Submission to Australia's Future Tax System

October 2008

Objective

Facilitate investment in the community sector through the provision of tax credits in respect of income earned on investments in approved community sector development funds newly defined in the Tax Act.

Current situation

In Australia, community sector organisations generally receive funding for the provision of community services through state and federal government transfers and/or philanthropy.

Foresters' initiatives

There are limited means of investing directly in the community sector as that market is largely constrained by financial regulation. However, Foresters Community Finance Ltd (Foresters) has provided first registered mortgage loans to community organisations for over 15 years, initially from its own capital base, then via the ANA Ethical Superannuation Fund and more recently through The Foresters ANA Charitable Trust which has an individual charities exemption under ASIC Class Order 02/184 Charitable Investment Schemes – Fundraising. (Please see the Product Statement for the Community Investment Fund which includes information on the Trust's investments.)

Foresters is currently in the process of applying for an AFSL and will register a Managed Investment Scheme to enable broader retail marketing and investment in the community sector.

Enabling community organisations to become more productive

Foresters argues that the community sector can become more productive and sustainable if it is able to strengthen its capital base and secure more unrestricted income (i.e. income that does not have conditions or constraints). The most effective means of enhancing sustainability is by enabling community organisations to purchase real property from which they can deliver their services and leverage that property to facilitate the development of social enterprise.

Foresters has excellent examples where the provision of first mortgage loans to community organisations has enabled those organisations to leverage their capital assets, increase the range of services and establish new social ventures that employ numbers of people with intellectual and physical disability. For example one organisation that received loans amounting to over $700,000 and currently owes about $250,000 has built assets of over $2.2m in 10 years and greatly extended its community services.

Limited ABS data about assets

Good data on the level of property ownership in the community sector is not available. The most recent ABS report on not-for-profit organisations for 2006-7 provides only aggregated values for property, plant and equipment across all types of organisations- culture and recreation; education and research; hospitals; health; social services; environment, development, housing, employment, law, philanthropic, international; religion; business and professional associations, unions and other activities. The average value of these assets of these 41,000 organisations is just $330,000 per organisation.

Facilitation of investment by means of tax credits to all

Foresters would like to see greater investment in the community sector by the community facilitated through the provision of tax credits in respect of income earned on investments in approved community sector development funds. We believe that this is the most effective means of building community ownership and can be used alone or in concert with capital grants and/or philanthropy.

Equitable tax treatment

In order to make the tax treatment of income received from this type of investment in the community sector more equitable, we would like to see tax credits of at least 30 cents (and preferably 49 cents) in the dollar on net investment earnings paid to all investors who invest in approved investments in the community sector. The kinds of suitable investments could include office accommodation for family, disability or indigenous services; Community Centres for seniors; Child Care Centres etc.

The availability of tax credits would (for example) encourage pensioners to invest in facilities that provide services for them; parents to invest in child care facilities; indigenous people to invest in organisations providing indigenous services and also provide an incentive for businesses, individuals, superannuation funds and other trusts to invest in the sector.

In effect this would mean for example that a 4% net return on investment would increase to 5.2% after a tax credit of 30%; a 5% net return would increase to 6.5%. Any capital gains outcomes could be treated consistently with existing tax provisions.

To ensure that the level of tax credits were controlled, the government could set a net return limit of say 6% per annum on which tax credits would be paid. Returns above that level should not being eligible for tax credits.

Impact of tax credits

The impact of tax credits could include:

- An opportunity for secure investment in community assets in troubled economic times;
- Formal recognition by government of the legitimacy of investing in the community sector would encourage investment in the sector and reduce dependency by the sector on government funding;
- A reduction in the transfer of government funds to community organisations via government funded programs for the purpose of meeting their lease costs for offices and facilities;
- Increasing productivity of the community sector as capital value is leveraged and sustainability of the sector increases;
- More effective use of government transfers to the community sector;
- Potential reduction in charitable donations (philanthropy) and tax deductions and a general increase in investment in the community sector;
- The development of new opportunities for individuals, businesses and trusts to invest in needed community facilities rather than looking towards and waiting for government funding or charity;
- An opportunity to unlock government funds for community use that are currently tied up in property ownership;
- Leveraging of government owned assets through community investment.

Legislation and regulation

In order to ensure that disreputable organisations do not enter this market and that community organisations are not formed simply to exploit this opportunity for financial rather than social benefit, appropriate controls would need to be put in place. We suggest that this take the form of the inclusion of an appropriate definition of Community Development Finance Institution (CDFI) being included under the Tax Act and for the appropriate regulation of such CDFI's by ASIC.

Foresters staff have visited the UK and US and examined their approaches. However, we believe that the Australian social and economic environment and structure does not lend itself to the approaches used in those countries and is more suited to encouragement of direct community investment.

Further information

Foresters would be happy to meet with the Review Panel and/or provide additional information in respect of this submission.

We have spoken directly to the Treasurer about our activities and as a result of that discussion met with Treasury staff who encouraged us to make this submission to you.

Please note that Foresters Community Finance Ltd was formerly Foresters ANA Mutual Society Ltd.

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Attachments

Community Asset Building – Ingrid Burkett & Belinda Drew (March 2007)

Community Asset Building Posters