

# Summary - Tax Concessions Discussion Paper

May 2015

## Overview

The Australian Government has produced a discussion paper [Re:Think: Better tax, better Australia](#) that specifically targets tax concessions available to different Not for Profit (NFP) organisations. The white paper includes a separate section that acknowledges that ‘these tax concessions help increase the level of activity in the NFP sector,’ but also appreciates such concessions are increasingly complex to administer, result in significant tax revenue forgone, and ‘may provide NFPs with a competitive advantage over their commercial competitors.’

Possible implications for the NFP sector include the fact that labour costs could rise, in the event that exemptions from paying tax on fringe benefits provided to employees or tax exemptions on their meals and entertainment expenses are amended. Ultimately, this may impact a NFP’s capacity to attract and retain highly skilled staff, in the event salaries offered by these organisations are deemed by current and potential employees to be uncompetitive when compared to for-profit industry sectors.

The Australian Government acknowledges:

- The NFP sector is large and diverse
- the NFP sector provides a number of important benefits for Australia
- the need to balance the stimulus of sector activity through tax concessions versus revenue forgone
- tax concessions increase administrative complexity, and costs, for the Government
- tax concessions afforded to NFPs may result in competitive advantages to them, over commercial competition.

## Discussion paper - main points

- There are 57,000 NFPs that are economically significant and contribute 3.8 per cent of Australia’s GDP (ABS 2012-13).
- Those NFPs employ 1.1 million people, predominantly in social services, education and research and health.
- NFP tax concessions take many forms, including income tax exemptions; higher GST registration thresholds; GST exempt goods, Fringe Benefit Tax (FBT) exemptions and the ability to receive tax deductible gifts.
- Tax concessions enable improvement to ‘societal outcomes’ and result in ‘community benefit’, particularly where NFPs provide services that for-profit organisations do not.
- The two largest groups of tax concessions come in the form of FBT

exemptions for public benevolent institutions and income tax deductions for making gifts to Deductible Gift Recipients (DGRs).

- Federal Government appreciates ‘tax concessions (may) affect the broader allocation of resources in the economy’, particularly when in competition with for-profit providers.

## Fringe Benefits Tax concessions

- NFP exemptions on paying tax on FBT benefits provided to employees (with limits).
- Salary sacrificing enables NFPs to offer staff higher salaries, ‘providing them an advantage in hiring and retaining staff’.
- Wage subsidies for eligible NFPs must be paid for by other taxpayers.
- Evidence exists that ‘some employers and employees have tax-sharing arrangements to share this benefit’.
- Meals and entertainment facility leasing are not limited by a cap, including payments for holidays, weddings and family celebrations.
- ‘Expenditure on this concession, in terms of revenue forgone, was estimated to be around \$430 million in 2013-14 and estimated to rise to around \$545 million in 2017-18.’
- Employees with multiple NFP employers are able to receive benefits with multiple caps.
- There appears no clear rationale for NFPs to be eligible for income tax exempt status.
- There is complexity around seeking and obtaining Deductible Gift Recipient (DGR) status, particularly if the NFP operates across a range of DGR categories.

## Discussion questions

1. Are the current tax arrangements for the NFP sector appropriate? Why or why not?
2. 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?
3. What, if any, administrative arrangements could be simplified that would result in similar outcomes, but with reduced compliance costs?
4. 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?

## Timeline

Vision 2020 Australia has registered to make a submission on behalf of the eye health and vision care sector. Member input will be sought when drafting this submission, which is due by **1 June 2015**.

For further information, or to provide feedback, please contact Dougal Hollis at Vision 2020 Australia on 03 9656 2014 or via e-mail [dhollis@vision2020australia.org.au](mailto:dhollis@vision2020australia.org.au)