



**Submission to:**

**The Treasury,**

**The Hon. Michael Sukkar**

**Assistant Minister to the Treasurer,**

**and**

**The Hon. Scott Morrison**

**Treasurer of the Commonwealth of Australia**

***CCA Federal Budget Submission 2017/18***

**December 2017**

## Introduction

This submission outlines nine measures the Community Council for Australia (CCA) believes will significantly strengthen Australia's not-for-profit (NFP) sector and drive real economic savings for government over the coming financial year and beyond. These measures have been informed by consultation with CCA members (listed in *Attachment A*) and key organisations in the NFP sector.

It is important to note that this submission does not override the policy positions outlined in any individual Federal budget submissions from CCA members.

The content of this submission includes: a brief background to CCA; a listing of proposed measures; an overview of the current issues for the NFP sector; further details about the proposals including likely costs; and a conclusion.

CCA acknowledges the need for fiscal restraint and the growing demand for government services. CCA proposes a major government revenue boosting measure (estate duty) as well as incentives to promote philanthropy and strengthen our communities (such as the French 90/10 superannuation rule).

If Australia is to be a just and fair society where we increase collective ownership of local issues and build flourishing communities, there needs to be a genuine commitment to supporting reforms across the charities and not-for-profit sector from government and other key stakeholders. This is not about providing more funding to the sector, but about encouraging and supporting more effective and efficient organisations delivering better outcomes for our communities.

CCA welcomes this opportunity to provide input into the Federal Budget process and to engage in detailed discussion about any issues this submission raises.

## The Community Council for Australia

The Community Council for Australia is an independent non-political member based organisation dedicated to building flourishing communities by enhancing the extraordinary work undertaken by the charities and not-for-profit sector in Australia. CCA seeks to change the way governments, communities and not-for-profits relate to one another. It does so by providing a national voice and facilitation for sector leaders to act on common and shared issues affecting the contribution, performance and viability of NFPs in Australia. This includes:

- promoting the values of the sector and the need for reform
- influencing and shaping relevant policy agendas
- improving the way people invest in the sector
- measuring and reporting success in a way that clearly articulates value
- building collaboration and sector efficiency
- informing, educating, and assisting organisations in the sector to deal with change and build sustainable futures
- providing a catalyst and mechanism for the sector to work in partnership with government, business and the broader Australian community to achieve positive change.

Our success will drive a more sustainable and effective charities and not-for-profit sector in Australia making an increased contribution to the well-being and resilience of all our communities.

## Summary of proposed budget measures

The following proposals have been developed through extensive discussions and feedback from CCA members and other key stakeholders. Each measure would deliver real benefits to government over the longer-term and strengthen communities (proposed measures are outlined in more detail on page four).

- 1. Provide Deductible Gift Recipient (DGR) status to all registered charities with an initial exemption of organisations for the advancement of religion and education. This measure will be completely funded by recent changes to Fringe Benefits Tax (FBT) concessions that introduced the capping of meals and entertainment expenses.**
- 2. Introduce a targeted 'estate duty' for people with estates valued at over \$10 million with appropriate incentives for donations to charities, safeguards relating to family businesses and farms; and mitigation of any potential adverse impacts.**
- 3. Implement the French 90/10 rule providing an option for all Australian employees to invest 5-10% of their superannuation into a not-for-profit social enterprise that benefits the community.**
- 4. Establish a Social Finance Taskforce (as recommended by the Senate Economics References Committee) to promote impact investing and better access to capital for NFPs.**
- 5. Increase support for the Australian Charities and Not-for-profits Commission (ACNC) to ensure an independent and effective process in determining charitable status, building public confidence in the sector and driving government red tape reduction.**
- 6. Increase philanthropy by enabling employers to establish more effective 'opt out' systems of workplace giving.**
- 7. Boost sector investment and productivity by increasing certainty in government funding, concessions, incentives and regulations.**
- 8. Work with the NFP sector to develop a future blueprint for the sector, including extensive consultation; economic modeling of future scenarios; strategies to capitalise on emerging opportunities; and increased capacity to respond to emerging risks and limitations.**
- 9. Review the generous tax concessions provided to gaming, catering, entertainment and hospitality income for mutual organisations, especially licensed clubs.**

CCA believes these measures could be delivered within the next two years and produce a much stronger government budget position as well as building capacity and resilience in our communities. Australia cannot afford to ignore growing levels of debt, increased inequality and the need to support flourishing communities as a basis for improved productivity and well-being.

An economy that does not support real growth in opportunity is not serving the interests of our community. CCA believes every budget statement needs to be framed by what is going to deliver stronger, fairer, more creative, sustainable and connected communities.

## **Context: not-for-profit reform**

The NFP sector encompasses over 600,000 organisations - from large to very small, and employs well over one million staff (around 10% of all employees in Australia). Australia's 51,000 charities collectively turn over more than \$140 billion each year and hold close to \$300 billion in assets. In the last decade, sector growth has continued at more than 7% a year, a figure that is higher than any other industry group.

These facts tell only a small part of the story. The real value of the NFP sector is often in the unmeasured contribution to Australian quality of life. NFPs are at the heart of our communities; building connection, nurturing spiritual and cultural expression, and enhancing the productivity of all Australians. Collectively, they make us a more resilient society.

The importance of the NFP sector is now being internationally recognised with many governments putting in place measures to increase NFP investment and productivity. Smaller government and bigger community is a common theme, driven in part by savings, but also by a commitment to strengthening democracy through greater civic engagement, providing incentives for social entrepreneurship and boosting productivity within the NFP sector.

In Australia there have been various initiatives seeking to: promote social enterprise; reduce compliance costs for NFPs; encourage a diversification of financing options to build a more sustainable funding base; streamline and refine the regulation of NFPs and charities; establish less bureaucratic reporting requirements while building community transparency; increase philanthropy; promote impact investing; and increase sector performance measurement. CCA supports all these activities.

The establishment of the ACNC is the first time the NFP sector has had an independent regulator dedicated to serving their needs and enhancing their capacity. It has proved to be a positive step towards red tape reductions, increased transparency, and trust in the community by prospective volunteers and donors. The national charities register has also provided invaluable information.

While the recent history of the NFP sector is framed by growth and reform, new issues are emerging. The level of individual philanthropic giving as a percentage of income has still not recovered to the highs of 2009. At the same time, revenue available to governments is effectively falling in real terms against a backdrop of increasing demands and higher community expectations. Competition for fundraising and services has increased. In the context of recent changes, the NFP sector is slowly but surely finding its voice - building its collective power and seeking real reform that will provide substantial savings to government as well as tangible benefits to the community.

Given the size of the sector and its critical role in our community, the Federal Government can achieve real economic and social benefits if it chooses to strategically invest in strengthening our communities and our NFPs. There have been numerous reports and recommendations relating to the NFP sector over the last decade, but relatively few have been acted upon. Governments seem reluctant to change established practices that foster competition between charities, increased compliance costs and growing uncertainty. These practices are all counter-productive for government and our communities.

Supporting the proposals outlined in this submission will make Australia stronger. While reductions in government expenditure may be economically prudent, achieving a better return on existing government investments should also be a high priority. In the interests of all Australian communities, government should avoid inflicting any long-term damage on a sector that not only holds a vital place in our economy, but also strengthens communities, builds connectedness and increases productivity for all Australians.

## Description of proposed budget measures

### **1. Provide Deductible Gift Recipient (DGR) status to all registered charities with an initial exemption of organisations for the advancement of religion and education. This measure to be completely funded by limiting Fringe Benefits Tax (FBT) concessions; namely capping meals allowances and limiting multiple claiming of FBT concessions.**

The present system of determining Deductible Gift Recipient (DGR) status largely through the Australian Taxation Office (ATO) and Departmental listing favors larger charities that can afford lawyers and lobbyists to assist the progression of their applications. Many smaller NFP and charities do not have the capacity to apply for DGR status, and hence they cannot access the community support that comes when donations are tax deductible. There are up to six government agencies involved in determining DGR status. It is a complex, costly and inequitable system – with less than half of all charities having DGR status. While proposed reforms to DGR are a step in the right direction, it is still difficult to justify the distribution of DGR eligibility given the arbitrary and ad hoc manner in which it has developed. It makes good policy sense that all donations made to registered, complying charities should be tax deductible. This is the practice in comparable countries like the UK and Canada.

The ACNC determining charitable status and DGR will deliver a fairer system and reduce red tape. This policy is economically feasible with the initial exemption of organisations for the advancement of religion and education reducing the likely implementation costs to approximately \$130 million per annum. Excluding all schools and all churches for automatic DGR eligibility makes this measure affordable. At the same time the intent is not to deny DGR, so current exemptions for ministers of religion and other concessions based on religious and educational purposes would continue to apply.

Funding to support this measure could come from savings through the recent capping of FBT entitlements for meals and entertainment expenses.

***This measure is estimated to be revenue neutral in the first instance. Initial projected expenditure of approximately \$130 million is offset by equivalent savings in ending uncapped FBT entitlements.***

### **2. Introduce a targeted ‘estate duty’ for people with estates valued at over \$10 million with appropriate incentives for donations to charities, safeguards relating to family businesses and farms, and mitigation of any potential adverse impacts.**

National estate duties exist in many countries including: the United Kingdom, Germany, Italy, Belgium, the Republic of Ireland, France, the Czech Republic, Canada and the USA. Not only do these duties provide substantial government revenue, they also increase philanthropy by offering relief from estate duties for any money left to charity. The Henry Review drew on this international experience in supporting estate duties as a taxation measure. Among other benefits, estate duties can apply a small brake on growing levels of inequality in our communities.

Until 1979, many Australian governments gained substantial income through various forms of death or estate duties. It is suggested that death duties ended because Premier Joh Bjelke Petersen wanted to attract retirees to Queensland and abolished all death duties. Other states followed. Until then the threshold had effectively been lowered over time to a level where many not so rich were also having to pay. As a consequence of these factors, in the late 1970s an estate duty was no longer seen as fair.

A better targeted approach to estate duties could address these previous failings and would be consistent with a fair go for all. Using a revised version of capital gains taxes and only applying it to those with estates above \$10 million (excluding family farms and other appropriate asset exemptions) offers a workable option.

In Belgium estate duties contribute 1.4% of total government revenue which would translate into over \$5 billion in revenue per annum for Australia.

Australia's growing gap between rich and poor, and the gap between government income and demand for government supported services, can both be partially addressed by applying a form of estate duty on the richest 1% in our communities. A targeted 35% estate duty on all estates over \$10 million (with appropriate exemptions) would raise substantial new government revenue and stimulate philanthropy.

***ATO figures suggest over 25,000 people have assets above \$10 million. If 4% of these families paid 35% in estate duties, it would equate to a minimum revenue of \$3.5 billion.***

### **3. Implement the French 90/10 rule providing an option for all Australian employees to invest 5-10% of their superannuation into a not-for-profit social enterprise that benefits the community.**

France has required all employees to be given the option of investing **5-10%** of their superannuation into 'solidarity organisations' (the equivalent of our charities) since 2001. In 2008 the government regulated that all super funds needed to provide this option to employees and since that time the amount invested has grown from \$700 million to over \$5.5 billion. This has stimulated social entrepreneurship, created opportunities to achieve social impact, improved the capital base and capacity of solidarity organisations.

The success of the French 90/10 rule shows what can be achieved if Australia chose to provide employees with some choice about how their superannuation contributions are invested. If just 2% of the MySuper funds were invested this way it would generate around \$8.5 billion, or enough to significantly reduce homelessness by providing housing to over 50,000 Australians struggling to maintain secure and appropriate housing.

CCA believe this measure could be transformative in encouraging the charities sector to find ways of establishing social enterprises that strengthen our communities.

***This measure has very little government impact as costs are almost non-existent – it is simply about enabling a different use of a very small part of Australia's \$2 trillion superannuation investment pool.***

### **4. Establish a Social Finance Taskforce (as recommended by the Senate Economics References Committee) to promote impact investing and better NFP access to capital.**

In its report '*Investing for good: the development of a capital market for the not-for-profit sector in Australia*' the Senate Economics References Committee recommended the establishment of a high profile Social Finance Taskforce similar to taskforces established in both the UK and Canada. The following is taken from the Executive Summary of this report:

*'The Taskforce should build on the work of this inquiry and provide recommendations to government on the capacity of the sector, its access to capital, enhancing the role of intermediaries and simplifying the sector's legislation and regulations.'*

CCA perceives this leadership role as critical in the development of a longer term sustainable strategy to enhance the work of the NFP sector while reducing its dependency on government. This group could also consider the potential use of dead money accounts and unclaimed funds (as happened in the UK) and work with emerging leadership groups in this area such as Impact Investing Australia.

This measure would require a two-year investment from government to support establishment, the preparation of initial reports and implementation of recommendations.

***Cost to government is estimated to be in the order of \$1 million each year for two years.***

## **5. Increase support for the Australian Charities and Not-for-profits Commission (ACNC) to ensure an independent and effective process in determining charitable status, building public confidence in the sector and driving government red tape reduction.**

The ACNC has established a positive reputation among NFPs and the broader community, based upon exceptional performance during the first five years of operation. The role and function of the ACNC has been readily embraced. The NFP sector and the broader community like what it is doing. Repeated surveys have shown that over 80% of the sector and 80% of the community value having a national regulator of charities.

More than half a million Australians used the ACNC national charity register to look up charities in the last 12 months. Of the almost 3000 newly registered charities, over 90% were happy with the process and service provided by the ACNC.

CCA supports expanding the role of the ACNC to further strengthen the sector, cut red tape and build public confidence.

The current fundraising regulations provide a classic example of unnecessary duplication, red tape and counter-productive compliance requirements that are costing the charities sector and the community in lost productivity and pointless administrivia. The ACNC is part of the solution to this mess – combined with the Australian Competition and Consumer Commission they make existing regulations redundant.

***The annual budget for the ACNC should be increased to \$25 million per annum.***

## **6. Increase philanthropy by enabling employers to establish more effective 'opt out' systems of workplace giving.**

CCA strongly believes that increased community engagement and philanthropic contributions to NFPs produce a net benefit to governments as well as to the communities NFPs serve. It is counter-productive to treat increased philanthropy and social impact investment as a government loss of potential tax income or 'foregone revenue'. The whole community benefits when individuals or organisations choose to direct their resources into strengthening communities, increasing economic and social activity, and improving health and well-being. This is particularly the case if the money involved avoids the significant transfer costs of moving into, through, and out of government. Philanthropy and social investment are about encouraging greater ownership of local issues by enhancing the role of NFPs and reducing the size of government.

When in place, 'opt out' systems have ensured much higher levels of success in workplace giving programs. The experience with the French 90/10 superannuation rule shows that once all employees are given the option, the amount being contributed to charitable purposes increases significantly. With the current 'opt in' for existing employee systems, less than 3.5% of Australian workers are in a workplace giving program. If this could increase to 10% of Australian employees donating 0.5% of their pre-tax income, over a quarter of a billion dollars would be raised through workplace giving. This is a very realistic target that would provide a substantial increase in philanthropy and engagement of Australians in the broader NFP sector.

***CCA anticipates there would be no additional costs to government in this measure.***

## **7. Boost sector investment and productivity by increasing certainty in government funding, concessions, incentives and regulations.**

This measure is focused on achieving a more stable financial and regulatory framework for all not-for-profits, particularly in relation to government funding and interaction with the sector. CEO Forums across the country run by CCA with the support of key organisations clearly showed that uncertainty of government funding is a critical barrier to investment in the future sustainability of organisations. This applies to not just recurrent government funding, but also tax including the losses associated with changes to FBT concessions and incentive programs. The government needs to actively consider initiatives such as:

- an agreed notice period of six months prior to the ending of any major government contract, incentive or concession
- increasing the length of government contracts where possible to at least five years
- more transparent and accessible processes for reviewing the performance of NFPs
- more transparent and accountable processes for government funding decisions relating to NFPs.

These measures would all boost investment in organisational capacity across the NFP sector.

Experience in other sectors has also shown that where an independent feedback process can be established that does not focus on public blame and retribution, system change in relationships can be driven through active feedback and better information exchange. CCA supports a national feedback exchange program where all NFPs could provide honest feedback on their dealings with government agencies. Providing avenues to pursue positive improvements in the relationship between governments and the NFP sector is important.

At the centre of many concerns across the NFP sector is the ability of small and large community organisations to deal with an increasingly uncertain future. While governments are not responsible for all disruptions and challenges to the NFP sector, increasing certainty in government funding is a critical measure that would build capacity and effectiveness.

***CCA anticipates these measures would produce savings with very limited (mostly internal) outlays.***

**8. Work with the NFP sector to develop a future blueprint for the sector, including extensive consultation; economic modeling of future scenarios; strategies to capitalise on emerging opportunities; and increased capacity to respond to emerging risks and limitations.**

The future of Australia's NFP sector is too important to our economy and our communities to grow in an ad hoc manner with little comprehensive planning or strategic investment. At present there is no plan, no strategy and no real projection about the future viability or even the sustainability of the current levels of growth across the NFP sector. The effective development of a blueprint will include developing clear goals and measures of what the NFP sector is seeking to achieve.

Issues to be considered would include; performance and productivity measures, better using existing assets, promoting social enterprise, the NFP workforce, the potential for mergers and collaboration, efficiencies and effectiveness, and capacity building.

CCA has been in discussions with a number of groups who have expressed a strong interest in participating in and contributing to the development of a blueprint for the NFP sector. With the Federal Government as a joint partner and supporter (and not the sole contributor), a forward-looking blueprint for the NFP sector could be in place within 12 months.

***CCA anticipates the cost to government would be in the order of \$300,000.***

**9. Review the generous tax concessions provided to gaming, catering, entertainment and hospitality income for mutual organisations, especially licensed clubs.**

The mutuality principle that rightly applied in the late 1800s in Australia is no longer appropriate or consistent with existing taxation arrangements, particularly for organisations involved in gaming. Large licensed clubs that act as gaming venues should not be able to treat over 75% of their income as tax free, especially when they have not satisfied the basic requirements of being a not-for-profit organisation that exists to provide a public benefit. As pointed out in the Not-for-profit Tax Concessions Working Group Report (May 2013), concerns with the current application of the mutuality principle include:

- integrity concerns about member and non-member receipts;***
- competitive neutrality concerns where mutual organisations are trading in competition with taxable businesses;***
- social policy concerns about significant gambling and hospitality receipts of some organisations, which are not subject to income tax at the Commonwealth level; and***
- concerns about private member benefit.***

***It is recommended, on public benefit grounds, that the tax law should be amended to treat all member and non-member income of mutual organisations as assessable for taxation purposes in line with normal income tax principles.***

***If this recommendation is not supported, all income from gaming, catering, entertainment and hospitality trading activities of mutual organisations should be treated as assessable.***

It is difficult to justify the hundreds of millions of dollars of tax concessions provided to large licensed gaming clubs based on the mutuality principle. It is time to review these concessions taking into account any unintended consequences on mutual organisations that do provide a benefit to members.

***CCA anticipates this measure could generate significant additional government revenue.***

## **Budget implications (costings)**

CCA acknowledges the need to ensure an effective economic framework for all Australian governments that serves the needs of our various communities. This budget submission has taken into account the need to increase government revenue through sustainable measures that have minimal impact on productivity, to reconsider inappropriate taxation concessions, and promote measures that will diversify the income of charities and not-for-profits enabling a rebuilding of capital, and an expansion in their capacity, without increasing government expenditure.

In considering the specific budget implications of the nine key measures outlined in this submission, CCA has taken a relatively conservative approach to the projection of new income and expenditure for government. Given the complexity of some of the proposed measures and the lack of data about others, the initial costs and benefits outlined in this submission represent a starting point for further discussion and more detailed economic modelling.

CCA believes the measures proposed in this budget submission will generate significant revenue as well as long-term savings for governments, NFPs and the communities they serve.

## **Conclusion**

This submission promotes Federal Government measures to strengthen the NFP sector and deliver real economic and social benefits for governments and our communities.

Many individual not-for-profit organisations (including CCA members) will be seeking to have the Federal Government fund specific measures for the benefit of their own causes and communities. Most of these budget proposals from the not-for-profit sector are important and have real merit.

There is a strong case for reform in the charities and not-for-profit sector to build more resilient communities through greater engagement in our society and our economy. Over the past two decades, the NFP sector has had limited support to improve capacity and effectiveness. This is despite the very considerable contribution the broader NFP sector makes in terms of employment, productivity, individual and community well-being.

The harsh reality for most governments is that government income levels are stalling while demand for services continues to increase. Part of the solution to this tension is achieving real productivity within government and the NFP sector. Delivering positive change for NFPs requires an initial investment in time and resources to boost capacity and offer the certainty required for organisational investment.

Inequality continues to rise in Australia. We need fairer ways of generating income for government and more impact investment to strengthen our communities. Estate duties and the French 90/10 rule are two examples of sustainable policies that have the potential to be transformative.

The NFP sector is too large and too important to be left on the margins of economic debates and major policy reforms within Australia. Government investment in enabling NFPs to be more efficient and effective will ultimately deliver stronger, more resilient and productive communities across Australia.

The Federal Budget is the most important policy document a Federal Government produces. Recognising the role of the NFP sector through implementation of the measures outlined in this submission will translate into a fairer budget that will increase sector productivity and growth, benefitting all Australians.

## **Current Membership – Community Council for Australia *Attachment A***

**Access Australia's National Infertility Network**

**Access Housing**

**Adult Learning Australia**

**Alcohol, Tobacco and Other Drugs Association ACT**

**Arab Council Australia**

**Australian Charities Fund**

**Australian Community Support Organisation (ACSO)**

**Australian Council for International Development, Marc Purcell, CEO (CCA Board Director)**

**Australian Indigenous Leadership Centre**

**Australian Institute of Superannuation Trustees**

**Australian Major Performing Arts Group**

**Australian Research Alliance for Children and Youth**

**Australian Women Donors Network**

**Business Council of Cooperatives and Mutuals**

**Carers Australia**

**Centre for Social Impact**

**Church Communities Australia**

**Churches of Christ Vic and Tas**

**Community Based Support (Tas)**

**Community Broadcasting Association of Australia**

**Community Colleges Australia**

**Connecting Up**

**Drug Arm Australasia, Dennis Young, CEO (CCA Board Director)**

**Ethical Jobs**

**Everyman**

**Foresters Community Finance**

**Foundation for Alcohol Research and Education**

**Foundation for Young Australians**

**Fragile X Association of Australia**

**Fundraising Institute of Australia**

**Good Samaritan Foundation**

**Good to Give**

**Hammondcare**

**Hillsong Church, George Aghajanian, CEO (CCA Board Director)**

**Justice Connect**

**Legacy Australia**

**Life Without Barriers, Claire Robbs, CEO (CCA Board Director)**

**Lock the Gate**

**Mater Foundation**

**Menslink**

**Mission Australia**

**Missions Interlink**

**Musica Viva Australia, Mary Jo Capps, CEO (CCA Board Director)**

**Non Profit Alliance**

**Our Community**

**OzHarvest**

**Palliative Care Australia**

**Philanthropy Australia**

**Playgroup Qld**

**Port Phillip Housing Association**

**Power Housing Australia**

**Pro Bono Australia**

**Queensland Water & Land Carers**

**RSPCA Australia, Heather Neil, CEO (CCA Board Director)**

**SANE**

**SARRAH**

**Save the Children, Paul Ronalds, CEO (CCA Board Director)**

**Settlement Services International**

**Smith Family, Lisa O'Brien, CEO (CCA Board Director)**

**Social Ventures Australia**

**St John Ambulance**

**Starlight Foundation**

**Ted Noffs Foundation**

**Touched by Olivia**

**Variety Australia**

**Veterans Off the Streets Australia**

**Volunteering Australia**

**Wesley Mission, Keith Garner, CEO (CCA Board Director)**

**White Ribbon Australia, Libby Davies (CCA Board Director)**

**World Vision, Tim Costello, Chief Advocate (Chair CCA Board)**

**World Wide Fund for Nature Australia**

**YMCA Australia**

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