VISION 2020
THE RIGHT TO SIGHT
AUSTRALIA

Submission on not-for-profit tax concessions

June 2015

National body working in partnership to prevent avoidable blindness and improve vision care

About Vision 2020 Australia

Established in October 2000, Vision 2020 Australia is part of VISION 2020: *The Right to Sight*, a global initiative of the World Health Organisation and the International Agency for the Prevention of Blindness. Vision 2020 Australia is the peak body for the eye health and vision care sector, representing around 50 member organisations involved in local and global eye care; health promotion; low vision support; vision rehabilitation; eye research; professional assistance and community support.

Vision 2020 Australia welcomes the opportunity to contribute to the conversation on the tax discussion paper released by the Australian Government. The following responses are provided to the discussion questions posed and incorporate feedback received from Vision 2020 Australia member organisations operating across the eye health and vision care sector.

- **Are the current tax arrangements for the not-for-profit (NFP) sector appropriate? Why or why not?**

Position:	No change should be made to income tax and GST concessions afforded to the NFP sector. Capped FBT concessions should be indexed by CPI annually.

Vision 2020 Australia's breadth of membership reflects Australia's leading eye health and vision care sector health promotion charities and public benevolent institutions. These organisations undertake a range of vital research and education activities relating to disease prevention and the treatment of its symptoms, and actively address causes of poverty and distress for marginalised individuals in Australia and overseas.

Our member organisations provide goods and services with broad public benefit, in lieu of these public functions being carried out by government, where private businesses do not provide such services to those in need (Henry Review 2010). Many Vision 2020 Australia members, for example, deliver low vision clinics, orientation and mobility services, dog guides, adaptive technology and related training and advice, alternative format information, community education, employment services, recreation programs, radio and advocacy services that do not compete with products and services provided by the for-profit sector. These vital outreach services, and related rehabilitation, go beyond the reach of traditional public hospital networks and are vital to providing equity of access to healthcare services.

Services are often delivered 'more efficiently and effectively than governments' as these organisations are able to cross-subsidise their delivery 'through fundraising, philanthropy and volunteer labour'. In 2011, the Productivity Commission estimated service provision through NFPs resulted in a 30 per cent subsidy of 'funds needed through taxation to deliver comparable services'(McGregor-Lowndes, Turnour M and Turnour D 2011, pg.29).

Tax concessions afforded to these entities, in terms of exemptions from the payment of income tax and capital gains tax, the non-lodgement of income tax returns, a higher GST registration threshold and exemptions or rebates from fringe benefit tax, provide them with much needed savings in operational expenditure and enable them to focus already scare resources on the provision of critical primary healthcare. Their ability to receive tax-deductible gifts also significantly enhances their capacity to attract benevolence donations, reducing their reliance on government funding.

In the event tax concessions are altered, or removed, NFP organisations may become 'more risk averse in their outlook,' and look to hold greater financial reserves to safeguard their continuance. In turn, this could conceivably decrease their supply of services to communities and individuals most in need of their assistance (Weisbrod, cited in McGregor-Lowndes, Turnour M and Turnour D 2011, pg.16). Unless the government decided to pay the full costs of delivering such services, member organisations would face significant pressure to develop alternative sources of revenue.

It is also noted that the cap on FBT exemptions afforded to NFP staff has not changed since its introduction in 2001 (2000 for health sector NFPs). From May 2001 through to November 2014, average weekly earnings across Australia (all employees, total earnings) have increased from $663.10 to $1,128.90 (ABS Australia). In real terms, therefore, the value of FBT exemptions afforded to NFP staff has declined over this time by 41.3 per cent. Had they kept pace with these wage movements, the FBT exemption threshold would be $51,074 in 2015. In order for members to manage staff costs and continue to be able to attract high calibre staff, Vision 2020 Australia argues that this cap should at least be subject to an annual CPI increase. An increase in the cap to allow for higher FBT rates does not actually constitute any real increase in the benefit.

- **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?**

Position:	They don't. Instead, they provide a level of parity necessary for NFPs to be able to function effectively.

In delivering government-funded services, member NFPs do not have the same flexibility to pass on increased costs to clients, or alter their pricing structures to offset these increases, in the same way that for-profit providers can (McGregor-Lowndes, Turnour M and Turnour D, 2011). Many marginalised clients they serve also have little capacity to meet cost increases of such service delivery.

The availability of tax concessions to NFPs assumes that 'Australians are worse off' because taxation revenue is lost as a result of granting these concessions. Instead, McGregor-Lowndes, Turnor and Turnor (2011, pg.36) cite multiple international examples where 'lost revenue cannot be measured fully', cannot be verified, nor realistic alternatives considered. Moreover, the Henry Review found that current income tax and GST concessions available to NFP entities do not violate the principle of competitive neutrality, when compared to for-profit organisations (Sadiq and Richardson 2011).

The capacity for Vision 2020 Australia member organisations to be able to continue to offer staff access to FBT tax concessions is also fundamental to their ability to be able to attract and retain appropriately qualified staff. The use of salary sacrificing by employees is a critical means by which NFP organisations can offer increases to salary entitlements that allow employees to keep pace with remuneration for comparable positions in the for-profit sector. When referencing recent salary benchmark comparisons for average earnings between the NFP and for-profit sectors, it is apparent that these tax concessions are still an important means to achieve near-parity earnings.

Salary comparisons	NFP average*	For-profit average
Operations Manager	$119,114	$121,500
Finance Manager	$121,417	$125,500

Salary comparisons	NFP average*	For-profit average
Marketing Manager	$106,907	$111,750

Source: 2014 Pro bono Australia and Associations Salary Surveys. ***Includes tax concession benefits received.**

Recent changes to tax concessions relating to the placement of a cap on the salary sacrificed meal entertainment and entertainment facility leasing expenses for NFP staff, will also cause challenges for NFP organisations, in terms of retention of skilled staff. This measure has the potential to adversely impact on the efficiency and effectiveness of these organisations and, in turn, on the quality and availability of vitally needed services.

Indeed, the funding base of many of our members has also been subject to recent Federal Government cuts to research funding, public health funding and overseas aid. This had the very real consequence of necessary cuts to services provided to marginalised individuals, and job losses. If in addition to the declining funding base they were to now face cost pressures, stemming from the removal of tax concessions, their financial position would deteriorate.

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

Sadiq and Richardson (2011, pg.599) note the distinction between NFPs 'providing public benefit', as distinct from operating beyond this scope and engaging in business activity unrelated to its purpose. It is acknowledged that the burden of administration placed on governments to monitor compliance with NFP tax concession eligibility is significant (McGregor-Lowndes, Turnor and Turnor 2011). Where public benefit is maintained, and can be demonstrated, Vision 2020 Australia strongly advocates available tax concessions should remain available to eligible NFPs. To simplify the process of assessing eligibility for tax exemptions, government could consider whether organisations providing these services are voluntary (non-government), altruistic (not supplied for a profit motive) and public benefiting (not private). These characteristics 'distinguish exempt organisations' from those that are not (Ibid, pg.37).

From a NFP perspective, the range of administrative processes that underpin necessary tax concession compliance reporting for both employees and employers of NFP organisations add cost and time to the reporting process. Many Vision 2020 Australia members use salary-packaging companies to assist with the compilation of required reports for government (tax office), interpretation of related administrational, educational and legal implications and reconciliations of expenses claimed. In an effort to address these cost and time imposts for both NFP organisations and their employees, the government could consider a scenario where these employees are offered a lower marginal tax rate than for-profit sector employees, in exchange for the removal of all other tax concession benefits they receive.

Instead of a grossed up FBT concession threshold, the Australian Government could also consider making these thresholds tax-free payments. This would remove complexities currently experienced when calculating employee repayments for HECS debts and Centrelink payments, for example.

- **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 and effectively?**

Position:	Government may be tempted to consider whether tax concessions afforded to NFPs are replaced by direct government funding, arguing that doing so would encourage delivery of a particular service that addresses an unmet, or only partially met, community need.

Morgan and Pinto (2011) warn, however, of additional costs for accounting, tax and legal purposes for NFP organisations and an increased level of complexity, as they attempt to interpret any proposed changes. Indeed, they allude to the potential erosion of gains received from increased income tax revenue by governments, as they are then required to provide even greater funding to NFP organisations to offset additional compliance costs, and allow them to maintain the provision of services to those who need them most.

Vision 2020 Australia opposes changes announced in the 2015-16 Federal Budget that will impose a cap of $2550 (cash value) on staff expenditure claims under the Meal, Entertainment and Holiday Accommodation tax concession for NFP staff. Many members impose caps on such expenditure to self-regulate the quantum of claims made by staff. By imposing a $2550 limit on future claims, the ability for these organisations to attract and retain staff intent on making a difference for individuals and communities most in need is significantly compromised.

References

McGregor-Lowndes, M, Turnour M and Turnour E 2011, 'Not-for-profit income tax exemption: is there a hole in the bucket, dear Henry?' Australian Tax Forum 26, pp.601-631.

Morgan, A and Pinto, D 2011, 'The current state of play relating to not-for-profit tax concessions in Australia and a glimpse of what may lie ahead for these concessions,' Not-for-Profit Organisations - Volume 13, pp.33-45.

Sadiq and Richardson (2011), 'Tax concessions for charities: competitive neutrality, the tax base and 'public goods' choice,' Australian Tax Forum 25, pp.597-612.