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Infrastructure New Zealand Submission on Taxation and the Not-For-Profit (NFP) Sector: Targeted Policy Consultation for NFPs

Introduction

1. Infrastructure New Zealand (INZ) welcomes the opportunity to make a submission on the proposed policy options relating to the taxation of membership subscriptions for not-for-profit organisations.
2. INZ is Aotearoa New Zealand's peak membership organisation for the infrastructure sector. We promote best practice in national infrastructure development through research, advocacy, and public and private sector collaboration. Our membership is comprised of around 150 organisations, including government agencies, consultants, contractors, financiers, utilities, and academics. These organisations employ approximately 150,000 people in infrastructure-related roles and are united in their commitment to creating a better New Zealand through outstanding infrastructure.
3. INZ has engaged with the Inland Revenue Department (IRD) during earlier stages of consultation on this issue. This submission builds on and reconfirms our previous position: **membership subscriptions for not-for-profit organisations should remain non-taxable in full**. This position is consistent with long-standing interpretation of the mutuality principle, international norms (including Australia, the United Kingdom, and the United States), and recognition of the vital role that research, advocacy, and policy organisations play in the public interest and policy-making ecosystem.

The policy options proposed for membership subscription taxation overcomplicate the system

4. INZ supports the Minister of Revenue's decision to consider legislative solutions rather than relying on a change in administrative interpretation. We also acknowledge the stated intention that 'the large majority of membership subscriptions would remain non-taxable'.
5. However, consistent with our earlier submission, INZ remains concerned that the proposed policy tools collectively overcomplicate what has historically been a clear and workable framework. The options focus on mitigating the impact of a changed interpretation, rather than addressing the underlying policy question of whether membership subscriptions should be taxed at all.
6. While IRD has signalled a revised interpretation of the mutuality principle, it has yet to clearly articulate the policy problem that this change is intended to address.

7. For membership-based organisations, the proposed policy tools give effect to changed interpretation in a way that introduces subjectivity, uncertainty, and compliance risk without commensurate benefit.

Proposed policy	**Effect**	**Determining factors**	**Key risks**
Definition of membership subscription	Distinguishes taxable and non-taxable payments	Assessment of 'core' benefits versus goods or services	Subjective classification, inconsistent application, ongoing audit and dispute risk
Safe harbour	Expands the treatment of non-taxable payments	Value and nature of benefits within threshold	Boundary uncertainty, restructuring incentives, continued ambiguity
De minimis	Small NFPs would not pay tax on any subscription income	Threshold definition – e.g. what constitutes as a 'small NFP'	Cliff effects; does not address impacts on medium and larger associations

8. The implication of these options is that, while a majority of membership subscription income may remain non-taxable, an unknown and subjective portion could still be taxed. The resulting uncertainty about how subscriptions are to be characterised creates financial and operational risk.

9. In practice, this will likely drive changes in behaviour as affected NFPs seek to manage compliance risk and financial exposure. This may include redesigning membership structures and offerings to align with tax classifications; modifying accounting systems, invoicing, and internal controls; making ongoing judgement calls about the tax character of inherently collective activities; and incurring increased costs for external tax and accounting advice. These impacts would ultimately be borne by members and divert resources away from core activities such as research, advocacy, and constructive engagement with government.

A small subset of the NFP sector will bear a disproportionately large share of the impact

10. The proposed policy settings raise a fundamental question of proportionality: which organisations are these changes intended to affect, and what problem is being solved?

11. Aotearoa New Zealand's not-for-profit sector is large and diverse, encompassing tens of thousands of entities across charities, trusts, and incorporated societies. However, only a subset of this sector is predominantly membership-based and primarily funded through membership subscriptions. As IRD has stated in its previous consultation papers, about 9,000 may be impacted. Outside of this, there still exists a significant, and much larger, proportion of registered charities and NFPs that depend mainly on donations, grants, service contracts, or diversified income streams.

12. In this context, the proposed changes are likely to concentrate their impact on a relatively small group of membership-based organisations that already have limited alternative funding options and little

capacity to absorb additional compliance costs or revenue uncertainty. By contrast, larger NFPs with diversified revenue streams are likely to be far less affected, despite often operating at a greater scale.

13. Membership-based organisations are already among the most economically sensitive within the sector. During periods of economic downturn, membership fees are often the first costs reduced by members. Introducing policies that increase costs in this context has the practical effect of compressing already-limited operating budgets and increasing financial volatility for this subset of NFPs. By way of example, membership subscriptions currently comprise over 70% of INZ's operating budget. Any changes to the taxation treatment of this income materially affects our ability to continue advocating for better infrastructure outcomes for all New Zealanders.

The law to recognise long-standing practice and provide certainty, rather than introducing complex policy settings

14. Consistent with the position taken by others in the sector, INZ urges the Minister of Revenue to retain the current non-taxable treatment of membership subscriptions and confirm that position explicitly in statute. This would restore certainty, align with current and international practice, and avoid policy complexity and compliance cost in the absence of demonstrated fiscal or policy benefit.

15. Membership subscriptions are the core funding mechanism for many NFPs and have long been treated as non-taxable under the mutuality principle. That treatment reflects both the collective nature of membership activity and the fact that subscription income is not profit in a commercial sense, but the means by which organisations deliver research, advocacy, sector leadership, and public engagement for the benefit of their members and, ultimately, the wider public.

16. The policy options currently proposed do not resolve the underlying question of whether a change in the interpretation of the mutuality principle is intended or justified. Instead, they proceed to manage the effects of changed interpretation through definitions, safe harbours, and thresholds. This approach fragments the treatment of membership subscriptions and introduces ongoing uncertainty, risk and compliance costs for a narrow segment of the NFP sector.

17. If policy intent has shifted and there is a need to tax membership subscriptions, the discussion needs to start with that problem and why. At present, it remains unclear how taxing membership subscriptions (whether partially or in full) deliver meaningful revenue benefit or resolve a clearly identified issue in the tax system – it is difficult not to feel like we are being consulted on solutions in search of a problem.

INZ continues to welcome any opportunity to further comment or discuss this matter. Thank you for considering our submission, and we look forward to any updates in the near future.

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