



Netsafe submission on IRD officials paper on taxation and the not-for-profit sector

About Netsafe

1. Netsafe is New Zealand's independent non-profit online safety charity. Taking a technology-positive approach to the challenges digital technology presents, we work to help people in New Zealand take advantage of the opportunities available through technology by providing practical tools, support, education and advice for managing online challenges.
2. We are an independent charity adjacent to Government and law enforcement, supported by the public and private sector and with a focus on online safety. Netsafe provides free support, advice and education seven days a week through a helpline, our website and face to face service delivery across New Zealand.
3. We do not think a compelling case has been put forward to change the tax treatment of charity business income, whether related or unrelated to the charity's charitable purpose.
4. We think the paper contains two incorrect premises (1) that the tax concession reduces government revenue and therefore shifts the burden to other taxpayers and (2) that charities and for-profit entities operate in competition with each other under the exact same conditions but for their tax treatment.
5. As to (1) we think a proper impact analysis needs to be undertaken. The knock on effects of additional compliance burdens, and lost revenue may for some charities mean they will reduce or stop certain services or may cease to operate at all. Many if not most charities operate for the public benefit. The knock on effects to the tax payer of a loss of services or a requirement for government to pick up the tab should those services be reduced or discontinued does not appear to have been factored in to the proposals. In other words, any short-term fiscal gains for tax revenue are likely to be offset by long-term public costs.
6. As to (2) while some large charities may operate in competition with other businesses this is not the case for most other charities. In fact the opposite may be true in that for-profit entities operating in the same market often do so with many fewer restrictions or conditions a charity may face. The proposals fail to acknowledge the unique operational realities, different motives and public benefits provided by charities. For example, grant or contractual obligations on a charity may mean they have an inability to commercialise their products, yet direct for-profit competitors may have unfettered access to the same market. It is therefore overly simplistic to assume the conditions of competition are the same but for tax treatment. Again a fuller impact assessment ought to be conducted to delve into this.

7. Some charities may use surpluses to shore up their future existence. Taxing accumulated surpluses—even those ultimately destined for charitable purposes—could impair an ability to build critical reserves. These reserves are essential for managing fluctuations in funding and addressing unexpected community needs or unforeseen circumstances. Faced with higher compliance costs, this might require a shift towards more passive investments, reducing engagement in innovative, service-oriented activities.
8. In the same vein, the proposals may discourage charities from exploring innovative business models and social enterprises that can enhance community support. The uncertainty around tax liabilities and increased administrative pressures could drive charities away from risk-taking, potentially stifling new initiatives that would benefit society. In addition, donor confidence could be undermined if it appears that funds are eroded by excessive administrative and tax burdens.
9. In light of the above, before these proposals proceed further we think there should be a thorough, sector-specific impact analysis which assesses the full operational and financial impacts of the proposals on charities, ensuring that any changes are supported by robust evidence and tailored to the unique needs of the not-for-profit sector.
10. The proposals ought also to recognise the distinct roles and motives of charities by implementing measures that are sensitive to the size, capacity, and public service nature of these organisations. In particular any tax changes must not force charities to divert critical resources away from their core missions.

Netsafe
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