Senior Advisor
Individuals and Indirect Tax Division
The Treasury
Langton Crescent
Parkes ACT 2600

4 August 2017

To whom it may concern,

Social Ventures Australia (SVA) welcomes the opportunity to provide a response to the Discussion Paper on Tax Deductible Gift Recipient Reform Opportunities.

SVA broadly supports the positions put by Philanthropy Australia (PA) and the Community Council of Australia (CCA) in their submissions, including:

- The need for more comprehensive reform of the Deductible Gift Recipient (DGR) regulations, providing greater clarity on the purpose and benefits of DGR as well as clearer and simpler rules for listing;

- Support for and strengthening of the role of the Australian Charities and Not-for-profits Commission (ACNC) including ensuring it is properly resourced to undertake its regulatory functions;

- Support the requirement for DGR organisations to be a charity and for ACNC to be responsible for making recommendations of DGR status to the Australian Tax Office, so long as it is resourced to do so;

- Support the phasing out of multiple DGR listings;

- That the Government should avoid adding further ‘red tape’ – that would duplicate existing functions and oversight of the ACNC which are currently operating well;

- That advocacy activities are a vital part of what charities contribute to the sector and that there seems no clear benefit, and substantial risks, associated with adding further compliance obligations suggested in the Discussion Paper, particularly given the ACNC has already provided guidance in this area. The proposals around advocacy should not proceed.

SVA also wishes to comment specifically on the potential negative implications on the burgeoning Australian impact investing market of the proposed five year sunset clause for specifically listed DGR organisations.

SVA believes this proposal is unnecessary and will have negative consequences. It is also not supported by either CCA or PA.

The Australian Government already has the ability to place conditions on an organisation's DGR status, as well as significant powers to intervene and conduct or direct reviews of DGR organisations where they believe it is necessary because of potential malfeasance.

An automatic five year sunset will simply add to the compliance burden for the organisation, as well as the workload of Treasury, the ATO and ACNC, without any demonstrable benefit.

In the 2017/18 Budget, the Government has committed to encouraging the growth of the Social Impact Investing Sector.[1] However, introducing an automatic expiry of DGR specific listings after five years could undermine investment in this sector, particularly for much needed patient capital in the form of long-term investments (beyond five years).

SVA is of the view that introducing a general sunset provision will also have a 'chilling effect' on both impact investing and on philanthropic grant making and could potentially undermine existing impact investment contracts.

Instituting a five year automatic sunset for specific listings, could:

- Compromise investments by Private Ancillary Funds into impact investing arrangements involving these DGR organisations;

- Undermine impact investments which run for longer than five years or span the period of review, undercutting investor confidence;

- Limit the development of new and innovative finance models which include hybrid funding from both philanthropic, sub-market, and market investors where the structure relies on one party – whether the service provider or intermediary – having DGR status;

- Increase the time and regulatory burden by requiring these organisations to renew DGR status – which in many cases currently takes over a year;

- Create uncertainty for strategic business planning for these DGR organisations;

- Create uncertainty for donors to these DGRs not only as the end of the five years approaches but also in the two or three years prior given the multi-year funding cycles of some philanthropic organisations and individuals (which should be encouraged, not discouraged).

New forms of impact investing in social and affordable housing, social impact bonds, social enterprises and intermediate labour market programs could all potentially be adversely affected by this proposed change.

As a market leader in impact investing, SVA would be happy to meet directly with Treasury to provide examples of how these provisions could negatively impact on the current and future market.

[1] Budget Paper 2, *Budget Measures 2017-18*, Commonwealth of Australia, p156

Yours sincerely,

Patrick Flynn
Director, Policy and Advocacy
Social Ventures Australia

About Social Ventures Australia
Social Ventures Australia (SVA) works to improve the lives of people in need. We focus on keys to overcoming disadvantage in Australia, including great education, sustainable jobs, stable housing and appropriate health, disability and community services. By offering funding, investment, and advice we support partners across sectors to increase their social impact.