

Submission to the Senate Economics References Committee Inquiry into Not-for-profit Entities— Tax Assessments

Date: 8 October 2024

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Introduction

This submission is made in response to the Senate Economics References Committee's inquiry into the Australian Taxation Office (ATO)'s implementation of the requirement for certain **non-charitable not-for-profit (NFP) entities** to lodge an annual **self-review return** to confirm their eligibility to self-assess as income tax exempt from 1 July 2023. The submission will address key aspects of this new requirement, the implications for Australia's not-for-profit sector, the role of the Australian Charities and Not-for-profits Commission (ACNC), and other related matters, including the need for large organisations, such as **Hillsong**, to contribute fairly to society through taxation.

Overview of the Requirement

As of 1 July 2023, non-charitable NFP entities that self-assess as income tax exempt are now required to lodge an annual **Not-for-profit self-review return**. This return is intended to ensure these entities continue to meet the criteria for tax exemption, which includes a review of their activities, governance, and financial operations. This reform introduces a significant change to the tax landscape for non-charitable NFPs, which previously self-assessed without the need for annual returns.

While the reform is a positive step toward improving transparency and accountability within the sector, it also raises concerns about the administrative burden on smaller NFPs and the continued tax-exempt status of large, wealthy organisations that should be contributing more to society.

1. Implications for Australia's Not-for-profit Community

The introduction of the self-review return requirement brings both challenges and opportunities for Australia's not-for-profit community. It has the potential to strengthen compliance and oversight within the sector, ensuring that tax-exempt status is only granted to entities that meet the criteria and operate for the public benefit. However, it also imposes new administrative and financial pressures on NFPs, particularly smaller organisations.

a) Administrative Burden on Smaller NFPs

For smaller NFPs, the annual self-review return represents an additional compliance burden, one that may stretch their already limited resources. Many of these organisations are volunteer-run and may lack the administrative capacity to handle the complexity of the self-review process. As a result,

they may need to seek external assistance from accountants or legal advisors, further diverting funds away from their core activities and social missions.

b) Ensuring Fairness in Taxation for Larger NFPs

While smaller NFPs may struggle with these new requirements, there are concerns about the **tax-exempt status of larger entities** that operate more like commercial enterprises than charitable organisations. For instance, **Hillsong**, a church whose vision is to be a “healthy church changing lives through Christ,” has grown into a large organisation with significant revenue streams, commercial activities, and widespread influence.

While Hillsong’s spiritual mission is clear, and the organisation aims to support its community through faith-based initiatives, its scale and financial operations warrant scrutiny to ensure it pays its fair share of taxes. The vision of “changing lives” is noble, but when an organisation generates substantial income from activities beyond its religious mission—such as through publishing, music, events, and other commercial ventures—it must contribute to the broader society through taxation, like other commercial entities.

It is essential that large organisations like Hillsong, despite their faith-based missions, are subject to the same level of financial scrutiny as other entities, to ensure they contribute appropriately to society through taxation.

2. Role of the Australian Charities and Not-for-profits Commission (ACNC)

The ACNC regulates **charitable NFPs**, while non-charitable NFPs are subject to the new self-review return requirement. This division of regulatory responsibility may lead to confusion among organisations about which rules apply to them. Additionally, while the ACNC’s role in ensuring accountability for charitable NFPs is well-established, non-charitable NFPs that operate with significant revenue should be held to similar standards of transparency and oversight.

a) Greater Scrutiny of Large Non-charitable NFPs

There is a need for greater scrutiny of non-charitable NFPs that generate substantial income. These entities, including **Hillsong**, often operate across multiple sectors, such as entertainment, publishing, and real estate, yet maintain their tax-exempt status under the guise of religious or community purposes. It is vital that organisations with significant financial resources are not allowed to exploit tax exemptions without demonstrating a clear and substantial public benefit.

The ATO and ACNC must ensure that organisations like Hillsong are providing measurable benefits to the communities they serve and that they are not using their not-for-profit status to avoid contributing fairly to society through taxation.

b) Collaboration between the ATO and ACNC

The ATO and the ACNC should collaborate more closely to align the reporting and compliance requirements for both charitable and non-charitable NFPs. Such collaboration would ensure that all organisations in the NFP sector, regardless of their charitable or non-charitable status, are held to consistent standards of accountability and transparency.

3. Ensuring Accountability for All NFPs

One of the most pressing issues in the NFP sector is ensuring that organisations, particularly those with significant revenue, contribute to society through taxation. Large organisations such as **Hillsong**, which have grown into multi-faceted entities with global influence, should be required to meet the same public benefit criteria as smaller entities and demonstrate their contribution to the community.

a) Fair Taxation for Wealthy Organisations

It is critical that the ATO takes steps to ensure that wealthy organisations operating under the NFP framework are paying their fair share of taxes. These organisations, which often receive significant financial contributions and generate revenue through commercial ventures, should not be allowed to maintain tax-exempt status without demonstrating a clear and measurable public benefit.

Tax exemptions should be reserved for those entities that directly serve the public interest, such as small community-based NFPs providing essential services. Large organisations that operate more like businesses, even if they have a religious or community mission, must be required to meet the same tax obligations as other commercial enterprises.

b) Contribution to Society

Religious organisations such as **Hillsong**, which have significant financial resources, must contribute to society in the same way that for-profit organisations do. This includes paying taxes, ensuring fair wages for their employees, and being transparent about their financial activities. The ATO's new requirement for annual self-review returns should be seen as an opportunity to assess whether such organisations are genuinely meeting the public benefit test or if they are simply using their NFP status to avoid contributing to society through taxation.

Recommendations

To ensure that the ATO's new requirement for NFPs to lodge self-review returns achieves its intended objectives, the following recommendations are proposed:

1. **Increased Scrutiny for Large NFPs:** The ATO should focus on scrutinising large, wealth-accumulating NFPs, such as **Hillsong**, ensuring that they meet the public benefit test and contribute their fair share of taxes.
2. **Fair Taxation for All:** Large organisations that generate significant revenue streams should be required to pay taxes on their commercial activities, contributing to society just as other businesses are required to do.
3. **Support for Small NFPs:** The ATO should provide simplified compliance processes and support for smaller NFPs, ensuring that they are not overburdened by the self-review return requirement.

4. **Collaboration between ATO and ACNC:** The ATO and ACNC should align their reporting and compliance requirements to reduce regulatory confusion and ensure consistency across the NFP sector.
 5. **Public Benefit Test:** The ATO should regularly review whether large NFPs are meeting the public benefit test and ensure that tax-exempt status is granted only to those entities that directly contribute to the well-being of the community.
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Conclusion

The introduction of the **self-review return** requirement for non-charitable NFPs is a positive step toward improving accountability within the sector. However, it is essential that the ATO takes this opportunity to ensure that large, wealth-accumulating organisations, including religious entities such as **Hillsong**, are paying their fair share of taxes and contributing to society.

Smaller NFPs should be supported in meeting these new compliance obligations, while large organisations that operate like commercial enterprises should be held accountable for their financial activities and taxed accordingly. By doing so, Australia can maintain a fair and transparent NFP sector that serves the public interest.

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