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Ms Sue Piper
Manager
Charities Unit
Indirect, Philanthropy and Resource Tax Division
The Treasury
Langton Crescent
PARKS ACT 2600

By Email: NFPReform@treasury.gov.au



Heart Foundation
ABN 98 008 419 761

Level 12, 500 Collins Street
Melbourne VIC 3000

Telephone (03) 9329 8511
Facsimile (03) 9321 1574

For heart health information
1300 36 27 87
www.heartfoundation.org.au

Dear Ms Piper

Consultation paper on tax concessions for the not-for-profit sector

The National Heart Foundation of Australia welcomes the opportunity to provide a response to the Not-for-profit Sector Tax Concession Working Group (Working Group) consultation paper on *tax concessions for the not-for-profit (NFP) sector*.

The Heart Foundation supports reform of the NFP sector, however it encourages the Working Group to recommend to the Government that the current tax concession arrangements remain as they are. The Heart Foundation is of the view that any diminution of these arrangements would be disadvantageous for the NFP Sector. Salary packaging is an important mechanism for recruiting and retaining staff in a highly competitive marketplace. The benefits that we can offer our staff enable us to more effectively utilise our limited resources. Any removal or diminution of these benefits would be detrimental to our operations.

The Heart Foundation is a health promotion charity that provides benefits to the Australian community by promotion of heart health and through the support of cardiovascular related education and the funding of cardiovascular research. The Foundation benefits financially from the various taxation arrangements afforded to it and this allows us to maximise our resources to further the Foundation's mission.

The Foundation maximises the social return from its activities by prudent allocation of its resources. The vast majority of our funding is donated by the Australian community, and we are very mindful of using these funds responsibly to further our important work on behalf of our donors and supporters.

Below is a general response to some of the key issues raised which are made from a business operations view point and not a statutory taxation view.

INCOME TAX AND STAFF PACKAGING ARRANGEMENTS

We have a very diverse staff who enable us to deliver our work and the majority are not on high incomes. The nature of our work means that there is a limited pool of resources to draw from the competitive employment market. It is important to not only offer potential employees the opportunity to contribute to the wellbeing of Australians through our work, but to also provide attractive remuneration arrangements. Without being able to offer the current salary packaging arrangements, our capacity to attract and retain staff would be seriously impacted.

This contention is supported by information provided to us through our recruitment and exit interview processes. Any reduction to the current taxation concessions available to us would put pressure on our limited resources, and potentially result in the scaling back of our operations and therefore limit the funds available for our cardiovascular programs and activities.

The current FBT concessions enable us to provide our staff with salary packaging arrangements which are a vital component in our ability to attract and retain the highly skilled technical and operational staff that the Heart Foundation depends on to deliver its work. We employ highly trained people that include clinicians, experts in nutrition and physical activity and field staff. In addition, we require equally skilled and experienced "back of house" professionals to enable us to meet our internal and external governance and regulatory requirements. The recently established Australian Charities and Not for Profit (ACNC) has also indicated that, in the first instance, the reporting requirements on NFPs will increase. The Heart Foundation has no issue with meeting its regulatory standards, but needs to be able to recruit and retain the professional staff required to continue to operate at this level.

The Foundation has taken a responsible approach to the uncapped meal entertainment and entertainment facility leasing concessions by imposing an internal annual limit for staff access to these benefits. The Foundation suggests that this could be considered as an option for future concessions arrangements which would not impact negatively on the capacity to recruit and retain staff.

We are also concerned that any altering of the current taxation reporting and compliance requirements would add to the Heart Foundation's administrative burden and reporting requirements that would be in addition to the requirements of the ACNC. Additional administrative requirements may result in the need to recruit staff with specific taxation skills to attend to any changes and thereby would channel our limited resources away from our important program work.

FUNDRAISING AND DONOR RELATIONS

DGR status encourages the community and organisations to donate to charities. An entity's activities should be assessed to grant DGR status and when DGR categories overlap the entity should not be required to split its operations. Gifts are generally donated to the organisation and not a specific component unless expressly directed by the giver. For activities not approved for DGR status the entity would be required to have a separate record of transactions.

In the absence of solid evidence, we do not believe a two-tiered tax offset system will encourage higher earners as both systems are tiered and require equal understanding of tax deduction/offset systems. The current system encourages donations across all income categories, especially the lower income bands which make up the largest portion of our donors. We believe any changes would put an unnecessarily burdensome cost on charities to change current practice and process. In addition, it would require Government investment to re-educate the public as to the link between their gift and tax benefits of giving.

Testamentary giving should certainly be encouraged – it is likely to grow enormously over the next 20-30 years. With appropriate safe-guards in place, we believe that the benefits would far outweigh any abuse of the system.

We strongly oppose the establishment of a clearing house. The market adequately provides sufficient diversity of services to deliver online donation capacity to charities, both large and small. We believe a simpler and more efficient system would be to enable charities listed on the newly established ACNC website to provide a hyperlink to a nominated donation page on their own website or one of the existing third-party suppliers.

The establishment of a clearing house as an additional avenue for giving may assist some charities, donors and the ATO. However, it should not become the sole portal for transacting donations. Charities need to maintain existing income recognition systems and processes to maintain relationships with their donors and to support fundraising programs undertaken by charities.

Donor information is utilised by charities to not only issue receipts but to also inform donors of activities and achievements of the charity. As such, ongoing communication with donors is considered an important mechanism to maintain this important relationship. Donor details therefore need to remain the property of the charity.

We are encouraged by the consideration of workplace giving (WPG) which falls under 'regular gifts' in the sector. It should be noted that the vast majority of sector income from regular gifts is derived from monthly/automated donations through credit cards and direct debits, as opposed to WPG. This is consistent internationally and indicative of the barriers inherent to the expansion of WPG and represents a clear preference by consumers.

Two fundamental barriers exist with WPG which would need to be addressed. Firstly, sharing donor contact with charities to help charities report back and build relationships. Secondly, a simple mechanism to allow portability between employers when people change jobs to reduce attrition created through job change.

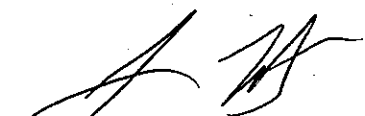
The Foundation does not support increasing the threshold for deductible gifts from \$2. Donors have a choice to claim a tax deduction for their gift and the Foundation feels that although there would be some saving in not having to issue receipts for amounts below \$25, there is greater potential of losing funds over and above this saving from the disincentive to obtain a deduction by giving \$25 or more. The gap from \$2 to \$25 is considered to be too great.

A donor who gives a \$15 monthly/automated gift ends up giving \$180 per year. Compared to donors who give 'one-off' donations once or twice a year, retention rates are generally much higher for monthly/automated giving. As such, the proportion of income from this category has grown substantially for charities and now rivals 'one-off' donations. Setting the level at \$25 would be too high for this key group, as average monthly amounts start at around \$10 upwards. In 2012, 57.5% of all donations received by the Heart Foundation were \$25 and under. A tax deduction threshold of \$5-10 would have the desired effect of reducing charity compliance without significantly affecting income.

The Heart Foundation appreciates the opportunity to respond to the consultation paper and supports reform of the NFP Sector. We would be happy to provide any further information that the Committee may require as part of its consultation process.

Our contact officer is Megan Jeremenko, National Senior Policy Advisor, email: megan.jeremenko@heartfoundation.org.au.

Yours sincerely



Dr Lyn Roberts AM
Chief Executive Officer - National

