INLAND REVENUE'S CONSULTATION: TAXATION AND THE NOT-FOR-PROFIT SECTOR

Submission by: The Public Fundraising Regulatory Association
Friday 28th March 2025

INTRODUCTION

The Public Fundraising Regulatory Association (PFRA) welcomes the opportunity to provide a submission in response to Inland Revenue's issues paper on "Taxation and the Not-for-Profit Sector".

The PFRA is an incorporated society (2068098) and represents a collective of charities and professional fundraising suppliers operating across New Zealand. We are a self-regulatory body committed to maintaining high standards, transparency, and accountability in public fundraising, particularly but not limited to face-to-face fundraising.

Our submission responds generally to the issues raised, offering observations reflective of the sector and our members' experience. We seize this opportunity to emphasise the value that the charitable sector brings to society, to challenge the framing of tax concessions as a 'cost' rather than a public benefit, and to highlight potential unintended operational and compliance consequences of some of the proposals.

THE VALUE OF THE CHARITABLE SECTOR AND PFRA'S ROLE

Charitable organisations play a vital role in delivering social services, health outcomes, community well-being, and environmental initiatives that would otherwise require government funding and infrastructure. Tax concessions, including income tax exemptions and donation tax credits, support charities by allowing them to reinvest all resources directly toward their charitable purposes, with no private pecuniary benefit.

PFRA enhances this value by maintaining a rigorous self-regulatory framework that ensures fundraising activities are conducted ethically and sustainably. Our framework reduces the need for direct government regulation, mitigates integrity risks, and supports public trust and confidence in charitable giving. Our system operates effectively without direct cost to the government and ensures the fundraising sector remains transparent, sustainable, efficient, and community-focused. More information about our framework can be found in **Schedule A.**

REFRAMING THE NARRATIVE: CONCESSIONS AS A PUBLIC BENEFIT

We challenge the conceptual underpinning expressed in paragraph 1.4 of the Officials' Issues Paper:

> **"Every tax concession has a 'cost', that is, it reduces government revenue and therefore shifts the tax burden to other taxpayers."**

This framing fails to recognise the substantial public benefit return on investment that charitable tax concessions generate. We suggest the more accurate framing is:

> **"Every tax concession delivers a 'benefit', reducing government expenditure by enabling charities to deliver essential public services more efficiently, flexibly, and sustainably, and therefore reduces the tax burden to other taxpayers."**

The services delivered by PFRA members are cost-effective, community-driven, and often fill gaps that would otherwise require direct government intervention at a higher cost.

OPERATIONAL AND COMPLIANCE CHALLENGES: DONATION TAX CREDITS AND FUNDRAISING ACTIVITIES

In response to IRD's Consultation Paper 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?

We support the objective of increasing awareness and uptake of donation tax credits and agree that simplifying the claiming process is in the public interest.

While the proposal to delink tax credits from the income tax return may be beneficial for donors, we caution that any future implementation requiring charities to report or receipt donations in real time would carry significant administrative and financial implications.

Specifically, any move toward mandatory real-time reporting, more frequent donation receipting, or compulsory system integration would create unintended compliance costs, particularly for small to medium-sized charities and fundraising supplier agencies.

We have outlined below what these impacts could look like for charities from practical implications and donor behaviour and experience perspective.

1. **Practical Implications:**

   Many of our members manage regular giving programmes, with tens of thousands of regular giving donors debited monthly. Under current settings, charities issue a single consolidated donation receipt annually, typically at the end of the financial year. This approach is intentionally designed to be cost-effective and efficient - allowing charities to batch-process donor data, minimise system demands, and manage supporter communications at scale.

   The introduction of real-time or fragmented receipting will be a substantial increase in operation costs, including:

- **Data processing and system integration costs**: Real-time receipting would require significant investment in IT infrastructure upgrades, database modifications, API integrations, data storage and donor privacy protections.
- **Staff resourcing costs:** The volume of individual donation receipting required under a real-time model would substantially increase staffing demands. Additional FTEs would be needed to manage data entry, receipting generation, quality control, and donor support. These expanded administrative

requirements would significantly raise overhead costs and divert valuable resources away from the charity's core mission and service delivery.

- **Mailing and digital distribution costs:** Whether delivered via hardcopy or digital channels, issuing receipts more frequently significantly increases printing, postage, and digital communication expenses. Charities are already absorbing annual increases of 25–30% in NZ Post mailing costs, which compounds the financial impact of more frequent receipting. Beyond cost, this change may also lead to donor fatigue or frustration from receiving excessive or unnecessary correspondence - potentially affecting donor satisfaction, trust, and long-term engagement.
- **Audit and compliance costs**: Increased transaction volumes and more frequent reporting cycles would likely require enhanced financial oversight and external auditing, adding yet another layer of compliance cost.

To illustrate the potential scale of impact:

> For a charity with a regular giving programme, issuing one consolidated annual receipt per donor might currently result in 10,000 receipts per year. Under a more frequent receipting model - monthly or even weekly - the number of receipts could increase tenfold or more, depending on the size of the donor base, the frequency of donations, and donor preferences around debit dates. This could result in a shift from thousands to tens or even hundreds of thousands of individual receipts, with significant implications for staffing, systems, and communications infrastructure.

For larger charities, this escalation in receipting activity could translate to substantial increases in operational costs - redirecting donor-given funds away from frontline services and charitable purposes and ultimately diminishing the reach and impact of their programmes.

2. **Strategic Importance of Annual Receipting:**

It is also crucial to highlight the strategic role the current annual donation receipt cycle plays in charitable fundraising. Many donors habitually plan their giving around March and April, aligning with the end of the financial year. Charities have long structured their tax-time appeals around this period, inviting donors to increase their impact. Donors are prompted to claim their tax rebate - and many choose to gift that rebate back to support the causes they care about. For some organisations, this opportunity generates tens of thousands of dollars in additional income, representing vital funding that directly supports their mission, services, and social impact.

This process not only provides operational sustainability for charities but also offers donors a meaningful annual moment to engage - both practically and emotionally with the causes they support. Disrupting this rhythm through fragmented or real-time receipting could have unintended consequences on donor motivation and giving behaviour. Many donors are accustomed to receiving a lump sum tax rebate, which they consciously allocate toward charitable giving. Without this incentive, or if that rebate is broken into smaller, incremental monthly amounts, donors may be less inclined or financially able to donate it meaningfully.

> **For example:**
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> "If I give $30 a month to a charity, that adds up to $360 over the year. With the current system, I receive a $120 rebate in one lump sum. That's meaningful – I'm more likely to donate it back to the charity or support another cause I care about. But if that rebate were split into $10 a month, it would likely just disappear into my everyday spending without the same sense of impact or intention."

In this way, altering the receipting model risks undermining one of the most effective, timely, and donor-aligned moments in the fundraising calendar - potentially reducing overall donor contributions, engagement, and charities' capacity to deliver essential services to their communities.

3. **Donor Behaviour and Experience:**

We emphasise that donor relationships are fundamentally relational, not transactional. Supporters value clarity, simplicity, and a streamlined experience - receiving a single consolidated annual receipt fosters trust, minimises confusion, and enhances their overall connection to the cause.

Introducing more frequent administrative communications - such as monthly receipting - may feel burdensome or intrusive, particularly when the donor has committed to a long-term giving relationship. This risks eroding donor satisfaction, weakening loyalty, and ultimately reducing giving behaviour over time.

In addition, charities are already operating under a high level of public scrutiny around how donor funds are used, particularly regarding the cost and environmental impact of physical mail. Increasing the volume of posted donation receipts twelvefold (or more) could be viewed not as a service improvement but as wasteful or inefficient - potentially undermining public trust and perceptions of financial stewardship.

While real-time tax credit rebates might offer some donor-side benefits, this does not fully offset the frustration and reputational risks associated with multiplying receipt communications. Maintaining an annual receipting approach supports both donor experience and sector sustainability.

Recommendation:

Accordingly, we recommend that any changes to donation tax credit processes be carefully evaluated not only for compliance feasibility but also for their real-world impacts on:

- **Administrative and system overhead**, including increased costs for financial systems, IT infrastructure, database security, staff resourcing, and compliance reporting - diverting resources from core services.

- **Fundraising income and appeal effectiveness**, which are essential to sustaining charitable services and delivering social benefit. Reductions in income risk shifting unmet needs and financial burden back onto government.

- **Supporter relationships and trust** are built on simplicity and transparency. Overly complex processes risk eroding donor goodwill and weakening long-term engagement.

We recommend retaining the current annual consolidated donation receipting process as the default system. This model is efficient, cost-effective, and aligned with donor preferences, ensuring both administrative simplicity and supporter satisfaction.

However, to encourage flexibility and innovation, we suggest charities be offered the option to opt-in to real-time receipting on a voluntary basis. This allows organisations with the capacity, readiness and resources to adopt real-time systems without imposing unnecessary compliance costs across the sector. Maintaining this flexibility ensures the donation tax credit process remains practical, accessible, and sustainable - safeguarding both fundraising income and public benefit delivery.

In summary, we urge Inland Revenue to retain annual receipting as the standard approach while offering real-time systems on a voluntary basis to accommodate organisational diversity across the sector.

CONCERNS REGARDING CHARITY BUSINESS INCOME TAX EXEMPTION CHANGES

In response to the IRD's Consultation Paper 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?

1. **Defining "Unrelated Business Activities":** PFRA strongly agrees with other sector submissions that distinguishing between "related" and "unrelated" business income will be subjective, administratively complex, and costly. While we acknowledge the Issues Paper's recognition that certain fundraising activities are generally considered aligned with charitable purposes, we seek explicit assurance that professional fundraising undertaken via third-party supplier agencies - such as face-to-face fundraising and telefundraising - is also treated as related income. These activities are integral to enabling charitable purpose delivery. Narrow interpretations risk unintended compliance burdens for charities and their suppliers despite the clear alignment of these activities with charitable mission and purpose.

2. **Compliance Costs and Sector Sustainability**: Implementing income tax requirements on "unrelated" business activities will inevitably lead to increased accounting, audit, and reporting costs. Charities may require new tax expertise, additional audit processes, and financial system upgrades. These resources would otherwise be directed toward charitable outcomes and impact.

3. **Transparency Imbalance**: Charities are already held to higher transparency and financial reporting requirements than for-profit entities, including detailed service performance reporting. Imposing additional tax compliance obligations exacerbates this imbalance and could erode competitiveness.

4. **Request for Financial Impact Analysis**: We note the Issues Paper does not include a detailed cost-benefit analysis. We respectfully request the publication of financial modelling that outlines the expected revenue impact versus increased compliance and operational costs to the sector and government.

5. **Transition Period**: Should any policy changes proceed, we recommend a minimum 2–3 year transition **period** to allow charities sufficient time to adjust without jeopardising operational stability. Fundraising contracts - such as supplier agency agreements, are typically negotiated 12 to 24 months in advance, meaning immediate changes would disrupt existing commitments. Additionally, system upgrades (including IT procurement, financial systems integration, and compliance reporting tools), staff training, and budgeting cycles require significant lead-in time. A well-structured transition period is essential to enable charities and their partners to adapt processes, renegotiate agreements, and absorb compliance costs without risking service delivery or critical revenue streams.

RELATED BUSINESS INCOME CONCERNS:

In response to the IRD's Consultation Paper 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?

We caution that if definitions around **"unrelated business income"** are interpreted too narrowly, they risk inadvertently capturing legitimate and innovative fundraising methods - such as merchandising, face-to-face fundraising, telefundraising services, or collaborative campaigns. These activities directly support and fund charitable purposes and should not be subject to additional compliance reporting or financial uncertainty. Maintaining clear exemptions for all core fundraising activities is essential to protect the financial sustainability of the charitable sector.

Recommended criteria for defining "unrelated business income":
To ensure clarity and fairness, we recommend Inland Revenue adopt a principle-based definition of "unrelated business income," guided by the following criteria:

- **Purpose alignment**: Activities should be considered “related” if they are undertaken primarily to advance or enable the charitable purpose.
- **Control and transparency**: Activities governed by the charity and carried out in its name, including through third-party suppliers, should be considered related.
- **No private gain**: Where no individual or external party receives undue private benefit, the activity should be presumed to support the public interest.

These criteria would support consistency while recognising the diverse ways modern charities operate - including through partnerships, innovation, and fundraising models essential to financial sustainability.

FRINGE BENEFIT TAX EXEMPTION IMPLICATIONS

In response to the IRD’s Consultation Paper 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?

Even if overall compliance costs are reduced through changes to FBT administration, removing or reducing the exemption for charities would still have significant negative consequences. Many of our charity members and their supplier partners rely heavily on essential staff benefits - such as vehicles, mobile phone plans, and related tools - to maintain operational efficiency and deliver services. These resources are particularly critical for roles involving donor engagement, fieldwork, and logistical coordination.

Removing the exemption would increase operating costs across these areas, diverting funds from charitable purposes. More importantly, it risks undermining workforce stability. These staff benefits help charities attract and retain skilled fundraisers in a competitive labour market - especially when they cannot match private sector salary levels. Additional FBT costs could disincentivise the provision of key non-monetary benefits, making it harder for charities to maintain workforce capability and service reach.

DONOR-CONTROLLED CHARITIES

PFRA acknowledges integrity concerns around donor-controlled charities. However, we urge that interventions be targeted and proportionate. To avoid regulatory duplication, any abuse concerns should primarily be addressed through the Charities Act and regulatory framework rather than the tax system.

CONCLUSION

In conclusion, PFRA submits that:

- **Tax concessions to the charitable sector are not a cost to the taxpayer but an investment in delivering essential public benefits.** They enable charities to meet societal needs more efficiently and sustainably, reducing pressure on government services and infrastructure.

- **Any proposed reforms must be guided by transparent cost-benefit analysis and meaningful sector consultation** to ensure changes are evidence-based and proportionate.

- **Proposals to redefine "unrelated" business income, alter donation tax credits, or remove FBT exemptions carry a high risk of unintended consequences** - including increased compliance costs, operational strain, reduced financial sustainability, and ultimately diminished public benefit.

- **We urge Inland Revenue to prioritise simplicity, fairness, and proportionality** and to avoid adding administrative complexity that may erode donor confidence or create disproportionate burdens on charities.

- **We further recommend that any real-time donation tax credit system remain voluntary, offered as an opt-in option alongside the current annual receipting model.** This flexibility is essential to accommodate the diverse operational capacities of charities and to respect the varied preferences, expectations, and behaviours of their supporters.

- **Finally, we recommend Inland Revenue commit to publishing clear and accessible guidance following this consultation**, especially if changes proceed. Practical examples and definitions - particularly concerning "related" vs "unrelated" business income and donation tax credit eligibility - will be essential to support compliance, minimise confusion, and preserve public trust in the charitable sector.

SCHEDULE A: THE PUBLIC FUNDRAISING REGULATORY ASSOCIATION

ABOUT THE PUBLIC FUNDRAISING REGULATORY ASSOCIATION (PFRA)

The Public Fundraising Regulatory Association (PFRA) was established in 2003 and formally incorporated in 2007, namely to enhance public trust and confidence in the New Zealand charitable sector and to assist charities in raising funds for their charitable purposes by encouraging the long-term sustainability of fundraising in New Zealand, particularly *(but not limited to)* Face-to-Face Fundraising, through the development and continuous improvement of professional standards, best practices, and ethics in fundraising;

We do this by self-regulating and improving the coordination and monitoring of such fundraising in New Zealand and by educating fundraisers and others involved with raising funds for charities, as well as the government and the wider public, on matters relating to such fundraising in New Zealand.

IN OUR APPROACH TO REGULATION:

In our approach to regulation, we collaborate with members, local councils, business associations, and the government to protect the long-term sustainability of public fundraising.

- ⇒ **Set professional standards:** We establish the Code of Conduct for Face-to-Face Fundraising and Charity Street Trading, which members adhere to.
- ⇒ **Inform and educate:** We collaborate with industry experts to deliver fit-for-purpose resources that create sustainable fundraising outcomes, thereby gaining the public's trust and confidence in charity fundraising.
- ⇒ **Member accreditation:** We check members' adherence to the Code of Conduct and that industry best practice standards are demonstrated in both policy and practice.
- ⇒ **Monitor & promote compliance:** We monitor and promote high standards of fundraiser compliance to the Code of Conduct.
- ⇒ **Inquire & investigate:** We thoroughly investigate and manage complaints from public, site managers, members, and fundraisers through our complaints process.
- ⇒ **Accountability:** We hold members accountable for breaches to the Code of Conduct by issuing fines, penalties, and de-registration for serious misconduct.

THE IMPACT OF PFRA SELF-REGULATION

The primary aim of self-regulation through the PFRA is to ensure professionalism and establish agreed standards in charity fundraising. This is crucial for the sustainability of charity fundraising in New Zealand and for maintaining public trust and donor confidence.

PFRA's Role and Commitment:

- The PFRA is an independent body regulating Face-to-Face Fundraising for charities and suppliers, funded entirely by its members. This self-funding underscores the charity sector's dedication to maintaining high standards and regulations in public fundraising.

Membership:

- PFRA has 43 accredited and affiliated members, including over 30 of New Zealand's most prominent charities, as shown on our website.
- Membership in the PFRA is mandatory for all organisations conducting public street Face-to-Face Fundraising in major cities such as Auckland, Wellington, Hamilton, and Christchurch. Local authorities support this requirement, ensuring that only PFRA members are allowed to fundraise in these areas.

Industry Figures:

- In 2023, more than 65,000 New Zealanders pledged a regular donation to support a charity member and more than $49 million was received by charities via Face-to-Face Fundraising.
- In the past decade, more than 720,000 people have pledged their support, and more than $581 million has been received by their chosen cause through this type of fundraising.
- On average, during the year, 184 fundraisers advocate for our charity members each day, inspiring the public to support them with a regular monthly donation.
- To put a face to our fundraisers, 61 per cent are New Zealand citizens or permanent residents, 20 per cent identify as Māori or Pacific peoples, and 58 per cent identify as European.

Strict Codes of Conduct and Penalties:

- PFRA members must adhere to strict codes of conduct, including the "PFRA Face-to-Face Fundraising Code of Conduct" and the "PFRA Charity Street Trading Code of Conduct." Non-compliance results in penalties ranging from fines to temporary fundraising bans. There is also a formal process for escalating complaints.

Active Compliance and Auditing:

- The PFRA delivers a robust compliance model that includes mystery shopping, regular audits, accreditation of members, and reviews of disclosure and financial statements. These measures ensure ongoing adherence to PFRA standards and address any issues promptly.
- In 2023, the PFRA conducted 83 mystery shops and audits.
- We Accredited 43 organisations that demonstrate adherence to our Code of Conduct.

Effective Regulation and Monitoring and Training:

- The PFRA actively regulates and monitors Face-to-Face Fundraising activities across New Zealand, including 133 unique council street sites, 780 unique residential locations, and 886 unique private sites in 2023.
- In 2023, 472 fundraisers completed the PFRA Face-to-Face Fundraiser Code of Conduct online training.

Public Engagement and Transparency:

- The PFRA serves the public by acting as an independent regulatory body, providing various contact methods and a complaints process. This transparency helps minimise fraud, manage fundraising activity, and prevent public overexposure to fundraising efforts.
- In 2023, the PFRA received and investigated five public complaints.

Collaborative and International Alignment:

- The PFRA works closely with the Fundraising Institute of New Zealand (FINZ) and the Department of Internal Affairs – Charities Services.

- The PFRA also collaborates with and leads international standards for Face-to-Face Fundraising in Australia, the USA, and the UK, reinforcing its self-regulatory framework.

Summary:

- Since its establishment in 2003 *(formally incorporated in 2007)*, the PFRA has been the only organisation in New Zealand dedicated solely to regulating Face-to-Face Fundraising. Its independent and self-funded nature, along with clear standards, penalties, and endorsements from councils and industry bodies, demonstrates its effectiveness and commitment to maintaining professionalism and public trust in charity fundraising.

This summary highlights the key impacts of self-regulation by the PFRA, referencing evidence of its active compliance efforts, strict standards, and collaborative approach to maintaining high standards in charity fundraising.