

**EXPOSURE DRAFT - FOR COMMENT AND DISCUSSION ONLY | HUKIHUKI HURANGA  
- MŌ TE TĀKUPU ME TE MATAPAKI ANAKE**

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Send feedback to | Tukuna mai ngā whakahokinga kōrero ki  
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**FACT SHEET | PUKA MEKA**

# **Income Tax – Charities – Business income exemption**

Issued | Tukuna: Issue Date

IS ##/## FS #

This Fact Sheet accompanies Interpretation Statement IS XX/XX *Charities – business income exemption*. IS XX/XX provides guidance on when business income a registered charity derives is exempt from tax under s CW 42. It explains that:

- business income is only exempt to the extent a registered charity carries out its charitable purposes in New Zealand; and
- all business income is taxable if a person with some control over the business is able to direct or divert business income away from charity.

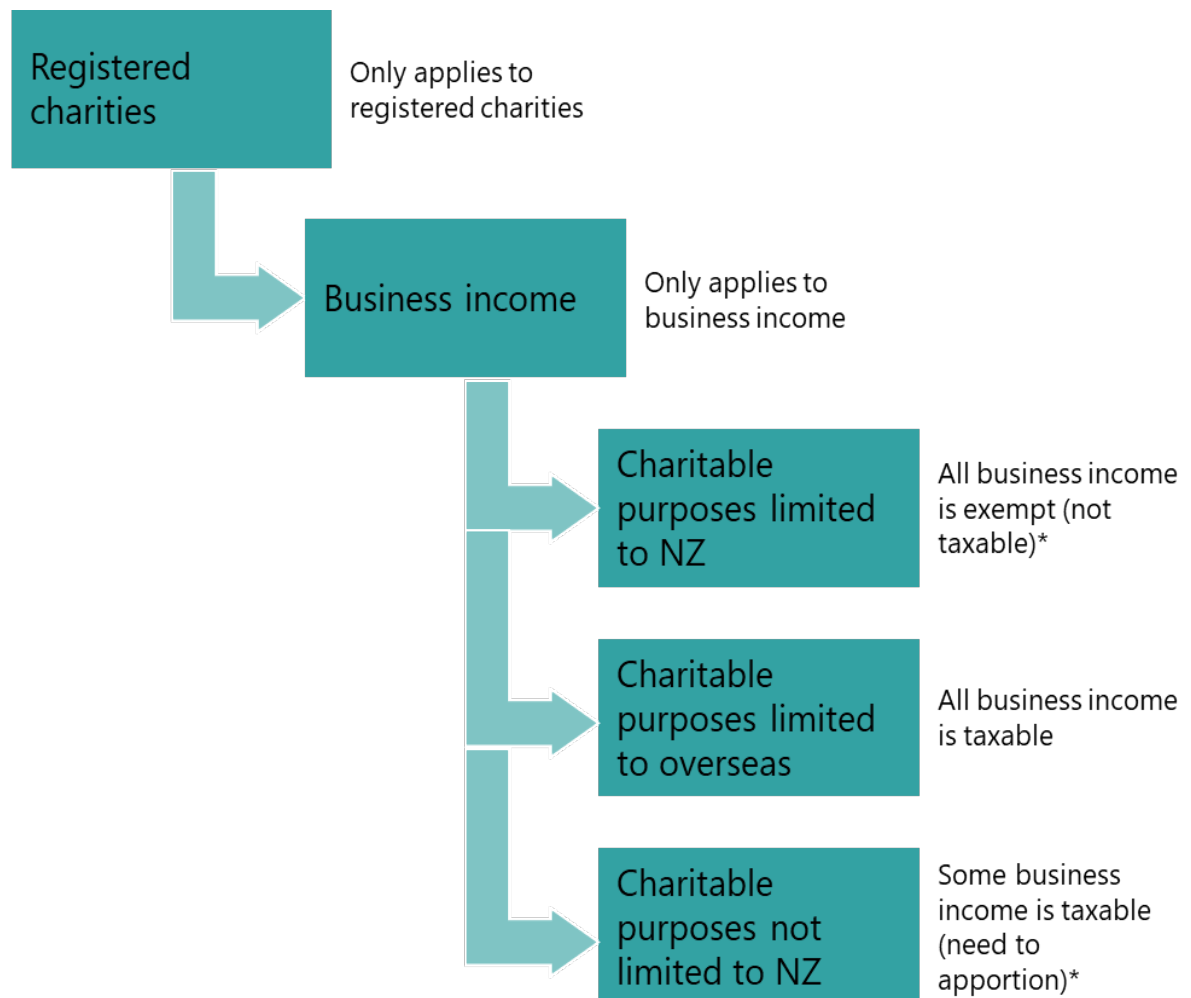
A registered charity is an entity registered as a charitable entity under the Charities Act 2005.

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## Introduction | Whakataki

1. Generally, non-business income a registered charity derives is exempt (non-taxable) (s CW 41). Business income is subject to different rules that can result in some, or all, of a registered charity's business income being taxable (s CW 42).
2. In determining whether a registered charity's business income is exempt there are two main factors to consider:
  - Is all income derived by the registered charity "business income"?
  - Are the registered charity's charitable purposes limited to NZ?
3. How these factors apply is illustrated in Figure | Hoahoa 1.

**Figure | Hoahoa 1: How s CW 42 applies**

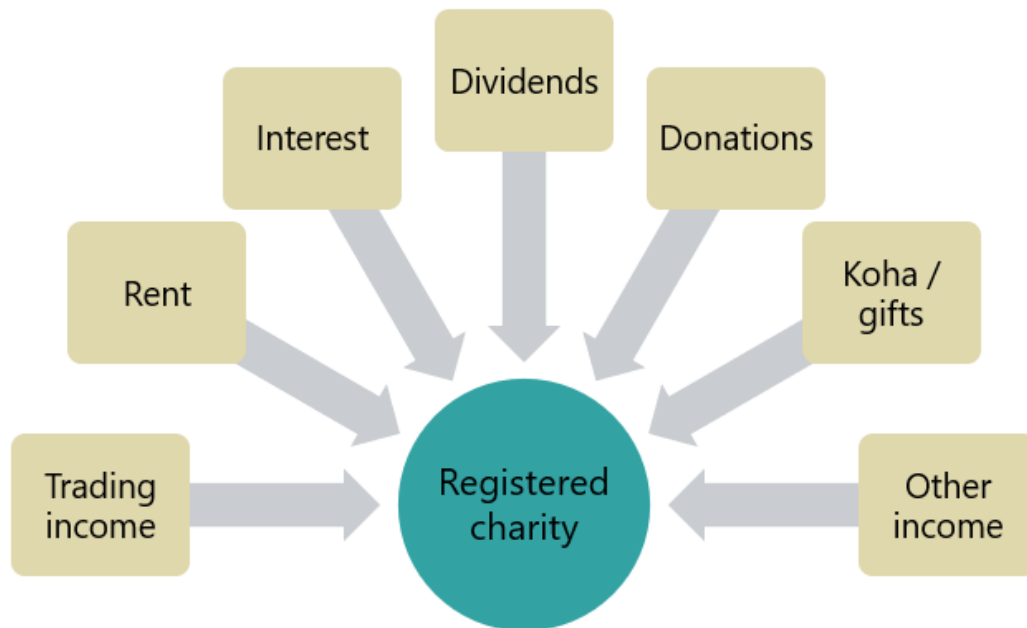


\*All business income is taxable if a person with some control over the business is able to direct or divert business income away from charity

## Business income

- A registered charity conducting a business might derive different types of income. It may earn income from its trade or business activities and other income like interest, dividends, rent, donations, koha or gifts as illustrated in Figure | Hoahoa 2.

**Figure | Hoahoa 2: Some types of income**



- Whether these other amounts are “business income” depends on the nature of the registered charity’s business and its relationship with these amounts. It is question of fact and depends on whether the income arises from the business activity. Not all income derived by a registered charity that conducts a business is business income – see Example 1.

### Example | Taura 1

Cooks for Good Ltd is a registered charity. Its charitable purpose is to advance religious education. To raise funds for its charitable purpose, it runs a café that sells food and drink. Cooks for Good Ltd has an interest-bearing business on-call account that it uses to deposit the takings from the café and pay for the café’s expenses. It also receives a donation from a member of the public to progress its charitable purpose that it deposits into its interest bearing on-call account.

The income from selling food and drink and the interest income on the business on-call account are both income from the business.

The interest income is closely connected to Cooks for Goods Ltd's business as the ordinary day-to-day transactions of the business give rise to or produce the interest income. The interest income is effectively paid on the takings from the café when they exceed the café's expenses.

Any interest income earned on the donation is not income from the business. No part of the business activity gives rise to or produces the interest.

## When are a registered charity's charitable purposes limited to New Zealand?

6. For a registered charity's charitable purposes to be limited to New Zealand it is not enough that its rules limit its charitable purposes to New Zealand. Its charitable purposes must in fact be limited to New Zealand.
7. Sometimes a registered charity that previously carried out charitable purposes only in New Zealand will make a donation in response to an unexpected event overseas, eg a natural disaster. A registered charity that donates to charitable purposes outside New Zealand is itself carrying out charitable purposes overseas. This means its charitable purposes are **no longer** limited to New Zealand.

## Charitable purposes not limited to New Zealand

8. Business income is only exempt to the extent a registered charity carries out its charitable purposes in New Zealand.
9. A registered charity whose charitable purposes are not limited to New Zealand must work out a basis for splitting its business income relative to its charitable purposes in New Zealand and those outside New Zealand. Only the part apportioned for tax purposes to the charitable purposes in New Zealand is exempt (non-taxable).
10. A registered charity's split of business income does not need to be exact to the last dollar but must be reasonable. A reasonable split is one that results in a reasonable amount of business income being taxable. For example, a registered charity cannot argue that all its business income is exempt because it funds its overseas charitable purposes with non-business income or capital receipts.

11. Generally, once a registered charity determines an approach to splitting its business income it should use the same approach in the following years.
12. Read IS XX/XX for a discussion of possible approaches to splitting business income.
13. How much tax a registered charity needs to pay on its taxable business income depends on what proportion of its deductible business expenses relate to that taxable business income. No deduction can be claimed for business expenses that relate to exempt business income. A registered charity can split its deductible business expenses (between its taxable and exempt business income) on the same basis it split its business income. Read Example 19 and 20 in IS XX/XX.

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## About this document | Mō tēnei tuhinga

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