

NFP Sector Tax Concession Working Group Secretariat
The Treasury
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Re: NFP Tax Concessions Discussion Paper Response by Community Sector Banking

Community Sector Banking (CSB) is Australia's specialist banking service for not-for-profit and community sector organisations.

Established in 2002, when Community 21 (a consortium of 20 leading community sector organisations) and Bendigo and Adelaide Bank joined forces to create a vehicle for change, CSB has been providing community sector organisations with convenient and tailored banking products and services to achieve their social objectives. Today, we are proud to assist over 6,000 not-for-profit customers.

CSB commends Treasury for the initiative to collaborate with internal and external stakeholders from across the sector to review not-for-profit tax concessions and thus ensure future support for the sector is determined in the most effective, efficient and equitable way.

With a customer base of over 6,000 not-for-profit customers we consider that CSB is well placed to reflect upon the proposed changes to the tax concessions framework and the effect of such policies on the sector.

In response to the Not-for-profit Sector Tax Concessions Working Group discussion paper CSB has provided comment with reference to particular proposed questions, as detailed below.

Chapter 1 – Income Tax Exemption and Refundable Franking Credits

Qu 1-3: Who should be eligible for exemption from income tax?

Based upon the premise that from 1 July 2013 a new statutory definition of "charity" will be introduced and in turn administered by the Australian Charities and Not-for-profit Commission, we believe this is a key consideration for any review of income tax exemption. Furthermore, as the current definition of a Public Benefit Institution (PBI) is a narrower definition to that of a charity, we therefore propose that there is an opportunity to simplify categories which encompass charities, PBI's and in turn consideration also of tax exempt organisations and definitions in order to streamline the various "benefit s" available. This would thereby create a uniform framework of conditions based upon beneficial purposes to community so as to ease administrative burdens.

However, we caution against narrowing the definition for financial gains, and thereby recommend thorough consultation directly with NFPs who may be affected by any changes.

Qu. 9: Increasing the tax free threshold for taxable NFPs

We concur that the current threshold should be reviewed and increased. The current threshold of \$416 is considered a very low figure, unchanged for several decades and in effect out of date. Increasing the threshold level would reduce the compliance burden for smaller not-for-profit organisations. We would recommend that the revised threshold be kept at a reasonable level, supported by appropriate compliance conditions, which, when combined would not provide an incentive to create multiple entities to benefit from multiple tax-free thresholds.

We are not well placed to propose new thresholds or tiers, and as such recommend that Treasury/ATO are better placed to determine same, given their expertise and access to the relevant historical data.

Chapter 2 – Deductible Gift Recipients

Qu 11-14: Extending DGR status to all charities

Similar to the issues raised and addressed above, we recommend a simplification of categories and definitions of DGR encompassing tax exempt organisations in order to ease administrative burdens and improve efficiencies of purpose. We therefore support the view that all charities should be DGRs or like. We also acknowledge the revenue implications with reference to the Productivity Commissions recommendations, and thereby support a staged response. Notwithstanding, we propose that the staged response is relatively succinct so as to not disadvantage different categories of charities.

We also note the fiscal cost is significant, and propose that this cost will need to be offset from savings in existing sector concessions. We again caution against this change at the expense of concessions for smaller not-for-profit organisations or other well targeted related concessions.

Qu 19: Creating a clearing house for donations to DGRs

We concur with this significant initiative to create a clearing house which is linked to the ACNC. We believe that this initiative would be a significant enhancement for charities/DGRs but in particular smaller to medium organisations that do not have access to, or a level of expertise with online facilities to support donations, including the relevant compliance requirements.

Furthermore we suggest a centralised clearing house framework would provide an increased level of integrity in the process and in turn increased confidence for donors to commit to social objectives via this reform.

Qu 26: Increase the threshold for a deductible gift from \$2 to \$25

We concur with the premise that the threshold value for a deductible gift should be increased from \$2 in order to reduce the administrative burden for not-for-profit organisations, and potentially encourage higher donations from individuals. With regard to whether \$25 is an appropriate level, we do not have direct evidence to confirm this aspect, but once again would recommend consultation with the Treasury, ATO and DGR's to ascertain a mutually agreeable level for individuals to be provided a donation receipt.

A centralised clearing house process would once again support increased efficiencies in the process.

Chapter 3 – Fringe Benefit Tax Concessions

General comment: We support the premise as outlined in discussion point 128 that salary sacrificing is in part used by employers within the sector to offer competitive package arrangements that compete with the commercial sector. Our observations to date support the view that initially FBT was implemented in part to redress a “brain drain” of talent out of the sector and over recent years has been effective in attracting a cross section of commercial expertise and knowledge into the sector.

In contrast, discussion point 139 discusses competitive neutrality to which we disagree, and as such support the view that FBT concessions are having an effect to redress the imbalance of knowledge and expertise between the sector and the commercial/corporate sector.

Qu 31-32: Include meal entertainment and entertainment facility leasing benefits within the relevant caps

We support the view that in order to mitigate “roting” of the current system that meal entertainment and entertainment facility leasing should be incorporated within a capped framework. We propose that this could be achieved in two ways; 1/ Incorporate within the current FBT limit (\$30k or \$17k) with the view that the current limits would be reviewed /revised, or 2/ A separate FBT limit is established with appropriate conditions (with consideration of encapsulating both limits). With regard to where a revised limit/new limit should be pitched, we propose that this would need to be calculated/determined by Treasury based upon costs to provide, and the current average usage of this benefit by the sector.

Qu 34: Require employment declarations to include information about FBT concessions to avoid employees from benefiting from multiple caps

In principal we concur, and propose that the liability should sit with the employee, not the employer, to provide this declaration. Individuals therefore should be able to split the benefit between different employers in order to be able to take full advantage of the concessions available.

Qu 35: Align the rate for FBT rebates with FBT rate of 46.5 per cent

We support the view that the FBT rates should be aligned to create simplification of the rules, and greater equity.

Qu 37-39: Phase out capped FBT concessions and replace with alternative government support

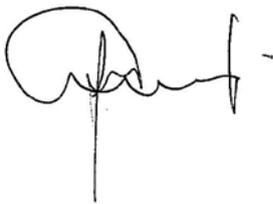
We disagree that FBT should be phased out. We are of the view that FBT allows NFP to compete with the commercial sector in providing staff comparable salaries and thereby recruiting expertise and skilled staff to the sector. By replacing FBT concessions the emphasis will shift to grants for service provision, which while crucial, are captured by the existing granting process. If this change occurred a significant concern is the potential for funding to be reduced to organisations based upon budgetary constraints at any point in time. Additionally, we are of the view that costs are easier to track through direct concessions via FBT, as it is based on an individual; the benefit is paid if an individual is employed by an eligible not-for-profit organisation.

Qu 40: Phase out FBT concession and replace with alternative tax-based support mechanisms for eligible NFP entities

Given the response around why FBT concessions direct to employees is important, we are not of the view that tax concessions to eligible not-for-profit entities is appropriate in this instance. However, a tax concession (via tax offset or tax free allowance) for employees of eligible entities has the potential to be a more efficient process in the longer term than the current system. Additionally, it could prove to be more equitable for individuals, as the current system requires them to pay tax on any unspent funds at the end of the FBT year, and therefore not receive their full benefit.

You should also consider the implication for Salary Packaging companies and financial organisations (including CSB) who provide Salary Benefit products and services to this sector and the potential impact of these services being diminished or obsolete. CSB does however advocate for increased efficiencies across the sector and as such would seek to work with Treasury/ATO and the sector to transition to a different system if and when required.

Please feel free to contact us regarding any of the responses provided above, and we look forward to reviewing the outcomes of this consultation period.



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Community Sector Banking