

Catholic Health Australia

**Response to the Not-for-Profit Sector Tax
Concession Working Group's discussion
paper *Fairer, simpler and more effective tax
concessions for the not-for-profit sector***

December 17 2012

Executive Summary

Structural arrangements for tax treatment of not-for-profit entities mostly work well. While within some arms of government there is a desire to reform elements of these tax arrangements, within Catholic not-for-profit hospitals and aged care services no strong evidence exists for major change.

Over the course of the last few years, there have been several reviews of not-for-profit tax concessions and the creation of an additional regulator of not-for-profit entities. Government should be aware that a degree of “reform fatigue” now exists within not-for-profit entities.

There also exists a view among some not-for-profit entities that the several reviews, and the current review, are premised on a Treasury view that tax concessions are in some way not warranted. Catholic Health Australia (CHA) argues that the community benefit generated by the existing tax treatment of not-for-profit entities is far greater than the modest concession cost to government. This community benefit is such that government should use this current review to finally agree for at least the next decade that existing arrangements, subject to possible areas for improvement detailed below, should be left as they are to enable certainty for future planning of delivery of not-for-profit services to community members.

The value of fringe benefit tax concession available to eligible employees has not been adjusted to keep pace with inflation; this review should correct this failure. The \$17,000 and \$30,000 fringe benefit tax concession thresholds utilised by eligible employees of not-for-profit entities have not been reviewed to enable their value to be maintained. This current review should recommend these thresholds be increased to reflect the rise in the consumer price index since their establishment.

Having considered the reform options posed in the Treasury consultation paper, CHA provides below specific responses to the questions deemed relevant to Catholic not-for-profit hospitals and aged care services. CHA argues:

- Public and private not-for-profit hospitals and not-for-profit aged care services should continue to be eligible for income tax concessions on grounds of their public benefit;
- Not-for-profit entities should continue to be able to access franking credits;
- GST arrangements for not-for-profit entities require no change;
- There is no case to change current eligibility requirements to hold or obtain deductible gift recipient status as it relates to not-for-profit hospitals and aged care services;
- The two-tier \$17,000 (hospital) and \$30,000 (Public Benevolent Institution) fringe benefits tax concession employee thresholds should be retained and increased to ensure their continuing value to employees. The threshold should only be able to operate at one workplace per employee and not be able to be accessed at multiple workplaces;
- The value of meal entertainment allowance and venue hire concessions should continue to be available to currently eligible employees, but that options for reform of the administration of current arrangements should be considered to achieve more equitable utilisation.

CHA makes this submission as part of the wider submission of the Australian Catholic Bishops Conference (ACBC), and in partnership with Catholic Social Services Australia (CSSA).

Responses to discussion paper

Question	Page	Paragraph	CHA response
Theme: NFP Income tax exemption			
Who should be eligible for income tax exemption?	14	22	There is no strong case for any change.
Should NFP franking credit arrangements be changed?	15	25	There is no strong case for any change. To remove franking credit access would see not-for-profit entities treated at a disadvantage to individuals or for-profit entities that do utilise franking credits. There does, however, exist a barrier to the full utilisation of franking credits in circumstances where credits cannot be transferred between separate corporate not-for-profit entities. The review should recommend that those barriers that currently prohibit the transfer of access to franking credits by not-for-profit entities be removed.
Do current GST arrangements for NFPs warrant reform?	51	197	There is no strong case for any change.
Theme: Giving to charities			
Should all charities be DGRs, as recommended by the Productivity Commission?	25	84	Not-for-profit hospitals and aged care services are easily able to access DGR status to support relevant charitable activities such that there is no need for any reform of this area. CHA makes no specific comment in relation to other charities.
Should requirement for DGRs to maintain a public fund be eliminated?	31	121	Yes. Public funds in relation to not-for-profit hospitals and aged care are antiquated ' <i>fictions</i> ' not necessary where contemporary audited account structures are common.
Does current GST treatment of fundraising activities require reform?	51	194	No, however GST as it relates to sponsorship of not-for-profit entities or their activities is not clearly understood and might warrant review.
Theme: FBT Concessions			
Should the two-tier (\$17,000 public hospitals and \$30,000 PBI) caps be retained or revised?	39	143	The thresholds should be retained, as they are essential inputs that enable not-for-profit entities to deliver their service outputs. Not only should they be retained, they should be increased to ensure the value of their benefit in relation to the rising consumer price index keeps pace. Use of the threshold should be restricted to single use, that is, it should not be able to be used across multiple employers.
Should there be changes to eligibility to access the FBT concessions?	39	143	There is no strong case for any change.

Should meal entertainment/venue hire allowance be folded into FBT cap?	40	149	CHA is open to exploration of reform options for administration of the meal entertainment and venue hire allowances. In relation to the Treasury proposition that the value of these two allowances be folded into the \$17,000 and \$30,000 thresholds, CHA proposes Treasury release modelling to demonstrate how the \$17,000 and \$30,000 thresholds would be increased for all eligible employees if this option was pursued.
Should FBT cap be restricted to single use, ie, not to be used across multiple employers?	41	155	Yes.
Should FBT concessions be either scrapped or replaced with an alternate scheme?	43	161	No. Tax concessions are essential inputs that enable not-for-profit entities to deliver their essential community services. Current arrangements work well, and are preferable to direct grants or other alternatives. In fact, now is not the time to consider altering employment incentives in not-for-profit health and aged care services in light of extraordinary health workforce shortages and ongoing economic uncertainty.