



## **Not-for-profit Sector Tax Concession Working Group**

### **Discussion Paper:**

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

**SUBMISSION FROM THE SALVATION ARMY  
AUSTRALIA**

**December 2012**

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

The Salvation Army is pleased to continue to contribute to the Not-for-profit Sector Tax Concession Working Group (the Working Group) consultation on its Discussion Paper titled *Fairer, simpler and more effective tax concessions for the not-for-profit sector* (the Discussion Paper).

### **About The Salvation Army**

The Salvation Army is the most recognised charity in Australia. The Salvation Army's services are open to all, without discrimination. The foundation of The Salvation Army and its current ethos affirm its religious commitment and its social commitment as equal and indivisible. The Salvation Army describes this as a "holistic mission".

The Salvation Army is an evangelical part of the universal Christian Church. Its message is based on the Bible and its ministry is motivated by the love of God. Its Mission is both spiritual and practical, encompassing the preaching of the Gospel of Jesus Christ and alleviating human suffering and distress without discrimination.

### **Values of The Salvation Army**

The Salvation Army values:

<b>Human dignity</b>	we affirm the worth and capacity of all people
<b>Justice</b>	we promote healthy and whole relationships, and good society
<b>Hope</b>	we work for reconciliation, healing and transformation for all people and creation
<b>Compassion</b>	we feel compelled to stand with and do something about another's suffering
<b>Community</b>	we build community and meet with God in our encounter with others

### **Attributes of The Salvation Army**

The Salvation Army:

- Is viewed by the community as highly committed, visible and trustworthy;
- provides a seamless approach to welfare and community work with a network of people available to assist those seeking its services;
- Is also seen as responding to current social needs with expertise and professionalism. The Salvation Army provides its services without discrimination and supports the most disadvantaged and marginalised in our society;
- Introduces life changing approaches as it is committed to changing the lives of people in crisis and not just meeting their immediate needs.

The Salvation Army in Australia is a part of the worldwide Salvation Army.

## **Submission**

The Working Party's Discussion Paper explores whether there are better ways of delivering the current suite of tax concessions provided to the not-for-profit sector.

The Discussion Paper addresses a range of not-for-profit tax concession categories, namely income tax, deductible gift recipients, fringe benefits tax, goods and services tax and the principle of mutuality.

In total there are 57 questions contained in the Discussion Paper. In response to the Discussion Paper, The Salvation Army comments as follows.

### ***Income Tax Exemption and Refundable Franking Credits***

The Discussion Paper provides a succinct summary of the history of income tax exemptions in Australia. The Discussion Paper also includes a section on the Working Party's concerns about income tax exemption for the not-for-profit sector. The Salvation Army observes the section regarding the Working Party's concerns is brief and it is unclear exactly what the Working Party's real concerns are in regard to current income tax exemptions and how these concerns therefore result in the reform options being proposed.

Currently the basis of income tax exemption for the 'charity part' of the not-for-profit sector in Australia is based on common law principles.

The Salvation Army observes the Discussion Paper has linked income tax exemption for charities with the concept of a 'public benefit test' applying. The Salvation Army is greatly concerned with this linkage. Our concern lies with the fact there is currently in existence a presumption of public benefit for charities (with the exception of the charitable purpose of other purposes beneficial to the community) and accordingly there is no 'public benefit test' to be met and nor should one be created. It is essential the presumption of public benefit and associated income tax exemptions are retained.

In the absence of further compelling evidence identifying that significant reform is required to the eligibility for income tax exemption and in light of other not-for-profit sector reform processes that are still to occur, The Salvation Army presently has no further comments to make in this regard.

In relation to the Discussion Paper's questions on refunds of franking credits, The Salvation Army does not support any recommendation to limit the ability for organisations to access the refunds of franking credits.

The Discussion Paper raises the issue of all not-for-profit entities being required to be endorsed in order to access income tax exemptions. The Salvation Army believes the implementation of the Australian Charities and Not-for-profits Commission (ACNC) as a full not-for-profit sector regulator, as opposed to being limited to only regulating charities, will address this issue overtime.

### ***Deductible Gift Recipients***

The Discussion Paper includes several options for consideration in relation to expanding the range of charities that could become eligible for obtaining DGR status.

If changes were made to the range of charities that could obtain DGR status, The Salvation Army provides in principle support for the extension to be granted to all charities, regardless of the charitable purpose for which the organisation exists.

If such an extension were to occur, The Salvation Army would not support restrictions being imposed on the use of those funds.

The Salvation Army recommends further consultation would need to occur with these proposals to ensure such a change would not result in unintended detriments arising. Further to this, future proposals for extending DGR status to additional charities should also permit charities to opt out of the DGR regime and not be endorsed for DGR status.

The Discussion Paper identifies a proposal to move from a regime of tax deductions to a flat tax offset regime for donors of tax deductible gifts. The Discussion Paper states there may be an overall decline in giving as a result of this proposal. The Salvation Army is concerned with, and would not support proposals that would result in either lower levels of donations being received or act as a disincentive for charitable giving.

The Discussion Paper's proposal to establish a clearing house for donations to DGRs is not supported by The Salvation Army. A donation clearing house has potential to undermine the independence and autonomy of the charitable sector.

The Discussion Paper also asks the question, should the threshold for tax deductible gifts be increased from \$2 to \$25 (or some other amount)?

The Salvation Army recognises the \$2 threshold limit has been in existence since 1927 (where the deductibility threshold was one pound). The Salvation Army also recognises there are various views on the continued suitability of retaining the \$2 threshold.

It is The Salvation Army's practice to issue a receipt to a donor regardless of the size of the gift received. It is submitted that this practice would not change even if the dollar amount of the deductibility threshold was increased from its current \$2 amount. Accordingly The Salvation

Army would not obtain any compliance relief (perceived or otherwise) from having a higher deductibility threshold and nor does The Salvation Army believe it is appropriate for donors who do make small value donations to be penalized with the removal of the lower threshold amount.

### ***Fringe Benefits Tax Concessions***

The Discussion Paper proposes a number of options for change to the FBT concessions relevant to the not-for-profit sector.

The Salvation Army observes the Discussion Paper includes intermingled references to, and data about, FBT concessions being provided to government run public hospitals. The inclusion of both these references and the mixed data relating to government organisations not part of the not-for-profit sector in a Discussion Paper that is solely about the not-for-profit sector is disappointing and misrepresentative. This inclusion distorts the underpinning from which the Discussion Paper's concerns are based and therefore the recommendations that can be made.

The Salvation Army is yet to be convinced there is a need for any of the changes proposed by the Working Party in the Discussion Paper.

To the extent any changes were made to the current meal entertainment and entertainment facility leasing benefits, The Salvation Army would only support these benefits being brought within the FBT cap if the FBT cap is increased from its current level of \$30,000 per employee. It is noted the FBT cap has not been adjusted since its inception. At a minimum, an indexation of the cap should be considered.

If such a change were to be implemented, The Salvation Army submits the change to the meal entertainment and entertainment facility leasing benefits is limited to only those benefits provided under a salary sacrifice arrangement.

The Discussion Paper also briefly identifies longer term options for changes to not-for-profit sector FBT concessions. The Salvation Army is greatly concerned with the proposed alternatives and does not believe the alternatives raised will be effective, sustainable or able to survive potential short term fiscal needs of future governments. There is also a risk the independence of the not-for-profit sector would be compromised due to the changes that would occur in the relationship between not-for-profit organisations and the Federal Government. The Salvation Army does not support the options presented in the Discussion Paper.

### ***Goods and Services Tax Concessions***

The Discussion Paper identifies input taxed fundraising events and non-commercial supplies as two not-for-profit specific GST concessions for review.

The Salvation Army would support a principle based definition being developed for the purposes of input taxed fundraising events, and further to this recommends that no limits are placed on the number of input taxed fundraising events an entity can hold per annum. Currently there is an ATO imposed limit of 15 identical events that can be held, and whilst this may be suitable for small or medium entities, the practical implication of this limit for large organisations operating across Australia is that the concession is rarely used to ensure the limitation is not breached.

The Discussion Paper also outlines a proposal for an opt-in arrangement for the non-commercial supplies GST concession. There is some appeal in having flexibility in this area. The Salvation Army recommends though further work is undertaken in developing this reform to ensure there are no unintended consequences or increased compliance costs being created as a result of the change.

The Salvation Army appreciates the opportunity to contribute to the Working Group and if you have any questions or would like further clarification please do not hesitate to contact me.

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