

## FALLACIES AND FALLOUT FROM THE AUSTRALIAN TAX OFFICE

### “SELF REVIEW “PROCESS FOR NOT-FOR-PROFIT ORGANISATIONS

The Australian Tax (ATO) has issued a ruling requiring Australian not for profit entities to conduct a “self-review” of their organisations to determine if they can continue to retain their tax-exempt status.

The ATO guidance states that: *If the organisation’s main purpose is merely to provide services to its members, it will not be exempt. This is the case even if the services result in better use of resources by those members.* As one of the main purposes of any NFP is to provide services to its members, often of a kind that is not provided by government then this policy is going to cause widespread concern and anxiety particularly among smaller community groups.

The ATO suggestion is that organisations should consider applying to ACNC for registration as a charity even though many might struggle to meet the strict criteria to achieve this. That advice has resulted in ACNC being overwhelmed with applications.

This is a significant policy and the arguments that can be made against this policy centre around the social, economic, and community value that these organizations provide. The policy will likely to result in the decimation of the NFP sector which at last count employed 960,000 people, or 9.3 percent of the Australian workforce is supported by 6.1 Million volunteers, and contributes \$43 Billion to the National GDP. The policy will cause significant disruption and hardship across the wider community, specifically in the following ways:

#### **1. Loss of Public Benefit:**

- **Community Impact:** Many not-for-profit organizations provide essential services to the community, often filling gaps that the government or private sector cannot or will not address. Removing tax exemptions could jeopardize their ability to continue offering these services, leading to a loss of support for vulnerable populations.

- **Social Good:** Not-for-profits typically exist to serve the public good rather than to generate profit. Tax exemptions enable these organizations to dedicate more resources to their mission. Removing these benefits could hinder their ability to create positive social outcomes, from education and healthcare to community development.

## 2. Economic Consequences:

- **Reduction in Services:** Taxing not-for-profit organizations may force them to reduce services, raise fees, or even shut down, negatively affecting the people who rely on them. Many of these services are provided at a lower cost than for-profit alternatives.
- **Job Losses:** Nonprofits are major employers. Imposing taxes could lead to job cuts, reducing employment opportunities in sectors like healthcare, education, and social services, which are often critical to local economies.

## 3. Increased Burden on the Government:

- **Shifting Costs:** If not-for-profits are forced to reduce or eliminate services due to increased tax burdens, the government may have to step in to provide these services, potentially at a higher cost to taxpayers.
- **Strain on Public Resources:** Many not-for-profit organizations provide services that complement government efforts, such as homelessness support or disaster relief. Removing their tax benefits could strain public resources and budgets.

## 4. Encouraging Profit Motive:

- **Undermining Mission-Driven Organizations:** Tax-exempt status allows not-for-profits to focus on their mission rather than being driven by profit. Removing these benefits could push them toward profit-generating activities that detract from their core mission, reducing their overall effectiveness.
- **Commercialization of Services:** Without tax exemptions, some organizations might be forced to adopt more commercial models, which

could raise prices for services or exclude certain segments of society, particularly lower-income members.

## 5. Unfair Burden on Smaller Organizations:

- **Disadvantaging Smaller Nonprofits:** Larger nonprofits may be better able to absorb the impact of losing tax exemptions, but smaller organizations that rely heavily on these benefits might struggle to survive, thereby reducing diversity in the sector.
- **Loss of Grassroots Initiatives:** Many community-based, volunteer-driven nonprofits operate with tight budgets. Removing tax exemptions would disproportionately harm these smaller organizations, reducing grassroots efforts that are critical for social change at the local level.

## 6. Discouraging Philanthropy and Volunteering:

- **Impact on Donations:** Tax exemptions for not-for-profits often provide an incentive for individuals and corporations to donate. Removing these benefits could lead to a decline in charitable giving, undermining the financial sustainability of these organizations.
- **Volunteer Contributions:** Many not-for-profit organizations rely on volunteers. Reducing the financial viability of these organizations may decrease their capacity to attract and manage volunteers, further reducing their effectiveness.

## 7. Legal and Constitutional Considerations:

- **Historical Precedent:** Many countries have long-standing traditions of granting tax exemptions to not-for-profit organizations, recognizing their unique role in society. Reversing this policy might be seen as a break from these traditions and could face legal challenges if the changes are perceived as unfair or discriminatory.
- **Equity Concerns:** If the tax exemptions are removed, not-for-profit organizations that provide member services (such as professional associations or cooperatives) could argue that they are being unfairly targeted compared to other types of businesses, despite serving important public purposes.

## 8. Erosion of Civil Society:

- **Weakened Civic Engagement:** Nonprofits often play a critical role in fostering civic engagement, advocacy, and participation in democratic processes. Removing tax exemptions could reduce their capacity to mobilize citizens and advocate for important social causes.
- **Diminishing Social Capital:** Many not-for-profits foster community relationships and social cohesion. Their tax-exempt status allows them to focus on building networks of support and trust, which are essential for strong civil society. Taxing these organizations could erode the social capital they help create.

## 9. Summary

Removing not-for-profit benefits and tax exemptions could have far-reaching negative effects on the organizations themselves, the communities they serve, and even the broader economy. These arguments emphasize the importance of protecting these exemptions to ensure the continuation of essential services and the promotion of public welfare.

**Peter J Fitzpatrick AO, AM (Mil), JP, FSAE GAICD**  
**Managing Director**

Email: [REDACTED]

Telephone: [REDACTED]

Mobile: [REDACTED]



