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## Feedback from charitable sector

On 24 February 2025, Inland Revenue released an Officials' Issues Paper titled Taxation and the not-for-profit sector. The paper sought feedback on several potential areas including the taxation of charity-run businesses, the treatment of donor-controlled charities and long-standing exemptions that may no longer be fit for purpose. It marked the beginning of what could have been significant changes to how charities are taxed in New Zealand.



Then in late April 2025, the Finance Minister, Nicola Willis, confirmed that reform would not proceed due to the complexity uncovered as a result of the submissions received.

Inland Revenue does not ordinarily release submissions it receives when feedback is requested. However, on 7 July 2025 it published all 826 submissions on its website, allowing full public access to the feedback. At over 3,500 pages, the submissions represent a large volume of information and an important gauge of views on the issue. Inland Revenue also released a summary of the submissions, but at only four pages it basically comprises a list of points raised by submitters and doesn't explore the depth of the issue as brought to life within the submissions themselves. It also provides little sense of how different groups like faith-based organisations, Māori trusts or advocacy groups might have responded differently to the items raised in the Issues Paper.

Despite varying opinions on the detail, there was a strong, unified message: any changes to the current tax settings should be approached with caution and must not undermine the critical role not-for-profit

organisations (NFPs) play in New Zealand communities. Many questioned the rationale behind the review, saying the government hadn't clearly defined what problem it was trying to solve. Rather than a redesign of the whole system, several submitters argued the focus should be on tightening oversight of those misusing the existing exemptions.

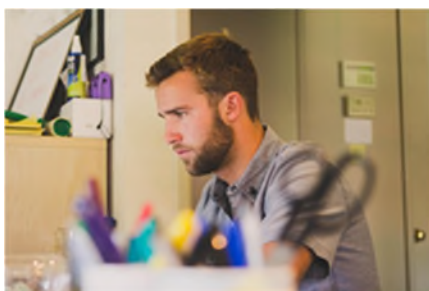
A common message was that NFPs provide a net gain to wider society, and many noted that these groups often deliver services that the government would otherwise need to fund. They argued, tax exemptions are not a handout, but a tool that allows NFPs to maximise public benefit. Others raised concerns that any increased compliance or reporting obligations could place real strain on smaller organisations.

Some submissions did support Inland Revenue's proposals. These views, including some economists and business stakeholders, argued that large commercially active charities may enjoy unfair advantages under the current system and that applying consistent tax treatment could level the playing field in certain markets.

Given the complexity of the issue, the range of views and the timeframe Inland Revenue was working to, it is arguably not a surprise the process appears to have failed or at least stalled significantly. But what has become clear is that New Zealanders deeply value the role of charities and not-for-profits, and they want a tax system that strengthens, not stifles the work these organisations do.

## Inland Revenue scrutiny

Imagine you are pulled over by a police officer and asked "were you speeding?", however, your speedo is broken, so you're actually not sure. That is how it can feel when Inland Revenue (IRD) notifies you of an audit or investigation. On the one hand you know it is 'part and parcel' of doing business, on the other hand it is the last thing you need.



From the outset, it is important to acknowledge that the person from IRD is a human being just doing their job. There shouldn't be the need to stress or overthink the matter. But the process needs to be handled proactively and deliberately.

If a request for information is received, do not provide the information without first engaging with your accountant. Typically, an initial information request is from a template that is not tailored to a particular business, industry or taxpayer. Hence, the requests tend to ask for a large volume of information, some of which may be irrelevant or immaterial.

For your accountant, engaging with Inland Revenue is an ordinary part of the job and it happens more often than you would expect. It is quite normal to contact IRD in response to the request to agree on how to approach the process, timeframes, information to be provided and meeting times etc. All of which might not be in line with the first letter

received. The purpose is not to be 'restrictive' or 'difficult', but instead, open and transparent with a view to ensuring the process is as fast and efficient as possible.

In practice, IRD are also very understanding of working around the needs of the business itself. For example, if the business is subject to seasonal activity or 'month-end' processes, IRD is typically willing to flex the process to try to minimise

any disruption.

If there is an initial meeting with IRD, consider giving a 'presentation' on the business. This could cover the legal structure, physical business operations, locations, number of staff, and the accounting function. A clear understanding helps minimise the number of follow-up questions during the review process, enabling a more efficient process.

It is important to be clear and concise. If the answer to a question is not known, state that there is the need to look into the matter further. Allow your accountant to answer items (verbally or in writing) that are more 'tax technical' in nature.

All going well, nothing material is identified for adjustment and the process concludes with a 'tick of approval' and comfort that you were not 'speeding' after all.

## Investment boost

On 22 May 2025, as part of the 2025 Budget, the Government introduced a new tax incentive called the 'Investment Boost', aimed at encouraging capital investment. It allows an immediate upfront deduction

for 20% of the cost of an eligible asset. The new legislation applies from 22 May 2025.

The Investment Boost applies to a broad range of

assets, such as tools, machinery, vehicles, improvements to farmland, aquaculture business, forestry land and the planting of listed horticultural plants.

In relation to depreciable assets, it needs to be new or used in New Zealand for the first time. Eligibility is based on when the asset is first used or available for use, hence if construction of an asset began prior to 22 May 2025, but the asset is not available for use until 22 May 2025 (or after), the investment boost deduction can be claimed.

The 20% deduction is on top of standard depreciation, which is then calculated on the reduced base (i.e. 80% of the asset's cost).

A surprising aspect of the regime is that it applies to new commercial buildings. This is significant given commercial buildings are ordinarily subject to a 0% depreciation rate.

Improvements to depreciable property may qualify for the Investment Boost in their own right, even if the asset itself is not eligible for the Investment Boost (i.e. the asset was used prior to 22 May 2025).

Where an asset is only used partially for business use, the deduction will need to be apportioned. When an asset is sold, if the sales price is above the assets



adjusted tax value, this will trigger depreciation recovery income.

From a practical perspective, businesses will need to determine if their fixed asset systems can:

- account for the immediate upfront deduction,
- apply the standard depreciation rate to the reduced cost base, and
- retain the full asset's cost to ensure depreciation recovery income is calculated correctly.

If business systems lack flexibility, then manual adjustments may be required, which increases the risk of errors occurring.

Assets which are not technically “depreciable property” but are currently allowed depreciation-like deductions, such as improvements to farmland, are eligible. However, eligibility is not based on use or availability for use. Instead, the 20% deduction is based on the amount incurred on or after 22 May 2025.

Although, the benefit of the Investment Boost is arguably timing in nature, businesses have reacted favourable and it may ultimately drive the increase in capital investment the Government is looking for.

## Financial Conduct Report 1st Edition

The Financial Markets Authority (FMA) has issued its first Financial Conduct Report (FCR). The purpose of the report is to be transparent about the conduct that it sees and the regulatory priorities it will focus on over the coming year. Regardless of size, businesses don't operate in a vacuum and are increasingly being impacted by micro and macro forces. Highlights from the FCR include the following plans.

Reported investment-scam losses reached NZ \$194 million last year. The FMA aims to widen partnerships with the banking and technology sectors to enable faster information sharing so suspect domains and accounts can be frozen sooner. They will continue to publish scam warnings, case studies and information on the evolution of scams on its website.

Recent outages in banking and cloud infrastructure have shown how quickly cash-flow can seize up. The FMA expects all regulated providers to invest in resilient technology and to monitor critical service partners so disruptions don't spill over to merchants



and payrolls. The FMA will continue to focus with the RBNZ on ensuring technology systems critical for the stability and performance of New Zealand's financial system are resilient.

Only 29 percent of New Zealanders know how to complain to a financial provider; boosting that figure is a priority. The FMA will be looking at how clearly firms signpost the right to and how to complain and how swiftly they remediate systemic problems. Effective complaints processes lead to greater trust and process improvement.

The FMA will publish data on interest rate changes to improve transparency, which could lead to clearer explanations of how overdraft or term-deposit pricing moves with the Official Cash Rate. Under the new Conduct of Financial Institutions regime, banks and non-bank deposit takers must prove that loans and deposits still meet customer needs. Engagements with firms that self-report issues will occur and engagement with firms that do not appear to be self-reporting will be prioritised.

Insurers will be told to revisit legacy policies and to explain cover, exclusions and price changes in plain language across the policy life-cycle. That should reduce “surprises” at renewal or claim time—especially on business-interruption and key-person cover.

A thematic review will check whether financial advisers are upfront about fees, commissions and conflicts to ensure transparency on pricing. Gaps or delays in disclosure will attract enforcement attention.

Wholesale offerors will face action if advertising is

misleading, while ethical funds must substantiate “green” or “impact” labels. Better disclosure helps owner-operators compare opportunities without the need for specialist analysts.

After several high-profile frauds, the FMA is pressing for law reform to safeguard client money and property and will scrutinise outsourced custody arrangements.

The FCR makes for an interesting read, if only a ‘skim’ to get a sense of what areas the FMA is focussing on as part of setting higher expectations for banks, insurers, advisers and fund managers.

## Snippets

### The Big and the Beautiful



Over the past few months President Donald Trump’s “One Big Beautiful Bill Act” received quite a bit of attention before it was passed on 4 July 2025 - but why the fuss.

The key business facing

elements included:

- 100% first-year deduction for U.S. spending on factories, data-centre hardware and other “qualified production property,” plus a 35% credit for domestic semiconductor fabrication.
- Permanent R&D expensing and a higher cap that lets smaller firms write off more equipment immediately.
- Temporary deductions for tip and overtime income, an enlarged Child Tax Credit, and optional tax-advantaged “Trump Accounts” families may open at a child’s birth.
- Before the bill, companies could deduct interest only up to 30% of EBIT; after enactment they may deduct up to 30% of EBITDA, restoring a larger allowance.
- Eliminates the end-2025 sunset for the lower individual tax brackets, while leaving the already-permanent 21% corporate rate unchanged.

The legislation also adds roughly US\$150 billion for defence modernisation and US\$75 billion for border security and immigration enforcement.

The favourable capital related deductions may steer multinational manufacturing, AI infrastructure and chip-fabrication projects toward America, potentially altering supply-chain geography and competition over the next decade.

### A good PIE

A Portfolio Investment Entity (PIE) is a type of investment vehicle that is able to pay tax on behalf of its investors, and depending on the ‘prescribed investor rate’ chosen, the tax liability on the income is able to be capped at 28%. This can



be a material benefit to investing in a PIE - depending on the circumstances of a specific investor.

When the top personal marginal tax rate increased to 39% and the income tax rate for trusts subsequently increased to 39%, there was a natural expectation that the income tax rate for PIEs would also increase. It became a common topic of conversation.

To date, there has been no indication that the top tax rate applying to investors in PIEs will change and hence investments into PIEs continue to receive a comparative tax benefit of potentially 11%, being the difference between the capped rate of 28% and the top rates of 39%. That has also given rise to an increase in the number of banks and fund managers that provide PIE investment products.

It is worth bearing this in mind the next time consideration is being given to making a passive investment and comparing the post-tax yields between the various options.

*If you have any questions about the newsletter items, please contact us, we are here to help.*