



13 December 2012

Manager  
Charities Unit  
Indirect, Philanthropy and Resource Tax Division  
The Treasury  
Langton Crescent  
PARKES ACT 2600

Please find attached a brief submission to the Not-for-profit Sector Tax Concession Working Group consultation paper on tax concessions for the not-for-profit (NFP) sector. Palmerston Association is pleased to contribute to this review and looks forward to the final report.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Sheila McHale', written in a cursive style.

Sheila McHale  
Chief Executive Officer  
Palmerston Association Inc.

Enc.



**Submission to the  
Federal Treasury discussion paper on  
taxation reform**

## **Introduction**

Palmerston Association is very pleased to provide feedback on the Not for Profit Sector Tax Concessions Working Group discussion paper "Fairer, Simpler and more effective tax concessions for the not for profit sector". The Palmerston Board at its meeting on 27 November 2012 resolved to make a brief submission to the Working Group. Any reform of the taxation system has the potential to impact significantly on the NFP sector.

### **The purpose and function of Palmerston Association**

Serving the community for over 30 years, Palmerston Association is one of the largest specialist non-government providers of alcohol and substance use education and counselling in Western Australia, operating from nine offices in Western Australia, including the South Metro Community Drug Service (SMCDS), Great Southern Community Drug Service Team (GSCDST), Palmerston Perth and Palmerston Farm (a therapeutic community south of Perth).

Core services include:

- early intervention supporting individuals, families and the community
- counselling and group work for people experiencing alcohol or other drug problems
- family support for those experiencing difficulties with a family member's drug use
- groups specifically designed for women, men, young people, parents or families
- education and training for other service providers, client groups, and the general community
- support and consultation to the local community and organisations such as schools, community groups, other service providers and private enterprise
- outreach counselling for youth
- an integrated service with the WA Health Department 'Next Step' program offering pharmacotherapy services
- Needle and Syringe exchange program

Our vision is to be recognised as the employer and partner of choice in the Alcohol and Other Drugs sector, offering best practice, flexible services throughout Western Australia, and as a leading advocate for harm minimisation policy reform.

Our purpose is to assist and support individuals, families and communities across Western Australia, by reducing the harm of alcohol and other drug use through counselling, therapies and education.

### **The NFP Discussion Document**

The Board and management acknowledge that the discussion paper is broad in its scope. It canvasses a wide range of complex taxation issues all of which have the potential to impact on the capacity of the NFP sector. The area of fringe benefit tax is particularly complex.

We are a public benevolent institution (BPI) and have direct giving recipient registration (DGR) with approximately 90 staff.

We employ a chief financial officer who does understand the financial complexities of the system and we are fortunate in this regard.

Many NFPs are small and do not have the resources to employ specialist staff to steer organisations through the labyrinth of taxation. Therefore efforts to simplify the system would be welcome.

My Board has requested that our submission restricts itself to the following points:

### **Competitive neutrality**

The discussion paper at p33 suggests that FBT concessions give the NFP organisation a competitive advantage over for profit organisations. Our Board respectfully suggests that this is not in reality a concern nor is it reflected in practice.

Our experience historically is that the wages of the NFP sector are such that we lose staff to the Government or the for profit sector. It is rarely the other direction. Our wage rates are not competitive with the other sectors. The opportunity to offer salary packaging offers one way of ameliorating this situation, particularly in recruiting managerial/professional categories of employees who could attract much higher salaries in the for profit/government sectors.

On average, NFP wage rates are 25% to 50% lower than those offered in other sectors. We do therefore see the opportunity to offer FBT exempt benefits as a useful way to compensate for other disadvantages.

Approximately 70% of our staff avail themselves of the opportunity to salary package up to the \$30,000 cap.

In an ideal world, funding for service delivery by the NFP sector would be sufficient to guarantee competitive wage rates in comparison with other sectors for the longer term, eliminating the need for the assistance that FBT benefits provide. However, we do not live in an ideal world.

### **Meal and entertainment card**

The report speculates that the meals and entertainment card offends the principle of fairness. Approximately 15 % of our staff from across the organisation access this benefit. We have no evidence to suggest that the benefit is being used unfairly.

It needs to be pointed out that the card can be and is used at low cost dining and food outlets (eg McDonalds, Subway) as well as more expensive restaurants. This can therefore be of assistance to lower income employees.

If there are examples of excessive tax minimisation, perhaps an upper annual limit could be applied to the entertainment card.

However, in our experience, we have not observed such examples of unfairness.

### **Multiple employers**

Should there be a cap imposed on employees limiting the number of employers from whom the cap can be claimed, the responsibility should rest with the employee and not the employer to manage this. We believe this will impose an unnecessary administrative burden on the NFP organisation. It could be managed through the ATO.

## **Role of the Australian Charities and not for profit Commission**

The work that is currently taking place on the definition of a charity ought to inform the debate on what criteria should be used to determine whether an entity is entitled to tax exemption status (Question 1).

A more current and contemporary definition of a charity may well provide the basis for examining tax exemption status.

## **Taxation benefits as an aid to sustainability**

As stated above, the taxation environment is complex for the NFP and we do not intend to comment on various aspects of the discussion document. Suffice it to say that the benefits afforded by the tax concessions (including the refund of franking credits) contribute to the sustainability of organisations such as Palmerston. We also believe the claimable benefits should be left as they are.

## **Phasing out FBT concessions**

Palmerston Association does not favour phasing out of FBT exemptions and replacing them with a method of direct grants from Government. (Qns 38 and 39).

The NFP sector already experiences significant inconvenience and hold ups as a result of the highly bureaucratic process involved in contracting with Government. Were the tax concessions replaced with a system of direct grants Palmerston believes this would be a retrograde step. The quantum of the amount on offer due to the conversion of tax rebates/exemption into direct grants would be a highly contentious point and may well cost the Government more than is currently foregone through the current system.

Palmerston believes that if the tax system is subject to examples of rorting or abuse, those organisations that are abusing the system ought to be taken to task rather than the system as a whole be dismantled.

## **Options for the future**

As the discussion paper offers no preferred position on the broad range of options canvassed within it, we would like to suggest that a formal consultation paper be issued setting out the ultimate recommendations for consideration. This will enable informed discussion to take place on the reform parameters.