

3 July 2015

Tax White Paper Task Force
The Treasury
Langton Crescent
PARKES ACT 2600

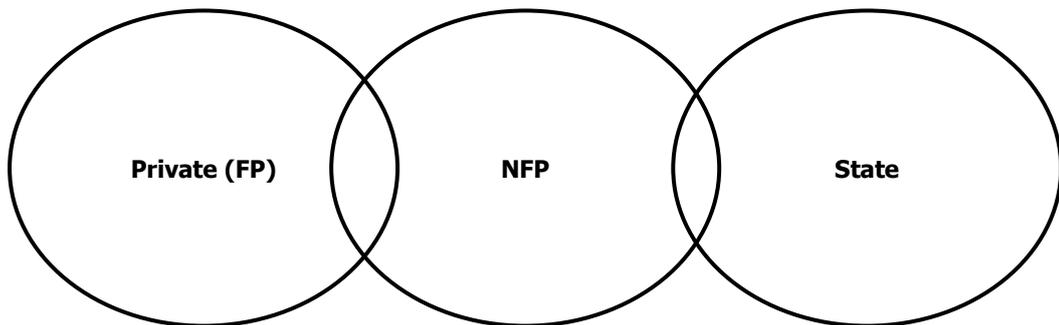
Email bettertax@treasury.gov.au

Submission on Tax White Paper

- 1 Community Services Industry Alliance (**CSIA**) is a public company limited by guarantee established to:
 - (a) promote the profile, value and contribution of the community services industry to position it as an influential, active and respected contributor to social and economic planning and policy development for the benefit of the Australian public; and
 - (b) build an innovative, productive, sustainable and connected community services industry including developing the economic and business capacity of organisations engaged in delivering community services for the benefit of community service clients and the broader Australian public.
- 2 CSIA is:
 - (a) independent of government funding for core operations;
 - (b) funded by members;
 - (c) a voice on business issues for the industry;
 - (d) a source of expertise and advice for organisations;
 - (e) delivering practical outcomes for organisations;
 - (f) comprised of both not-for-profit (**NFP**) and for-profit (**FP**) organisations; and
 - (g) a crucial resource for the community service industry.
- 3 CSIA welcomes the opportunity to be consulted in relation to issues impacting on the sector.
- 4 CSIA has considered the Tax White Paper: Re: think – Better tax system, better Australia (White Paper) and its members have been given the opportunity to meet for the purposes of making this submission.

Overview

- 5 CSIA submits that the policy underlying the White Paper on the Reform of the Federation which is aimed at considering options to achieve a more efficient and effective Federation must be inextricably bound to the policy behind tax reform.
- 6 Government's social and economic policy impact on its ability to achieve its social purposes.
- 7 *'The tax system raises revenue required to fund public services'* page 2 Executive Summary of White Paper. *'These activities (activities of government) include important health, education, infrastructure.... as well as the social safety net that supports our society's most vulnerable'* page 14 White Paper.
- 8 There are three sectors able to provide services to society (outside of the family unit):



- 9 Arguably NFPs provide services that many for profits are unwilling to provide as the financial return is too low and due to the structure and leveraging ability of NFPs they can provide their services more cheaply and efficiently than government can.
- 10 Tax concessions for NFPs maximises the funding available for social benefit. Through a different paradigm rather than considering the saving of tax revenue consider the cost to government of funding these services by directly providing them.
- 11 If NFPs are not able to meet the needs not met by the FP sector and the State, there will be a significant section of the community whose needs are not met.
- 12 In a modern society the social value of providing services important to the wellbeing of society must be acknowledged. In other parts of the world, the importance of measuring social value has been recognised. In the UK 'wellbeing indicators' are measured.
- 13 Policy needs to reflect that the NFP sector provides significant social value which cannot only be measured in economic terms. It is essential that the government recognise that the NFP sector uses funds saved to ensure that its systems and processes can be leveraged. Outputs must include the labour value and the unmeasured value of the leverage available due to the people, systems and resources within the NFP sector and individual organisations.
- 14 Funding of a service under a contract loses the underlying resources which an NFP offers. It potentially loses the 'discretionary' value of the volunteer and community input: the social value.

Question 47 Tax arrangements for not for profit sector

- 15 Tax concessions for NFPs maximises the funding available for social benefit. Tax concessions such as income tax exemption, GST concessions, fringe benefit tax (**FBT**) concessions and refundable franking credit arrangements should be retained.

- 16 The current system:
- (a) is unnecessarily complex with some categories requiring endorsement and registration and others being able to self assess;
 - (b) results in segmentation of charities; and
 - (c) creates uncertainty as to compliance or noncompliance e.g. TR 1 /2015.

Fringe benefit tax

- 17 FBT was introduced to tax additional non cash benefits received by an employee of a tax paying employer. As it was simpler to capture this at the employer level, FBT is recoverable from the employer even though it should in fact be a tax paid by employees. As NFPs were not taxable, the rebate system was introduced leading to the unintended perception that FBT is a subsidy for NFPs.
- 18 The FBT system does enable NFPs to provide better employment packages for high level staff (than they could otherwise do). The FBT system is not of benefit to a large number of NFP staff for example those in a lower tax bracket. Many junior employees are university leavers with a HECS debt.
- 19 If NFPs are to provide services which are of social value to civil society, it must attract good staff. FPs and government compete with NFPs for staff and are usually able to provide more attractive salaries. FBT concessions provide NFPs with an opportunity to compete for good staff.
- 20 The removal of the FBT concessions from all NFPs will result in the salary cost (which will remain the same) needing to be met from some other source. Unless this loss (of benefit) is matched in some other way by government funding then NFPs will be disadvantaged. For those NFP organisations which are not government funded this benefit will be lost completely to their disadvantage.
- 21 CSIA agree that some changes might be appropriate to the FBT arrangements for highly paid executives of not for profit entities such as government hospitals and for those claiming the benefit from two employees, however incrementally removing the benefit from all NFP's because of these loop holes would be unfair.
- 22 If a driver in removing FBT concessions is its complexity and the cost of its administration and audit then this benefit should be matched with a rebate to employees of NFPs.

Question 48 Competitive advantage

- 23 CSIA is aware of a number of reviews and reports which have concluded that the NFP sector does not receive a competitive advantage over the FP sector due to the income tax exemptions. CSIA agrees with those findings.
- 24 NFP do not compete for market share – any profits of a NFP are used to further the purpose of the NFP which is of social value.
- 25 Withdrawing tax benefits from the NFP sector will disadvantage the community and particularly regional and remote communities.
- 26 Any potential for a competitive advantage is limited to only some activities and in some geographies. 'Cherry picking' is an issue. If competition causes NFP to concentrate services in high density areas, and government does not provide those services in more regional and remote geographies, those communities will have no services.

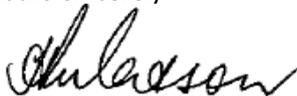
Question 49 Administrative arrangements

- 27 CSIA identifies that there are opportunities to improve administrative arrangements in the following ways:
- (a) improving the reliability of the data on the Australian Business Register and improving the processes of the ABR; and
 - (b) providing guidelines for the activities which may or may not cause a risk of non compliance for charities instead of charities being forced to seek advice about possible issues.

Question 50 Changes suggested

- 28 CSIA submits that the policy underlying the White Paper on the Reform of the Federation which is aimed at considering options to achieve a more efficient and effective Federation should be linked here. The review of the tax structure should continue to emphasise the need to harmonise the federal and state taxation laws and systems.
- 29 One definition of what is 'charitable' for both federal government and state government purposes would reduce inconsistency and uncertainty, red tape and administrative costs.
- 30 Introducing a tax portal for all tax purposes would reduce red tape and administrative costs.
- 31 NFPs are pressured to be more sophisticated, innovative and to compete for available funds to provide community services. Some industries have embraced this (housing) and others have been forced to do so (disability). It has been the case that many have had to consider more commercial strategies to ensure sustainability including the creation of other related entities for 'risky' activity. This has led to fear and uncertainty about compliance and increased cost. Ongoing attention to the provision of information and a general sector guideline would reduce cost and uncertainty.

Yours sincerely



Heather Watson
Director