



‘Prevention is better than cure...’

**Australian Neighbourhood House sector response
to Public Benefit Test Bill 2010**

Produced by the
Association of Neighbourhood Houses & Learning Centres

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Further Information

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SUMMARY

Thankyou for the opportunity to comment on the above proposed Public Benefit Test Bill.

ANHLC is the Victorian peak body for the Neighbourhood House sector. However, for the purpose of this submission, it is mandated to represent the Neighbourhood House sector Australia wide. This includes some 1,000 community-based not-for-profit centres, many of which are located in areas where severe disadvantage is prevalent.

The sector welcomes the proposal to move to a legislated proof of public benefit as a basis for entitlement to income tax benefits for organisations that have charitable status, as it deems the current situation unfair and unjust to organisations who are committed to addressing disadvantage by providing programs and services in a “whole of community” inclusive model.

Fewer than 7% of Neighbourhood Houses in Australia have Deductible Gift Reciprocity (DGR) endorsement, primarily because they do not qualify under the current Public Benevolent Institution criteria, which requires not-for-profit organisations to provide direct welfare. While some do provide counselling, food co-operatives, emergency housing etc, most neighbourhood houses elect to reduce disadvantage, isolation and poverty through a preventative approach. In this way, they are the “fence at the top of the cliff” and not the ambulance at the bottom.

An inspection of the DGR entities listed with the Australian Taxation Office clearly shows the current arbitrary and unfair application of the Public Benefit test. Many of the organisations listed are exclusive and do not provide services which are aimed at the greater good of the wider public. In some cases, it is difficult to assess any level of public benefit whatsoever. Yet, they enjoy all the taxation benefits, including DGR, that Neighbourhood Houses are denied.

This is despite strong research and broad government policy which shows that prevention not only makes sound economic sense for government and non-government alike, it is a more sustainable and long term approach which leads to significant benefits to individuals and whole communities.

Only 7% of Australian Neighbourhood Houses have DGR endorsement despite their proven ability to provide programs and services which prevent disadvantage and foster social inclusion.

INEQUITY, COMPLEXITY AND CONFUSION OF CURRENT DGR CRITERIA

The current process for obtaining DGR endorsement, outlined in the ATO's '*Giftpack for DGR & Donors*', is complex and confusing. Over recent years, dozens of Neighbourhood Houses have attempted to apply for DGR endorsement only to find the process is beyond even their most experienced finance worker. In many cases, even the engagement of expensive legal expertise has met with failure.

Though some Neighbourhood Houses have attempted to meet this requirement in their applications, there are implications for ongoing compliance, with the result that some centres have voluntarily relinquished their DGR endorsement for fear of heavy penalties.

Also of serious concern is the ad hoc way in which allocation of DGR endorsement has been granted by the ATO, with some Neighbourhood Houses, for example, receiving DGR endorsement on their first attempt, while others (who provide identical programs and services) have their applications rejected time and time again.

EXAMPLE OF INCONSISTENCY IN THE DGR ENDORSEMENT PROCESS

A common reason given for the denial of DGR endorsement is that the vision and mission statements of Neighbourhood Houses are too general and inclusive. Yet, the vision statement of the Salvation Army, for example, (which has DGR endorsement) is both general and non specific. It states: *"The Salvation Army is an evangelical part of the universal Christian Church. Its message is based on the Bible. Its ministry is motivated by love for God. Its mission is to preach the gospel of Jesus Christ and meet human needs in His name without discrimination"*.

While there is no doubt that the Salvation Army is deserving of DGR endorsement, there is room to question the anomalies and inequities that exist and to reconsider the approaches that benevolent institutions should be allowed to adopt when dealing with the disadvantaged.

IMPACT OF UNFAIR CHARITY LAWS

Lack of DGR endorsement means that the Neighbourhood House sector is denied the competitive advantage that other organizations, less worthy of this endorsement enjoy. In particular, DGR endorsement would enable the sector to access:

philanthropic trusts and foundations (currently worth approx. \$728 million)
corporate funding and sponsorship

Without DGR endorsement, the sector remains:

- reliant on government funding
- unable to engage in innovation and research
- restricted in its ability to maintain and attract a skilled workforce
- at risk of becoming unsustainable in light of growing demand for services

SUPPORT FOR CHANGE

Successive reviews instigated by government and non-government bodies have recommended the modernising of the Australian charity laws and the widening of the scope of DGR endorsement so that the application of the public benefit test is fair and equitable.

The Australian Neighbourhood House sector was pleased to note that both the Productivity Commission's Review of the Not for Profit Sector and the Henry Taxation Review recommended the establishment of an independent regulator and the adoption of the 2001 Definition of Charities recommendations (re-iterated in both of the most recent inquiry reports mentioned above). It also noted the Productivity Commission's recommendation that the scope of PBI be widened to include all organizations which have charitable status. The application of a tightened public benevolent test can only enhance this recommendation.

WIDENING THE SCOPE OF PBI – AN INTERIM MEASURE

As an effective and relatively straightforward interim measure, the sector proposes the widening of the scope of DGR via the inclusion of the word 'prevention' in the definition of a Public Benevolent Institution (PBI) as it appears in the Australian Tax Office publication *'Giftpack for DGR & Donors'* under the category 'Welfare & Rights'.

An example of a possible amendment is as follows:

*"A Public Benevolent Institution is a non-profit institution organised for the direct relief **or prevention** of poverty, sickness, suffering, distress, misfortune, disability or helplessness".*

This will not allow a blanket DGR endorsement for all organisations engaged in community development. Applicants will still be required to meet all other aspects of the current PBI criteria in order to be eligible for DGR endorsement.

In other words, the restriction of DGR endorsement to PBI (rather than as a general inclusion in the overall DGR criteria) means that the Federal Government will be able to guarantee that the demand on Treasury for taxation benefits will be limited only to those non-profit organisations established for public benevolence as defined and aimed at working with the disadvantaged.

The proposal outlined above will not result in a drain on Treasury as a result of additional taxation deductions made via donations to philanthropic trusts and foundations. It will simply mean that the Neighbourhood House sector will be able to access philanthropic and corporate funding and support. Note that in excess of \$700 million per year is provided via philanthropy.

The proposal also means that the Neighbourhood House sector will be able to broaden its funding base beyond its current reliance on government funding. In turn, this will lead to greater innovation and capacity building of the sector.

Any increase in Fringe Benefit Tax (FBT) benefits would be offset by the ability to maintain and attract skilled staff. The cost to taxpayers of the high level of staffing turnover at present is calculated to be excessive, with the average length of stay by key staff in the sector being a mere two years.*

Finally, contemporary research shows that prevention is indeed better than cure when it comes to cost effectiveness. Family breakdown, mental health, social isolation, domestic violence and unemployment are just some of the issues which Neighbourhood Houses constantly address and reduce through their programs and activities – all of which cost the government dearly when they

manifest themselves in society.

* Statistics from the Australian Social Services Union reports

CONCLUSION

The Australian Neighbourhood House sector has no issue with the government moving to legislate for proof of public benefit as a basis for entitlement to taxation benefits, particularly if this will provide greater equity and fairness to those organisations, such as Neighbourhood Houses, who more than meet this test.

Along with this Bill, the sector strongly urges government to consider including ‘prevention’ in the PBI sub category of the DGR tax laws so that:

- increased capital investment in the Neighbourhood House sector from philanthropic and private sectors can commence
- reliance on government funding can be lessened
- the number of community business partnerships can be enhanced
- social inclusion and community strengthening programs and services at the local level can be strengthened and
- stronger and more resilient Australian communities can result

In the long run, prevention is most definitely better than cure.

PLEASE NOTE TERMINOLOGY

‘Neighbourhood Houses’ is a generic term used in this paper to describe centres which go by a variety of names which vary from state to state. These names include Neighbourhood Centres, Community Centres, Community Houses, Living & Learning Centres, Community Development Centres, Family & Community Centres etc. However, all centres are defined by a common set of objectives, philosophies, processes and practices and all are members of their state Neighbourhood House peak body.

NEIGHBOURHOOD HOUSES - INVESTMENT IN STRONG COMMUNITIES

There are approximately 1,000 Neighbourhood Houses throughout metropolitan, regional and rural Australia. Many more are emerging in new communities or in communities where social, geographic, cultural or economic disadvantage is prevalent.

Established in the 1970's, local, state and federal government bodies quickly began to see Neighbourhood Houses as cost effective means of providing inclusive, community based programs and activities aimed at building the capacity and social fabric of local communities.

Key features that set Neighbourhood Houses apart from other community organisations include:

- **The provision of socially inclusive programs and support to the whole of community** (not just specific target groups). This is based on the sound principle that social capital and community strengthening occurs when people from a wide range of backgrounds (including advantaged and disadvantaged) come together to share, learn, work, advocate and volunteer in a supported environment. No other sector in Australia offers this kind of inclusive approach.
- **Neighbourhood Houses are not-for-profit and community based.** Every dollar received by a Neighbourhood House goes directly towards meeting the needs and aspirations of local communities. All centres are managed and governed by local representative groups with strong links and partnerships with local & state governments, agencies and businesses.
- **Neighbourhood Houses operate within a strong community development and social justice framework.** Programs and activities are aimed at *preventing* disadvantage and building a strong, sustainable and inclusive society.
- **Neighbourhood Houses tailor their programs and support to suit the needs of local communities.** Programs and services can include educational /vocational courses (formal and informal), social support, volunteerism, health promotion, advocacy, information and referral, counseling, community events, childcare, food co-operatives, drop-in or family services.

VICTORIAN CASE STUDY – VALUE FOR MONEY

In 2006 the Department for Victorian Communities (now known as the Department of Planning & Community Development) conducted a census in 336 centres across Victoria to measure community participation. Their report titled '*Participation in Neighbourhood Houses: Results of the 2006 Census*' showed some astonishing results.

In one week in Victorian Neighbourhood Houses and Learning Centres:-

- a quarter of a million volunteer contributions were made;
- 3 million people participated in classes, programs or organised activities;
- 1 million people 'dropped in' informally for some kind of referral or support;
- million telephone or emails were made.

This research also showed that Neighbourhood Houses "*attract traditionally hard to reach populations through programs designed for those at home with children, with low literacy skills, on low incomes or that do not speak English*".

DEDUCTIBLE GIFT RECIPIENCY (DGR) Useful Information

Relevant Neighbourhood House information

Number of Neighbourhood Houses in Australia	1,000
% of N/Houses with DGR nationally	7%
Number of Victorian N/Houses with DGR	17
Number of volunteers in H/Houses nationally	600,000 (or 13% of total for all NFP's)

General Not-for-profit (NFP) sector information

Number of NFP's in Australia	700,000
% of Australians who belong to a NFP	86%
Current turn-over of NFP's in Australia	\$75 million
% of contribution to GDP by NFP's	4.9%
Total cost to treasury of tax concessions to NFP's	\$800 million (or 4% of total tax expenditure)

Employment related information (NFP)

Number of NFP's who employ staff	38,000
Number of staff employed in NFP's	900,000
% of overall Australian employment by NFP's	7%
Number of volunteers involved with NFP's	4 million

General DGR Information

Number of DGR's registered with ATO	23,700 (or 33% of NFP's)
Number of DGR's registered as Public Benevolent Institutions (PBI's)	13,000
Total income tax deductions for donations to DGR's	\$246 million p.a.
Donations to DGR's via philanthropy	\$728 million p.a.
Number of government bodies involved in Determining charitable status	19

- Sources: Goldman Sacs (JB Were), M. McGregor Lowndes, M. Lyons, ACOSS, ATO, Philanthropy Australia, Public Interest Law Clearinghouse (PILCH) and Dept. of Planning & Community Development (Vic)
- All figures approximate and rounded to nearest whole number