Energy Resources Aotearoa
POWERING A BETTER NEW ZEALAND TOGETHER

energyresources.org.nz
energyskills.org.nz
energymix.co.nz
PO Box 25259, Wellington 6140

25 June 2025

C/- Deputy Commissioner, Policy
Inland Revenue Department
PO Box 2198
Wellington 6140

via e-mail: Public.Consultation@ird.govt.nz

Submission on "Mutual transactions of associations (including clubs and societies)"

Introduction

1. Thank you for the opportunity to provide feedback on the proposed changes to tax the not-for-profit sector.

2. Energy Resources Aotearoa is New Zealand's peak energy sector advocacy organisation. We are an incorporated society, not-for-profit entity. We represent participants from right across the energy system, providing a strategic sector perspective on energy issues and their adjacent portfolios such as tax issues. Our purpose is to enable constructive collaboration to bring coherence across the energy sector through and beyond New Zealand's journey to net zero carbon emissions by 2050.

3. This submission is our response to the Inland Revenue Department's (the 'IRD') draft operational statement ED0265 entitled '*Mutual transactions of associations (including clubs and societies)*. We also refer the IRD to our earlier submission on the matter - https://www.energyresources.org.nz/dmsdocument/337

4. While we cover some points below, we strongly support the BusinessNZ's position on this issue and have co-signed the BusinessNZ letter to Ministers.

Key messages

5. We remain implacably opposed to the proposed taxation and mutuality changes, believing these changes are likely to have long-lasting and damaging consequences for the not-for-profit ('NFP') sector. As a membership-based organisation, we are steadfast in the view that the Government should not proceed with the recommended changes as it will have potentially ruinous financial consequences for the NFP sector and wider economy.

6. We hold this view as:

   a. it is unclear what problem these changes would solve in the sector (or, indeed their likelihood of success in terms of material additional tax take should they be implemented);

   b. the suggested proposal is a significant operational overreach and out of line with other comparable jurisdictions; and

   c. if implemented, they would severely undermine the contributions these entities and their members make to our society and ultimately, our democracy.

7. There needs to be a clear evidence-based approach adopted when reviewing and setting the taxation of charities and NFP organisations to ensure any potential new policies are fit-for-purpose. Our view is that the proposal under consideration deviates from this objective.

Submission

8. We are extremely concerned about the position reached in the draft statement the IRD has provided. We, and other mutual membership organisations, strongly object the fundamental changes these proposed tax changes would have and do not believe the conclusion reached by the Commissioner is sound considering the detrimental financial effect on trade associations, clubs and local communities.

9. As stated in our earlier submission, incorporated societies are often financially fragile, often 'hand-to-mouth' organisations running almost as a matter of course on thin margins and dependent on annual membership revenue to survive. Profits, especially large ones, are most unusual in this ecosystem and when they occur, tend to do so from one-offs such as events and then are used to (re)build reserves for lean times. Taxation on profits from these entities will diminish their ability to effectively smooth economic peaks and troughs (as this has direct implications for membership levels and revenue). These profits are vital for building reserves and the ability for such organisations to deliver on their stated, industry or public-good purposes over economic cycles. Such profits are the key to organisational longevity and financial wellbeing.

The risks arising from the proposals

10. Taxing these mutual transactions would significantly reduce the working capital available for core activities in membership-based organisations and NFP organisations. Therefore, inhibiting their ability to truly represent members and advance the public discourse.

11. The proposed changes to the mutuality principles would significantly hinder membership-based organisation's ability to remain finically stable. This in turn,

(such as in our case) would drastically minimise our ability to collaborate with the private sector, Government and local communities. This would undermine our core purpose to represent and support the energy industry and deliver improved outcomes for all New Zealanders.

12. As we outlined in our previous submission on this issue, organisations are significant employers, especially in regions where the public sector may not be able to provide sufficient services. The changes would have huge negative budgetary ramification's that would potentially lead to job cuts, reduced hiring, and the destabilisation of established organisations that are critical to the economy and the many sectors within it.

13. Taxing membership and other funds would be counterproductive. The disparate treatment of NFPs such as sports clubs is unconscionable and will severely impact local communities. There would, on the face of it, appear to be no logical or principled basis on which to differentiate between sub-sectors of the NFP sector.

Concluding remarks

14. We urge the Government and the IRD to reconsider these proposals and recognise that the mutuality principle is a cornerstone of fair and reasonable tax treatment for membership associations. Mutuality recognises the unique structure and purpose of these groups and enables them to thrive in service of their members and the wider community.

15. We ask the Government to acknowledge the critical role thriving NFP and membership-based organisations such as ours play now and into the future as we transition to sustainable, low emissions economy.