

SUBMISSION ON THE TAXATION PRIVILEGES OF CHURCH BODIES

INTRODUCTORY

This supplementary submission deals with an aspect which is mentioned but not analysed in the architecture paper.

BACKGROUND

Non-profit organisations are entitled to the complete income tax exemption privileges available under Division 50 of the Income Tax Assessment Act 1997 if they fall into one of a number of specified categories (having regard to an organisation's sole or main purpose).

These categories include:

- * charitable institutions
- * religious institutions
- * scientific institutions
- * public educational institutions
- * organisations established for community service purposes (not being political purposes or lobbying purposes)
- * organisations established for the encouragement of animal racing, art, a game or sport, literature or music.
- * organisations promoting the development of primary and secondary resources or tourism.

Any tax concession to some taxpayers is inevitably at the expense of all other taxpayers. In this connection the second category in this list is rather disconcerting, as it always involves cross-subsidisation.

Why, for example, should the adherents of Religion A pay in order to provide a benefit for the adherents of Religion B? Even more so, why should non-believers be made to pay for churches?

Of course, to the extent that religious organisations carry out genuine charitable or educational activities they should be entitled to the same tax regime as secular non-profit organisations doing similar work - but purely religious activities should be regarded as quite different.

To make the problem worse, some cults have managed to receive official recognition as "religions". To illustrate, the question of whether scientology was a religion was considered by the High Court of Australia in *Church of the New Faith v. Commissioner of Pay-Roll Tax (Vict.)* 1983 154 CLR 120. Rather surprisingly, the court held that it was.

Furthermore, the total size of the substantial annual cost of the entire tax concessions to the churches is hidden from the community.

THE TAXES INVOLVED

Religious bodies benefit from tax concessions at all levels of government:

* Federal:

- income tax
- fringe benefits tax
- goods and services tax

* State:

- land tax
- payroll tax
- stamp duties
- car registration fees

* Local Government:

- rates

In addition, concessions apply to some water and power charges.

Land tax exemptions cover not only church buildings but also church-owned commercial property.

Some municipalities in Australia are home to more religious institutions than others, so that the rate subsidies hit some owners and occupiers harder than others.

There is no such thing as a free lunch. All of such cross-subsidisation naturally results in higher taxes for the rest of the community.

FRINGE BENEFITS TAX

The fringe benefits tax exemption creates an undesirable loophole. It enables eligible employers to pay lower wages to their employees (being amounts which are subject to income tax in their hands) and to compensate the employees for this by means of higher fringe benefits (which are tax-free in their hands).

Section 57 of the Fringe Benefits Tax Assessment Act 1986 gives total exemption to fringe benefits given to employees who are religious practitioners. As there is no cap to this in the legislation some churches apparently use remuneration packages which consist of nil salary and 100 per cent fringe benefits.

The use of such a device can also have the undesirable side-effect of creating an unwarranted entitlement to social security benefits.

COMMERCIAL OPERATIONS

Some churches conduct commercial operations within their tax shelters. To that extent they enjoy a tax subsidy at the expense of ordinary taxpayers.

But, apart from that, their lower overheads also allow them to charge lower prices than their commercial competitors, thus giving them an unfair trading advantage over these.

To illustrate, the Seventh-day Adventist Church runs the Sanitarium Health Food Company, a manufacturer of many popular food products.

GRANTS

Tax concessions that are automatically available are in any case a very inefficient way to pass wealth from one section of the community to another.

A system of targeted grants, awarded on the basis of some objective criteria (including in regard to efficiency and accountability) and subject to some defined overall budget cap, would be much more appropriate.

CONCLUSION

Australia believes in the separation of church and state.

As the above analysis has demonstrated, it would be highly desirable to do away with all the unfair tax concessions to religious institutions that are currently available.

It is perfectly proper in a democracy for members of a particular faith to support it out of their own pockets, but it is quite immoral for such funding to be compulsorily extracted from other citizens.

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