Anglican Diocese of North Queensland's response regarding tax concessions for the NFP Sector

Submission to the Not-For-Profit Sector Tax Concession Working Group

Response to the "Fairer, simpler and more effective tax concessions for the not-for-profit sector – Discussion Paper, November 2012"

By The Corporation of the Diocesan Synod of North Queensland

About The Corporation of the Diocesan Synod of North Queensland

1. The Corporation of the Diocesan Synod of North Queensland ("the Diocese") is the legal entity of the Anglican Diocese of North Queensland which is the part of the Anglican Church of Australia operating in the state of Queensland north of the 22° South latitude.

2. The Diocese is a charitable not-for-profit organisation with Public Benevolent Institution status with the Australian Taxation Office. The Diocese was incorporated in 1883 by the Queensland Parliament under The Religious Educational and Charitable Institutions Act of 1861. The Diocese operates for the advancement of religion, specifically Christianity in the Anglican tradition, primarily within its geographic boundaries.

3. A large part of the Diocese's activities to advance religion are conducted through the various worshipping communities ("Parishes") spread across the geography of the Diocese. "Parishes" are self-managed unincorporated not-for-profit organisations that exist under the rules of the Diocese but most are registered with an Australian Business Number and have Public Benevolent Institution status with the Australian Taxation Office. It is anticipated that most Parishes of the Diocese will be registered as Basic Religious Charities under the newly formed Australian Charities and Not-for-profits Commission (ACNC).

4. This purpose of advancement of religion also brings the Diocese into consideration of and activities related to the care of those in need (e.g. welfare, aged care, mental health), education (e.g. schools, university colleges) and social justice. Large and formal activities of this type have typically been brought under the management of separately incorporated charitable limited by guarantee companies (e.g. Anglicare North Queensland, Good Shepherd Nursing Home, Whitsunday Anglican School) that can focus on the specific field of ministry or community service. These separately incorporated organisations continue to have a relationship with the Diocese but the Diocese has no rights or involvement in management of those organisations.

5. The Diocese and Parishes are in a diverse environment. The Diocese operates in regional cities (Townsville, Cairns, Mackay), regional towns as diverse as Bowen, Mount Isa, Innisfail, Hughenden and Mareeba, indigenous communities such as Palm Island, Yarrabah and Lockhart River, and remote areas such as Gulf of Carpentaria - Cape York Peninsula and the Torres Strait.

6. Parishes across the diocese are also diverse in size, resources, skills, social backgrounds and ethnic mix. Some are capable of mustering resources for complex activities whereas other parishes struggle to provide basic religious activities, property maintenance and administrative reporting.

General Comment

7. The Diocesan Council of The Corporation of the Diocesan Synod of North Queensland ("the Diocese") welcomes the action of the Commonwealth to conduct a review with the objective of identifying fairer, simpler and more effective tax concessions for the not-for-profit sector.

8. Despite the existing range of concessions, navigating and complying with the taxation system is a challenging task for the Diocese and its Parishes. Improving the ease of administration and compliance with regard to the system of taxation would be welcome independently of any fiscal benefit to not-for-profit organisations arising from a taxation review.

Tax on Unrelated Commercial Activities

9. The Diocese recommends that where the net proceeds of unrelated commercial activities are wholly directed into the charitable purpose of its related not-for-profit organisation, those commercial activities should continue to be free of tax on its income.

10. Within the Diocese's operations, the operation of some churches and small scale welfare activity is supported through income from "opportunity shops" that sell donated second-hand goods. Churches also raise funds through events such as fetes and fairs. If any of these activities became subject to tax on profits, it would be a serious impediment to fundraising for supporting the activities of local churches.

11. In the remote indigenous communities of Kowanyama and Pormpuraaw, the Diocese operates retail stores selling general groceries, some takeaway food and some general merchandise. The net proceeds from these stores have been utilised to fund two fulltime indigenous priests who reside and minister in each community. The net proceeds of the stores have been used to pay for travel, training and programs with a direct benefit within the Cape York Peninsula region. If the proceeds of such operations became taxable it would reduce the viability of the operations and impede the Diocese's ability to support ministry to these remote indigenous communities.

Deductible Gift Recipient Status

12. A proposal to broaden Deductible Gift Recipient (DGR) status to a wider range of Public Benevolent Institutions is generally welcome because it is envisaged that it will increase donations to charitable institutions in general.

13. Many worthy organisations that provide benefit to the community in general do not currently qualify as DGR. This includes religious organisations.

14. If the number of organisations in receipt of DGR status was expanded, it would be welcome if the administration processes related to DGR be made as straightforward as possible so that the burden of administrative tasks do not cancel out the net benefit of DGR to each participating organisation.

15. The newly formed Australian Charities and Not-for-profit Commission (ACNC) has a category of Basic Religious Charity (BRC) with minimal reporting requirements in recognition of their nature, size and scarce resources. Any expansion of DGR will need to be reconciled with BRC.

16. If DGR status is made available to charities that exist for the advancement of religion, it will be essential that the donated money that attracts a tax benefit could be used generally across the organisation instead of narrowly for those activities that are viewed as most directly meeting the charitable purpose. If the permitted use of DGR monies was defined narrowly it would severely impede the charitable purpose because necessary ancillary activities would be underfunded with donations siphoning away from non-DGR to DGR activities.

17. If DGR status is made available to a wider range of organisations, it is recommended that organisations be permitted to refuse or opt out of DGR status thus rejecting both the potential benefits and the administration responsibilities that arise from DGR.

18. In considering the cost to the tax system of providing DGR status to a wider range of organisations, caution is recommended when estimating the cost of providing this benefit to organisations that exist for the promotion of religion (e.g. churches). In churches and similar organisations, the Diocese is of the view that it would have little effect on what the regular membership would give to the church as this group would tend to give without reference to tax benefit. Tax deductibility would probably have a greater influence on those who are sympathetic to the aims and activities of the church but are not part of the regular membership.

Fringe Benefits Tax

19. The Diocese is of the view that removal of the Fringe Benefits Tax (FBT) exemption for its clergy and other eligible employees would have a dramatic negative effect on its ability to provide ministry services across the Diocese with the greatest impact in rural and remote areas including indigenous communities.

20. Each Parish with a remunerated clergyperson needs to provide housing (or a suitable housing allowance), a motor vehicle (or an allowance), telephone and other services for the clergy. If FBT was applied on all of those provisions, there would be a significant increase in costs of maintaining a clergyperson, which is likely to exceed $40,000 per annum if the full value of the benefits became taxable. This change would make it unaffordable to appoint and remunerate clergy in a number of locations throughout the diocese.

21. With active clergy usually relocated after 3 to 10 years, it is unreasonable to expect clergy to purchase their own accommodation in the location where they have been sent to minister. On this basis, clergy housing is a necessary provision and should not be viewed as a taxable benefit.

22. The Diocese is active in a number of places where housing accommodation is in shortage. If FBT were applicable in those cases, it would place disproportionate pressure on funding ministry in those locations.

23. The activities of clergy are difficult to divide between ministry work and personal activities particularly due to the flexibility of hours required in the role. The nature of clerical ministry is that there is no set working hours and that they are on call to respond to ministry issues at all hours. For clergy, working hours do not govern their income and they do not get overtime pay or penalty rates. Any requirement to discern the proportion of work use versus personal use would be difficult and unreliable.

24. If the global FBT exemption were to be removed, the Diocese is of the view that clergy housing and utilities, clergy motor vehicle use, clergy telephone and internet use should be considered as fully necessary for the role and be excluded from FBT.

25. The ability of clergy to participate in salary sacrifice and not trigger FBT allows the Diocese to be able to offer adequate employment conditions and lessening the gap between remuneration as a clergyperson and in the general employment

market. It would also recognise that clergy spouses often assist with ministry activities and are not remunerated for that activity.

26. The Diocese supports FBT exemption on salary sacrifices to a cap of 30% of the cash portion of clergy remuneration.

27. The Diocese rejects the view that FBT exemptions for its clergy distort the labour market. Remuneration is generally not the motivation for taking on a vocation as a clergyperson.

Franking Credits

28. The Diocese views the receipt of Franking Credits as important to maintaining the value of the monies held in trust and invested by the Diocese. If Franking Credits were removed, the Diocese would be taxed on those investments that earn Franking Credits.

29. Loss of Franking Credits would necessitate a review of how trust monies are invested and would probably lead to some long-term share holdings being liquidated in favour of term-deposits with banks.

Conclusion

30. The Diocese has a continuing challenge in maintaining its religious and welfare activities and would naturally welcome any change that enabled it to expand its activities for the benefit of the community.

31. The Diocese therefore asks the reviewers
    a. not to overestimate the additional income that would arise from broadening the DGR status;
    b. to recognise the importance of the FBT exemption for maintaining clergy positions, especially in remote areas;
    c. the contribution of income from other commercial activities to maintaining key activities; and
    d. the importance of keeping administration processes simple because many affected organisations have little administrative capability.

Contact person

Mr Christopher Nelson
General Manager/Registrar
Anglican Diocese of North Queensland
PO Box 1244, Townsville Qld 4810
Level 1, 155-157 Denham Street, Townsville Qld 4810
Phone: 07 4771 4175
Email: generalmanager@anglicannq.org