

Intereach is a not for profit provider of rural community services that support and develop the wellbeing of children, families, older people, people with disabilities, carers and communities throughout the Riverina Murray region of NSW. The organisation was established in 1973 and has grown in response to the needs of rural communities.

Intereach thanks the Treasury for the opportunity to comment.

In considering any reform we ask the working group to please take into account the needs of rurally based NFPs such as Intereach. These organisations provide unique and important benefits to their communities through the delivery of community initiated programs and Local, State and Federal government programs and partnerships. These benefits take three forms:

1. Maximises the capacity of communities to identify needs and tailor services to fit those needs much more effectively than would be the case where services are provided from “far away” regional centres,
2. Maximising delivery through efficiencies and local knowledge without having to service shareholders, and
3. Creating much needed employment and career opportunities than occurs when programs are delivered by outside organisations,

We ask that the working group place priority on retaining tax measures that are a big help in allowing us to continue to deliver these benefits. These are:

- 1) The fringe benefit concessions are critical to our ability to employ and to deliver programs more cost effectively.
- 2) The concessions assist us attract and retain quality employees at all levels and hence deliver quality services. In particular, the concessions are critical to our ability to attract high level expert and experienced professionals to rural areas.
- 3) Without the concessions the cost of management and administrative services would need to rise reducing the proportion of funds available for delivery. Any increase in government revenue would be offset by increased cost of delivery and/or reduction in delivery capacity.

Retaining these concessions, perhaps in a simpler and more efficient way as suggested in the paper, clearly supports social good and is fair to rurally based NFP's who need the ability to attract quality staff without extra cost.

Our specific replies to some of the questions in the discussion paper are as follows:

Tax reform measures can assist rurally based not for profits in the following ways:

- a. Income Tax. Option 1.1. Retaining exemptions from income tax for NF's delivering social services achieves the following:
 - i. Allows surpluses to be retained in rural communities
 - ii. In particular, retention of surplus is absolutely vital to allow NFP's to build surpluses to cover long term employment obligations, particularly long service leave and potential redundancy expense. It is vital to recognise that a key benefit to the tax payer of outsourcing program delivery is that these obligations are shifted from government.

- iii. Reduces tax compliance.
 - iv. Option 1.2. Allowing NFP's to claim franking credits would assist NFP's who choose to invest in services which are outside the tax exemptions. This would remove a disadvantage in competing with taxable competitors.
 - v. Option 1.3 and 1.4 seem likely to deliver efficiencies.
- b. Donations. Efforts to encourage charitable giving are supported. In particular:
- i. Option 2.1 - Extending DGR status to all charities would seem to be simple and consistent with their being assessed as a charity.
 - ii. Option 2.4, Q15. The suggestion of a refundable tax offset would be a good way of encouraging greater donations to NFP's in rural areas where many tax payers do not pay tax or have tax rates in the bottom tiers.
 - iii. Option 2.6. Tax incentives to encourage testamentary giving (para 99.). A simple mechanism would be for the bequest to be deductible or benefit from the tax offset in the tax year of death or tax year following death.
 - iv. Support a clearing house for donations to DGR's, particularly if the system allowed a contribution to be paid at the time to tax return was lodged but claimed against the previous financial year.
- c. Section 3. Fringe Benefit Concessions. As explained in the introduction to our submission, it is vital that we retain fringe benefit tax concessions as these assist in our ability to attract and retain employees. Loss of these concessions would either increase in employment cost or reduce employee quality, both of which would have a direct impact on the quantum and quality of services delivered – outcomes that one would assume are completely contrary to the government aims. Out another way, cutting these benefits would ultimately increase the cost of delivering services. Loss of this benefit would particularly disadvantage rurally based NFP's as it is difficult to attract or retain employees to rural areas.
- In our opinion:
- i. The ability of NFP to offer remuneration concessions to employees should be retained and restricted to NFP's, and if necessary, rurally based NFP's.
 - ii. The proposal of tax free allowances would reduce salary packaging administration costs whilst still delivering capacity to provide competitive remuneration at a lower cost to the NFP.
 - iii. We do not support the suggestion of replacing with alternative government support due to the uncertainty of Federal/State decision making, and secondly, the inefficiency of collecting more tax and then re-distributing.
 - iv. We do not support phasing out of concessions.