



## **Fairer, simpler and more effective concessions for the not-for-profit sector**

# **Submission to Treasury Not-for-Profit Sector Tax Concession Working Group**

### **Background to the Foundation**

The Lord Mayor's Charitable Foundation was established in 1923 and incorporated by an Act of Parliament in 1930. Its original name was the Lord Mayor's Fund for Metropolitan Hospitals and Charities. The first donor was the then Lord Mayor, Lord John Swanson. The Foundation is Melbourne's largest community foundation with \$105 million in corpus and more than 200 charitable fund accounts within the Foundation's Public Ancillary Fund. The Board of Management is a charitable institution, which acts as the trustee of the Public Ancillary Fund and an internal Charitable Fund.

The Foundation makes grants in the areas of youth, health, ageing, homelessness, the arts, education and the environment. These include both grants for direct relief and social change grants. Current priority areas are Homelessness, Youth and Ageing. The Foundation provides grants ranging from smaller grants for grassroots charities through to Exploration and Signature Grants for priority initiatives. A proactive granting program was introduced this year.

In addition to grantmaking, the Foundation engages in public policy research and in community education through Forums, the commissioning of DVDs on particular charitable issues and through the website and articles. For example, we recently held an Affordable Housing Think Tank to identify where the Foundation can best make a difference in this area. We are currently shortlisting applications for an Exploration Grant initiated by the Foundation on *Ageing in a Multicultural Community*.

### **Scope of submission**

This submission responds only to the consultation questions that are of particular concern or relevance to the Foundation.

## Response to Consultation Questions

### **1. Consultation question 6**

**Should the ability of tax exempt charities and DGRs to receive refunds for franking credits be limited?**

The refunds from franking credit are a valuable source of revenue to charitable grantmaking foundations such as the Lord Mayor's Charitable Foundation. The ability to receive franking credit refunds is taken into account in our decision making about investment of our corpus. In the 2011/2012 financial year the franking credit represented \$1,212,376 (17.3%) of the Foundation's total investments income of \$6,997,242 and 6.08% of that financial year's total income.

Loss of the franking credit refund entitlement would clearly lead to a significant reduction in funds available to distribute to charitable organisations working to overcome disadvantage in our community. This would be extremely concerning, especially in the current economic climate.

### **2. Consultation question 11**

**Should all charities be DGRs? Should some entities that are charities (for example, those for the advancement of religion, charitable child care services and primary and secondary education) be excluded?**

Extending DGR status to all charities would certainly simplify the due diligence around grant seekers eligibility that must be performed by the Foundation. Part of the Foundation is a Public Ancillary Fund and hence may only fund DGRs that are charitable.

There are a number of issues that require further consideration:

1. The distinction between Item 1 DGRs (colloquially referred to as Doing DGRs) and Item 2 DGRs (Grantmaking DGR) is currently key to the way that charitable funds may be distributed (i.e. grants from the Public Ancillary Fund being only paid to item 1 DGRs that are charitable and not to item 2 DGRs, except on a winding up of a Public Ancillary Fund). The practicalities of this would need careful consideration. The distinction between charitable funds and charitable institutions is relevant to this area.
2. It would be important to ensure that any changes did not adversely affect the ability of charitable foundations to fund charitable projects that benefit the community. Grantmaking foundations would obviously have to comply with their constituent document i.e. some could not fund religious activities.
3. DGRs that are charitable but for their connection with government should be regarded as charitable for tax endorsement purposes. For example, public hospitals that clearly carry out charitable purposes (the relief of suffering for the broader community) but are characterised as Government entities on the Australian Business Register.
4. A charity should be able to be endorsed under a number of DGR categories, rather than having to fit into one existing category. One common example is an organisation that wishes to support Indigenous communities across of range of current DGR categories.

### **3. Consultation question 17**

#### **Would having a two tiered tax offset encourage giving by higher income earners?**

A two tiered system is complex and potentially confusing for donors. Overall the Foundation prefers a simple system.

Paragraphs 94 to 97 suggest an option to enhance giving to private ancillary funds. It is not clear why any enhancements (if this option were in fact ultimately supported by Treasury) would only apply to donations made to *private* ancillary funds and not also apply to donations made to *public* ancillary funds. High and medium net worth individuals may choose to set up a charitable account (subfund) within a *Public* Ancillary Fund rather than establish their own private foundation because they do not want the administrative and compliance burden of a Private Ancillary Fund and want to benefit from the community knowledge and grantmaking experience of a Public Ancillary Fund. It would be inequitable for any changes to encourage philanthropy not to apply equally between private and public ancillary funds and between high and medium net worth individuals.

As mentioned, the Foundation has a Public Ancillary Fund within which more than 200 donors give to charitable fund accounts. This form of community engaged philanthropy is growing in Australia and internationally and deserves policy support. There appears to be an oversight of community philanthropy in general within the Discussion Paper. We would be happy to provide the Working Group with further input around these issues to ensure that the broad spectrum of giving is encouraged.

### **4. Consultation question 19**

#### **Would a clearing house linked to the ACNC Register be beneficial for the sector and the public?**

A donation clearing house might assist new and emerging charities. However, for more established organisations this may just be introducing another interface between the donor and the charity (whether it is an Item 1 or Item 2 DGR). It would take government resources to establish, which might be better spent in direct grants to charities to build their online capability or provide direct services. The Foundation would require more details of what is proposed in order to make a definitive response to this question.

### **5. Consultation question 26**

#### **Should the threshold for deductible gifts be increased from \$2 to \$25 (or some other amount)?**

The threshold has not been changed in over 80 years. The administration costs involved in providing a receipt to donors for taxation purposes can be inefficient for very small donations. A \$25 threshold seems reasonable and is supported by the Foundation.

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