



TAX REVIEW

Submission by UnitingCare Australia

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1. Introduction

UnitingCare Australia is an agency of the National Assembly of the Uniting Church in Australia (UCA). UnitingCare Australia focuses on representing the views of agencies in the UnitingCare network to the Government, and advocating for those policies and practices that enhance the dignity of people, especially those who are most disadvantaged and vulnerable.

The agency represents the UCA's network of UnitingCare community services of which there are over 400 nationwide. The UnitingCare network is one of the largest providers of community services in Australia providing services to 2 million Australians each year, employing 35,000 staff and 24,000 volunteers nationally. UnitingCare provides services to children, young people and families, people dealing with deprivation and hardship, people with disabilities, Indigenous and older Australians living in urban, rural and remote communities.

Social services provided by UnitingCare agencies provide a practical expression of the social justice concerns of the Uniting Church in Australia. Services delivered by these agencies employ a holistic approach to supporting individuals and communities to access the resources, supports and opportunities needed to live a decent life, the building blocks of which are being able to access appropriate food, clothing and healthcare; safe and secure housing; meaningful work, education, rest and enjoyment; and the opportunity to participate in and contribute to communities. UnitingCare agencies, through their community linkages are also able to provide people of goodwill – either as individuals or as organisations – a vehicle to make their own contribution to improving the wellbeing of people and communities that are disadvantaged and vulnerable.

The tax system provides a mechanism through which the Government can contribute to improving the economic participation and wellbeing of all Australians, and ensure the resources available are deployed to meet the needs and improve the life chances and opportunities of the most disadvantaged and vulnerable people in our communities. Working in partnership with the community, government assistance should be carefully targeted at providing ongoing and genuine support for those that experience hardship, deprivation and exclusion. Taxation policy settings should maximise the capacity of not-for-profit social services to fulfil their role of providing ongoing and genuine support, and leveraging non-government sources of funding and activity.

UnitingCare Australia welcomes the opportunity to contribute to this very important review of Australia's taxation system. This submission compliments the submission made by Uniting Justice Australia on behalf of the Uniting Church Australia.

2. Principles

The guiding principles of UnitingCare Australia's work are that all people have:

- intrinsic value; and physical, spiritual, and social needs;
- a just claim to be heard, either directly or through those who are close to them and understand their strengths and hopes;
- the right to participate in community as fully as they wish and are able; and
- the right to opportunities that will enhance their life chances and quality of life.

A just and effective tax system would redistribute resources transparently and progressively to:

- facilitate the social and economic participation of vulnerable and disadvantaged people and communities;
- prioritise support to the most disadvantaged;
- sustain the service system (equity of tax treatment for low paid and high paid workers, viability of non-profit service providers, transparent support to care provider industries, incentives for philanthropy);
- reduce regulatory burden; and
- reduce distortions such as the high effective marginal tax rates and poverty traps faced by low income earners receiving a combination of market income and benefit payments.

The different tax treatment of not-for-profit social services, as compared with for-profit providers of social services, recognises the value of the model of service provided by these organisations. Both independently and in partnership with government, UnitingCare agencies provide a range of services across life stages and critical life transitions, and allocate resources to service provision with no requirement to provide returns to shareholders. Following two decades of outsourcing of government services to the non-government sector, governments increasingly provide funding and oversight of services, rather than deliver services in communities. Over these decades of outsourcing some social services have been delivered by the for-profit sector. However, there is no evidence that the for-profit sector can or is interested in delivering a comprehensive and universally accessible range of services across the full spectrum of need in the community. Nor does it return surpluses to the service system in the way that not-for-profit organisations do.

We can take aged care as an example. In locations where there are no profits to be made, such as remote Indigenous communities and more remote rural communities, there are no for-profit providers. UnitingCare agencies provide services in these communities in partnership with governments and community organisations, bringing resources from the wider network of our aged care services, and sharing the learnings from working with these communities with other services across our network of agencies. To take another example, not-for profit organisations are the only providers of Emergency Relief (material and financial aid) services. These essential – and increasingly sought – services are a fundamental part of the social service system. Private donors make contributions to these services, and private sector organisations have begun to partner with these services to address issues associated with financial exclusion, deprivation and hardship, however the for profit organisations have not to date sought to become providers of Emergency Relief services.

Not-for-profit services are also uniquely placed to leverage non-government sources of support for the services they provide. UnitingCare agencies are integral part of their communities, and are able to access volunteers, donations, in-kind support and good will from other members of their communities, to enhance the quality and quantity of services available in these communities. All of this non-government support value-adds to the funding provided by government and service users, and can be increased with tax treatments that facilitate these kinds of relationships.

Not-for-profit social services are an intrinsic part of the social fabric of Australia and tax treatment of their income and expenses should maximise their capacity to fulfil the unique and essential role they play.

This submission provides commentary on those taxation issues that are critical to the sustainability of services and the effective operation of UnitingCare's national network of agencies - that is, those issues outlined in Section 7 of *Australia's future tax system, Consultation Paper, December 2008* titled *Not for Profit Organisations*. Addressing the issues raised in this submission will ensure that partnerships between government, the community, for-profit businesses and the not-for-profit sector will be sustainable in the long term, and that social services will be able to continue to support disadvantaged and vulnerable Australians into the future.

3. Purpose of Taxation

UnitingCare Australia believes that taxation should be regarded as the primary means for ensuring the equitable distribution of wealth and that raising of public money through taxation is done in part to ensure that everyone in the community has access to the means and opportunity to live a decent life. For this reason taxation policy, and income support policy, are both essential. Taxation is one of the most important tools at our disposal for achieving economic justice and is vital to a flourishing society. Taxation should be viewed as an obligation, and not a burden to be endured, to ensure that:

- Governments fulfil their responsibilities in provision of services ensuring that all people in the community have their basic needs met (a matter of human rights) and correcting the inequitable distribution of income and access to goods, services and resources which results when distribution is left to the market mechanisms;
- Governments deliver on their responsibility to protect the human rights of all Australians which includes their economic, political and social rights; which requires horizontal and vertical redistribution of income which is only possible through taxation; and
- People contribute, according to their means, to the well-being of the whole community, through redistribution and the provision of goods and services.

UnitingCare Australia supports the use of the taxation system to improve incentives to work, because long-term exclusion from the labour market is a major cause of exclusion, hardship and deprivation. However, adequate income support across the life span and at critical transition points is essential for a decent life. Getting pensions, allowances and concession levels right is an important strategy for achieving greater social justice and economic prosperity. Reform in other government programs such as housing, employment support, child care, aged care and support for disadvantaged and vulnerable families and the removal of barriers and creation of opportunities for citizens to belong, contribute and be valued are also essential.

4. Issues

In *Section 7 – Not for Profit Organisations* the Consultation Paper poses two specific questions:

- What is the appropriate tax treatment for NFP organisations, including compliance obligations?
- Given the impact of the 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?

In this submission UnitingCare Australia will outline its position on these two specific questions with a particular focus on how these policy decisions impact on the sustainability of service delivery, incentives for philanthropy and enhancing the fairness and efficiency of the taxation system in relation to community service providers.

4.1 Tax Expenditures

In the earlier submission¹ to the Tax Review from the Uniting Church an important reference was made to the impact of tax expenditures on revenue generation and the complexity of the taxation system. We believe that there needs to be a clear policy justification for each tax expenditure, in accordance with community priorities and need. However, in the absence of increased direct government funding to community service organisations, the current tax system, Income Tax exemption, FBT, GST as well as Deductible Gift Recipient status provide critical concessions without which there would certainly be a significant reduction in the provision of vital community services to vulnerable and disadvantaged Australians.

In a recent issues paper² commissioned by the four Major Church Providers, Access Economics noted that the social services sector was operating substantially above capacity during 2006-07 in a period of sustained economic growth in Australia. The report highlighted a range of critically oversubscribed services from youth services, housing support and aged care through to financial and emergency support. Despite Australia's strong economic situation, there remained a chronic shortfall in expenditure in the area of social services resulting in more than 77 000 eligible people being unable to access a range of services.

These figures suggest chronic underfunding by successive governments in the area of social services. While UnitingCare Australia acknowledges and applauds the recent stimulus package initiatives - particularly in the areas of emergency relief, financial counselling, social housing and community infrastructure - the gap between demand and supply still exists, and is growing in the wake of the economic downturn. Even with this large injection of funds the residual gap continues and is expected to grow in the coming years. Other areas of the community services sector with significant gaps in supply have not been provided with adequate additional funding, particularly aged care, relationship and family support services, mental health and substance abuse programs, so there is continued and ongoing unmet demand for services.

The danger in the current economic climate for Australians living with long-term disadvantage and exclusion is that with increased demand for already undersupplied services they will be pushed to the end of the queue as the newly unemployed seek social services.

Unless there is a significant and sustained increase in direct government expenditure on community services, it will be vital to maintain a range of tax expenditures, particularly exemptions of Fringe Benefits Tax for health and public benevolent institutions, as well as deductions for gifts to approved recipients. Indeed, in the absence of significant increases in direct government funding for social services, we argue that there is significant justification for further enhancement of the applicability of - and improving the effectiveness of - these tax expenditures to secure the viability of services that support and improve the lives of disadvantaged and vulnerable Australians.

¹ Uniting Church in Australia Submission to Australian Treasury, CONSULTATION ON THE ARCHITECTURE OF AUSTRALIA'S TAX AND TRANSFER SYSTEM October 2008 p13

² The impact of the global financial crisis on social services in Australia, Access Economics, November 2008 p19

4.2 FBT Concessions

In its submission³ dated October 2008, the Uniting Church highlighted the importance of the FBT concessions to the ongoing viability of not-for-profit social services. The submission noted that some sections of the not-for-profit community sector currently receive assistance to help them offset the cost of employing staff in the form of Fringe Benefits Tax (FBT) concessions. According to the Government's 2008 Tax Expenditures Statement⁴ FBT concessions applicable to designated Public Benevolent Institutions (PBIs) and certain hospitals will increase from \$930 million in (2008/09) to \$1000 million (2010/11).

Table 1

	Tax Expenditure 2008		
	2008-09 (\$m)	2009-10 (\$m)	2010-11 (\$m)
Capped exemption for certain public and non-profit hospitals	260	260	270
Capped exemption for public benevolent institutions (excluding public hospitals)	670	700	730
Total	930	960	1000

By comparison, the tax expenditure support provided to individuals and trusts through capital gains discounts will total \$8.64 billion for 2008-09⁵ which is 8 times greater than the concessions provided to those organisations in the community who provide services to Australia's most disadvantaged and vulnerable people. This further reinforces our earlier comments that tax expenditures require greater scrutiny and clearer policy justification.

The FBT concession is relatively small when compared with the concessions provided to other areas particularly superannuation and the capital gains discounts. However the importance this concession plays in helping community service organisations attract and retain staff is profound. According to the Tax Expenditures Statements 2008⁶ the introduction of a tax expenditure tends to increase concessionally taxed activity. The statement also concedes "that the removal of those concessions may affect economic efficiency and the overall level of economic activity." The FBT concession is a highly sensitive factor in the overall remuneration strategy for many UnitingCare agencies. Personal income tax cuts applied over the last few years have significantly impacted on the overall value of the benefit, because the FBT concession is not indexed. While some outside the not-for-profit sector have argued for the abolition of the FBT concession we would argue strongly that not only should it be retained but indeed be indexed to ensure that it delivers the level of support that its introduction intended to provide.

Any move to further reduce or abolish the FBT concession would have significant ramifications for social service agencies whose main input cost is labour. People working in the community services sector are almost universally paid less than people in other sectors,

³ Uniting Church in Australia *ibid* p18

⁴ Tax Expenditures Statements 2008, pp155&156

⁵ Tax Expenditures Statements 2008, p12

⁶ Tax Expenditures Statements 2008, p18

including direct care staff, administrators and managers. Our analysis indicates that the removal of the current FBT concessions would result in a pay reduction of the order of 8-10% for an already underpaid workforce, which would have to be made up by employers. In the absence of significant increases in funding, such an increase would be difficult to deliver and organisations will have to use non-government funding to prop up under-funded government programs and potentially close innovative and new services previously funded using non-government sources of funding.

The effect of removing the FBT exemption, or continuing to allow the value of the exemption to decline, will be an exodus of staff to other sectors which would have a catastrophic impact on staffing levels, particularly in aged care. In recent discussions with community services providers in Western Australia it was stated that the period leading up to the global recession (where key management positions remained vacant for months due to the lack of available and qualified staff) should be seen as a window into the future of the sector's staffing environment, as the baby boomer generation retires. Improving the FBT concession through indexation is one of a number of important strategies which will enable the community services sector to continue to provide vital programs and services.

One of the key benefits the not-for-profit sector brings to the Australian economy is the utilisation of a community resource, namely in the form of volunteer labour. In August 2008 the Australian Bureau of Statistics released its 2006/07 statistics on the not-for-profit sector⁷ identifying key contributions of the sector to the Australian economy in terms of income, expenditure and employment. According to the ABS report, the Social Services Sector (excluding high care residential services) received \$12.2 billion in income of which 55.1% or \$6.7 billion came from government sources. The sector employed 240 667 people with an additional 261 054 volunteers. More than 60% or \$6.6 billion of expenses were labour costs. The contribution of volunteers to this sector have not been costed but we estimate that they contribute in the order of 50 000 full-time equivalent staff. We estimate that the true cost of labour to deliver services in this sector is an additional \$1.3billion which is currently unfunded by government. This figure is almost double the tax expenditure provided by the FBT concession to PBI organisations.

4.3 Simplification

Much has already been said and written about the need to simplify the taxation system. For many larger UnitingCare agencies taxation processes have been entrenched into finance systems and managed as part of the normal financial and accounting processes. However, there continues to be significant complexity in determining whether an agency is deemed to be a charity and the relevant concessions that should apply to that agency. We ask that the government introduce the definition of Charity as outlined in the Inquiry into the Definition of Charities and Related Organisations which reported its findings to the Federal Treasurer in June 2001.

The current complexity which exists in relation to the tax concessions available to charities should also be addressed. There are any number of examples where the application of the current system provides inconsistent outcomes which disadvantage not-for-profit organisations. We recommend that an organisation that meets the prescribed requirements of a Charity as defined by the Inquiry into Definition of Charities and Related Organisations should be entitled to PBI benefits and automatically receive Deductible Gift Receipt (DGR) status. Eliminating the various combinations of concessions will mean the above definition becomes the key driver for determining the tax status of an organisation. In this situation a

⁷ Not-for-profit Organisations, Australia 2006-07, Australian Bureau of Statistics, 5 August 2008

universal concession will apply, eliminating the current inconsistencies which are seen throughout the social services sector.

As stated in section 4.1 of this submission, while tax expenditures are not the most transparent, efficient or effective way to fund support social policy, they provide an additional mechanism through which the government can partner with not-for-profit social services providers to ensure the immediate viability and build the long term sustainability of services provided to disadvantaged and vulnerable Australians. In the absence of a commitment to more adequate, sustainable direct funding, and significant increases in income support payments to enable people to access the resources needed for a decent life, tax expenditures need to remain and be strengthened.

4.3 Philanthropy and Incentives

According to the Government's 2008 Tax Expenditures Statement⁸ tax expenditures on Deductions for Gifts to approved donees is expected to cost \$800 million in 2008/09, \$770 million in 2009/10 and \$890 million in 2010/11.

Recent academic research on the correlation between giving and taxation suggests that taxation is more likely to impact on the level of giving rather than on the decision to give. This is supported anecdotally by the number of local community activities which rely on donations but have no tax deductibility attached to them. There are numerous international examples where advancements on the tax deductibility regime have been trialled which the review could consider. The Gift Aid Act in the UK is one example of a government's attempt to increase the value of the philanthropic contribution made by the private sector and general population. UnitingCare Australia asks that the review team consider carefully the adoption in Australia of mechanisms used in the UK and other jurisdictions.

UnitingCare Australia notes that the recent announcement by the government⁹ to streamline fundraising laws is expected to be helpful in simplifying the processes agencies must undertake to attract philanthropic support from the general public and corporations.

5. Conclusion

In this submission UnitingCare Australia outlines its position on two specific questions with a particular focus on how taxation policy decisions impact on the sustainability of service delivery, incentives for philanthropy and enhancing the fairness and efficiency of the taxation system in relation to community service providers:

- What is the appropriate tax treatment for not-for-profit organisations, including compliance obligations?
- Given the impact of the tax concessions for not-for-profit 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?

⁸ Tax Expenditures Statements 2008, p89

⁹ The Hon L Tanner MP and Senator the Hon U Stephens, Media Release "red tape to be slashed for charities and other non-profit groups 13 March 2009

UnitingCare Australia has argued that:

- Not-for-profit social services are an intrinsic part of the social fabric of Australia and tax treatment of their income and expenses should maximise their capacity to fulfil the unique and essential role they play.
- In the absence of a commitment to more adequate, sustainable direct funding, and significant increases in income support payments to enable people to access the resources needed for a decent life, tax expenditures to support service providers need to remain and be strengthened.
- Income Tax exemption, FBT, GST as well as Deductible Gift Recipient status provide critical concessions without which there would certainly be a reduction in the provision of vital community services to vulnerable and disadvantaged Australians.
- The FBT concession is relatively small when compared with other concessions provided. However the importance this concession plays in helping community service organisations attract and retain staff is profound.
- The FBT concession is a highly sensitive factor in the overall remuneration strategy for many UnitingCare agencies. Personal income tax cuts applied over the last few years have significantly impacted on the overall value of the benefit, because the FBT concession is not indexed.
- Any move to further reduce or abolish the FBT concession would have significant ramifications for social service agencies whose main input cost is labour. People working in the community services sector are almost universally paid less than people in other sectors, including direct care staff, administrators and managers.
- Applying a consistent definition of charitable status and treating all organisations granted this status the same tax concessions would simplify this aspect of taxation policy.
- We should look to other countries for innovative ways in which to utilise the taxation system to encourage increased philanthropy to enable not-for-profit social services to attract greater levels of non-government sources of funding that can be used to build the longer term sustainability of essential social services provided by not-for-profit organisations.

6. Recommendations

UnitingCare makes the following recommendations for change to the Tax system:

- Retain the present FBT exemption for Public Benevolent Institutions;
- Index the FBT exemption to CPI to maintain the true value of the exemption;
- Introduce the definition of Charity as outlined in the Inquiry into the Definition of Charities and Related Organisations (2001);
- Enable any organisation that meets the prescribed requirements of a Charity as defined by the Inquiry into Definition of Charities and Related Organisations (2001) to be entitled to PBI benefits and automatically receive Deductible Gift Receipt (DGR) status; and
- Consider the appropriateness of adopting the mechanisms used in the UK and other jurisdictions to encourage an increase in philanthropy.