SUBMISSION

Submission from Straterra
to Inland Revenue
Taxation and the not-for-profit sector
March 2025

Introduction

1. Straterra is an industry association representing the New Zealand minerals and mining sector. We are a not-for-profit organisation and membership fees pay for the running of the organisation. Our membership is comprised of mining companies, explorers, researchers, service providers, and support companies.
2. We are grateful for the opportunity to make this brief submission on the Inland Revenue officials' issues paper - Taxation and the not-for-profit sector.
3. We focus our comments on chapter 4 of the issues paper which has significant impications for not-for-profit organisations including business associations.

Submission

4. The chapter throws up some uncertainty for business associations and other mutual associations with regard to the taxation of membership subscription income.
5. It points out a discrepancy between the IRD view that subscriptions income should be tax exempt, and the mutual association rules in the Income Tax Act. The chapter says the IRD has reviewed its position and intends to issue new guidance including that some subscriptions would be considered taxable income.
6. It has clarified in a subsequent Questions and Answers sheet that this reconsideration is separate from the current policy consultation in the issues paper and stated it is not seeking submissions on this issue.
7. However, we would be concerned if the outcome of this reconsideration is that membership subscriptions of business associations become taxable income so we are making these comments at this stage of the process.

Business associations

8. Business associations such as Straterra are focused on activities that benefit their members and the sectors they represent (policy advocacy, industry research, professional training, health and safety, and engagement).
9. They are typically not-for-profit organisations (NPFs) which rely on member subscriptions as their dominant and often only income source to provide just enough revenue to cover costs and keep operations running.

10. Most expect to break even or make a small annual surplus but the margins between making a surplus or loss can be minimal. Any surplus generated is usually reinvested into the association's mission rather than allocated to owners or shareholders.

11. When a loss is made, the organisation must dip into reserves to make up the financial shortfall. The ability for organistions to build up reserves so that there is a buffer to continue operations would obviously be curtailed by changes to the tax treatment of NFPs.

12. Taxing the income of business associations would undermine their purpose, reduce their ability to serve, and ultimately harm the sectors that they support.

The principle of mutuality

13. Chapter 4 of the issues paper sets out the principle of mutuality, that an association of people does not derive taxable income from transactions within its circle of membership.

14. The position that most membership organisations have been operating under (i.e. that subscriptions are not taxable and expenditure on membership activities is not deductible) has long been an accepted foundation of tax policy and we believe it and the principle of mutuality should continue.

15. If there is a view that the mutual association rules and the Income Tax Act are inconsistent with this, the legislation should be amended to ensure the current tax treatment continues to apply.

16. The proposal to increase the $1,000 deduction to remove from the tax system small-scale not-for-profits would benefit smaller NFPs but it would not take into account the very nature of what NFPs are set up for and the significant value they provide many New Zealanders.

Other societies

17. The issues paper and subsequent Questions and Answers reassures NFP sports clubs and societies promoting amateur sports that their income tax exemption will continue, but does not give the same assurance to societies such as business associations.

18. There is no reason for sports clubs and societies to be treated differently from business associations. Sports clubs and business associations share key similarities as membership-based organisations with a common mission, often funded through subscriptions. Both are governed by a board or committee, host events to foster engagement, and advocate for their members. They also depend on subscriptions, fees, sponsorships, and fundraising for financial sustainability.

19. What all these associations typically have in common is that they serve their members without a commercial profit motive.

20. From a tax policy perspective, sports clubs and business associations should have equal tax treatment as membership-based, not-for-profit organisations that support their communities.

Other countries

21. Many other countries recognise the importance of tax-exempt status for not-for-profit business associations. In the United States, the United Kingdom, and Australia, these organisations are typically exempt from income tax as long as they operate within their defined not-for-profit purposes. The policies in these jurisdictions acknowledge the broader public and economic benefits that business associations provide and reinforce the principle that they should not be taxed like commercial enterprises.