A joint submission by Diabetes Australia, National Heart Foundation of Australia, Kidney Health Australia and the National Stroke Foundation in response to the Australian Government's

Re:think Tax Discussion Paper

Chapter 7 Not for Profit Sector
1 June 2015

Overview of the sector

Australian charities deliver vital and essential services and programs to the Australian community, often at no direct or at minimal cost, to Government. These programs and services can fill essential gaps on behalf of Government, or in areas of service delivery that Government has not, or cannot fill, via public service agencies. In the health sector, this can include critical programs such as guidelines and disease management publications for doctors, educational forums and training for medical professionals, lifestyle modification and health improvement initiatives, and vital psychosocial support services.

Without the modest concessions provided through the taxation system, and in light of the increasingly difficult revenue and fundraising environment, we run the risk of eroding the viability of charities to deliver these vital and often already oversubscribed services to the Australia community. Ultimately, this will create increased costs for Government, as those who fall through the cracks as a result of diminished service delivery will often require higher cost, intensive or emergency treatment, if left unchecked. Through the work of charities and their programs in the health space, we should continue to support these people in having their disease identified and managed appropriately; modify their lifestyle; and have ongoing rehabilitation and support.

Fiscal climate for not for profits

Charitable giving has remained flat since the GFC and despite some signs of recovery in the past year mixed signals suggest further stagnation to June 2014 (jbwere.com August 2014). The long term trend in the amount given per donor has been very positive with an average annual growth of 8.8% across Australia while inflation averaged 4.6%. However this strong growth in average donation levels has been offset by a decline in the proportion of taxpayers donating in recent years.

This trend was also reflected in the NAB Charitable Giving Index which reported that giving to charity grew by just 2% over the year to February 2015 down from 10% at the same time last year. This slowdown in giving has been linked with below trend economic growth and rising unemployment and that Australians are responding to heightened economic stress by cutting back spending on 'non-essentials' including charitable donations.

It is against these trends in sector-wide giving and the broader economic outlook that consideration of further changes to the tax arrangements of not for profits should be considered. Many of the measures outlined in Chapter 7 of the Tax White Paper would have significant impact on the operating budgets of public health not for profits (NFPs). Full consideration of the impact of any changes must take into account these additional pressures on delivery of critical health and information services and in some cases viability of some NFPs

Impact of 2015-16 Budget announcement on Meal and Entertainment and Venue Hire provisions

The recent 2015/16 Federal Budget included the measure that effective from 1 April 2016 an annual 'grossed-up' limit of $5000 will be introduced to Meal Entertainment and Venue Hire Benefits introducing a combined cap across both benefits applicable to each Fringe Benefits Tax (FBT) year (from 1 April to 31 March the following year). This will equate to approximately $2300 and $2550 spend on these categories of expenses depending on whether or not the expense incurred is subject to GST or not.

Whilst we are supportive of a cap for arrangements for salary sacrificed meal entertainment and entertainment facility lease expense, there are some concerns with the value of the cap announced in the 2015/16 Federal Budget will have a significant impact on the take-home pay for employees who can least afford it.

A 2012 survey of NFP employees asked participants to rate the importance of individual concessions on a scale of very important to very unimportant. The survey found that while the core FBT concession of $15,900 was most important, the meal entertainment concession received more 'very important' responses than superannuation, car and venue hire concessions.

Industry analysis shows modest expenditure across these benefits in comparison to the value derived for the NFP sector and the communities that they serve. Data for the 2012 FBT year illustrates that the average expenditure for meal entertainment is approximately $3500 per annum. It is understood that this level has increased since that time and for those eligible employees who use these benefits the expenditures are now close to $4000 per annum on meals and entertainment and closer to $4200 on venue hire. These equate closer to $8000 grossed up per annum and $8200 respectively in terms of a grossed-up value.

There is also an understanding amongst the senior management in the NFP sector that the importance of the salary packaging and FBT concessions has been very important in the past to attract and maintain high calibre people within this sector. Removing any concessions or placing caps on benefits will have an impact on future recruitment and current retention rates.

Government consideration of tax treatments for the NFP sector

The issue of how to tax the not-for-profit sector has been raised many times by the Federal Government over the last 20 years. In its 2010 *Study into the Contribution of the Not-for-profit sector,* the Productivity Commission (PC) addressed the issue of why tax concessions were beneficial to the not-for-profit sector. Some of the public benefits raised were:

- Tax exemptions assist not-for-profit sector organisations by allowing them to devote more of their income to their mission;
- Subsidising charities enables governments to further their social objectives, including by means of increasing support to the disadvantaged members of society;
- Tax exemption, rather than simply increasing state provision can result in better targeting of resources; and
- Subsidising charities ensures that those members of society who do not donate to charities but who nevertheless benefit indirectly from charities are contributing through their general tax payments.

In addition to the public benefits outlined above, the PC outlined some financial benefits of the tax concessions, including:

- They provide greater funding certainty for organisations as they may be less volatile than direct funding mechanisms, which can depend on the Government's fiscal position or changes in government preferences; and that
- They are administratively more efficient than direct funding mechanisms from the Government (which also costs the Government more in administering funds)

Tax concessions enable the not-for-profit sector to carry out activities that ultimately benefit all Australians. Without the tax concessions the positive outcomes provided to Australian society could be compromised and put at risk.

The tax concessions available to health promotion charities that have been raised by the Tax Discussion Paper are:

- Income tax exemption
- Refundable franking credits
- FBT exemption
- Other FBT concessions
- Deductible gifts
- GST concessions

Income Tax and refundable franking credits

All registered health promotion charities are income tax exempt and receive refunds on any franking credits. All funds received by these charities are used to further the achievement of their purpose.

A change to the income tax exemption would add additional administrative costs and require a compliance burden that could necessitate additional resourcing, negatively affect customer service levels and may also reduce productivity. The reduced income would also force a reduction in staffing levels and in some cases put the activities of these charities at risk.

Fringe Benefits Tax

As noted above, a recent survey of NFP employees rated the FBT concession as the most important concession. This is also reflected by the views of approximately 30% of NFP employers who indicate that they could lose more than 30% of their staff if the FBT concessions were removed without compensation.

Health promotion charities employ a diverse and often highly skilled workforce who enable us to deliver our work. Many of our employees choose to forgo salaries that they would receive in the open employment market to instead work for a not-for profit. The nature of our work means that there is a limited pool of mature and qualified resources to recruit from and the markets are often very competitive and skills short.

Given competitive market conditions, some of these charities regularly participate in salary surveys and benchmark themselves against current commercial market salaries. This research has consistently identified that salary rates fall below the commercial market, positioning the organisations in the bottom quartile or lowest 25 percent.

Given this salary position, salary packaging concessions are critical in aligning salaries to the commercial market and attracting skilled and technically qualified staff to job roles.

It is important to not only offer potential employees the opportunity to contribute to the wellbeing of Australians through our work but to also provide attractive remuneration arrangements. Without the ability to offer current salary packaging arrangements or any significant reduction to these provisions will significantly impact health NFPs ability to attract and retain staff.

The current FBT concessions for health promotion charities are an extremely important mechanism for recruiting and retaining staff. The benefits to staff enable charities to utilise resources more effectively to achieve organisational goals. Removing or altering these benefits would be detrimental to the operations of charities. These are tax benefits to all staff, regardless of their level of remuneration.

The importance of the FBT concessions is further supported by information provided through recruitment and exit interview processes of our respective organisations. Any significant reduction to the current taxation concessions available to us would put pressure on our limited resources and potentially result in the scaling back of our operations and therefore limit the funds available for our respective health programs.

It is also important to note that that the current caps on FBT concessions is the same as it was in 2000-2001, when first introduced. There has been no indexation since then and the concessions have essentially been eroded by around 30% when inflation is taken into account.

Deductible Gift Recipient (DGR)

NGOs derive most of their income from households, which is still the largest segment (50% of funding) for sourcing income for charities from public sources in Australia. However, since 2012 there has been a slowing of GDP growth and consequently a shift to demand driving growth rather than supply.

The majority of cash income is still derived from the direct mail channel with very little movement in other channels – although online donations have seen steady growth over the past 10 years. However, it has some way to go before it will take over direct mail as the primary source of income for cash giving donors. Furthermore, 2014 was the first year (since the GFC) in which Direct Mail acquisition declined year on year. It is also the first year since the GFC that the rate of attracting new donors has stagnated. The marketplace has become more fragmented with increasing competition and is already making an impact on fundraising.

There is evidence of diminishing returns for acquisition of new donors and retention of current owners due to the competitive nature of the market and the resources required to attract more donations. The removal of DGR status would effectively reduce the donor pool even further and force many charities to reduce their resources and services that they offer.

Conclusion

Tax concessions should not be solely considered from a bottom-line or monetary view which 'result(s) in significant revenue forgone'. These tax concessions play a vital role in supporting not-for-profits to deliver positive and measurable change outcomes across Australian society. This role is often played in active partnership with government.

Loss or reduction of tax concessions for public health NFPs will impact heavily on already tight margins. This will inevitably result in a reduction of essential services and program delivery which many of the most vulnerable in our society rely upon.