

## Submission

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# Submission on the Tax and Superannuation Laws Amendment (2015 Measures No. 4) Bill 2015: Limiting FBT concessions on salary packaged entertainment benefits 13 August 2015

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## About us

Volunteering Australia (VA)<sup>1</sup> is the national peak body for volunteering working to advance volunteering in the Australian community. Our mission is to lead, strengthen, promote and celebrate volunteering in Australia. We work collectively with the seven State and Territory volunteering peak bodies listed in Attachment A (**peaks**) to deliver national, state and local volunteering programs and initiatives in accordance with the Government's priorities.

## Previous submission about tax

We previously made a detailed submission about the Federal Government *Re:think Tax Discussion Paper* (copy **attached**). Please refer to that submission for background information about:

- The importance of the volunteering sector.
- The role of tax concessions in the volunteering sector.
- Recent Government funding changes affecting the volunteering sector.

## Proposed changes to entertainment benefits

We oppose the proposed changes to fringe benefits tax concessions on salary packaged meal entertainment and entertainment facility leasing expense benefits (**entertainment benefits**).

Some not-for-profit (NFP) organisations provide entertainment benefits to their employees. This effectively reduces their wages bill and makes them a more attractive employer. We believe that the proposed changes will make it harder for relevant NFPs to recruit and retain staff with appropriate skills and experience, because they already pay wages that are significantly below those paid in the private sector for equivalent job roles. Alternatively, relevant NFPs will have to pay higher wages to attract good staff, which will reduce the number of staff hours or cash resources they can allocate to providing services to the community.

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<sup>1</sup> Abbreviations are also listed in the Glossary at the end of this submission.

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We understand the rationale for the proposed changes is that the amount of revenue foregone from fringe benefits tax (FBT) concessions to NFPs is 'significant' and 'has been increasing'.<sup>2</sup> However, we believe this is mischaracterisation of the situation in relation to the volunteering sector, where the revenue is foregone is insignificant compared to the broader contribution made by the sector.

The volunteering sector is critical to civil society – formal volunteering was worth at least **\$25.4 billion** to the Australia economy in 2010<sup>3</sup> and delivers many other significant social benefits.<sup>4</sup> The proposed changes will have the following specific impacts on the volunteering sector:

- They will reduce the amount and quality of the volunteer support services that volunteering peak bodies and volunteer support organisations (VSOs) will be able to provide to the volunteering sector.
- They will increase the demand for volunteer support services because volunteer involving organisations (VIOs) may:
  - cut back on resourcing for volunteer management
  - recruit more volunteers to replace paid staff.

We believe the changes are a false economy, as they will result in people doing less volunteering and doing less well. This will have a significant detrimental impact on the Australian community.

Our specific comments about the proposed changes are set out below.

### Capping entertainment benefits at \$5,000

We note the Bill proposes to cap entertainment benefits at \$5,000 (grossed up) per person per annum from 1 April 2016. This equates to just \$2,650 per annum (or \$51 per week) before grossing up, which is less than the cost of buying one meal per work day. The proposed cap is expected to save the Government \$295 million over four years across the whole NFP sector but this is far outweighed by the \$25.4 billion per year contributed by the volunteering sector alone.<sup>5</sup>

We endorse:

- The Community Council of Australia (CCA) view that *'capping the concession is fair but the savings should be directed towards the original intent – supporting our charities and NFPs'*.<sup>6</sup>

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<sup>2</sup> Australian Government, *Re:think Tax Discussion Paper*, March 2015 at page 124.

<sup>3</sup> Dr Lisel O'Dwyer, *The Real Value of Volunteering 2013*, University of Adelaide, available at: [https://www.adelaide.edu.au/apmrc/pubs/policy-briefs/APMRC\\_Policy\\_Brief\\_Vol\\_1\\_11.pdf](https://www.adelaide.edu.au/apmrc/pubs/policy-briefs/APMRC_Policy_Brief_Vol_1_11.pdf)

<sup>4</sup> Further information about the social benefits of volunteering is available in our fact sheet *Key Facts and Statistics about Volunteering in Australia*, available at: <http://www.volunteeringaustralia.org/research-and-advocacy/the-latest-picture-of-volunteering-in-australia/>

<sup>5</sup> *Budget 2015-16, Budget Paper No 2*, pages 22-23, available at [http://www.budget.gov.au/2015-16/content/bp2/download/BP2\\_consolidated.pdf](http://www.budget.gov.au/2015-16/content/bp2/download/BP2_consolidated.pdf)

<sup>6</sup> CCA Media Release, *'Robbing St Peter to pay the ATO'*, 4 May 2015

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- The NFP Sector Tax Concession Working Group recommendation that any net savings from FBT changes should be returned to the NFP sector as soon as possible.<sup>7</sup>
- The CCA position that entertainment benefits should be capped at **\$15,000** per annum. The savings from that more reasonable cap are still estimated by the Australian Tax Office at \$100 million.<sup>8</sup>

### ***Suggestion 1: Increase the entertainment benefits cap to \$15,000***

We suggest that the Bill should be amended to increase entertainment benefits cap to \$15,000 (grossed up) per annum. This equates to a modest \$7,950 per annum (or \$153 per week) before grossing up.

### ***Suggestion 2: Index the entertainment benefits cap***

We suggest that the Bill should be amended to index the entertainment benefits cap to ensure that the true value of these benefits keeps pace with inflation.

### ***Suggestion 3: Return any savings from the entertainment benefits cap to the NFP sector***

We suggest that the Bill should be amended to direct that the savings resulting from the entertainment benefits cap be returned to the NFP sector as soon as possible. The volunteering sector should be properly consulted about the most efficient and effective way to do this.

## Making entertainment benefits reportable

We note the Bill proposes to report the grossed up value of entertainment benefits on an employee's annual *Payment Summary* (group certificate). This will affect other financial entitlements and charges, including the Medicare levy surcharge, deductions for personal super contributions, low-income super co-contribution, Higher Education Loan Program, dependents offsets, child support obligations and entitlement to certain income-tested government benefits. Making entertainment benefits reportable effectively reduces the 'value' of entertainment benefits to employees even further.

### ***Suggestion 4: Do not make entertainment benefits reportable***

We suggest that the Bill should be amended so that employers do not have to report entertainment benefits on *Payment Summaries*.

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<sup>7</sup> NFP Sector Tax Concession Working Group, *Fairer, simpler and more effective tax concessions for the NFP sector*, Commonwealth of Australia, May 2013 at page 7.

<sup>8</sup> *Robbing St Peter to pay the ATO*, op. cit.



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### Authorisation

This submission has been authorised by the Chief Executive Officer of Volunteering Australia.



**Brett Williamson OAM**  
Chief Executive Officer

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### Endorsements

This submission has been endorsed by the seven State and Territory volunteering peak bodies listed in Attachment A.

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### Glossary

<b>CCA</b>	Community Council of Australia.
<b>Entertainment benefits</b>	Fringe benefits tax concessions on salary packaged meal entertainment and entertainment facility leasing expense benefits.
<b>FBT</b>	Fringe benefits tax.
<b>NFP</b>	Not-for-profit organisations.
<b>Peaks</b>	The seven State and Territory volunteering peak bodies (listed in Attachment A).
<b>VA</b>	Volunteering Australia is the national peak body for volunteering in Australia. It works collectively with the peaks to deliver national, state and local volunteering programs and initiatives.
<b>VIOs</b>	Volunteer-involving organisations are organisations that utilise volunteers as part of their workforce.
<b>VSOs</b>	Volunteer support organisations (also known as volunteer resource centres or services) provide place-based volunteer support services to volunteers and VIOs in their locality.

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Submission

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Attachment A

New South Wales



Queensland



Victoria



Australian Capital Territory



South Australia & Northern Territory



Tasmania



Western Australia



Submission on the  
Re:think tax discussion paper  
Chapter 7: Not-for-profit sector

1 June 2015

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## About us

Volunteering Australia (VA)<sup>1</sup> is the national peak body for volunteering working to advance volunteering in the Australian community. Our mission is to lead, strengthen, promote and celebrate volunteering in Australia. We work collectively with the seven State and Territory volunteering peak bodies listed in Attachment A (**peaks**) to deliver national, state and local volunteering programs and initiatives in accordance with the Government's priorities.

## Executive summary

This submission considers the role that the fringe benefits tax (FBT) and deductible gift recipient (DGR) concessions play in the volunteering sector.

The volunteering sector is critical to civil society – formal volunteering was worth at least \$25.4 billion to the Australian economy in 2010.

Recently, the Government has reduced direct funding to the volunteering sector, while at the same time introducing other policy changes (such as *Work for the Dole*) that will result in increased demands on the volunteering sector.

We are concerned that any changes to the FBT and DGR concessions that reduce the overall level of financial support to not-for-profit (NFP) organisations will:

- make it harder or more expensive for NFPs to recruit and retain appropriately skilled staff because of salary parity issues
- make it harder for NFPs to attract charitable donations and philanthropic grants
- consequently, reduce the amount of staff time, skills or cash available to NFPs to provide services.

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<sup>1</sup> Abbreviations are also listed in the Glossary at the end of this submission.

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Such changes will have the following impacts on the volunteering sector:

- they will reduce the amount and quality of the volunteer support services that volunteering peak bodies and volunteer support organisations (VSOs) will be able to provide to the volunteering sector.
- they will increase the demand for volunteer support services because volunteer involving organisations (VIOs) may:
  - cut back on resourcing for volunteer management
  - recruit more volunteers to replace paid staff.

## Previous reports about tax concessions

We acknowledge the valuable work done by the Community Council of Australia (CCA) in its report *'Strengthening Australia's community organisations - reforming taxation concession arrangements,'* Access Economics Pty Ltd for CCA, April 2010. In particular, we endorse the following CCA principles for reform:

- first do no harm
- strive to avoid unintended consequences
- revenue neutrality for the sector is important
- support mechanisms should be transparent and simply administered.

We also acknowledge work done by the NFP Sector Tax Concession Working Group (**the Working Group**) in its report *'Fairer, simpler and more effective tax concessions for the NFP sector,'* Commonwealth of Australia, May 2013.

## The importance of the volunteering sector

In 2010, over 36% of Australian adults (**6.1 million people**) participated in formal volunteering (through an organisation) and 49% provided informal assistance to people outside their own household. Volunteers give freely of their time to support the community, and the people who need them. Volunteers are the people who step up to the challenge where there is a gap in the system – due to resource limitations, emergencies or otherwise.

The volunteering sector is critical to civil society. Volunteering underpins the delivery of community services in our nation, and without volunteers most NFPs simply could not function. In 2006-07, NFPs employed around 890,000 paid staff but over 4.6 million Australians volunteered for them. That equates to around **five volunteers for each paid employee in the NFP sector**. Around two-thirds of volunteers work for small NFPs that do not have any paid employees. Volunteers provided 623 million hours of work to the NFP sector (**equivalent to 317,000 full-time positions**).



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In 2010, formal **volunteering was estimated to be worth \$25.4 billion to the Australian economy** and informal assistance was valued at \$59.3 billion. More recent estimates of the whole sector (formal and informal volunteering) range up to \$290 billion per year. These figures are based on a 'multiplier,' which factors in the additional entities that benefit from a volunteer's time (such as the organisation, the volunteer, the client, and the community). However, even these impressive numbers undersell the real value of volunteering – volunteering has a far greater social value and impact than just the notional cost of paying for that time.

Volunteering plays a key role in strengthening communities by creating networks between people who generate a range of positive social practices. It also has significant benefits for volunteers – it mediates the negative psychological effects of disadvantage, and is important for connecting people to social and economic participation, career paths and labour markets.

Further information about volunteering (including citations) is provided in our fact sheets *Key facts and statistics about volunteering in Australia* and *Key sources of information about volunteering in Australia*.<sup>2</sup>

## The role of tax concessions in the volunteer sector

All volunteering peak bodies and most VSOs are NFPs.<sup>3</sup> All peaks and most VSOs receive direct Government funding (via Department of Social Security grants that totalled around **\$5.2 million** in 2015-16), and some (but not all) also receive indirect financial support through a range of tax concessions: This financial support enables peaks and VSO to employ skilled staff, engage volunteers and allocate resources in order to provide volunteering support services across the country.

The cost to Government of funding volunteer support is far outweighed by the **\$25.4 billion worth** of volunteering done annually and the other significant social benefits social that volunteering delivers.

Many (but not all) VIOs are NFPs.<sup>4</sup> Many VIOs also receive direct funding and indirect tax concessions from the Government. VIOs leverage this funding and provide added value by involving volunteers to supplement their paid workforce (at a rate of around 5 volunteers for every one employee). In 2012-13, most of the income received by NFPs came from Government (\$40,930 million) but this cost is far outweighed by the 3.9% of Gross Domestic Product generated by NFPs and the other social benefits the NFP sector delivers.<sup>5</sup>

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<sup>2</sup> Copies available on request.

<sup>3</sup> Some VSOs are local government bodies.

<sup>4</sup> Some VIOs are government bodies (e.g. some schools) and some VIOs are 'for-profit' organisations (e.g. some major events organisations).

<sup>5</sup> ABS 2014, *Australian National Accounts: Non-Profit Institutions Satellite Account 2012-13*, cat. No. 5256.0, ABS Canberra at pages 11 and 17.

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There are commonly encountered perceptions that there are minimal costs associated with involving volunteers, and that the volunteering sector is essentially self-sustaining. More insightful analysis recognises that there is a cost to VIOs in providing good volunteer management, and that appropriately funded peaks and VSOs provide benefits far in excess of their operating costs. The *State of Volunteering in Tasmania Report 2014* estimates the return on investment of supporting volunteering as being in excess of 400%.

### Recent changes affecting the volunteering sector

Recently, the Government reduced direct funding for peaks and VSOs in two key ways:

- some funding was provided to VA as the peak body for Australia but funding was specifically excluded for State and Territory peak body services.
- grants for volunteer support services in defined geographic regions were capped at \$100,000 per annum, with a maximum of 16 months funding available (to 30 June 2016). Our preliminary analysis indicates that most VSOs received less funding than requested and/or previously received, and/or for larger geographic areas.

More information about the impact of these funding cuts is set out in the volunteering sector's submissions and evidence to the *Senate Community Affairs References Committee Inquiry into the Department of Social Security Tender*.<sup>6</sup>

In addition, the Government has recently implemented other social policies that will result in increased demand for volunteer support services from VIOs and volunteers, including:

- the *Work for the Dole* program is based on the creation of many thousands of unpaid work placements across Australia. Much of the work involved in supporting these placements will fall on peaks, VSOs and VIOs. However, all of the funding for this work has been directed to Job Services Agencies and Work for the Dole Co-Ordinators, not the volunteering sector.
- Widespread funding cuts to the NFP sector mean that many organisations will need to reduce their paid workforce (possibly including volunteer manager roles), while continuing to meet community demand for their services. Inevitably, this will lead many NFPs to consider increasing their volunteer numbers to 'fill the gap,' which is contrary to the current principles of volunteering.<sup>7</sup> However, no additional funding has been provided to peaks and VSOs to support these extra volunteers and the VIOs who will be managing them.

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<sup>6</sup> Available at: [http://www.aph.gov.au/Parliamentary\\_Business/Committees/Senate/Community\\_Affairs/](http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Community_Affairs/)

<sup>7</sup> Available at <http://www.volunteeringaustralia.org/policy-and-best-practise/definition-of-volunteering/>

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### ***Suggestion 1: Do not further reduce the level of overall financial support for volunteering***

We strongly suggest that the Government should not further reduce the overall level of financial support to volunteering peaks and VSOs. To do so would quite simply be a false economy, as it will result in people doing less volunteering and doing less well. This will have huge detrimental impact on the Australian community.

If the Government intends to adjust the 'mix' of financial support to peaks and VSOs by reducing the type or amount of tax concessions that are available, then it must offset this by increasing other forms of financial support to the volunteering sector. In that event, the volunteering sector must be properly consulted about the most efficient and effective way to deliver alternative financial support.

### Fringe benefits tax concessions

Some (but not all) NFPs can use FBT exemptions to provide salary packaging arrangements to their employees. This effectively reduces their wages bill, and makes them a more attractive employer. We note that Working Group found these concessions have not been increased since they were introduced meaning that the true value of these benefits has eroded over time.<sup>8</sup>

We believe that if this concession is reduced or lost, then NFPs will find it much harder to recruit and retain staff with appropriate skills and experience. Alternatively, they will have to pay higher wages to do so, which will reduce the number of staff hours or cash resources they can allocate to providing services. This reduction in staff time or skills, or cash resources will have the following specific impacts on volunteering:

- for peaks and NFPs, this will result in reduced amount and quality of volunteer support services.
- for VIOs, this may result in reduced amount and quality of volunteer management. It may also result in them recruiting more volunteers to replace paid staff.

We note that the Working Group also agreed that *'removing the concession altogether without a consideration of a mechanism to replace the support would have a significant impact.'*

The provision of FBT concessions to peaks and VSOs does not result any distortions that affect the broader allocation of resources in the economy because we do not operate in competition with 'for-profit' providers. Volunteer support services are only provided by NFPs and some local governments. Peaks and NFP employees are paid wages that are significantly below those paid in the private sector for equivalent job roles. Salary packaging simply reduces this wage gap sufficiently to enable us to attract employees for whom high wages are not the primary goal.

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<sup>8</sup> *Fairer, simpler and more effective tax concessions for the NFP sector*, op. cit. at page 7.



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We note that the FBT concession for public benevolent institutions is estimated to have resulted in \$1 billion in revenue foregone in 2010, but this is far outweighed by the \$25.4 billion of volunteering done in 2010.

### ***Suggestion 2: Index the FBT salary packing caps***

We suggest that the Government should index the FBT salary packaging caps to ensure that the true value of these benefits keeps pace with inflation.

## Meal, entertainment and facility leasing benefits

We note that the separate FBT concessions for meal, entertainment and facility leasing were capped in the *Budget 2015-16* at \$5,000 (grossed up) per person per annum from 1 April 2016. This is expected to save \$295 million over four years.<sup>9</sup>

We endorse the CCA view that '*capping the concession is fair but the savings should be directed towards the original intent – supporting our charities and NFPs*'.<sup>10</sup> The Working Group also suggested that any net savings from FBT changes should be returned to the NFP sector as soon as possible.<sup>11</sup>

However, we also agree with the CCA suggestion that these benefits should have been capped at \$15,000 per annum (not the \$5,000 specified in the Budget). The savings from that more moderate cap were still estimated by the Australian Tax Office at \$100 million.<sup>12</sup>

### ***Suggestion 3: Increase the meals, entertainment and facility leasing cap by \$10,000***

We suggest that the Government should increase the meals, entertainment and facility leasing cap by \$10,000 per annum.

### ***Suggestion 4: Return any savings from the meals, entertainment and facility leasing cap to the NFP sector as soon as possible***

We suggest that the Government should return any savings from the revised meals, entertainment and facility leasing cap to the NFP sector as soon as possible. The volunteering sector must be properly consulted about the most efficient and effective way to do this.

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<sup>9</sup> *Budget 2015-16, Budget Paper No 2*, pages 22-23, available at [http://www.budget.gov.au/2015-16/content/bp2/download/BP2\\_consolidated.pdf](http://www.budget.gov.au/2015-16/content/bp2/download/BP2_consolidated.pdf)

<sup>10</sup> CCA Media Release, '*Robbing St Peter to pay the ATO*', 4 May 2015

<sup>11</sup> *Fairer, simpler and more effective tax concessions for the NFP sector*, op. cit. at page 7.

<sup>12</sup> *Robbing St Peter to pay the ATO*, op. cit.



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### Eligibility for multiple FBT concession caps

We support the Working Group recommendation to remove eligibility for multiple FBT concession caps when an employee works for more than one employer.<sup>13</sup>

#### ***Suggestion 5: Remove eligibility for multiple FBT concession caps***

We suggest that the Government should remove eligibility for multiple FBT concession caps when an employee works for more than one employer.

### Deductible gift recipient status

Some but not all NFPs have DGR status. For those that do, the concession has two key benefits:

- it encourages donors to give money to them because they can claim a tax deduction.
- it also enables them to apply for a broader range of philanthropic grants (as many such organisations will only give to NFPs with DGR status).

For eligible volunteering peaks and VSOs, the ability to apply for philanthropic grants is an extremely valuable resource. Such grants enable them to leverage government funding and cross subsidise the volunteer support services they provide. Without philanthropic grants, some peaks and VSOs would be almost entirely reliant on Government funding.

If eligible NFPs lose their DGR status, it may reduce the amount of revenue they obtain from charitable donations or philanthropic grants. This reduction in cash resources will have the following specific impacts on volunteering:

- for peaks and NFPs, this will result in reduced amount and quality of volunteer support services.
- for VIOs, this may result in reduced amount and quality of volunteer management. It may also result in them recruiting more volunteers to replace paid staff.

We endorse the CCA view that obtaining DGR status is currently too complex, time-consuming and expensive. We also endorse their view that the Australian Charities and Not-For-Profit Commission (ACNC) be should be responsible for determining eligibility for DGR status.<sup>14</sup>

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<sup>13</sup> Ibid at page 9.

<sup>14</sup> *Robbing St Peter to pay the ATO*, op. cit.

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We note that both the Working Group and the CCA have suggested that DGR status could be made simpler, more transparent and equitable by extending it to all charities.<sup>15</sup> However, we acknowledge there is some debate about whether all schools, religious institutions and large NFPs who have significant commercial operations should qualify as charities.

We note that the DGR concession is estimated to have resulted in \$900 million in revenue foregone in 2010, but this is far outweighed by the \$25.4 billion of volunteering done in 2010.

### ***Suggestion 6: Make obtaining DGR status simpler, more transparent and equitable***

We suggest that the Government should make it obtaining DGR status simpler, more transparent and equitable. The ACNC should be responsible for determining eligibility for DGR status.

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## Authorisation

This submission has been authorised by the Chief Executive Officer of Volunteering Australia.



**Brett Williamson OAM**  
Chief Executive Officer

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## Endorsements

This submission has been endorsed by the seven State and Territory volunteering peak bodies listed in Attachment A.

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<sup>15</sup> *Robbing St Peter to pay the ATO*, op. cit. and *Fairer, simpler and more effective tax concessions for the NFP sector*, op. cit. at page 5.

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### Glossary

<b>ACNC</b>	Australian Charities and Not-For-Profits Commission.
<b>CCA</b>	Community Council of Australia.
<b>DGR</b>	Deductible gift recipient.
<b>FBT</b>	Fringe benefits tax.
<b>NFP</b>	Not-for-profit organisations.
<b>Peaks</b>	The seven State and Territory volunteering peak bodies (listed in Attachment A).
<b>VA</b>	Volunteering Australia is the national peak body for volunteering in Australia. It works collectively with the peaks to deliver national, state and local volunteering programs and initiatives.
<b>VIOs</b>	Volunteer-involving organisations are organisations that utilise volunteers as part of their workforce.
<b>VSOs</b>	Volunteer support organisations (also known as volunteer resource centres or services) provide place-based volunteer support services to volunteers and VIOs in their locality.
<b>Working Group</b>	The NFP Sector Tax Concession Working Group established by the former Government.

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Submission

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Attachment A

New South Wales



Queensland



Victoria



Australian Capital  
Territory



South Australia &  
Northern Territory



Tasmania



Western Australia

