



**Inland Revenue**  
Te Tari Taake

**IR 256**  
April 2014

# **Tax information for charities registered under the Charities Act 2005**

## Tax information for charities

The Charities Services has told us that your organisation is registered as a charity under the Charities Act 2005. This means you are eligible for exemptions from income tax on all or some of your income, as well as being entitled to other tax benefits. However, you will need to contact us if you have to file a tax return because you receive income that isn't exempt, or you have other tax obligations—see page 6.

This guide summarises the exemptions and benefits available to you and tells you how to comply with the tax exemption requirements. You don't need to get a letter of approval from us to claim these income tax exemptions.

Our Operational Statement *OS 06/02 Interaction of tax and charities rules, covering tax exemption and donee status* has more information about the requirements for income tax exemption and donee status. We suggest that charities registered under the Charities Act 2005, particularly those with business income, get a copy of this from our website at [www.ird.govt.nz](http://www.ird.govt.nz) or by calling us on 0800 377 774.

## Tax benefits

### Non-business income tax exemption

This is an exemption from income tax on non-business income. It includes interest and dividends and rental income not earned from carrying on a business.

As a charity registered under the Charities Act, you qualify for this exemption because the requirements for registration as a charity and for the non-business income tax exemption are similar.

There is one exception. If you're a council-controlled organisation or a local authority that receives its income from a council-controlled organisation, you're not entitled to the non-business exemption. Please call us on 0800 443 773 for more information.

### Business income tax exemption

Income from carrying out a business which is used for charitable purposes in New Zealand is tax-exempt.

Charities registered under the Charities Act should regularly check the following requirements and limitations to this exemption.

- It doesn't apply to a council-controlled organisation or local authority that receives its income from a council-controlled organisation. Please call us on 0800 443 773 for more information.
- You must assess the extent of your charitable business in New Zealand. If you use business income for charitable purposes overseas, you'll have to work out which funds are applied in New Zealand and which are applied overseas. Only the New Zealand portion is exempt from income tax.

- Business income won't be exempt if anyone connected with the charitable organisation:
  - receives or is able to receive any benefit or income from the organisation (this doesn't include reimbursement of expenses, or payment for services provided, as long as the payments are reasonable and at market rates)
  - can influence any benefit or advantage they might receive from the business (for example, a trustee can't be involved in setting the amount of their remuneration)
  - is involved in a commercial transaction that isn't conducted at commercial rates (for example, a trustee loans money to the trust with interest set at greater than market rates).

## Gift duty exemption

Gift duty no longer applies for gifts made on or after 1 October 2011. If your organisation needs information on the tax implications for gifts made before this date go to our website at [www.ird.govt.nz](http://www.ird.govt.nz) (search keywords: duties and levies).

## Donee status

Donee status means that individuals who donate to your charity can claim a tax credit and companies and Māori authorities can claim a deduction.

Inland Revenue must approve an organisation's donee status. If you stated on your application to register as a charity that you receive donations, we'll treat this as an application for donee status and we'll contact you. If you already have donee status we'll write to you to confirm that.

## Resident withholding tax (RWT) – certificate of exemption

Banks and other financial institutions that pay interest are required to deduct RWT from the interest. Charities are eligible for an exemption from RWT.

If you're eligible for income tax exemptions, you're entitled to an RWT certificate of exemption. If you don't already have one, complete an *Application for exemption from resident withholding tax (RWT) on interest and dividends (IR 451)* form. You can get this from our website at [www.ird.govt.nz](http://www.ird.govt.nz) or by calling 0800 257 773. When we've approved your application we'll send you a certificate of exemption, which you must show to the interest payer.

If you already have a current certificate you don't need to reapply.

## Fringe benefit tax (FBT) exemption

Some charities are exempt from paying FBT on benefits provided to employees while carrying out the organisation's charitable activities.

Generally, charities are exempt from paying FBT on benefits provided to employees while they are carrying out the organisation's charitable activities—see page 18 of our *Charitable organisation and donee organisation (IR 255)* guide. This exemption won't apply to any short-term charge facilities (including vouchers) provided to employees above a certain threshold. For more information see our *Fringe benefit tax guide (IR 409)*.

The exemption also won't apply where you carry on a separate business or trading activity distinct from your charitable purposes. This means a trading activity or business which doesn't carry out the organisation's charitable purposes.

## General information

### IRD numbers

All charities registered under the Charities Act will need an IRD number. If your organisation doesn't already have one, we'll contact you about getting one.

### Employing staff

If you employ staff you'll need to register as an employer and deduct and pay PAYE. For more information, see our *First-time employer's guide (IR 333)*.

### Goods and services tax (GST)

If you are carrying out a taxable activity and your turnover is more than \$60,000 in a twelve-month period, you must register for GST. For more information, see our factsheet *GST—do you need to register? (IR 365)*.

### Record keeping

You are required to keep business records. These include:

- maintaining all financial records for a period of seven years
- keeping adequate records in English to show the sources of all donations and how you have used these funds
- providing, when requested, a tax return showing all funds earned in any year with sufficient details of the source and application of those funds.

### Investigations

At some date in the future, we may select your charity for an audit. If we do this, you must be able to show that you've complied with the relevant tax requirements.

## Need to know more?

- Our Operational Statement *06/02 Interaction of tax and charities rules, covering tax exemption and donee status* contains more information about the tax benefits available to charities. You can get this from our website at [www.ird.govt.nz](http://www.ird.govt.nz) or by calling us on 0800 377 774.
- These guides give you more information:
  - Charitable organisations (IR 255)*
  - GST—do you need to register? (IR 365)*
  - First-time employer's guide (IR 333)*
  - Fringe benefit tax guide (IR 409)*
  - Gift duty (IR 194)*

You can read these publications on our website at [www.ird.govt.nz](http://www.ird.govt.nz) or order copies by calling our 0800 self-service line on 0800 257 773.

- You can also order a tax return and the IR 451 form (page 5) through our 0800 self-service line.
- For other enquiries, please call us on the following freephone numbers. Remember to have your IRD number handy.

Income tax and general enquiries	0800 377 774
Employers	0800 377 772
GST	0800 377 776

### Note

Free calling doesn't apply to mobile phone or international calls.

New Zealand Government