

Submission on the targeted consultation paper – Taxation and the not-for-profit sector

December 2025

Introduction

The Aggregate and Quarry Association (AQA) is the industry body representing construction material companies which produce an estimated 48 million tonnes of aggregate and quarried materials consumed in New Zealand each year.

Funded by its members, the AQA has a mandate to increase understanding of the need for aggregates to New Zealanders, improve our industry and users' technical knowledge of aggregates, and assist in developing a highly skilled workforce within a safe and sustainable work environment.

Key points of our submission

- We oppose the proposal to widen the scope for taxing industry associations.
- Making a distinction between “core membership benefits” and “identifiable direct valuable benefits” for taxation purposes imposes a heavy compliance burden on a proportion of entities that are explicitly not established to generate profits.
- Advocacy activities are core membership services of industry associations and are quite distinct from the examples given of so-called identifiable direct valuable benefits.

We make the following submission in relation to the targeted consultation paper – Taxation and the not-for-profit sector.

General comments

AQA is a small industry association with 2.5 fulltime equivalent staff. Our predominant funding mechanism is member subscriptions, which typically provide just enough revenue to keep our operations running from year to year.

This means the margins between making a profit or loss can be minimal. AQA strives to make an annual surplus, but the reality for our association is that the subscriptions and other member funds received are typically enough for only a small surplus if everything goes according to plan, with little room for unexpected costs.

There are also many instances where a loss is made, either for a single year or over multiple years. This means we must dip into any reserves that have built up to make up the financial shortfall. The ability for us to build up reserves during more favourable

economic times and/or membership increases so that there is a buffer to continue operations would obviously be curtailed by changes to the tax treatment of not-for-profits (NFPs).

Currently membership subscriptions are not taxable whereas payments for direct services that are separately charged, for example payments to attend an event, are. For such events, income from members or non-members are not treated differently.

Chapter 3 – Membership subscriptions and related matters for taxable not-for-profit organisations

The proposal is to introduce a definition of “membership subscription” for industry groups that distinguishes non-taxable core membership benefits, from taxable payments that provide identifiable goods or services.

Given such services are not normally itemised in a membership subscription, the document suggests they could be apportioned. Alternatively, it floats a “simpler approach” whereby all of the membership subscription would be taxed. A “principal purpose” or “wholly or mainly” test to be used to determine the degree of taxability, are also floated.

The apportionment of subscription income as proposed would be complex and subjective. Different members will use different services and have different reasons for joining. Significant additional compliance and accounting costs would be created attempting to apportion membership subscriptions.

Membership benefits

The core membership benefits for a membership subscription as set out in para 3.13 are very narrow and do not reflect the core business activities of the AQA and other industry associations.

The primary activity of an industry association is to advocate on behalf of an industry. This is done by having input into Government policy making, to promote sound policy and disseminating information about the industry to the wider public.

The benefits of advocacy are not always identifiable. No tangible product is provided to members directly by the organisation. The benefits are indirect coming through things such as influencing Government policy. The beneficiaries are not restricted to individual company members; all member companies benefit jointly.

Other AQA activities funded out of membership subscriptions include newsletters providing updates of our activities, sharing of best practice both nationally and internationally, and giving advice to members on technical and planning issues.

These activities vary in time and cost, and they would be very hard to apportion for tax purposes.

Answers to Questions:

Q14. Does the proposed definition of a membership subscription for not-for-profits describe the type of payments we want to relieve from tax? Are there likely to be any unintended consequences?

Yes. The consultation paper overlooks the fact that virtually all of the activities of most industry associations paid for by membership subscriptions are for the general benefit of the industry as a whole not individual businesses, not even individual members.

The proposed tax treatment is a blunt instrument to solve a problem that doesn't really exist within industry associations with several unintended consequences including significant new compliance and accounting costs, and incentives for artificial restructuring of membership models.

The proposal risks creating inefficiencies, weakening member value, and diminishing the ability of business associations to effectively represent and support their communities. By fragmenting traditionally integrated membership benefits, the approach threatens the sustainability of business associations and their capacity to deliver the advocacy, guidance, and engagement that their members rely on.

Q16. What types of benefit do you think should fall outside the concept of a membership subscription? Would this include, for instance, advocacy services on behalf of an industry or a group of workers?

Benefits that fall outside core membership should only include isolated services received specifically by that member.

Advocacy services are a clear example of a core membership benefit.

Q17. The proposed approach requires potential apportionment of some membership subscriptions. Would you prefer a simpler test that required all of the membership subscription to be treated as taxable instead, if it included any identifiable direct valuable benefits? Are there any other approaches we could use?

It would be completely inappropriate to tax all of a membership subscription when the document acknowledges that not all should be taxed.

Components of subscriptions that meet the proposed definition of taxable are only a small proportion of total membership subscriptions for most industry associations.

Q18. When a payment contains both taxable and non-taxable elements, would a test like a principal purpose or wholly or mainly test to determine the degree of taxability be appropriate?

If the proposal is adopted, we would support a principal purpose test as industry associations have a clear purpose and subscriptions paid to help the association meet that purpose should not be taxed.

Q19. If the tax-free threshold is increased to \$10,000 it would apply to each entity (not to individual branches) and the proposal is for a cliff face threshold, that is, it would not apply to any entity with a net profit greater than \$10,000. Do you agree this proposal would reduce compliance costs for small not-for-profits?

If the proposal is adopted, we would support increasing the \$1,000 threshold to \$10,000 so that the first \$10,000 is tax free. While we support raising the threshold, we do not support the cliff face approach and believe all NFPs should be able to claim the first \$10,000 of any profit as tax free.

Q20. What design changes do you recommend to improve the proposal?

We recommend the proposal does not proceed.

Q21. Are there likely to be any unintended consequences of a cliff face threshold?

Yes. It would introduce significant new compliance and accounting costs, and incentives for artificial restructuring of membership models.

Q23. Do you agree with the approach proposed in this chapter to introduce a short form return? If not, what do you suggest? What should be the consequences of a not-for-profit not filing a return (either a short form or full return)?

If the proposal proceeds, we support the simplified filing for organisations under the \$10,000.

A short-form annual declaration replacing full income-tax returns would reduce compliance for smaller NFPs.

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