

Leukaemia Foundation of Australia Limited

Submission in response to *Better tax system, better Australia*, a tax discussion paper issued by the Treasurer on 30 March 2015

Introduction

The Leukaemia Foundation is Australia's peak body for blood cancer, funding research and providing free services to support people with leukaemia, lymphoma, myeloma and related blood disorders, and their families.

We welcome the opportunity to join the discussion in relation to the Australian Taxation system, and specifically, to address the discussion questions 47 - 50 contained in Chapter 7: Not-for-profit (NFP) sector of the tax discussion paper issued by the Treasurer on 30 March 2015.

Each year over 12,500 Australians are diagnosed with one of more than 117 subtypes of blood cancer —each considered a rare cancer.^{i,ii} Collectively, the mortality rate for blood cancer is the third highest for all cancers and the treatment costs are the most expensive.ⁱⁱⁱ

During the financial year ended 30 June 2014, the Leukaemia Foundation:

- Assisted people with blood cancer by providing transport services, to and from medical appointments, travelling a collective 1.3 million km;
- Provided regional and rural people with blood cancer and their families with 18,276 nights accommodation while they were accessing treatment at a metro treatment centre;
- Distributed 78,000 educational booklets on specific blood cancers and related disorders, healthy eating and information tailored especially for children;
- Funded 71 medical research projects;
- Coordinated 68,263 hours of volunteer time in fundraising, transport, administration and maintenance activities.

The Leukaemia Foundation believes that reducing the current tax benefits enjoyed by the NFP sector would, in the first instance, reduce the financial resources available to NFPs, and ultimately threaten the survival of many NFP organisations. The reduction in resources would reduce the services provided and deprive the community of the significant value added by NFPs.

How does the community benefit from the services provided by the NFP sector?

In addressing this question, we have focused on the value of services provided by the Leukaemia Foundation to the community.

- Providing education and extensive support to patients during their blood cancer treatment:
 - Supports the empowerment of patients and their loved ones to access best treatments, support services, and information on how to navigate a complex health system to achieve their treatment goals
 - Increases survivorship.
 - Assists recovery time, enabling the patient to return to 'normal' life, and increasing productivity either directly in the workforce, or indirectly in caring for their family.
 - Transporting patients relieves this burden on the family, enabling them to remain employed and productive.
 - Financial support provides a temporary safety net for patients and helps them to avoid severe financial duress. Financial duress may trigger the sale of the family home, thereby forcing the family to access public housing, or access welfare.
- Funding research into better treatments and cures for blood cancer, through the Leukaemia Foundation's National Research Program, has increased survivorship now and into the future by helping researcher to better understand the biology of blood cancers, to help develop new therapies, through the translation of scientific discovery to the clinical setting, and improving supportive care strategies.
- The volunteer hours coordinated by the Leukaemia Foundation on an annual basis are an example of NFP's unique ability to leverage non-financial contributions from the community, at a small financial cost. Greater benefit is achieved by NFPs at a smaller cost than in government organisations where volunteer hours are not available.

Responses to Questions 47 – 50 of Chapter 7: Not- for-profit sector of the tax discussion paper

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

The support provided to NFPs through the current tax arrangements is significant in underpinning the sustainability of NFPs, their services, and the projects they fund. Without this support, the contribution to the community provided by NFPs would diminish.

The current tax arrangements provided to the NFP sector are:

- Tax deductibility for gifts;
- Income tax exemption – compliance costs, incentives to generate surpluses for future sustainability;
- State and local government taxes;
- FBT exemption;
- Other FBT concessions;
- GST concessions.

Tax deductibility for gifts: reliance on donations

In the year ended 30 June 2014, 93% of recurring revenue generated by the Leukaemia Foundation came from donations.

Removing the tax deductibility of these donations would increase the after tax cost to the individual donor by between 23-82%. A \$100 donation for someone on a tax rate of 33% would represent a pre-tax cost of \$149, which equates to a cost increase of 49%. Therefore, it would be reasonable to expect that donation revenue for NFPs would reduce significantly in these circumstances, and the reduction would likely be in direct proportion to the increase in cost to the taxpaying donor.

Projecting a reduction of donation revenue of 49% would cause a significant reduction in the provision of services to patients and funding of research by the Leukaemia Foundation. We anticipate this impact would be felt across the entire NFP sector.

The Leukaemia Foundation's growth is based on and comes entirely from community support. Our revenue in 2014 was \$27.7M, and we consider the value of this support to be a measure of the value the community attributes to the vital services we provide.

Income tax exemption

The existing income tax exemption means NFPs currently do not bear the burden of:

- paying income tax on surpluses; or
- lodging a tax return.

The taxing of NFP's surpluses would reduce the incentive for NFPs to budget to accumulate reserves. The accumulation of reserves increases the resilience and sustainability of NFPs and provide the benefits of investment income contributing to revenue, and capital underpinning its ability to survive short-term unexpected reductions in revenue.

Many NFPs engage in capital projects, which are not deductible in the year of expenditure. Funding for capital projects would be eroded by tax, threatening the viability of the project, or deferring the project's completion. Either would deprive the community of valuable infrastructure, at the time it is needed.

The requirement to lodge a tax return would increase record keeping and compliance costs for NFP entities. This would directly reduce the total funds committed to spend on providing services to the community.

State and Local Government taxes

The exemptions to state and local government taxes available to NFPs vary from state to state. Exemptions for land tax and stamp duty provide a significant benefit to NFPs in reducing the cost of ownership of real estate. Ownership of real estate underpins the ability of a NFP to continue to provide services at a low cost with cheaper occupancy expenses. The potential is to reduce administrative overheads and to provide these real estate assets as a resource for the community to use.

The Foundation estimates the value of the exemption for payroll tax to our organisation is \$385K annually. Based on our average employment cost per employee, we estimate that this saving means we are able to employ an additional five staff to provide services to the Australian community. These employees generate taxable salaries, thereby increasing the national tax base.

Fringe Benefits Tax

The Fringe Benefits Tax (FBT) exemption reduces the cost of labour to NFPs by providing a similar net salary to employees as an organisation from the private or government sectors, but at a lower actual cost.

Employment expenses are the Foundation's largest expense. Our staff resources drive both the generation of fundraising revenue and the delivery of patient support. Growth in net fundraising revenue has historically been directed 1/3rd to research and 2/3rd to patient support, largely in the form of additional Blood Cancer Support Coordinators.

While these employees currently benefit from tax savings through FBT concessions, they are taxpayers. Growth in employment within the NFP sector increases the national personal income tax base.

Other FBT concessions

Other FBT concessions include the ability to package meal entertainment and entertainment facility leasing (e.g., payments for holidays, weddings and family celebrations).

This is discretionary for each employee and not all our employees access these benefits due to lifestyle choices, insufficient discretionary income to spend on these things, etc. To some of our employees, these concessions influence their decisions to spend on meals and entertainment or holiday accommodation. This expenditure has positive benefits for the wider economy by increasing spending, and enhances the lifestyles of these employees.

GST exemptions

The GST exemption is the most significant tax exemption for NFPs. Removal of this exemption would not only deplete available resources by the 9% tax on gross revenue, we believe it would act as a disincentive for donors to give.

The GST exemptions available to NFPs provide important cost savings by reducing the burden of administration. As gifts are not subject to GST, most charities will obtain a refund of GST paid on inputs, when they report. If a NFP takes the option not to register for GST, this means the input tax credits of the NFP will not be refunded, representing a revenue saving for the government.

Q 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?

The discussion paper includes the following statement at page 125: "By utilising salary sacrificing arrangements, the cost of labour to these NFPs is reduced. This lower cost could be used by the NFP to offer employees a higher salary, providing them with an advantage in hiring and retaining staff.

This concession effectively provides a wage subsidy to those employed by eligible NFP organisations, which must be paid for by all other taxpayers.”

We disagree with this suggestion. In practical terms, the concession means that the NFP sector can **match or come close to matching** the after tax salary offered by the commercial sector, at a **lower cost** to the NFP. The labour market is unlikely to be impacted by this.

Some data on NFP salaries, benchmarked against government and private sectors for our key roles would support this.

The salary comparison table, below, supports this. We have taken two key roles in our fundraising team and benchmarked these against the private sector below. Our highest performing staff members are at the higher end of the range shown. In both cases, this high level would fall into the lower level of the pay scale in the private sector and no bonus or incentive scheme in place which is common practice in the private sector.

	Private sector (Michael Page 2014/15 survey)	Leukaemia Foundation of Australia	Leukaemia Foundation of Australia (adjusted for notional value of FBT exemption)
Campaigns Manager	\$85,000 - \$120,000 +bonus	\$77,000 - \$87,000 (no bonus)	\$84,000 - \$94,700 (no bonus)
Business Development Manager	\$94,000 - \$129,000 +bonus	\$85,000 - \$95,000	\$92,700 - \$102,700 (no bonus)

These figures show that the NFP sector is able to reduce labour costs, and these lower costs are not used by NFPs to offer employees a higher salary. We estimate the value of the FBT exemption to these staff is between \$7,000 and \$7,700p.a. These adjusted salaries are equal to or less than counterparts outside the NFP sector, and this demonstrates that there are other factors at play that motivate staff to work in the NFP sector.

Other employers, particularly government employers are able to offer additional leave benefits and allowances, that employees of NFP's simply can't afford. The financial impact of these benefits is not included in the above comparative figures.

Over 50% of Leukaemia Foundation staff earn under \$60,000 and 70% of our staff earn under \$80,000. The ability to package additional sums in meal and entertainment and accommodation/venue hire for many of these individuals influences their decision to spend money on these things. This increased spend has economic benefits to the wider community. We would argue that the offsetting revenue impact of this exemption for the government is limited due to the limited financial capacity of the bulk of our employees to package significant sums as meal and entertainment or venue hire.

Even with these concessions, we experience difficulty in finding employees to fill certain positions in our organisation. For example, our blood cancer support coordinators are required to have nursing

experience and qualification within haematology. In competitive markets such as Western Australia, these positions can take several months to fill.

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

We support a reduction in red tape, and would suggest:

1. Simplification of FBT gross up factors so that the lower rate is applied to all benefits provided, including motor vehicles. Any loss in revenue to the government should be offset by the fact that the \$30,000 threshold has not been indexed;
2. Simplification of the state based charity registration process, to enable registration with one government agency (ACNC or ATO) as a charity, with operations in disclosed states. This would reduce reporting and registration renewals. Each state authority has unique reporting requirements, in some cases requiring separate audit work for state based activities within a national organisation.

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?

The FBT exemptions currently in place in relation to packaged meal entertainment and entertainment facility leasing should be capped for employees earning above a certain threshold. We would suggest \$150,000pa. The large proportion of NFP employees earn less than this, and due to limited financial capacity, are unlikely to be able to package excessive amounts into this tax free benefit.

The cost of this in taxation revenue is likely to be minimal, however some benefits will be delivered to employees in the lower range of earnings. NFP's would benefit from reduced compliance costs.

CONCLUSION

NFP'S have a unique ability to engage the community to address unmet needs that are not satisfied by Government services or the private sector. The extent to which the community values the services delivered may be measured in donations of time, money and other resources given without duress or any reciprocal benefit. NFP's are able to leverage these contributions to provide focused assistance in ways Government and the private sector can't.

The current tax arrangements for the NFP sector have been significant in assisting the establishment and growth of the sector. These concessions are appropriate and underpin the sustainability and survival of many entities within the sector.

The FBT exemptions and concessions are important for NFP's in attracting and keeping staff. These concessions are important in addressing the financial gap in salaries and benefits that exists between

the NFP sector and the commercial or government sector. They do not represent a competitive advantage.

The work undertaken by employees of NFP's is difficult and requires staff with particular skills and training. The ability to provide additional value to employees at no extra cost enables NFP's operating in tight labour markets to reduce the salary gap between a Government or private sector employer, who may offer additional benefits such as paid overtime, or bonuses.

We support the reduction of red tape within the sector, and the simplification of compliance and record keeping requirements. We suggest a national body takes on the state based registration and licencing of charities. Further we support a streamlining of FBT gross-up rates so that all fringe benefits are grossed up at the lower rate for charities.

ⁱ Swerdlow SH, Campo E, Harris NL, et al., editors. *WHO Classification of Tumours of Haematopoietic and Lymphoid Tissues*. Lyon, France: IARC; 2008

ⁱⁱ Australian Institute of Health and Welfare (AIHW), 2012. *Australian Cancer Incidence and Mortality (ACIM)* books: Canberra: AIHW. Accessed February 2015 via: www.aihw.gov.au/acim-books

ⁱⁱⁱ Australian Institute of Health and Welfare, 2013. *Health system expenditure on cancer and other neoplasms in Australia: 2008–09*. Cancer series no. 81. Cat. no. 78. Canberra: AIHW