



World Vision

Australia

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AFTS Secretariat
The Treasury
Langton Crescent
PARKES ACT 2600

Submitted by email: AFTSubmissions@treasury.gov.au

Australia's Future Tax System – Submission of World Vision Australia

World Vision Australia (**WVA**) welcomes the opportunity to make a submission to this important review.

WVA's submission responds to consultation question 7.1 regarding the appropriate tax treatment of not-for-profit (**NFP**) organisations and focuses primarily upon the importance of the existing tax concessions available to public benevolent institutions (**PBIs**).

WVA encourages the Panel to:

- support the retention of the PBI as a subset of charity eligible to receive tax concessions - noting that the tax concessions PBI status entitles organisations such as WVA to receive crucial support;¹ and
- ensure that any recommendations it makes which may have the effect of limiting the scope or removing any of the existing tax concessions PBIs are eligible to receive is also accompanied by a recommendation that new concessions (of at least equivalent value) be built into the tax system to cover any loss of benefit to PBIs.²

With particular reference to section 4.2 of the AFTS Consultation Paper which requires the Panel to examine the complexity of the existing FBT arrangements for the NFP sector and make recommendations to improve equity and simplicity for the long term, WVA also encourages the Panel to:

¹ For organisations such as WVA – for which government service contracts or grants do not constitute the primary income stream (it is noted that for the year ended 30 September 2008 WVA's total revenue was \$355.4 million of which \$18.4 million constituted grants from AusAID and other Australian agencies) - there are practical limitations to the impact of benefits that the government can provide through service delivery price adjustments or direct grants.

² For example, if the fringe benefits concession for PBIs is removed it should be replaced by a regime offering equivalent exemption thresholds to enable PBIs to continue to offer competitive salaries.

- support the retention of the fringe benefits tax (**FBT**) concession currently available to PBIs; and
- preserve the *real value* of the FBT concession available to PBIs by making a recommendation that the capped exemption threshold of \$30,000 be indexed to average male wages back to the date the threshold was set.

About WVA

WVA is Australia's largest privately funded overseas aid, development and advocacy organisation. Operating out of its headquarters in Burwood East, Victoria, WVA employs about 620 permanent staff and manages around 4,000 volunteers. In 2008, WVA raised approximately \$350 million in cash and goods from the Australian community and contributed to programs in 64 countries. WVA is part of an international partnership of independent national World Vision offices that share the common mission of seeing an end to poverty, suffering and injustice. The World Vision international partnership operates in 97 countries.

WVA's mission is to be a Christian organisation that engages people to eliminate poverty and its causes. In particular, our mission is enacted through:

- Emergency relief and community development, using best practice programs to save lives and build sustainable communities;
- Policy change, advocating for government and institutional policies in Australia and internationally which benefit people in need; and
- Engaging Australia, to educate people about the causes of poverty and challenging them to be involved in its alleviation.

WVA is a public company limited by guarantee (ABN 28 004 778 081).

WVA's current tax concessions

WVA is a Public Benevolent Institution (**PBI**) endorsed by the Australian Taxation Office:

- to access 'charity tax concessions'; and
- as a deductible gift recipient (**DGR**) to operate two gift funds: (i) an Overseas Aid gift fund; and (ii) a Necessitous Persons gift fund.

Accordingly, WVA benefits from the following tax concessions:

- Income tax exemption (under Subdivision 50-B of the *Income Tax Assessment Act 1997 (ITAA 97)*);
- GST concessions (under Division 176 of *A New Tax System (Goods and Services Tax) Act 1999*);
- FBT exemption (under section 123C of the *Fringe Benefits Tax Assessment Act 1986*)
- Receipt of deductible gifts as a DGR (under Subdivision 30-BA of the *ITAA 97*);

- Eligibility for franking credit refund (as an 'exempt institution' under s 207-115 ITAA 97); and
- Exemption from various state taxes including payroll tax, stamp duty and certain land taxes.

Tax concessions for PBIs

Australian charities perform vital functions both domestically and overseas. International aid and development charities like WVA are engaged in assisting and supporting some of the world's poorest and most disadvantaged people and communities. Charities working in the international aid and development field contribute to the relief of poverty, provision of education, protection of the environment, the defence of human rights, improvement of health and the provision of emergency relief. Such organisations also make a central contribution to promoting the effective operation of democratic political systems particularly in assisting the empowerment of citizens to express their views and to influence public policy and service delivery matters.

In addition to humanitarian objectives, assisting communities in developing countries to reduce poverty, achieve sustainable development and promote the effective operation of democratic political systems enhances regional and global security and is in line with Australia's national interest. The Australian Government recognises the vital contribution that the non-profit sector makes in providing assistance both here in Australia and overseas.³

In Australia the government has traditionally taken the view that where existing charities were delivering particular social services or meeting particular needs that it would be more effective and efficient for increased government funding of these areas to occur through government subsidy of those existing services rather than by a replication of them through creation of new government providers or departments. The availability of tax concessions designed to encourage charitable donations and strengthen the capacity of charitable organisations to meet social needs both within Australia and abroad is a well established and accepted method for governments to provide support to charities and the valuable work they perform.

The existing tax concessions WVA benefits from assist it to have greater impact and to more effectively achieve its mission. The concessions do this by acting to promote public donations (through the incentive to donors available under the DGR scheme) and by 'freeing up' funds raised to be applied towards WVA's charitable purposes rather than contributed to general tax revenue (through concessions such as the income tax exemption).

WVA encourages the Panel to ensure that any recommendations it makes for changes to the tax system which may impact the tax concessions and support PBIs currently receive are based upon principles which continue to recognise and support the valuable role that such organisations perform, and at a minimum, do not (either directly or indirectly) result in outcomes for PBI's which would place them in a worse position than under the existing regime.

The FBT concession

³ Attorney General's Department, Draft Guidance for Non-Profit Organisations on Counter-Terrorism Financing, February 2009.

In particular WVA would like to alert the Panel to the potential impacts upon PBIs which may flow from recommendations made in relation to FBT arrangements.

Under the current regime PBIs are provided with an exemption from paying FBT subject to a capped threshold of \$30,000 total grossed-up value of certain fringe benefits for each employee per year. The FBT concessions are utilised by PBI's to offer competitive salary packaging to attract and retain staff.

Staff at WVA on average receive remuneration in the bottom quartile of salaries for the general industrial market. For executives, remuneration is generally in the 10th percentile of the general industrial market.⁴ The current FBT concessions are a critical factor enhancing WVA's capacity to offer competitive remuneration to employees. WVA therefore encourages the Panel to support the retention of the FBT concession currently available to PBIs.

WVA urges the Panel to ensure that if any recommendation is made for the removal or limitation of the FBT concession available to PBIs that provision is made for a new regime which builds in equivalent exemption thresholds. Any such arrangement should be directly targeted to achieving the policy objective of assisting charities to attract and retain skilled and competent staff.

A suggested improvement to the present FBT concession relates to the capped threshold of \$30,000 per employee. As a consequence of the threshold not being indexed to movements in average earnings the real value of the concession for employees has been eroded over time as wages have grown. To counter the erosion in the real value of the concession and assist PBIs to attract and retain competent staff the existing FBT concession could be improved by indexing the capped threshold of \$30,000 per employee to average male earnings back to the date it was originally set.

If you require clarification on any of the matters raised in this submission, please do not hesitate to contact me (contact details below) or Simon Miller (tel: 03 9287 2099 email: simon.miller@worldvision.com.au).

Yours faithfully



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⁴ WVA uses the benchmark rates calculated by the Hay Group.