

Brett Kenny

From: Brett Kenny
Sent: Monday, 1 June 2015 10:12 AM
To: 'bettertax@treasury.gov.au'
Cc: 'Alan Tudge MP'
Subject: Tax White Paper Submission - Impact on Not for Profit Organisations (Community Sporting Clubs) of the Current Tax System

1st June 2015

**Tax White Paper Task Force
The Treasury
Langton Crescent
PARKES ACT 2600**

Email only: bettertax@treasury.gov.au

Dear Sir/Madam

Impact on Not for Profit Organisations (Community Sporting Clubs) of the Current Tax System

I make this submission as a private citizen not on behalf of any league or club.

I am a Chartered Accountant, a CPA, a Registered Tax Agent and am is closely associated with a not for profit sporting club with a turnover in excess of the mandatory Goods and Services Tax (GST) registration threshold of \$150,000.

I am making this submission in an attempt to give policy makers a greater understanding of the excessively onerous workload responsibility placed on Not For Profit Organisations, the vast majority of which are staffed entirely by volunteers, and the severe adverse financial impact of the current GST system.

It is important to understand there are two distinctly different issues of concern.

Firstly, I often hear that due to financial pressure on the Federal Budget, further relief from the GST will not be afforded to not for profit organisations.

I understand this, however I would comment that it is a very sad situation when local community and sporting clubs, staffed by volunteers are an essential component of revenue raising.

The second area of concern is why there is imposed on volunteers such an onerous compliance burden, when alternatives exist. It adds nothing to revenue raising and is in my experience counterproductive as the onerous requirements act as a disincentive to involvement. This adversely impacts on the revenue raising (and therefore tax collecting) capabilities of an organisation.

1. Financial impact of GST registration
 - a. The mandatory registration threshold is currently \$150,000, and has not changed since 1st July 2007 and is not indexed. Even with cost of living at 3% it should by now be \$184,000. Given it applies to gross revenue, not net profit, it catches even comparatively small organisations. This is effect a form of bracket creep.
 - b. A substantial component of revenue is expended on non-input taxed acquisitions, principally player payments. In the example of the Club with which I am associated a year of hard work by volunteers

results in the ATO receiving approximately \$15,000 for the year and the club having a surplus of \$3,500 to reinvest in sporting equipment. This is not a fanciful example, it is however a ridiculous and inequitable result.

- c. There appears to be inconsistency in the treatment of non-profit sub entities. The ATO advise that *"... a unit cannot be a non-profit sub-entity if its activities are related to the main purpose of the organisation, For example, an organisation cannot treat its membership activities as the activities as the activities of a non-profit sub-entity"*. I am at a loss to understand how a primary school is permitted to create sub entities to run a uniform shop or tuck shop yet a sporting club is not permitted to split off bar activities. Such a carve out to an input taxed activity would be enormously beneficial and should be permitted.
- d. The Club with which I am associated was fined \$850 for late lodging of a Business Activity Statement (BAS) with a payable amount of \$340. It is not in dispute that the BAS was lodged late, the reason being that it was an off season BAS with virtually no activity. Off season we have no access to rooms or facilities as the local cricket club is the tenant at that time. The volunteer treasurer was taking a well-earned break and it was overlooked. However the penalty is not commensurate with the offence. I acknowledge that after intervention by me the penalty was ultimately remitted however the impact on the morale of the Committee of the Club following the imposition of the penalty was harsh and unnecessary.
- e. There other examples where GST registrants have the option of adopting a "standard net GST" rate applicable to activity e.g. the 5.5% rate applicable to long term accommodation in caravan parks. For example a club could after lodging its first BAS (or even its first years BAS to account for seasonal fluctuations) have a net % rate determined and future committees could opt to use that to be applied against gross receipts. At least providing this as an option would provide a risk mitigation strategy.

2. Risk of involvement

- a. Due to uncertainty over potential penalties, many capable people will not get involved officially. I am willing to commit time to a volunteer organisation but not at the expense of my livelihood. A penalty for a tax offence affects a tax agents registration. Hence the very people who should be involved are not because of risk levels.
- b. Despite imposing an intolerable burden on volunteers there is virtually no training on offer. What is available certainly does not cover the requirements imposed on volunteers by the GST legislation.

3. Uncertainty over transactions.

- a. It is well beyond the scope of this submission but the issues around PAYG (withholding) remain unclear.
- b. Many organisations encourage participants to obtain sponsor. If a participant can't find a commercial sponsor it is usually falls back to a parent or well-meaning friend or relative to sponsor them. The GST Status of such a receipt is uncertain, no definitive answer exists. Trying to find an answer to questions such as this is difficult and well beyond the resources of a volunteers with no tax experience.

4. Workload

- a. The requirement to split transactions to meet GST compliance, results in an enormous amount of work. Each individual docket must be examined to dissect out what has GST and what doesn't. This is exacerbated in a sporting club environment where acquisitions can be mixed (GST and GST Free) and supply can also be mixed (Oranges consumed at breaks are GST free, those sold at the canteen are not). The general ledger for the organisation with which I am associated for the nine months to 30th June 2014 contains 3611 entries.

5. Bureaucratic inflexibility

- a. Having to deal with all 3 levels of Government is an enormous burden and waste of time.
- b. There is absolutely no allowance for the fluid nature of committees. The Club with which I am associated took over a file where the previous party who assisted with compliance was extremely ill. Getting documents from him and details necessary to meet deadlines have has been near on

impossible, understandably so. There is no flexibility or provision to assist clubs get back on track if a previous committee is behind with compliance.

- c. Whilst not directly impacted by the federal tax system the reporting requirements that Consumer Affairs Victoria imposes on Clubs are ludicrous. I draw your attention to the requirement that we must produce a Statement of Changes in Equity. This would be laughable if it wasn't true. I have attempted to explain to Consumer Affairs that as a Club we don't have equity and therefore can't produce a statement of changes in it. Despite this they are unrelenting and I was forced to waste my time producing a statement of complete nonsense which took considerable time and achieves nothing. I act for companies in the construction industry turning over \$20 million per annum with 30 employees who do not have this onerous level of reporting. Why it is imposed on a volunteer driven- community group is beyond my comprehension. I am unable to understand why a volunteer based organisation should have reporting requirements greater than a commercial enterprise. Having the limited time and resources of volunteers wasted in this fashion reduces further the tolerance of volunteers to cope with an excessively onerous tax system.

I make this submission in good faith and would be pleased to elaborate further on any matter should it not be clear.

Brett Kenny

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