

BEEHIVE INDUSTRIES OF WA (INC)

Not For Profit Sector Tax Concession Working Group

SUBMISSION

12/17/2012

1. Introduction

This submission is a response to the Not-For-Profit Sector Tax Concession Working Group ('NFPSTCWG') discussion paper November 2012. The submission is made on behalf of Beehive Industries of WA (Inc) by its Chief Executive, Vivienne Lowndes. The purpose of the submission is to provide comment on the proposed changes to the Not For Profit Sector outlined in the NFPSTCWG discussion paper, from the perspective of Beehive Industries of WA (Inc).

2. About Beehive

Beehive industries of WA (Inc) ('Beehive') is an activity workshop operating in Perth, Western Australia. Beehive's mission is two-fold: to maintain an activity workshop for people who are elderly or who have some disability or disadvantage and to provide work assisting them to remain independent, to feel needed and useful, to be physically and mentally stimulated and to enjoy the respect and companionship of their fellows.

Beehive is the only Workshop in Western Australia serving older people who are determined to remain active in a working environment. It is also the only fully independent Activity Workshop of its kind in Australia. The Workshop at Beehive is provided for people who have experienced more of life than most, people who have some disability or people who may be facing other difficulties. They include disadvantaged men and women, unemployed people, homeless people, people with mental and other illnesses, refugees and migrants. Many cannot secure employment because of their age or disability and Beehive is a great opportunity for these folk to be involved in a community, meet some amazing people and work alongside new friends. Beehive Industries is supported by businesses and individual enterprising people who use our skills, experience and special talents to extend their own core business and add value to their services.

The workshop is located in Perth, Western Australia and currently employs 3 very dedicated and hardworking staff. In 2011 the annual number of attendees to the workshop was 72, providing a total of 35,315 hours at the workshop.

3. Beehive's Current Tax status

Beehive currently holds the status of Public Benevolent Institution (PBI) and a Deductible gift recipient (DGR). It is an autonomous Society, with an elected Board of Management, inspired by older people wishing to remain independent and working.

Therefore, the following tax concessions are available to Beehive:

- Income Tax exemption
- Refundable Franking credits
- Fringe Benefits Tax ('FBT') exemption (\$30,000 cap)
- Other Fringe Benefits Tax exemptions
- GST Concessions

4. Income Tax Reforms

4.1. What Criteria should be used to determine whether an entity is entitled to an income tax exemption?

The current criteria for income tax exemptions should apply in future. The ability to self assess based on the types of income tax exempt entities is beneficial for organizations who are not considered Charities and do not fall into the category of Income Tax Exempt Fund. However, as the ACNC bill extends to charities and Not-For-Profit organizations (NFPs), yet currently covers only charities, we are concerned about the impact the ACNC bill may have for organizations established for purposes beneficial to the community but not currently recognized as Charities.

4.2. Are the current categories of income tax exempt entity appropriate? If not, what entities should cease to be exempt or what additional entities should be exempt?

The current categories for income tax exemption include:

- Community service organizations
- Cultural organizations
- Educational organizations
- Employment organizations
- Health organizations
- Resource development organizations
- Scientific organizations
- Sporting organizations

Whilst we agree with the categories of exempt organizations, we feel that there should be clearer classifications within the categories. Also, the tax exempt status for some organizations is questionable. For example, animal racing, art, games, sport, literature and music associations are tax exempt under the category of sporting organizations. Whilst animal racing raises questions including possible association with gambling addictions, this type of association nonetheless enjoys tax exempt status. It is our opinion that organizations such as Beehive face a constant struggle for funding, coupled with ever rising expenses, and it is not equitable or just to provide the same tax exemption status for causes such as animal racing, art, games, literature and music.

4.3. Does the tax system create particular impediments for large or complex NFPs?

As Beehive is a relatively small organization, with limited resources we feel that the tax system creates impediments not for large NFPs, but rather for small NFPs. Large NFPs have more resources at their disposal therefore compliance can be outsourced or technical staff can be hired. For small NFPs such as Beehive, the exemption from income tax and its associated lodgment of returns means that the energy of our staff can be directed towards helping the beneficiaries of the organization. Exemption from income tax should be more readily available for smaller organizations.

4.4. Extending the ATO endorsement Framework

The requirement for the Commissioner of Taxation to endorse a charity for income tax exemption should not be extended to include NFPs. NFPs are currently able to self assess for income tax exemption and imposing the endorsement requirement would present a huge burden. With a small number of staff members, NFPs could struggle with the additional compliance such as applying for the tax exemption, tax office liaison and increased documentation. Therefore, the endorsement framework should encompass charities and not be extended to include NFPs.

The suggestion that endorsement capability for tax exemption, rebates or concessions should be transferred from the Commissioner of Taxation to the ACNC is charged with danger and is not supported in any way.

DGR Reforms

4.5. Would a fixed tax offset deliver fairer outcomes?

A fixed tax offset may deliver fairer tax benefits for low income earners, however empirical data shows that 53.8% of individuals in the highest tax bracket donate, compared with 6.3% of individuals on the lowest tax bracket. This is because individuals on higher incomes have higher disposable income. Introducing a fixed tax offset may provide less incentive for high income individuals to donate. Further, if an offset is introduced rather than the existing deduction mechanism there is scope for the offset rate or amount to change with successive governments, and the question arises of implementing the correct amount or rate of offset. By keeping the current deduction mechanism, it is clear to individuals who donate how deductions will reduce their taxable income.

4.6. What other strategies would encourage giving to DGRs, especially high income earners?

Another strategy of encouraging giving to DGRs is to lower the property donation threshold of \$5,000. Individuals would be more inclined to donate property items if a tax deduction was given for amounts of property valued over \$500 for example. This would benefit NFPs and charities in the long term.

4.7. Would a clearing house linked to the ACN register be beneficial to the sector and public?

At an estimated cost of \$25 million dollars to implement, a donation clearing house is not an effective method of processing donations. Individuals who donate appreciate the direct contact between themselves and the NFP or charity. A clearing house would intrude on this relationship and minimize direct contact between the community and the NFP or charity.

Organizations who rely heavily on public appeals for donations have expressed grave concerns about those donations being diverted through a clearing house. The concerns extend to the length of time between the donation and its availability for use by the intended recipient.

Beehive Industries is concerned about maintaining the relationships between the organization and its supporters, keeping it a simple transaction for a supporter to donate directly to Beehive and for Beehive to receive donations as soon as the donor intends.

4.8. Should the threshold for deductible gifts be increased from \$2 to \$25?

It is accepted that those who donate less than \$25 usually do so to express appreciation and, in the experience of this organization, offer the most they can afford. Some may not earn more than the tax-free threshold but many do and they are grateful for the receipt that enables any reduction of their taxable income.

There is the view that a figure higher than \$2 would encourage higher donations but this can only be tested by raising the threshold. The consequential loss of donors of small amounts cannot be measured but should be considered not only as a monetary loss but also as a loss of capacity to contribute to the community.

5. FBT Reforms

5.1. Should salary sacrifice meal entertainment and entertainment facility leasing benefits be brought within the existing caps on FBT concessions?

Salary sacrifice meal entertainment and entertainment facility leasing benefits should not be brought within the existing caps for FBT concessions. These benefits that are effectively salary packaged are a method of attracting staff to the NFP sector, and by including the benefits within the existing caps the benefit employees can salary sacrifice will be greatly reduced. This will in turn make the NFP sector less appealing to potential employees, and lead to a severe shortage of staff in the long term.

5.2. Should the limitation on tax exempt bodies in the minor benefits exemption be removed?

The NFP sector should be able to enjoy the minor benefits exemption of \$300 for infrequent benefits provided to employees, as the commercial sector does. NFP staff should be able to receive small gifts such as flowers or Christmas presents without their employer having to pay FBT on these minor benefits. Removing the limitation would make the NFP sector a more attractive employer.

5.3. Should FBT concessions be phased out?

One of the proposed replacements to the FBT concessions is to implement a direct tax offset for employees of eligible entities. The purpose of this proposed reform is to replace the value of FBT concessions in remuneration packaging for employees of eligible entities. We disagree with this measure for several reasons.

Firstly, FBT is a tax borne by employers, not employees, and therefore providing an offset to employees is a flawed mechanism. Secondly, by implementing an offset to employees, the measure effectively takes away the employer's capacity and responsibility to structure remuneration for employees. The NFP sector needs to remain competitive and flexible in what it can offer staff and how it can structure salary packages. This measure would make it very inflexible and eliminate the opportunity for staff to package their salaries effectively. Further, if the measure is adopted all current salary arrangements would need to be renegotiated to factor in the offset. This is burdensome and costly for NFPs.

6. Conclusion

It is evident from the discussion paper the proposed measures are intended for revenue raising purposes. Whilst reform is welcome in the Not-For-Profit sector, we must highlight that cost cutting measures will ultimately affect the beneficiaries of Not-For-Profit groups and charities, having a flow on effect to the disadvantaged members of the community.

We welcome any future opportunity to discuss changes to the Not-For-Profit Sector.