



Submission to the Review of Australia's Future Tax System

Comments on Questions from Chapter 4 of the
Consultation Paper
Not-for-Profit Organisations

The Salvation Army, May 2009

About The Salvation Army in Australia

The Salvation Army is an evangelical branch of the universal Christian Church. Its message is based on the Bible and its ministry motivated by love for God. This mission is both spiritual and practical, encompassing the preaching of the gospel of Jesus Christ and alleviating human suffering and distress without discrimination.

The Salvation Army is raised up by God for the work of:

- Transforming lives
- Caring for people
- Making disciples
- Reforming society

This is manifested in the various expressions of Salvation Army work.

The Salvation Army values:

- Human dignity We affirm the worth and capacity of all people
- Justice We promote healthy and whole relationships, and good society
- Hope We work for reconciliation, healing and transformation for all people and creation
- Compassion We feel compelled to stand with and do something about another's suffering
- Community We build community and meet with God in our encounter with others

The Salvation Army has its international headquarters in London. The Salvation Army in Australia has been operating in Australia since 1880. For the business purposes of its Australia Southern Territory, it is incorporated by the following Acts and Ordinances of Parliament:

- The Salvation Army (New South Wales) Property Trust Act 1929
- The Salvation Army (Queensland) Property Trust Act 1930
- The Salvation Army (Victoria) Property Trust Act 1930
- The Salvation Army (Tasmania) Property Trust Act 1930
- The Salvation Army (South Australia) Property Trust Act 1931
- The Salvation Army (Western Australia) Property Trust Act 1931
- The Salvation Army (Australian Capital Territory) Ordinance 1934
- The Salvation Army (Northern Territory) Property Trust Ordinance 1976

The type of services and welfare, which The Salvation Army provides to the local community, include the following:

- Family Crisis Centres
- Homeless Shelter

- Aged Care Centres
- Safe-housing for victims of violence
- Bridge Programs (alcohol, drug and gambling abuse programs)
- Crisis Telephoning Services
- Survivors of Suicide Groups
- Crisis Counselling (including grief counselling)
- Youth Crisis Centres
- Emergency Services
- Crisis Accommodation Centres
- Family Counselling
- Marriage Enrichment
- Child Care
- Disaster Relief (the Army provides direct relief or alleviates the distresses caused by natural and man-made catastrophes)
- Migrant Services
- Court and Prison Services
- Youth Support Services
- Youth drop-in Centres
- Intellectual Disability Services
- Recreation programs for the elderly
- Salvos Stores (donated goods available for the public)
- Employment Plus (placing long term unemployed into jobs)
- Worship and other services provided by The Salvation Army throughout Australia as a part of the universal Christian Church
- Services provided by Red Shield Defence Services

In any given week, The Salvation Army provides:

- more than 5,000 beds for the homeless
- more than 100,000 meals provided
- between 5,000 and 8,000 food vouchers
- more than 500 people addicted to drugs, alcohol or gambling with assistance
- several thousand people with counselling
- more than 500 victims of abuse with refuge
- more than 1,000 people with jobs through Employment Plus
- around 3,000 elderly with aged care services
- more than 1,000 people in courts and prisons with chaplain support
- Family Tracing services which locate 40 missing family members.

Introduction

The Salvation Army welcomes the opportunity to contribute to the review of Australia's future tax system, in relation to its impact on the not-for-profit sector.

This submission focuses on the two consultation questions raised as part of the Consultation Paper (Section 7) for this review:

1. What is the appropriate tax treatment for NFP organisations, including compliance obligations?
2. Given the impact of tax concessions for NFP organisations on competition, compliance costs and equity, would alternative arrangements (such as the provision of direct funding) be a more efficient way of assisting these organisations to further their philanthropic and community-based activities?

These questions are addressed below, with appropriate comments and recommendations made in relation to each.

What is the appropriate tax treatment for NFP organisations, including compliance obligations?

There are a number of taxes that affect NFP organisations and these taxes are levied by either State Governments or the Federal Government.

One of the major difficulties NFP organisations face when addressing taxation obligations are the definitional differences each level of Government uses when identifying how a tax is to be applied to a NFP organisation.

The Salvation Army recommends that a standardised definitional approach to NFP organisations is developed and implemented across all Government levels to enable NFP organisations to more readily and easily understand and comply with relevant taxation laws. The Salvation Army is aware this topic of definitional standardisation of the NFP sector has been considered in separate reviews/committees however The Salvation Army believes this is an extremely important area affecting NFP organisations (in particular charitable organisations) and must be resolved collectively by the relevant Australian governmental levels.

The Salvation Army will limit further comments in this submission to Federal Government taxation matters and comment on three major taxation areas: income tax, fringe benefits tax and Goods and Services Tax.

Income Tax

The Salvation Army is recognised and endorsed by the Australian Taxation Office as charitable. Accordingly The Salvation Army across Australia is currently exempt from income tax.

The Salvation Army recommends the current income tax exemption laws are maintained and continue to operate on an organisation wide basis.

The current income tax laws enable The Salvation Army to undertake activities that benefit the people of Australia in a wide and encompassing manner without the need to incur additional compliance costs. This is due to all the income received by The Salvation Army for the activities it undertakes being automatically exempt from income tax. The Salvation Army believes it is correct to exempt NFP organisations (like The Salvation Army) from income tax as all activities The Salvation Army undertakes are for the furtherance of the organisation's charitable purposes and should not be treated differently for income tax purposes.

The Salvation Army is aware that there are different views on the taxation methods of NFP organisations and one such view is to impose a method of taxing NFP organisations based on the activities the NFP organisation undertakes. The Salvation Army does not recommend an implementation of an 'activity based' income tax on NFP organisations. The Salvation Army believes such an approach would lead to increased interpretation disputes, compliance costs and confusion for NFP organisations and ultimately result in no real benefit to the Australian public.

As The Salvation Army is endorsed by the Australian Taxation Office as being charitable and income tax exempt, The Salvation Army is also entitled to seek refunds of franking credits on any franked dividends it receives. The Salvation Army recommends that the entitlement for refunds of franking credits on franked dividends is continued in the future for charitable organisations as these refunds form part of an important income stream to charitable organisations and are integral to the concept of a charitable organisation being exempt from income tax.

Fringe Benefits Tax

The Salvation Army currently is entitled to a mixture of rebatable and exempt fringe benefits for employees up to the relevant \$30,000 grossed up cap limits.

The Salvation Army is reliant on the fringe benefits tax exemption for public benevolent institution employees to enable these employees to receive an after tax salary amount that The Salvation Army could not otherwise afford to pay.

For an employee earning \$35,000, the fringe benefit tax exemption allows this employee to receive an additional \$2,918 per annum. This represents a significant wage cost saving to The Salvation Army. If this fringe benefit exemption were to be removed, The Salvation Army would need to either increase the employee's gross wage to compensate the employee with an equivalent after tax wage, or would be

forced to consider reallocating resources and determine which programmes can continue to operate given the government imposed revised cost structure resultant from losing access to the fringe benefit exemption.

The Salvation Army also notes the \$30,000 cap for both rebateable and public benevolent institutions has not been adjusted or indexed since the cap was introduced in the 2001 fringe benefits tax year. The Salvation Army notes that as a result of the lack of indexation of the cap, the benefit is decreasing over time while the overall costs of employment continue to increase. As the marginal income tax rates have decreased in recent years, the benefit of the fixed capped amount has also been eroded. The Salvation Army recommends that the \$30,000 cap be increased and, at a minimum, the increase should be equal to CPI increases each year. This should ideally be backdated.

Goods and Services Tax

The Salvation Army is registered for GST and is entitled to access the various GST concessions within the GST law available to charitable institutions. One concession that is available to charitable institutions is contained in Section 38-250 of *A New Tax System (Goods and Services Tax) Act 1999*. This section enables supplies made by a charitable institution that would otherwise be a 'taxable supply' or an 'input taxed' supply to be GST-free when certain circumstances are satisfied.

This concession is of significant benefit to The Salvation Army, however, due to the nature of Section 38-250, the section applies in a compulsory manner for each and every transaction a charitable institution enters into. Unfortunately this means that consistent compliance can be difficult given the range of supplies an organisation such as The Salvation Army makes.

The Salvation Army recommends Section 38-250 is modified to enable a charitable institution the choice as to whether or not the section applies to a transaction (or group of similar transaction types).

Given the impact of tax concessions for NFP organisations on competition, compliance costs and equity, would alternative arrangements (such as the provision of direct funding) be a more efficient way of assisting these organisations to further their philanthropic and community-based activities?

The Salvation Army is concerned with the notion of the provision of direct funding as a replacement to the current taxation concessions being accessed.

The Salvation Army does not believe it would be possible to adequately perform the current services it provides if it were required to petition/apply to Governments for funding that is intended to compensate The Salvation Army for forgoing taxation concessions (of any kind). The Salvation Army believes such a system would be inefficient and result in increased administration costs and not be of any overall benefit to the Australian public.

It is often suggested that tax concessions provide Not-For-Profit organisations with a competitive advantage over For-profit organisations. If Not-For-Profit organisations do derive any competitive advantage, it is always applied to the benefit of the service recipients who are then able to be offered an enhanced or expanded range of services.

The Salvation Army recommends that if any changes are to be made to the current tax concessions, their method of delivery/access or replacement funding, appropriate public consultation must be undertaken after detailed information is publicly released for organisations to review.

Conclusion

The Salvation Army recognises the enormity of the review being undertaken by the Review Panel and is more than happy to provide further information via public forums should the Review Panel hold consultation meetings in relation to these matters.