



**NOT-FOR-PROFIT SECTOR
TAX CONCESSION WORKING GROUP**

A submission by
Ku-Ring-Gai Neighbourhood Centre Inc.

Preamble

The Ku-Ring-Gail Neighbourhood Centre (KINC) is a well established Not For Profit entity that welcomes the opportunity to make a submission to the Not-For-Profit Tax Concession Working Group.

Our primary activity, which is mainly funded by federal Government grants, and which accounts for 80% of activities is the support of the frail aged.

As a secondary activity we provide a range of community activities which are funded by a mixture of user-pays and small donations.

We hope that our submission will make the Working Group aware of inconsistencies in the treatment not for profit organisations receive under current conditions.

In particular, we will reference the recent rejection of our application for a Fringe Benefits Tax concession on the basis that the existence of secondary activities precluded our entitlement.

The basis for the refusal of that application is, we believe, unfair and discriminatory given that other charitable institutions with a comparable activity spread receive this concession.

In particular we would recommend that Fringe Benefits Tax exemptions and Deductible Gift Recipient status be extended to all not for profit charitable enterprises, where it can be reasonably established that the dominant activities of the enterprise are of a type that would qualify for these concessions.

Representative of KNC are available to meet with the working group or its representatives if that would assist the group in their deliberations and the development of recommendations.

Introduction to KNC

KNC is now in its 34th year of operation.

During that 34 years the Centre's Management Committee has, with a small staff contingent and a growing number of enthusiastic volunteers, provided an increasing number of critical humanitarian and social services to the frail aged residents of the Ku--Ring-Gail Local Government Area.

It is worth noting that the growth of mature aged citizens 65 years old or over in this LGA has outstripped the Greater Sydney area by almost 50% resulting in an increased demand for our services.

In 2011-2012 over 6,900 hours of social support was provided to our frail aged clients by our 2.25 (equivalent full time) staff and our network of 150 dedicated volunteers. This was an increase of 6% over the previous year which in turn was some 20% increase on the prior year.

This support enables our frail aged clients to continue to live independently in their own accommodation as opposed to premature entry into an institutionalised aged care residential facility. This benefits our clients through an enhanced quality of life and represents a considerable saving in the cost Government would otherwise incur in supporting residential aged care.

The range of services provided by KNC can be viewed within two categories.

a) Neighbour Aid

This is by far the dominant category of services and is aimed specifically at the frail aged within the Ku-Ring-Gai Local Government area. It generates approximately 80% of our revenue, mainly in the form of a Federal Government grant which is fully expended in providing services.

These services include:

- Transportation by volunteers of aged, sick or infirm clients to medical and other critical appointments;
- A shopping bus to allow clients an opportunity to shop at local stores with the assistance of a one-on-one volunteer;
- Follow-up telephone calls to ensure these clients' needs are recognised and met;
- Companionship programmes through which a volunteer maintains regular contact with one or more of these clients.

b) Community Activities and Services

In addition to its Neighbour Aid activities KNC provides a range of services to meet the needs of Ku-Ring-Gail residents. These services include:

- English as a second language – to assist recent migrants to Australia learn our language and culture, thereby enabling them to more fully participate in the community;
- Yarning group that provides an opportunity for residents to come together to knit woollen squares to be made into blankets for less well-off people within Australia and overseas
-
- Coffee Mornings that provide an opportunity for mostly new and/or aged residents to obtain information on local activities and to discuss with a guest speaker topics such as minimising the cost of electricity and other services. These coffee mornings also provide an opportunity for fellowship and making new friends.
- Broadband for Seniors. A program to assist older members of the community to take advantage of modern technology and thereby improve communication with family and friends who are perhaps interstate or overseas.
- Justice of the Peace Services. Volunteers who are qualified Justices of the Peace provide a five days a week service to local residents and businesses;
- Simple Tax Return preparation for individual residents of Ku-Ring-Gai;
- Up-to-date information on other local services and community bodies.

Funding of KNC Activities

Generally speaking the funding of KNC's Neighbour Aid activities is provided by the Federal Government's Department of Health and Ageing

These Neighbour Aid activities account for approximately 80% of all activities and some 80% of funding.

Funding of other Community Activities and Services is met by income raised by those services. For example, we charge a small fee for photocopying, sending faxes, laminating documents, sale of donated books, etc. and are fortunate to receive donations from time to time.

The reason we have constructed KNC this way is to:

- a) Ensure that Federal Government grants are used only to provide grant qualifying services to the frail aged, thereby enabling them to avoid having to prematurely move into residential aged care; and
- b) Ensure that Community Activities and Services are provided on a "user pays" basis.

Recent Past Application for a Tax Concession

During the 2011-2012 financial year KNC applied to the Australian Taxation Office (ATO) to be given Fringe Benefits Tax (FBT) exemption status. This application was rejected.

The reason given for rejection was that KNC provided a wide range of services to the Ku-Ring-Gai community including secondary and non-qualifying community activities and services as well as the qualifying activity of providing services to the frail aged.

We have considerable difficulty understanding why the non-qualifying activities which account for only 20% of overall operations should contaminate mainstream activities to the point of precluding an entitlement to a tax concession that would be available but for the secondary activities.

We also note that other Australian, usually bigger, charitable organisations that provide a range of services broader than own and including many which appear not to qualify receive this tax concession.. Examples can be provided if required.

This decision by the ATO leaves KNC in an undesirable position.

For example: Should KNC be looking to employ new staff in the future, we will not be able to provide the same level of remuneration benefits as some other charitable bodies.

It also opens up the possibility of our current staff being encouraged to accept positions with organisations which are able to offer better remuneration because they have been given FBT exemption status.

Our original response to the ATO's rejection of our application was that we would need to restructure our organisation into distinct entities. That is, one entity looking after the frail aged and another carrying out our Community Activities and Services.

Initial advice from our auditors/advisers and our own investigations confirm that this would cause considerable initial set-up costs and also on-going costs in areas of financial accounting, auditing and reporting. Currently our volunteer treasurer maintains our accounting systems and provides financial reports to the Management Committee Separation along activity lines would at a minimum duplicate reporting needs, creating an increased treasury workload and in incremental costs that adds no operational benefit to the enterprise.

Deductible Gift Recipient Status

At this point in time KNC does not have DGR status, and while we did not apply for that status for that status when requesting FBT exemption it was intended to apply following a successful FBT outcome.

Following on from rejection of our FBT application we have been unsure of how much of our resources we should commit to achieving DGR status.

We are grateful that the establishment of this working group gives another opportunity to present our case.

If provided with DGR status we believe we could attract considerable additional funds.

These additional funds could assist us to:

- a) Expand the range and number of services we provide to the frail aged in our community;
and
- b) Expand the range of services we provide to other residents of the Ku-Ring-Gai Local Government Area.

Consultation Questions

- 1) KNC is of the opinion that all charities should be DGRs except those established for the advancement of religion;
- 2) Changes to DGR status, including 1) above should be implemented as soon as financially viable;
- 3) The threshold for deductible gifts should be increased to \$10. The workload (volunteer or paid staff) for providing receipts and financial accounting for \$2 donations counteracts too much of the value of the donation. However an increase to \$25 may exclude too many people on low to middle incomes from donating.
- 4) The implementation of a tax offset mechanism for gifts would provide a fairer basis for all taxpayers;
- 5) The implementation of a tax incentive to encourage testamentary giving would also be a positive development. Such a system would need to be actively monitored to ensure it was not abused.

Conclusion/Recommendations

We submit that:

- a) Organisations such as KNC should be eligible for an FBT exemption provided that their dominant activities are directed toward public benevolence; and
- b) Deductible Gift Recipient status should be afforded to all charitable institutions except those established for the advancement of religion. This restriction should not preclude religious bodies from establishing independent entities that are to benefit those in need of public benevolence.