



A Good Beginning  
for Every Child

# Response to *Rethink Tax Discussion Paper* Not-for-Profit Sector

Good Beginnings Australia

April 2015



# Australian Government, Treasury:

## *Rethink Tax Discussion Paper*

### GOOD BEGINNINGS AUSTRALIA COMMENTS

#### Context

Good Beginnings is a national small/medium size charity that provides early intervention and parenting support programs across every State and Territory in Australia. The feedback that has been provided stems from a fundamental support of the Not-For-Profit (NFP) Sector reform and reduction in red tape. It is widely recognised that there are and will be stages to the implementation of reform and Good Beginnings is most keen to play an active part in progressing reform that achieves the best outcomes for Australian society, particularly children. Good Beginnings can provide a unique view due to its national positioning and detailed understanding of the challenges at each State and Territory level.

The Not-For-Profit sector is economically significant, contributing 3.8% of GDP. More importantly, the sector also makes an essential, but more difficult to quantify contribution in the form of improving our quality of life. Good Beginnings, supported by 180 Degrees Consulting has attempted to put a financial value on some of these benefits, estimating that Australia would save \$6.8b if all children were loved and safe, \$117m p.a. if childhood obesity were eradicated and every child is \$145k better off if they finish year 12 at high school<sup>1</sup>.

Well targeted and effectively used taxation subsidies that contribute to outcomes such as these are a good investment in the overall wellbeing of the Australian community.

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<sup>1</sup> <http://goodbeginnings.org.au/content/upload/files/GBA%20Impact%20report%20A4%206pp.pdf>

## **Discussion Question Feedback**

### **Consultation question:**

47. Are the current tax arrangements for the NFP sector appropriate? Why or why not?

### **Fringe benefits tax**

Current FBT Concessions are not well targeted and don't assist targeted employment. Good Beginnings most difficult roles to recruit for are remote, and may be part time. FBT benefits have limited value to these staff, especially the meal and entertainment card which may have limited access or use. These concessions are poorly targeted and tend to benefit higher income earners within the NFP sector. However a note of caution that implementing FBT changes would have immediate impacts on NFP's and it is recommended the changes are phased in over a period of years. The savings from reducing FBT concessions should be re-invested in the community sector, particularly with a focus on creating capital markets for impact investing.

Inconsistency in arrangements A number of papers, including the Gonski review of education reform, highlighted inconsistencies in the application of tax concessions, particularly where they are made to organisations where there is primarily a private benefit. Good Beginnings would strongly endorse making DGR status available to public schools, as per Gonski recommendations.

Income tax exemptions are a good way to invest in communities – the Australia we want can be driven by social purpose organisations. Provided the NFP sector is on average more productive at the investment of 'returns' than the Government, the 30% company tax that the Government forgoes on NFP enterprises will generate a return higher than what the Government could achieve by taxing NFP's and re-investing / re-cycling those funds. Any saving by curtailing the primary tax concessions are inherently illusory and short-term, and lead to higher transaction costs for the Government in delivering social benefits.

### **Consultation question:**

48. To what extent do the tax arrangements for the NFP sector raise particular concerns about competitive advantage compared to the tax arrangements for for-profit organisations?

Any competitive advantage received by NFP's related to tax concessions is well offset by the additional administrative requirements generally imposed by government departments. For example, government purchasing arrangements for outsourced services are treated differently between grant funding and for profit services. The additional administration and acquittal requirements of grant funding (inconsistent with Dept Finance purchasing guidelines), and unwillingness to enable NFP's to retain surpluses, stifles innovation and does not create a competitive environment.

For-profit organisations generally have access to capital and lending markets that are closed or difficult to access for NFP's. The primary tax concessions for NFP's are arguably more than outweighed by this factor. Until such time as capital markets are available on a wide basis for NFP's, with a flourishing array of impact investing alternatives, the current primary tax concessions

(excluding FBT concessions) are of critical importance to enable NFP's to effectively compete with for-profit organisations.

The entry of for-profit organisations does however encourage NFP's to identify further efficiencies in their models of service delivery and to ensure that their quality of outcomes is higher than can be achieved by for-profit organisations. It is well understood that some social goods cannot and should not be privatised – for example, child protection systems.

**Consultation question: a**

49. What, if any, administrative arrangements could be simplified that would result in similar outcomes, but with reduced compliance costs?

Generally the administration arrangements specifically related to taxation concession are minimal in comparison to the administration requirements of managing grant funding. The ACNC is to be applauded for its efforts to improve administration burden, and while there is still work to do, the one-stop-shop is an effective investment.

Fundraising regulation is state by state, and by far a larger impost, with substantial inconsistencies between the states. Similarly, taxation concessions such as stamp duty exemption add administration when replicated state by state. The Commonwealth is encouraged to facilitate consistent arrangements or mutual recognition that would significantly reduce administrative duplication.

**Consultation question:**

50. What, if any, changes could be made to the current tax arrangements for the NFP sector that would enable the sector to deliver benefits to the Australian community more efficiently or effectively?

In the questions above, Good Beginnings has proposed some straightforward changes that could improve the effectiveness of the taxation structure for the NFP sector.

- Eliminate FBT exemptions for meal and entertainment cards immediately
- Phase out other FBT concessions over time
- Invest savings in improving wellbeing outcomes for all Australians
- Apply DGR status consistently in the education sector, making it available to all schools
- Review purchasing arrangements within government to ensure consistency of measures and administration for for profit and NFP entities
- Facilitate consistency and mutual recognition of exemptions and reporting across the various States and Territories.



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