



**Submission to the
Federal Government**

Australia's Future Tax System

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1. VicSport

VicSport is the peak body representing Victoria's sport and active recreation sector. Our Mission is to lead the sport, active recreation and associated health agendas into the future. As an independent member based organisation, VicSport represents the needs and concerns of over 170 member groups including State Sporting Associations (SSA), Regional Sport Assemblies (RSA), Local Government Authorities (LGA), active recreation organisations, University, TAFE and school sport groups, as well as organisations representing specific sub-groups of the sector such as the Victorian Council on the Ageing, ACHPER Victoria, Aquatics and Recreation Victoria and the Australian Drug Foundation. Through our extensive network VicSport supports over 20,000 clubs and associations, and over 1.8 million participants, workers and volunteers in the sport and active recreation sector across Victoria. The activities these organisations offer play a vital role in promoting better physical and mental health outcomes for Victorians, as well as creating vital capacity within metropolitan and regional communities.

As Victoria's Peak-Body for sport and active recreation our key roles are to:

- Advocate: as the "Voice for Sport", VicSport represents the interests and concerns of the sector to government, to statutory authorities and to the broader industry.
- Inform policy development: VicSport listens to members and uses this feedback to provide visionary strategic advice to key policy and decision makers.
- Facilitate program delivery: VicSport works with government, statutory authorities and key external stakeholders to develop strategies and provide support required to assist members deliver participation opportunities for all Victorians.
- Build Members' Capacity: VicSport supports and educates members through the provision of quality advice and consultation services and delivery of professional development opportunities.
- Research: through industry research and development, VicSport analyses issues, identifies trends and develops innovative strategies that play a vital role in planning for the future.

2. Importance of Sport and Recreation

Sport and recreation are key leisure activities in Australia and integral components of our national culture, identity and social life. In 2005, over 69% of Australians aged 15 years and over, or 11.1 million people, participated at least once per week in physical activity for exercise, recreation and sport. In addition, an estimated 7.1 million

Australians (42%) aged over 15 participated 3 times per week or more, the minimum recommended for maintenance of physical health benefits. (ERASS, 2006) Through the multi-faceted role community sport and active recreation plays in promoting better health, social inclusion and community capacity building, our sector makes a significant contribution to the economic, social and community well being of all Australians.

2.1 Victoria's Sport and Active Recreation Landscape

Melbourne has been described as the 'ultimate sports city' in terms of hosting major events. The Victorian sporting events calendar attracts participants and spectators from across Australia and overseas, adding approximately \$1.2 billion each year to the Victorian economy. (Sport and Recreation Victoria, 2007) While elite sportspeople and major television or spectator events are at the forefront of most people's consciousness regarding sport and active recreation, millions of Australians and most Victorians are actively involved at a community level in participating, helping or supporting friends and family engage in the wide range of community sporting and active recreational pursuits that our society embraces.

In terms of size, the majority of Victoria's sport and active recreation organisations are small community-focused organisations. In Victoria, every community sport and active recreation organisation is a Not for Profit (NFP) organisation. Funded primarily via income from membership fees with additional support coming from government grants, fundraising and sponsorship, any profits made by these groups are invested back into the organisation for further capacity building rather than distributed to members.

According to the Community Sport Counts report, 53% of Victorian sport and recreation organisations have an annual income of less than \$25,000 per year. An additional 22% of the sector brings in between \$25,000 to \$100,000 annually (Sport and Recreation Victoria, 2004). Australian Bureau of Statistics (ABS) figures showed across Australia, the average sports club or team organisation is found to have 4 employees and an income of \$325,300. (ABS, 2006)

The key ABS report on Sports and Physical Recreation Services (ABS, 2006) showed at the end of June 2005, there were 9 256 businesses/organisations operating in Australia whose main activity was the provision of sports and physical recreation services. Twenty seven percent of those organisations were operating in Victoria.

The income generated by these organisations in 2004-05 was \$8 820.5m. They incurred expenses of \$8 416.5m. Their single greatest expenditure was on labour costs

which accounted for \$2 464.5m, or just over 29%. The total industry value added by sports and physical recreation services was \$2 349.6m, which is the equivalent of 0.3% of Australia's gross domestic product for 2004-05. At the end of June 2005, total employment in sports and physical recreation services in Victoria was approximately 27,558 which was 27% of the national total of 111 519 persons. In addition, there were 181 832 volunteers in Australia during the month of June 2005.

2.2 Sport as a Provider of Health Benefits

The role the sport and active recreation sector plays in promoting better health, social inclusion and community capacity building makes it a vitally important part of Australia's broader community and should not be underestimated.

The World Health Organisation's Health Report 2002 estimated that throughout the world in 2002 there were 1.9 million deaths among people aged 15 years and over which were directly attributable to physical inactivity, and that physical inactivity contributed to 10–16% of global cases of breast, colon and rectal cancers and diabetes mellitus, and about 22% of ischemic heart disease. (World Health Organisation, 2007a)

In Australia, we are fully aware of the threat our rapidly increasing incidence rates of lifestyle related diseases such as diabetes, cardiovascular disease, overweight and obesity pose to the health of our nation. Australia's first burden of disease study attributed 13 000 deaths per year to physical inactivity. (Mathers, Vos, & Stevenson, 1991) That is 36 deaths per day, or 1.5 per hour. Too many Australians are dying from conditions linked to excess weight, such as heart disease, stroke, diabetes, osteoarthritis and breast, bowel and endometrial cancer.

In financial terms, total costs attributable to the burden of lifestyle diseases are estimated to be \$3.77 billion annually. (Stephenson, Bauman, Armstrong, & Smith, 2004) The costs for each of the diseases or conditions in the study were estimated to be \$161 m for coronary heart disease (CHD), \$28 m for non-insulin dependent diabetes mellitus (NIDDM), \$16 m for colon cancer, \$101 m for stroke, \$16 m for breast cancer, and up to \$56 m for depressive disorders. Of these direct financial costs, the Federal Government is estimated to bear some \$1.4 billion. (Access Economics, 2006)

It remains a dilemma for health practitioners why such a high financial and personal cost is tolerated in our community when these illnesses and disease are clearly preventable. Funding and support of strategies aimed at improving lifestyle and reducing risk factors is clearly an eminent approach and the community based sport and recreation organisations are key players in delivering these programs.

All governments will need to take a longer-term strategic approach to preventative health strategies and incorporating sound programs at the community level is an excellent starting point. Aligning the taxation system so that sporting bodies receive the same benefits and regulations as health providers is a step towards recognizing the role that sports plays within a healthy society.

3. Response to Tax Discussion Paper

Having outlined the key role that Sport plays in the economic, health and social development of society this submission will now outline the key changes sought within the future of Australia's taxation system. The main points that VicSport wish to raise centre around taxation concessions and ensuring that consistency is achieved across the Not For Profit (NFP) sector so that community based sporting organizations can avail themselves of the same tax concessions that are available to philanthropic, charitable, health and welfare based organizations. These include Deductible Gift Recipient (DGR) Status and Fringe Benefits Tax exemptions.

3.1 Deductible Gift Recipient (DGR) Status

Despite the vital role community sport and recreation organisations play in supporting and developing communities, under current tax ruling, these organisations are not eligible to apply for tax deductibility status. This ineligibility has significant negative impact on NFP sport and active recreation organisations in a range of ways.

Obviously, the primary impact lies in the inability of community sport and active recreation organisations to directly attract valuable philanthropic dollars which could provide significant assistance to NFP organisations. In addition however, there are a number of other less obvious impacts. By way of example, like any other organisation, NFP sport and active recreation clubs and associations require legal, financial and governance assistance on a range of matters. Like other NFP groups, these organisations have very limited financial resources and as such do not have funding available to pay for the professional assistance required. In recognition of the support NFP groups require some excellent pro-bono programs, such as Good Company, have been developed to provide much needed support for NFP groups. Unfortunately, most of these programs require the organisation to have charitable status to receive support, thereby excluding access for NFP sport and active recreation organisations. It is speculated this is a result of a misconception groups who are not eligible for charitable status are for-profit groups, rather than any direct desire to specifically exclude sport

and active recreation groups. Notwithstanding this, it still remains the current tax system does not encourage philanthropic dollars to be raised for community sport and active recreation.

An amendment to the Income Tax Assessment Act 1997 to allow bona-fide NFP community sport and recreation organisations to apply for tax deductible status would make a significant contribution to supporting this sector and the vital role it plays in community development.

In 2002 the UK Government changed legislation to allow tax-deductible status to 'community amateur sports clubs' and clubs that promote 'healthy sport'. Feedback indicates this change has had a genuinely positive effect on increasing support given to these organisations by both the philanthropic sector as well as individuals.

If we are to see a genuine increase in access to philanthropic dollars by community sport and recreation organisations, as a first step it is vital the current tax legislation is amended.

3.2 Fringe Benefits Tax Exemption

It is difficult to recruit and retain highly skilled people within the sport and active recreation sector as wages are often low in comparison to the business sector and private enterprise. In addition, the relatively small size of most community sport and active recreation organisations means progression to allow people to move beyond entry level jobs, particularly older people, is difficult. .

To help forestall the leakage of talent, greater support is required to provide taxation concessions to employees so that working in the sector is an attractive financial proposition when compared to the business or private sector.

An available tax concession which can be utilised to greater effect is the Fringe Benefits Tax (FBT) exemption. Effectively utilising FBT exemptions allows salary packaging to occur whereby payments are made by the employer on behalf of the employee without incurring any FBT (up to a capped amount).

Currently under FBT regulations sporting organizations are classified as 'rebatable employers' which allows a 48% rebate on any FBT payable (subject to a \$30,000 capping). This concession does allow some degree of salary packaging and is more competitive than not having any FBT concessions, as is the case with the private and commercial sector whereby any fringe benefits are taxed at the highest marginal tax rate, however the concessions are not widely used and a greater FBT concession is available.

Public Benevolent Institutions and Health Promotion Charities are exempt from FBT where the grossed up value of the fringe benefits is \$30,000 or less. This exemption is used widely by the health sector as a means of offering competitive salary packaging. Personal payments such as loans, rent, education expenses and bills can be paid for by the employer on the employee's behalf from pre-tax income (up to a grossed amount of \$30,000).

Given the role the sport and active recreation sector plays in promoting better health outcomes, social inclusion and community capacity building, a sound basis exists for having sporting organisations classified in the same category of 'Health Promotion Charities' and in doing so availing itself of the full FBT exemption.

3.3 Claiming Sports Fees as Tax Deductions

Between 1985 and 1995 the number of overweight 7–15 year olds almost doubled. At this rate, it is predicted that 65 per cent of young Australians will be overweight or obese by 2020. (Go for Your Life, 2007).

In consideration of this disturbing statistic the taxation system can be used in order to promote increased physical participation from children. A tax deductible rebate to allow parents, guardians and carers of dependent children to make a per child claim for approved costs associated with their child or children's involvement in eligible sport or active recreation activities, would assist in promoting healthier outcomes for the community.

To adequately reflect current costs it is recommended this tax-deductible amount be set at no less than \$250 per child. Cost has been identified as a primary barrier limiting access to participation opportunities, particularly for low-income earners. The specific intent of this proposition is to introduce a tax rebate to help alleviate economic barriers that inhibit participation growth rates.

It is estimated the majority of Australian households that have responsibility for dependent children are supported by adults whose net taxable income is between \$25,001 and \$75,000 per annum. Based on these figures, at the minimum proposed tax deductible amount of \$250, families making a claim for eligible costs could save up to \$75 per child per financial year. This will provide some much needed economic relief for families who will still carry around 70% of the costs of their children's involvement in approved sport and active recreation activities.

By supporting this tax incentive Australia's Federal Government will be making a substantive investment in the future health of the nation by:

- Helping community groups maintain, and in the future increase existing levels of participation in physical activities amongst Australian children.
- Reducing the incidence of lifestyle related illnesses in children.
- Instilling in children behaviours that translate into healthier adult lifestyle patterns.

It is estimated the costs to government would be in the vicinity of \$113 million per year in foregone tax revenue if a claim was made for the 50% of children aged 5-16 in Australia who currently participate in sport or active recreation once per week or more, (approximately 1.5 million children) at an average marginal tax rate of 30%.

This \$113 million investment should be considered in the context of the \$3.7 billion dollars it costs to bear the burden of lifestyle related disease in Australia.

The introduction of such a system should be considered in the context of recent International experience. In 2007 Canada's Children's Fitness Tax Credit came into effect. The Fitness Tax Credit allows parents to claim a maximum of \$500 per year for each child who is under 16 at any time during the year. This credit covers eligible fees for involvement in *"an ongoing program, suitable for children, in which substantially all of the activities undertaken include a significant amount of physical activity that contribute to cardio-respiratory endurance, plus one or more of muscular strength, muscular endurance, flexibility and balance."* (Canada Revenue Agency, 2007)

Note on Low-Income Earners

VicSport is aware a tax deductible rebate does not provide assistance to those low income earners under the \$6,000 income tax threshold. We also acknowledges that, included in this income bracket, are families who require significant support to access vital sport and active recreation activities to assist in promoting improved health outcomes. VicSport is fully committed to working with Government, sport and active recreation organisations and other key stakeholders to develop initiatives to specifically assist low income earners to access sport and active recreation opportunities.

3.4 Volunteers Claiming Tax Deductions

Of all people who volunteer in Australia, more do so in the sport and recreation sector than in any other sector. A report on Australia's Sports Volunteers indicates that 1.14 million people volunteer in the sport and recreation sector on a regular basis. This figure is greater than the combined education, training and youth sector (1.02 million), community and welfare sector (970 000) or the health sector (297 000). (National Centre for Culture and Recreation Statistics, 2005).

Research indicates 80 –90% of all work undertaken in the sport and active recreation sector is done by volunteer labour. Volunteers are without doubt a vital element in the ongoing delivery of physical activity, in doing so providing healthy outcomes for the community.

A Victorian report considered the economic value of Victorian volunteers and although acknowledging the difficulty in calculating a figure, the authors estimated the value of indirect or formal volunteering through organisations in Victoria was worth about \$4.3 billion in 2000 and about \$1 billion of that was in sport and recreational organisations. (Soupourmas & Ironmonger, 2002)

These figures highlight the importance of volunteers in ensuring that sport and recreation opportunities can be offered to the community in a cost effective manner however volunteer recruitment and retention is a major issue affecting the growth of sport at the community level. Feedback from VicSport members suggests volunteering levels are decreasing.

Any reduction in volunteer contribution will have a significant impact as the services and benefits provided by them are lost to the community. This will place increased financial pressures on community organisations which will be reflected in access fees. Inevitably, if we do not provide support to volunteers will be left with one of two options; organisations will be forced to fold, or the government will be required to fund the shortfall through the introduction of paid staff positions.

Consideration must be given through the taxation system to support those who volunteer in sport and active recreation. One suggested support mechanism is to have the associated costs of their involvement (up to a limit of say \$500) be made tax deductible. Such costs may include travel/petrol expenses, phone calls etc. and would greatly enhance the sectors capacity to deliver healthier outcomes for the community.

4. Summary

As the peak body for sport and active recreation, VicSport represents thousands of dedicated organisations and individuals who work tirelessly to provide opportunities for the community to be active through organised sport and active recreation programs.

The continued provision of such services requires the support of a taxation system that recognizes the important health benefits that sport provides.

Recommended changes to the taxation system proposed in this submission include:

- Enabling sport to be recognized for Gift Deductible Recipient (GDR) status
- Sport to be FBT exempt (up to a capped amount of \$30,000) and to be recognized the same as Health Promotion charities
- Partial cost of children's sport fees to be approved as a legitimate tax deduction
- Partial cost of volunteering in sport to be approved as a legitimate tax deduction

VicSport welcomes the opportunity for comment on Australia's Future Tax System and welcomes the opportunity for further consultation if the need arises.

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