



**National Catholic Education Commission**

**Public Statement on  
the Goods and Services Tax**

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## Summary

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The NCEC believes that in forthcoming Commonwealth Government legislation involving a Goods and Services Tax:

- any activity of schools that contributes to the achievement of the National Goals for Schooling should be GST-free;
- administrative simplicity and cost efficiency will be served best by granting GST-free status to schools rather than specific activities/supplies;
- Any supplies which the Government believes should *not* be GST-free should be identified clearly;
- the compliance mechanism for administering the GST-free status of the school must be no more complex for schools than the mechanism for administering the current sales tax exemption;
- income raised by associated operations of a school and of parent organisations, such as tuckshops, should be tax-free since they are not designed to compete with similar private sector services but to contribute to the resources used by the school for educational purposes;
- other school-related income sources which should be GST-free are those identified in the Commonwealth Financial Questionnaire completed annually by non-government schools;
- GST-free status should incorporate bodies such as Catholic Education offices and Commissions which are integral to the administration and quality of education in schools.

## **A. Overview**

This public statement sets out the position of the National Catholic Education Commission on the key issues relating to how a Goods and Services Tax (GST) should apply to educational organisations, in particular non-government schools. It proposes guidelines for determining the GST status of school activities.

### ***Why Schools should be GST-free***

Since education is concerned with the whole person, including the academic, personal and social development of the student, all school income and expenditure which contributes to school generated educational activities should be free from tax - as at present. It would therefore be simpler, more efficient and socially just to provide non-profit educational institutions unconditional GST-free status, rather than attempt to identify particular types of activities or goods and services provided by schools.

This approach is philosophically sound as well as practical, since a school is a non-profit partnership for the common good between government, parents and the community, not a business enterprise. Indeed, the Prime Minister has already issued an undertaking that "*school provided services which contribute to the achievement of the National Goals of Schooling are all GST-free.*" (Letter to the Forum of Education Peak Organisations, 24 September 1998).

### ***Zero-rating Schools, not Activities***

The grounds for advocating zero-rating (i.e. GST-free status) for schools as *institutions* as opposed to zero-rating only certain of their *activities* are the same grounds that resulted in schools being tax-exempt under the current tax system. That is to say, the present exemption for schools derives from their legal classification as "charitable organisations" because they exist for the benefit of the public and contribute to the common good through advancing the education of young Australians.

There is no reason logically why schools (which perform functions to benefit the public) should be subject to taxation when governments (which perform functions to benefit the public) are not. It is therefore not appropriate that schools should be put on a 'level playing field' with commercial businesses, but with State and local governments which are exempt from taxes.

### ***Simplicity of Compliance***

Granting zero-rated status to schools as institutions, rather than just certain of their activities, would also be administratively simpler, as well as cost-efficient, as it would involve virtually no change to the current means by which schools manage their tax-exempt purchases. As well, it would not involve schools having to make often arbitrary distinctions between the GST-status of two similar activities on the basis that one is held, for example, in school hours and the other on weekends or, to take another example, one involves students hiring equipment but the other involves them using it free of charge.

Furthermore, in the information age, as schools become more flexible in the way they operate in order to adapt to changed expectations, demands of students, learning technologies and teaching methods, they need a taxation regime that allows and encourages flexibility rather than forces them to apply legalistic criteria in order to establish what is taxable and what is not.

### **Other School Income**

At present the level of Commonwealth recurrent grants to non-governments schools is based on the Education Resources Index (ERI) which measures the level of private income generated by schools. All income generated by schools is included in this calculation, based on annual school returns of the Commonwealth Annual Financial Questionnaire. As the level of private income rises, the ERI rating of a school rises also, and may result in a school falling into a funding category which delivers them less Commonwealth grants.

Since income from all sources is considered as contributing to the level of resources available to a school for the purposes of determining the level of recurrent funding, then it would be inconsistent for the Government to argue that only some of that income, namely that which is derived from genuine educational activity, however defined, can be tax-free. In other words, the Government cannot have it both ways: it cannot use all income sources to determine recurrent grants for education, and then tax some of that same income on the grounds that it is not derived from, or is not contributing to, educational purposes.

## **B. Payments to Schools (Income for school outputs)**

The Prime Minister has defined schooling for the purposes of GST-free status as being activities which contribute in any way *"to the achievement of the National Goals of Schooling"*. The National Goals aim to articulate the purpose of schools, which is the provision of *"the foundation for young Australians' intellectual, physical, social, spiritual, moral and aesthetic development"*.

In its application of the GST-free status for schools the Government will need to understand that, within a common framework of the National Goals, Australian schooling offers a variety in the choice of schools as well as the choice of subjects and in the range of educational activities within subjects. Attempts to define certain activities offered by schools as GST-free and others as not so, according to arbitrary criteria, could discourage innovation and variety if there is doubt about whether a certain activity is GST-free or not.

Furthermore, NCEC notes that, since the National Goals support the "spiritual and moral" development of all young Australians, retreats or camps for Catholic school students which aim to promote their spiritual development would be GST-free.

GST-free treatment should be accorded to all payments made by parents to schools for any activity conducted by the school that enhances the education of their children in terms of the National Goals for Schooling. This would include, for example:

- *Fees for tuition;*
- *Charges associated with excursions and camps, including transport;*
- *Levies for the hire of non-consumable items such as text books, computers and musical instruments, where ownership remains with the school;*
- *Levies for the purchase of consumable materials for subjects such as art/craft/woodwork, where ownership does transfer to the student, but is consumed/used in the course of their school work;*
- *Contributions to the purchase by the school of equipment (e.g. a special levy to go towards repaying a loan to purchase sporting or computer equipment for the school)*
- *Any separately charged levies associated with the provision of weekend sporting programmes by the school;*
- *Accommodation component of boarding fees;*
- *Fees charged to defray the cost of seminars, conferences and training sessions for parents, school board members and staff;*
- *Building funds.*

This list is by no means exhaustive. Given this, it will be administratively and legally simpler to provide non-profit educational institutions unconditional GST-free status, rather than attempt to enumerate and legislate for all the diverse circumstances that may attach to particular activities in order to accord to not to accord them GST-free status.

In so doing, however, NCEC submits that the fact that schools offer some goods and services that may be seen by government to compete with private businesses is not sufficient reason for those activities to be made taxable. Activities such as canteens are not provided in order to earn a profit, but primarily for the sake of student safety and convenience, that is so that children may purchase necessary food and drink during compulsory school hours without having to leave the safety of the school. They also offer the opportunity for parental involvement in the life of the school and also raise money for the school (an exception would be, for example, where the operations of the canteen are contracted out to a private company).

Any surplus made by these operations contributes to subsidizing the cost of the education that is provided in the school, and is therefore not "profit" in the normal sense. The income generated by this particular form of community enterprise is for the benefit of education, and thus should not be taxed. Furthermore, as indicated above, income derived from such activities is included in the annual Commonwealth Financial Questionnaire for the purposes of determining the level of a school's recurrent funding. Since such income is considered to contribute to the school's educational resources, it should be tax-free.

## **C. Payments by Schools (Expenditure on School Inputs)**

### ***Suppliers of Goods and services***

In the course of providing educational services to their students, schools make many payments to suppliers of other goods and services. In the event that non-profit schools are not granted unconditional GST-free status, they should not have to separate out those inputs contributing to

activities/outputs that are GST-liable from those inputs contributing to activities/outputs that are GST-free. The Prime Minister has confirmed that this should be the case in his letter to the Forum of Education Peak Organisations of 24 September: *"There will be no need for education providers to distinguish between GST paid on inputs for GST-free activity and inputs for GST-liable activity."*

Many schools also purchase goods such as exercise books and stationery which are then distributed free of charge to their students. The GST paid by the school on the purchase of such goods should be fully rebated.

### ***Building and Maintenance Costs***

In respect of schools' efforts to manage purchases related to building and maintenance costs, which may involve very sizable payments to contractors and potentially be a source of cash-flow difficulties, NCEC proposes that, in order to keep costs and procedures as near to current practice as possible:

- *the onus is on the school to both notify exemption and ensure compliance;*
- *the contractor/builder quotes inclusive of GST on labour/materials;*
- *a GST-free number is authorised by the purchaser, identifying the GST component; and*
- *the contractor declares unpaid GST on their tax return.*

### ***Fundraising***

Since education in all schools (government and non-government) is a partnership between government, parents and the community, fundraising on behalf of schools should be exempt from taxation. For many schools, the school fete is an important fundraising event. Also, ticket sales to cultural displays and performances by students are a means of covering the cost of producing these events which are integral to the educational process.

NCEC therefore believes that the revenue raised through such events should be GST-free. That is, GST should not be added to the price of goods and services purchased by people attending school fetes and performances, and any GST payable by schools to service-providers (e.g. equipment hire companies) should be fully rebated. This principle should apply regardless of the turnover of the event. Likewise, donations by parents or members of the community, including distributions from charitable trusts supporting education, should not be taxed.

### ***Other Organisations integral to Schooling***

There are many not-for-profit organisations other than schools which are integral to and essential for the efficient and effective provision of high quality education in schools. In the Catholic sector such organisations include diocesan Catholic Education Offices, State/Territory Catholic Education Commissions, the National Catholic Education Commission. Also the various parent organisations at the local, diocesan, state and national levels encourage and support parent and community involvement in school education. These organisations should be treated by the tax system in the same manner as schools are treated, since they complement the school and are integral to the educational mission of schools.



Non-profit bodies whose objective is the advancement of education should be recognised as charities for the purpose of the proposed new register of charities, and should be exempted from all forms of direct and indirect tax. The present exemption for the charitable object of supporting education should be maintained and incorporated in any changes to the tax system.

**NCEC therefore recommends that the GST legislation should provide that the following supplies be GST-free:**

- **Any supply by any not-for-profit school, college or other educational institution incorporated under any act of the Commonwealth, a State or a Territory or which receives funding from Commonwealth or State/Territory Governments;**
- **Any supply by a non-government school that is recorded on the Annual Financial Questionnaire;**
- **Any supply by any not-for-profit organisation established by, or for the benefit of, any not-for-profit school, college or other educational institution incorporated under any act of the Commonwealth, a State or a Territory or which receives funding from Commonwealth or State/Territory Governments.**