as a “cost to the taxpayer”. Our view would be that concessions such as tax exemptions on charity business income could also be described as a benefit to the taxpayer, through investment in services that deliver social and cultural value such as arts activities.
6. We understand that Inland Revenue officials have met with representatives of the museums and galleries sector, and we would recommend that officials also meet with representatives of arts organisations (such as theatres, orchestras, dance companies and festivals) to understand the specific impacts on their operations. Many arts organisations will lack the capacity to engage with this consultation process. We would be happy to facilitate any meetings to enable a better understanding of the issues and potential impacts on these organisations.

#### **Further detail**

7. Creative New Zealand notes, in relation to the proposals in Chapter 2, that:
- arts organisations in New Zealand rely on a diverse range of revenue sources, including central government through agencies such as Creative New Zealand, local government, trusts and foundations, private philanthropy, earned revenue such as ticket sales, and revenue from commercial or business activities (including retail, food and beverage services, and venue hire)
  - limiting arts organisations’ income from business activities would have a detrimental impact on the financial viability of a sector that struggles to operate sustainably under current settings
  - arts organisations provide valuable and valued services to the public, they operate to provide public benefit, which is recognised through support for these organisations by central and local government as well as through their charitable status
  - any reduction in revenue from business activities would be expected to increase the pressure for funding through public sources – including central government.

#### *Question 1: Reason for review*

8. Creative New Zealand submits that any changes to tax settings for unrelated charity businesses should support the continued ability of arts organisations to maintain a diversified revenue base, including maximising their income from business activities to support their operations.

### *Question 2: Implications of change*

9. Should the tax exemption be removed or the thresholds set low, there could be a reduction in the viability of many of New Zealand's major arts organisations. As a rough rule of thumb, arts organisations supported by Creative New Zealand often receive about one-third of their revenue from central government, one-third from local government, and the one-third from earned revenue, including ticket sales and commercial or business activities.
10. Any reduction in organisations' income from business activities would either risk the loss of organisations and the services they provide and/or increased pressure on government agencies such as Creative New Zealand to meet the shortfall.
11. As an example, we understand the Arts Centre in Christchurch has set out the potential impact of changes on its operation, recognising its reliance on commercial income to maintain its assets including culturally significant heritage buildings as well as the arts services it provides.
12. If the tax exemption is removed from unrelated business activity income it would require the charity to establish costly systems and processes to accurately allocate specific expenditure with the unrelated business activity income.

### *Question 3: Definition of unrelated business activity*

13. Creative New Zealand submits that the unrelated business activities run by arts organisations should remain tax exempt where those activities are undertaken to raise money for the benefit of the charity or to assist the charity to deliver its services.
14. This appears to be the intent of the example given under the first bullet point of section 2.24. Creative New Zealand would support the continuation of a tax exemption for unrelated commercial activities that operate to raise money for the benefit of the charity.

### *Question 4: De minimis for small scale trading activities*

15. Creative New Zealand supports the commentary in the Issues Paper that acknowledges the compliance cost of changes to tax settings particularly for smaller organisations, which make up the majority of charities in New Zealand, and would include most arts organisations.
16. Creative New Zealand submits that if the tax exemption is removed for charity business income that is unrelated to charitable purposes, continued exemption for small-scale business activities should be provided for Tier 3 and Tier 4 charities. This would be expected to cover the vast majority of arts organisations.

### **Who we are**

17. Creative New Zealand is the national arts development agency of New Zealand, responsible for delivering government support for the arts. We're an autonomous Crown entity operating under the [Arts Council of New Zealand Toi Aotearoa Act 2014](#). Our purpose is: *to encourage, promote, and support the arts in New Zealand for the benefit of all New Zealanders*.

18. Creative New Zealand receives funding through the New Zealand Lottery Grants Board Te Puna Tahua and Vote: Arts, Culture and Heritage. In 2023/24, Creative New Zealand invested \$70 million in the arts, supporting the sector through funding, capability building, advocacy, leadership and partnering initiatives.
19. Creative New Zealand allocates approximately 70 percent of what it invests in the arts sector to support arts organisations and groups. This includes 80 major arts organisations that receive three- or six-year funding and rely on Creative New Zealand support as a core component of their revenue. These organisations rely on multiple income sources, including commercial or business activities to deliver their services.

Please feel free to contact us if you have any questions or if you wish to meet to discuss this submission further.

Ngā mihi nui ki a koutou katoa, nā

David Pannett  
**Senior Manager, Strategy & Engagement**  
**Pou Whakahaere Matua, Rautaki me te Tūhono**