The Allen Consulting Group

Building a stronger social coalition

A discussion paper proposing measures to encourage increased philanthropy to benefit the environment and create a a stronger civic culture in Australia

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Prepared for
The Steering Group on
Incentives for Encouraging
Private Conservation

The Allen Consulting Group

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Preface

This paper was commissioned by the *Steering Group on Incentives for Private Conservation:* a coaliton of Australian Bush Heritage Fund, Greening Australia and Trust for Nature (Victoria). It summarises a discussion paper identifying practical policy iniatives that would:

- address barriersto socially and enviornmentally valuabe activities, including private conservation and sustainable resource use;
- strengthen community organisations by providing new tools and pathways for them to achieve their public good objectives; and
- encourage a stronger civic culture in Australia, built on greater levels of philanthropy and volunteer participation.

The paper has been prepared by The Allen Consulting Group to build on the work of *Philanthropy: Sustaing the Land*, a briefing paper issued in 1999 that outlined innovative pathways for overcoming impediments to private conservation in Australia.

In 2001 the Federal Coalition annonced it would investigate further tax options in the current Parliament, to promote philanthropy, including 'living bequests'. Accordingly, the paper focuses on tax-based measures to strengthen community organisations and non-profit bodies, including a range of new toolds to encourage philanthropy.

The following individuals and organisations support the recommendations of the paper:

AUSTRALIAN BUSH HERITAGE FUND

Trust for Nature

WWF AUSTRALIA

Perpetual PHILANTHROPIC FOUNDATIONS

AUSTRALIAN LANDSCAPE TRUST

The University of Sydney

Greening Australia

THE AUSTRALIAN NATIONAL UNIVERSITY

The Uniting Church in Australia

Executive Summary

Building a Stronger Social Coalition

A discussion paper proposing measures to encourage increased philanthropy and a stronger civic culture in Australia

The Challenge

We move into a new century with a renewed understanding of the importance and role of community organisations. As a result, government and business are looking to the community sector to provide services and leadership. Fulfilling these aspirations will require stronger community organisations, with robust and independent financial and volunteer resource bases.

Altruistic gifts are a crucial element of the resources available to the community sector, like the pinch of yeast that makes a loaf of bread rise. Increasing these altruistic contributions would provide tremendous leverage for achieving community benefits.

The importance of these contributions is highlighted by overseas initiatives providing greater recognition and encouragement for altruistic gifts and activities. In the US, President Bush has proposed tax changes to foster a more widespread philanthropic culture, while the UK Government has launched a 'Giving Campaign' backed by more than £400 million a year in new tax support, equal to $18 (Australian) per citizen. Equivalent per person support would involve Australian governments committing $340 million a year.

Recommendations

The recommendations of the discussion paper are organised under four themes.

Providing new tools for community organisations to encourage contributions

1 That the Government provides additional tax support for donations of property, particularly for gifts that are strategically significant to the recipient organisation and the wider community sector.

2 That the Government encourage 'living bequests' by clarifying that they are deductible (or rebatable) under the income tax gift provisions, and ensuring that any taxable capital gain at least excludes the value of retained rights or benefits.

3 That the Government recognises philanthropic support offered through 'bargain sales' or 'part gifts' of property to eligible community organisations by at least recognising the discount provided as a gift for tax purposes.

Recognising everyone's contributions

4 That the Government gives equal recognition to the contribution of all citizens by providing all tax payers the same level of benefit from making a gift.

Recognising public good activities

5 That the Government provide an income tax deduction or rebate for management costs incurred in relation to land subject to a conservation covenant or a binding conservation management agreement.

6 That the Government exclude payments for conservation activities from taxable income where associated costs are not claimed.

7 That the Government act urgently to ensure tax support is available for all covenants and conservation gifts, including those made with Government agencies.

8 That the Government provides tax deductions or rebates for specific types of in-kind support for public good research, including in relation to the use of land or other assets for research purposes.

Exploring new approaches to supporting social enterprises and partnerships

9 That the Government explore options for providing tax support for funds invested in social enterprises and other 'public good activities', with particular attention to the community investment tax credit announced by the UK Government.

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1 Introduction – Building a Stronger Civic Culture

… we have been learning that of course there is a role for government … but there always will be a role for the voluntary organisations that come in with that breakthrough work...

Peter Costello, April 2002

There is a strong moral basis for the principle of voluntary action. Voluntary action is an outlet for our natural altruism. It is the expression of an active community and as such a central ingredient in civic society… It is a source of social cohesion.

Gordon Brown, UK Chancellor of the Exchequer, 1999.

… government can write checks, but it can't put hope in people's hearts, or a sense of purpose in people's lives…

George W. Bush, April 2002

We move into a new century with a renewed understanding of the importance and role of community organisations. Particular strengths include their unique abilities to contribute to values-based activities, to offer leadership and insight based in everyday experience, and to harness community commitment in ways that are generally not possible for government and business. This understanding has been recognised in Australia and overseas by increasing calls for – and examples of – new partnership approaches bringing together the special strengths and contributions of government, business and the community sector.

As a result, community organisations are facing changed expectations and opportunities, with government and business looking to the community sector to provide services and leadership. Leading areas include the delivery of community services (often under contract to government), promoting conservation and improved environmental practices by private individuals and businesses, and undertaking education and research.

Fulfilling these aspirations – for the sector and for our society – will require stronger community organisations, with robust and independent financial and volunteer resource bases, supported by a stronger civic culture and affirmation of the importance of philanthropy and community participation.

Background to this paper

This discussion paper responds to the need for new policies that encourage the development of a stronger civic culture and more effective community organisations.

Altruistic gifts are a small but crucial element of the resources available to the community sector. Increasing these altruistic contributions would provide tremendous leverage for achieving greater community benefits. Accordingly, this paper identifies ten practical measures for strengthening our shared civic culture by providing increased recognition of altruistic gifts and activities.

These proposed measures are organised around four themes:

- providing new tools for community organisations to engage and encourage altruistic contributions;
- recognising everyone's contributions and treating them equally;

- encouraging and recognising public good activities, including research; and
- exploring new approaches to supporting 'social enterprises' and innovative community partnerships.

The Allen Consulting Group was commissioned to prepare this paper by a number of environment groups who wished to build on the work of *Philanthropy: Sustaining the land*, a briefing paper issued in 1999 that outlined innovative pathways for overcoming impediments to private conservation in Australia. A third paper is expected in early 2003 that will focus on impediments to commercially driven sustainable resource use and policy options to encourage partnerships that can drive landscape scale change addressing salinity and other land degradation issues.

As such, this paper focuses on the scope for taxation provisions to strengthen community organisations and non-profit bodies, and does not attempt to address wider issues such as the shift towards community service organisations delivering 'public services' under contract to government.

The paper is supported by leading business people, community service agencies, nature conservation groups, universities and research bodies, and others (as listed on page ii.)

The role of altruistic contributions

Altruistic contributions and gifts are like the yeast which makes bread rise. Gifts of money and property by individuals and businesses are essential to the vitality of community organisations, and a lack of financial resources is often a major constraint on the ability of these organisations to serve the wider community, including through the coordination of volunteer effort. Donations and volunteer effort are essential to the independence and character of community organisations – and are becoming more important as governments ask these organisations to deliver more and more services under contract.

For the sector as a whole, direct fundraising accounts for less than ten percent of the income of community organisations (with the bulk of their income derived from fees-for-service and direct government funding).[1] Larger and better known organisations tend to raise a higher proportion of their funds from altruistic support, while in some parts of the sector – such as nature conservation – fundraising may account for 90 percent or more of an organisation's income.

While numerically small, altruistic support is central to the vitality of the sector, providing the foundation for the sector and the discretionary funding underpinning organisations' public good activities. In effect, fundraising income is used to leverage other sources of income to deliver community benefits.

Attracting donations and volunteer effort is highly competitive and provides a powerful accountability mechanism, as donation income is strongly influenced by an organisation's standing and reputation. Importantly, this accountability is generally based on perceived performance – allowing organisations to innovate in achieving their mission – rather than through attaching conditions to gifts. (By contrast, direct government funding tends to emphasise contractual compliance and meeting minimum standards, rather than innovation and excellence.)

Australian support for the community sector

Gifts of money and property to eligible organisations are tax deductible in Australia. This reduces the real cost of making a donation by reducing the tax liability of the donor (in proportion to their marginal tax rate). A significant portion of charitable fundraising support is not eligible for tax deductions, however, because they involve some individual gain or benefit, such as the chance of winning a prize in a raffle, rather than a pure gift. Many people also do not claim deductions they are entitled to, particularly in relation to small gifts.

Tax support is available for gifts to a wide range of organisations,[2] including:

- non-profit institutions dedicated to the relief of poverty, sickness, suffering, or disability (public benevolent institutions);
- public universities, approved scientific research institutes, and certain higher education institutions;
- public or non-profit hospitals, and institutions engaged in research in to the cause, prevention, or cure of disease;
- approved environmental organisations;
- public libraries, museums, art galleries, and approved cultural organisations;
- approved overseas aid and development funds; and
- public and private charitable funds supporting the charitable activities listed above.

Box 1 – Size and nature the community sector in Australia

Charities, religious institutions, and not-for-profit community organisations are involved in many aspects of our lives. They provide a wide range of services that benefit disadvantaged groups, the community as a whole, people with particular needs and interests, and the environment. Organisations vary widely in size, from major bodies with budgets in the tens of millions to local groups with no staff. It is estimated that charities account for around 5 percent of Australian employment, with the sector as a whole (including universities) accounting for around 8 percent of employment. The most recent data suggests that around 2.3 million people undertook voluntary work in the sector, giving 374 million hours of time valued at around $7.5 billion.[3]

Volunteering has a long and justifiably proud tradition in this courtry. We want to build on that tradition and creat an effective partnership between the state and the voluntary sector. So we have been working to strengthen and empower the voluntary sector, with changes to the taxation of charities, and compaigns to build a culture of giving - of time as well as money

Paul Boateng, Fiananancial Secretary to the UK Treassury, July 2001

The importance of tax support

Tax support for philanthropy is important for two main reasons:

- Firstly, it provides direct financial assistance, reducing the real cost of a gift (consistent with tax equity principles) so that donors give more.
- Secondly, and probably more importantly, it provides a tangible signal that altruistic giving is considered socially valuable, and approved of by the community.

In effect, tax support for philanthropy means the government is 'putting its money where its mouth is'.

Official statistics indicate that over three million individuals – around 40 percent of taxpayers – reported donations of $632 million in 1999, reducing government tax revenue by around $250 million.[4]

Although the 'signal effect' of tax deductibility for gifts is significant – providing one of the most visible forms of government support for community organisations – the fiscal cost involved is relatively small. As shown in Table 1, the revenue cost of providing tax deductions for gifts accounted for less than 2 percent of $16 billion in public resources directed to the community groups and non-profit institutions in 1999-2000.

The Government has agreed upon a … package of measures which demonstrates our commitment to encouraging philanthropy...

That these measures come at a cost to government revenue is evidence of this.

John Howard, March 1999

Table 1 – Government financial support for charities and non-profit institutions

	1999-2000	
	$m	**%**
Commonwealth funding – general	4,800	30.1
Commonwealth funding – universities	4,000	25.1
Revenue cost of gift provisions	250	1.6
Revenue cost of FBT exemptions	685	4.3
State and Territory funding	6,200	38.9
Total financial support	**15,935**	**100.0**

Source: Charity Definition Inquiry, 2001, *Report of the Inquiry into the Definition of Charities and Related Organisations*, Commonwealth of Australia, pp.51-52

Australian giving and tax assistance

Economic studies suggest that tax support for philanthropy provides an important incentive for many donors, encouraging higher levels of giving.[5] The best available data on individual donations relates to tax deductions claimed by individuals. As might be expected, this data shows both that the average value of gifts and the share of people giving gifts increases with income, as shown in Table 2.

What is less appreciated is that donors with lower incomes tend to give more as a share of their income than those on higher incomes – with donors on incomes between $10,000 and $20,000 giving twice the percentage of their income as donors with incomes between $70,000 and $80,000.[6] This reminds us that everyone has a contribution to make to a stronger civic culture. It also implies that increased tax support for donations will often improve the progressivity of the tax system.

The community sector is a key component of social capital, the 'glue that keeps our society together'. Adequate financial support is essential to the functioning and viability of the sector. Apart from Government, the major source of funds is the generosity of fellow Australians and contributions from the business and corporate world … Tax provisions are a key factor influencing [this] philanthropy …

Russell Rollason, Anglicare Australia, 2002

Table 2 – Gifts claimed by income level, Australian taxpayers 1998-99

Income bracket	Number of taxpayers	Share of taxpayers claiming deduction	Average value of gifts claimed	Value of gifts as a share of donor income
$			$	%
6,000 - 9,999	380,400	19%	88	1.03%
10,000 - 19,999	961,327	29%	125	0.69%
20,000 - 29,999	956,559	36%	125	0.45%
30,000 - 39,999	1,569,793	41%	147	0.41%
40,000 - 49,999	1,003,233	47%	170	0.38%
50,000 - 59,999	489,183	49%	210	0.38%
60,000 - 69,999	306,501	56%	231	0.37%
70,000 - 79,999	171,874	54%	287	0.35%
80,000 - 89,999	85,937	54%	380	0.47%
90,000 - 99,999	28,646	54%	551	0.67%
100,000 - 499,999	134,892	55%	830	0.63%
500,000 or more	5,041	61%	10,481	1.07%
6,000 - 99,999	**5,953,452**	**40%**	**168**	**0.46%**
6,000 or more	**6,093,385**	**40%**	**201**	**0.51%**

Note: Income is taxable income.
Source: Estimated by The Allen Consulting Group based on Australian Taxation Office, 2001, *Taxation Statistics 1998-99* (Tables '99indiv08' and '99indiv13')

International support for philanthropy

Australian support for charities and community organisations accounts for a small share of economic activity by international standards: equivalent to two thirds of Canadian support ratio, half that of the United Kingdom, and less than a quarter of the ratio for the United States.[7] These lower levels of support are thought to reflect a number of factors, including an expectation that government will provide community services and support – expectations that many believe are now changing.

Table 3 (below) sets out a summary of tax support for philanthropy across selected countries. The table indicates that Australian tax support for contributions to charities and community organisations is relatively low by international standards. This most noticeable in relation to imposing capital gains on gifts and the lack of support for part gifts and gifts with retained rights (as discussed in Section 2).

Perhaps more importantly, other governments are increasing their support, with the new appreciation of the community sector organisations being backed by new government initiatives around the world.

The UK Government launched a millennium 'Giving Campaign' to promote gifts to charities by all age groups and income levels, particularly by young people and those on lower incomes. A £400 million package of new tax measures took effect in April 2000, including:

- new tax deductions for gifts of stocks and shares, enhancing the tax support already provided by capital gains tax relief;
- removing restrictions on the level of gifts receiving government support; and
- introducing a three year ten percent 'government top-up' on charitable gifts made through payroll deductions.

Initial results suggest the initiative has been very successful, with a sevenfold increase in the use of regular tax advantaged giving (including some shifting from other forms of giving), a modest increase in the average value of gifts, and an overall increase in the number of people making gifts – including an estimated seven percent of the population making gifts who had not given to charity before.[8] In March 2001, the UK Government announced a new £1 billion community tax credit for encouraging investments in community benefit activities, discussed further in Section Five below.

The United States is well known for its generous treatment of gifts. Tax support for philanthropy includes tax deductions against state and federal income tax, generous capital gains tax exemptions and roll-overs, deductions for conservation covenants, exemptions from state land tax and local rates exemptions, concessional treatment of gifts of various financial instruments (such as annuities) and a variety of tax effective charitable trust structures. A number of Bills before Congress propose additional incentives for charitable gifts, including allowing deductions for 'non-itemisers' who elect to receive a minimum standard deduction (covering work related expenses, gifts and a range of other items), and tax preferred bonds to promote investment in conservation and new social enterprises.

Table 3 – Summary of tax support available in Australia, Canada, the United Kingdom and United States of America

Type of gift or support	Australia	United Kingdom	Canada	United States of America
Gifts of money	Deductible	Deductible (conditions apply)*	Two tier rebate encouraging gifts over $250 per annum	Deductible
Gifts of property	Deduction for market value (since 1999) No capital gains tax relief for general gifts**	Deduction for market value *and* capital gains tax relief	Rebate based on market value *and* capital gains tax relief	Deduction for market value *and* capital gains tax relief
Part gifts and 'bargain sales'	No support	Bargain sales wholly exempt from capital gains tax. Deduction allowed for some memberships	Rebate for 'gift' component of fundraising dinners etc	Deduction *and* generous capital gains tax relief (varies across states)
Gifts with retained rights	Uncertain	No support	Rebate *and* capital gains relief	Deduction *and* capital gains relief
Investments	No support	New 25% investment tax credit	No support	Concessional bonds proposed
Other	-	10% 'top up' on payroll gift deductions	-	-

Note: All tax support is subject to detailed rules, including anti-abuse provisions.
* UK tax support is focused on higher value gifts, and regular or 'committed' giving of smaller amounts.
** Gifts to the Cultural Gifts Program are exempt from capital gains tax. Prior to 1999, deductions were only available for gifts of property purchased less than 12 months before being given.
Source: CCH, 2001, *Australian Master Tax Guide 2001*, 32nd edition, CCH Australia, Sydney; C.S. George (ed), 1994 , *International Charitable Giving: Laws and Taxation*, Graham & Trotman / Martinus Nijhoff, London; P.J. Lochray, 1992, *Charitable Giving Today: Taxes, Techniques and Trusts*, Prentice Hall, Englewood Cliffs NJ; and other sources cited in this paper.

2 Providing new tools for engaging support and encouraging philanthropy

Australia's tax provisions for charitable gifts have been largely developed to deal with gifts of money. In 1999, the Howard Government amended these provisions to allow for gifts of property, removing a significant form of discrimination against a particular type of gift. While these amendments are welcome and valued, Australian gift provisions remain noticeably less flexible than those available overseas (as shown in Table 3 above). As a result, there is considerable scope for providing recognition and tax support for types of gifts that are currently excluded, while ensuring that these gifts are genuinely philanthropic (providing no material benefit to the donor).

This section discusses a number of steps that would build on the Government's 1999 initiatives by:

- removing discrimination against a number of types of philanthropic gifts, enhancing tax neutrality and allowing new forms of support;
- empowering community organisations to attract donations of particular items that offer more than financial value, such as by making a strategic contribution to achieving an organisation's mission; and
- providing greater flexibility and new tools for engaging potential supporters, removing obstacles to giving, and building stronger and more strategic community organisations.

Encouraging strategic donations

The Australian Cultural Gifts Program provides a valuable strategic tool for cultural organisations seeking donations of specific types of property. This program provides additional incentives for gifts that are intrinsically valuable to the recipient organisation, and has been developed specifically to encourage individuals to give works of art and historical items to galleries, museums, and libraries. Where a gift of a cultural item is accepted into the permanent collection of an eligible organisation the donor enjoys a capital gains tax exemption and a tax deduction for the current value of the gift.

This capital gains tax relief can significantly enhance the tax support provided, and gives eligible organisations an important tool for acquiring and protecting specific items that are intrinsically valuable to Australian society, and provides a lasting stream of benefits to the community.

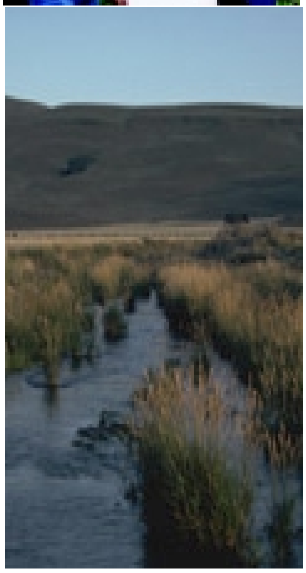
Extending this approach to all gifts of property would assist more community organisations to attract additional gifts, strengthening the sector and its ability to serve the wider community.

It is significant that all of the other countries examined in this paper provide a capital gains tax exemption for all gifts of property, as well as providing a deduction or rebate for the current market value of the gift (see Table 3).9

If general relief is not immediately feasible for fiscal reasons, the cultural gifts model could be applied to specific types of gifts that make a special contribution to achieving the organisation’s mission (rather than simply providing additional resources), giving organisations a lever for attracting these strategic contributions.

We must also promote more private sector giving … And so I want to make sure that the tax code is changed ...
It is a wise use of the tax code to encourage more charitable giving to programs that are positively affecting people's lives.

President George W. Bush, November 2001



The model would be valuable to organisations seeking to build up an endowment base, such as in the areas of research and education – where reputations for excellence take time and resources to build and maintain. Additional tax support would also assist conservation groups seeking to protect environmentally significant land, which might manage land provided through gifts or protect it with a permanent conservation covenant and offer it for sale.

The need for such gifts is pressing.

- Donor endowments and capital funds held by Australian universities are very small by international standards. Increasing these endowments would provide a more secure platform for our universities in their pursuit of excellence. By contrast, endowments held by United States universities total more than $200 billion (in Australian dollars), equivalent to more than $800 in assets per head of population. As a result, charging for tuition is now effectively optional for the top universities, such as Harvard and Princeton – illustrating the value of endowments in underpinning the independence of these institutions.

- Around half of Australia's bioregions have less than 5 percent of their area included in the protected area estate. Nearly one third of all subregions in the intensive land use zone have less than 30 per cent of their original native vegetation remaining, and one half show serious ecological fragmentation and loss of connectivity of habitat.[10] Private conservation measures are essential to protect biodiversity and maintain other ecological services. This requires a mix of consolidating the protected area estate on both private and public lands, and other measures to achieve good biodiversity outcomes as part of integrated natural resource management. Covenants, ownership by conservation trusts, and other environmental management options provide a flexible set of approaches and tools that complement the public land conservation, such as by establishing habitat corridors that connect vegetation fragments in agricultural areas.[11]

Recommendation 1

That the Government provides additional tax support for donations of property, particularly for gifts that are strategically significant to the recipient organisation and the wider community sector.

This could be achieved, for example, by:

- providing a capital gains tax exemption for donations of property, such as by deeming that the donation does not give rise to either a capital gain or a capital loss for tax purposes.

If desired, this measure could be targeted at gifts that are:

(i) themself valuable in fulfilling the mission of the recipient agency; or

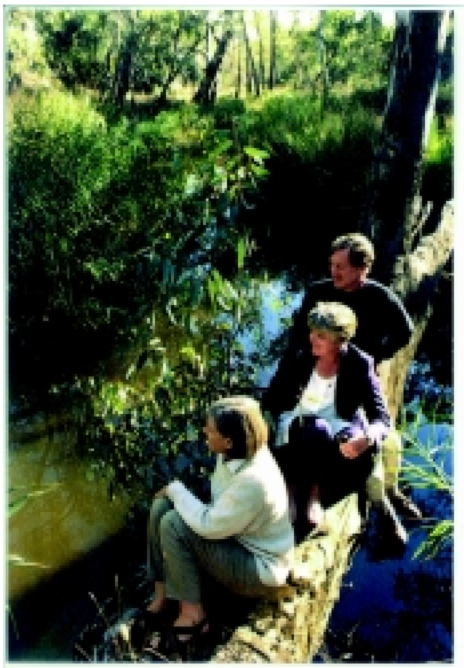
(ii) is used to establish or expand a permanent endowment or capital fund; or

(iii) has intrinsic properties or values that will be able to be better protected through the donation.

Box 2 – Encouraging greater endowments

Tess was an employee in a successful technology start-up, and now has a substantial share portfolio acquired through the float. Turning thirty this year, she is interested in establishing an endowment to help disadvantaged students attend her *alma mater*, the Australian National University. However, she is surprised to learn that her donation will trigger a capital gains tax liability, effectively halving the value of the deduction under the gift provisions, and she is not sure if establishing the endowment is worth the sacrifice. A new capital gains tax exemption encourages her that her gift is seen as important and of lasting social value, and she goes ahead.

Supporting greater engagement



The expectations and capacities of donors – and gift recipients – are changing. Potential donors are often seeking closer engagement and greater confidence that their gift is 'making a difference'. Those approaching retirement are also finding that they have accumulated substantial assets over their lifetimes, and that their adult children are already quite well off. There is thus an emerging group of people who are able to make significant one-off donations in their later years, but who may not come from families or backgrounds with a strong civic tradition.

This group of potential donors often expresses dissatisfaction with – or simply is not interested in – the 'normal' approach to bequests, where the gift is only made after death. Many would find a 'living bequest' an attractive option.

> *A living bequest benefits the receiving organisation from day one, and lets the donor see that benefit.*
>
> *A living bequest may also involve giving a gift with some rights or benefits retained until death. The donor may receive part of the dividend stream from a parcel of shares, for example, or be allowed to live in a property that has been donated.*

Those with good professional advice realise that it is possible to enjoy a tax deduction for the value of a 'living bequest' under current law. This simply involves calculating the value of the gift less the value of the retained right. Where the gift is gift of property with a net value of more than $5,000 the deduction may be apportioned over five years, increasing the tax support provided.

Most potential donors are not aware that living bequests are possible, however, and so valuable opportunities are being lost to support community organisations.

Living bequests raise a number of technical taxation issues, including the treatment of 'retained rights of occupancy' and capital gains tax matters.[12] Clarification of these issues would help encourage greater donations.

Recommendation 2

That the Government encourage 'living bequests' by clarifying that they are deductible (or rebatable) under the income tax gift provisions, and ensuring that any taxable capital gain at least excludes the value of retained rights or benefits.

Box 3 – Troy's living bequest

Troy has decided to leave shares worth $120,000 to Port Adelaide Central Mission to support their work with people in poverty, but needs some of the income from these shares to live on. He decides to make the gift now as a living bequest, and the charity agrees to provide a lifetime payment of $40 per week, topping up Troy's other sources of income. The charity decides to purchase an annuity in Troy's name, at a cost of $26,500. Troy uses this cost in calculating the net value of his gift:

gross value of the gift	$120,000
less the value of the retained right	– $26,500
equals the net value of the gift	= $93,500

As he is able to use the five-year apportionment provisions she chooses to reduce her taxable income by $20,000 a year for the first four years, and the balance of $13,500 in the fifth year.

Simplifying 'part gifts' of property

Amendments announced by the Prime Minster and the Treasurer in March 1999 made it much simpler to receive appropriate recognition of gifts of property under the income tax gift provisions. Before the amendments, a deduction was only available for gifts of property that had been purchased in the previous twelve months. Now a deduction is available for the market value of donated property (as long as it is valued at $5,000 or more).

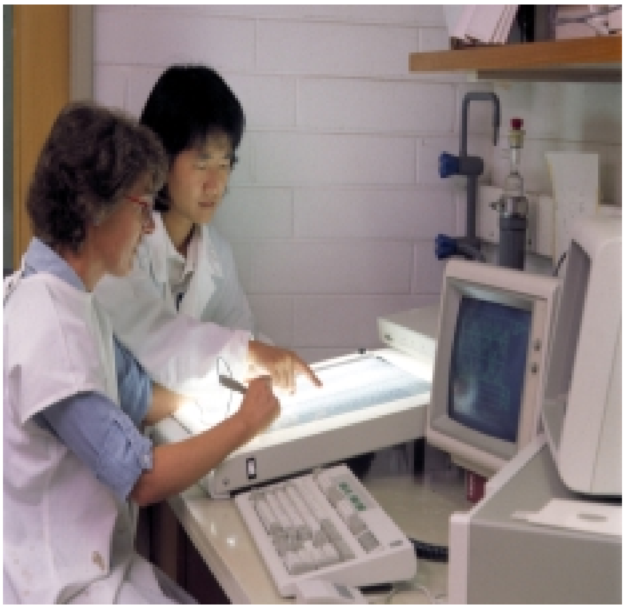
In many cases, however, individuals are not in a position to make an outright donation of a valuable item, particularly real estate. This is a particular problem when the item is itself valuable to the potential recipient organisation – as discussed above – and so selling the item and donating some share of the proceeds is not an appropriate solution. Individuals are also often interested in donating valuable items that have some special personal significance or emotional attachment. As recognised by the recent amendments, these personal factors may not be satisfied by selling the asset and donating the proceeds, and so opportunities for gifts may be lost.

This range of circumstances have been recognised overseas through the introduction of 'bargain sale' provisions.

> *Bargain sale provisions allow a donor to sell property to an eligible non-profit organisation at a discount, and have the discount recognised as a gift for tax purposes.*
>
> *Under existing Australian provisions the market value of the property would need to be established by the Australian Valuation Office, and the discount would need to be at least $5,000.*

Bargain sales are a simple and appropriate way of recognising philanthropic support, and are particularly important to those who are only able to make a 'part donation' of a larger item of property. The involvement of the Australian Valuation Office – part of the Australian Tax Office – would ensure that tax support is only provided for the gift component of the transfer, preventing any misuse of the provisions.

Bargain sales are wholly exempt from capital gains tax in the United Kingdom, and are both deductible and subject to concessional capital gains tax treatment in the United States. Other forms of 'part gifts' are also recognised overseas, such as the donation component of a ticket to a charity dinner (see Table Three above).



Bargain sales are an important fundraising tool. They also an effective tool for attracting strategic gifts, as discussed above. Bargain sales are the most effective gift-based mechanism for achieving conservation on private land in the United States, complementing the use of conservation covenants.

The incentive effect offered by bargain sales is enhanced by also ensuring that any capital gains tax liability is calculated with reference to the actual capital gain – that is, the gain associated with the sale price, rather than the market value (used to determine the implicit discount). Incentives can also be provided for donors to offer larger discounts by linking the amount of capital gains tax relief to the size of the discount provided.

Recommendation 3

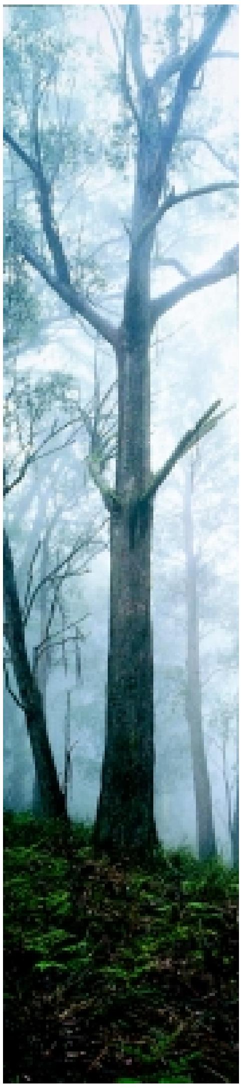
That the Government recognises philanthropic support offered through 'bargain sales' or 'part gifts' of property to eligible community organisations by at least recognising the discount provided as a gift for tax purposes.

This could be achieved, for example, by:

- allowing a deduction under the income tax gift provisions for the difference in the market value of the property, as determined by the Australian Valuation Office, and the sale price (or value of the consideration received), provided that (i) the sale price is $5,000 or more below the market value, and (ii) the purchasing organisation is eligible to receive tax deductible gifts; and

- providing relief of any capital gains tax on the transfer, up to the after-tax cost of the discount to the donor;[13] *or*

- calculating any taxable capital gain on the basis of the discounted sale price rather than the market value.



Box 4 – A bargain for the community

Rikki owns an undeveloped property near a major metropolitan centre. Changes to zoning mean that the land could now be subdivided as 'bush blocks' for residential development, and local land values have increased dramatically. The property is Rikki's main financial asset and she is not able to simply give it away, but she is worried that selling it to a developer would compromise its conservation values. A local conservation group suggests a bargain sale. The group will then put a conservation covenant of the property, protecting it for future generations.

If capital gains tax is calculated on the market value rather than the actual sale price, Rikki is simply able to claim the value of the discount as a tax deduction.

If, however, capital gains tax is calculated on the sale price and a deduction is allowed for the discount, Rikki is able to leverage her donation and – if she wants to – give a greater discount to the conservation group. Her accountant explains how it works:

	Normal Sale	Bargain Sale
Market value of property	350,000	350,000
Less discount (or gift)	-	**- 75,000**
Sale price	350,000	275,000
Less CGT (a) (b)	-59,900	- 41,710
Plus the value of the deduction for the gift (b)	-	36,375
Net sale proceeds	290,100	269,665
Net cost of the gift	na	**20,435**

(a) Calculated on realised capital gain associated with the discounted sale price, rather than the market value. (b) Assumes Rikki is on the highest marginal tax rate.

Another alternative – available in the United States and United Kingdom – is for the total transaction to be exempt from capital gain tax, providing greater leverage for strategic donations.

3 Recognising everyone's contribution

In recent years, the Commonwealth Government has undertaken significant tax reforms, with *A New Tax System* replacing the Wholesale Sales Tax system with a Goods and Services Tax (GST), reforming family payments, and providing a substantial reduction in the income tax paid by most Australians. These reforms lowered the marginal tax rate of the individuals with taxable incomes between $20,000 and $50,000 by up to 13 percentage points, a change benefiting more than four million taxpayers. The reforms also increased the earnings threshold for the top marginal tax rate to $60,000, benefiting around 500,000 taxpayers.[14]

Unfortunately, these tax reforms have unwittingly reduced the level of tax support for philanthropic gifts by most taxpayers. After tax reform, more than 80 percent of taxpayers enjoy a marginal tax rate of 30 per cent or less – compared to less than a third of taxpayers before the reforms. These taxpayers provide around two thirds of philanthropic gifts claimed. Only 15 percent of taxpayers, those with incomes of more than $60,000 a year, are able to access the highest level of tax support for gifts.

To quantify the overall loss of support, donors would have lost around $20 million in tax assistance if the new tax scale had been in place in 1998-99. With wage and income growth this figure would be noticeably higher today.[15]

The risk for Australia is that these reforms – although welcome and valuable – may have some unforseen negative impacts on the strength of our civic culture and the breadth of participation in supporting community organisations.

A strong civic culture needs a broad base, involving people across all ages and income levels.

"charitable giving is important for all the people … not just the wealthy. Everybody ought to be encouraged to give"

George W. Bush
April 2002

The unforseen problems posed by income tax cuts are symptoms of the way the current gift provisions give unequal support to donors with different levels of income. These differences arise because philanthropic gifts are recognised by providing a tax deduction, and so the level of support to the donor for a particular donation depends on their marginal tax rate, as illustrated in Table 4. Providing a rebate would address this problem, as rebates work by reducing individual's tax liability rather than their taxable income.

Table 4 – Tax Support Provided by Deductions and Rebates

	Income tax bracket	
	Lowest	Highest
Income before gift - for example	$15,000	$65,000
Marginal tax rate *(including Medicare levy)*	18.5%	48.5%
Value of gift	1,000	1,000
Deduction		
Tax support provided	$ 185	$ 485
Net cost of the gift to the donor	**$ 815**	**$ 515**
Rebate (50c)		
Tax support provided	$ 500	$ 500
Net cost of the gift to the donor	**$ 500**	**$ 500**

Source: The Allen Consulting Group

For this reason Canadian federal and state income tax systems have moved from a tax deduction to rebate. The Canadian approach uses a two tier rebate that provides an equal reward for gifts by all donors, regardless of their tax bracket, and encourages higher levels of giving by providing higher rebate for gifts totalling above $250 (around $295 Australian) in a year.

Table 5, below, demonstrates that introducing a rebate would be of greatest benefit to those on lower incomes, making the tax system more progressive. The table is calculated for a 50 cent rebate, slightly above the top marginal tax rate (including the medicare levy), but the general principle would hold true for any level of rebate that replaces the current deduction system.

Table 5 – Additional support provided by 50c rebate by taxpayer income bracket

Income bracket	Share of donors claiming gifts		Share of total gain from 50c rebate	
	By income bracket	*Cumulative total*	*By income bracket*	*Cumulative total*
6,000 – 19,999	14%	14%	23%	23%
20,000 – 29,999	14%	29%	14%	36%
30,000 – 49,999	45%	74%	53%	90%
50,000 – 59,999	10%	83%	6%	95%
60,000 or more	17%	100%	5%	100%
Total	**100%**		**100%**	

Source: Calculated by The Allen Consulting Group, based on Australian Taxation Office, 2001, *Taxation Statistics 1998-99* . (See also Table 2.)

Recommendation 4

That the Government gives equal recognition to the contribution of all citizens by providing all tax payers the same level of benefit from making a gift.

This could be achieved, for example, by:

- providing an income tax rebate in place of the current income tax deduction, so that all taxpayers enjoy the same tax benefit from making a donation, with the rebate set no lower than the top marginal tax rate (including the medicare levy), such as 50 cents in the dollar.

4 Encouraging public good activities

The current gift provisions recognise donations of trading stock, but do not extend to recognition of public good activities more generally. Fortunately this does not impact, for example, on donations and in-kind support provided by businesses, which are able to deduct the cost of these items as part of normal business costs.

However, the current provisions do present problems for non-business taxpayers who wish to undertake public good activities. While this issue is a general one, the most pronounced impacts appear to be on land managers who incur expenses in managing land subject to a conservation covenant, and on individuals and businesses who suffer a loss of income by supporting public good research.

Many of our most vulnerable communities of native plants and animals are found on private land within our agricultural heartlands and close to our cities… Traditional approaches to public conservation through National Parks will not work in these regions… Conservation has to be transformed from one of the highest taxed land-uses in Australia to a land use that enjoys taxation treatment commensurate with the public benefits associated with our natural heritage.

Philanthropy: Sustaining the Land, 1999

Encouraging private conservation

In August 2001, the Government announced changes to the capital gains treatment and gift deduction provisions for perpetual conservation covenants. These changes allow for:

- an income tax deduction in respect of any decrease in the value of land associated with the creation and gift of a conservation covenant to a organisation that is a 'deductible gift recipient'; and
- recognition of the value of the underlying land in calculating capital gains tax in relation to the sale of a conservation covenant (redressing the previous treatment which penalised covenants by taxing the transaction even where there was no genuine capital gain).

These changes are valuable and welcome, yet a number of impediments to private conservation remain.

Assistance with conservation management costs

One significant impediment to private conservation is that the tax system does not provide any recognition or support for the ongoing management costs associated with conservation covenants. These costs represent a significant barrier to achieving public good conservation on private land.

For this reason the House of Representatives Standing Committee on Environment and Heritage recently called on the

There is an urgent need to build a conservation system that protects the full range of species and ecosystems. As such, unlocking more doors to increas corporate and community giving to charities has never been more pressing. Australians give far less per person than people in Canada, Unitied Kingdom and the United States: a major factor is the lack of adequate tax support to suport giving. This report provides the keys to enable governments to act to fully engage the community in conservation philanthropy.

Dr David Butcher, Chief Executive Officer, WWF Australia

Government to build on the August 2001 initiatives noted above, recommending that the Government:

> "provide tax concessions in respect of management costs to landholders who are required to or who voluntarily reserve land of conservation value for public good conservation reasons by placing a covenant on the land" [16]

Provision of such assistance would recognise the public good nature of these expenditures, and make it easier to negotiate covenants and conservation management agreement over land with high conservation values.

A simple mechanism for achieving this would be to treat conservation-related land management costs to be gifts to the organisation holding the conservation covenant or agreement. This would automatically imit any tax support to land with a formal conservation arrangement, and to activities that are consistent with that covenant. (This approach assumes the organisation has deductible gift recipient status for the purpose of receiving covenants, as discussed below).

An associated issue is the treatment of payments made to non-business landholders for undertaking conservation activities. These payments are generally considered to contribute to a landholder's taxable income. Where such payments effectively reimburse landholders for management expenses, it would be simpler to simply exclude these payments from taxable income, as long as the associated expenses are not claimed for tax purposes.

Recommendations 5 and 6

That the Government provide an income tax deduction or rebate for management costs incurred in relation to land subject to a conservation covenant or a binding conservation management agreement.

That the Government exclude payments for conservation activities from taxable income where associated costs are not claimed.

Preferred mechanisms for achieving these objectives include:

- recognising or deeming the management costs related to conservation land to be a gift to the organisation holding the conservation covenant or agreement, and thus allowing an income tax deduction under the gift provisions where this organisation is a tax deductible gift recipient;
- allowing taxpayers to elect to use a 'deemed cost option' based on a simple formula or per hectare allowance for different types of land and vegetation; and
- excluding payments for conservation activities from taxable income where (i) associated conservation management costs are not claimed, and (ii) the land to which the payments relate is not used to produce income, including operation of a 'conservation business'.

An alternative (and more complex) mechanism would be to allowing an income tax deduction or rebate for actual or deemed expenses in relation to non-income producing land under specific separate provisions.

Status of government agencies

An important technical difficulty with the August 2001 tax measures is that most of the agencies mandated under State and Territory law to receive covenants are not eligible to be deductible gift recipients under current Commonwealth tax law. This is because the agencies are not independent organisations that are separate from the Crown. As a result, landowners in most jurisdictions are not able to take advantage of the new provisions.

- In New South Wales, for example, covenants may be made as a Registered Property Agreement with the Department of Land and Water Conservation under the *Native Vegetation Conservation Act 1997*, or as a Voluntary Conservation Agreement with the NSW National Parks and Wildlife Service under the *National Parks and Wildlife Act 1974*. Neither of these bodies is eligible to be a deductible gift recipient.

- In Tasmania, covenants are undertaken as part of the Protected Areas on Private Land Program run by the Department of Primary Industries, Water and Environment under the *Parks and Wildlife Act 1970*. Again, donors of covenants are not able to receive a deduction for the value of the covenant because of the status of the receiving organisation.

Similar issues arise in relation to gifts of land with high conservation value that might be given to government agencies for inclusion in the public reserve system, such as a national or state park, metropolitan park, wilderness area, or other reserve.

Recommendation 7

That the Government act urgently to ensure tax support is available for all covenants and conservation gifts, including those made with Government agencies.

This could be achieved, for example, by:

- deeming all recognised covenanting agencies to be deductible gift recipients for the purposes of (i) receiving covenants and other binding conservation agreements, (ii) receiving gifts of land for inclusion in the public reserve system, and (iii) allowing a tax deduction or rebate in respect of management costs incurred in relation to a covenant or conservation agreement.

This implementation measure should have the same date of effect as the measures announced in August 2001.

Public good research which yields long term solutions for the sustainable use of land and water resources requires landholder support and engagement. At the moment there is very little financial recognition for such on-farm support for research, which thus must depend on the altruism and goodwill of the farming community.

John Williams, Chief CSIRO Land and Water

Recognising contributions to public good research

Effective research into many issues of national significance relies on the assistance and cooperation of community members, such as where land managers allow the use of their land for research into environmentally-threatening processes, and potential solutions. This might involve, for example, the use of plots for field work, with varying degrees of disturbance to normal farming and land management practices. This research is vital to our community, but often offers little or no direct return to those who support it.

The need to improve knowledge of Australia's biophysical systems and processes is urgent, particularly in relation to the interactions between natural processes and agricultural systems. Australia faces very significant problems of environmental degradation and resource decline, including threats such as salinity, loss of biodiversity and habitats, soil degradation, water pollution and riverine degradation. These are clear warning signs that these problems will, if left unaddressed, touch all Australians.

As noted above, the tax system already effectively recognises out-of-pocket expenses and support for such public good activities.

Current tax provisions do not, however, recognise the costs associated with the forgone use of assets, such as land or machinery, which are made available for use by bodies with deductible gift recipient status. Given the importance of this public good research – and the critical role of landowner assistance – it would be valuable for the tax system to signal its social value by allowing appropriate deductions for these forms of contributions.

Recommendation 8

That the Government allow tax deductions for specific types of in-kind support for public good research, including the use of land or other assets for research purposes.

This could be achieved, for example, through:

- allowing deductions under the gift provisions for the market value of the use of assets (such as market rent for land or machinery) for the period of the research, so long as the research body is a tax deductible gift recipient organisation.

Developing sustainable commercial land uses

An associated issue is that there are a range of significant impediments to developing the new commercially viable land uses and industries required to achieve a landscape scale transition to sustainable resource use.[17]

Initial research and analysis suggests that these problems may, in part, reflect a mismatch between the current public support research and development and the particular needs of emerging renewable resource based industries.

These issues will be explored in more detail in the process of developing the third discussion paper in this series (see page two).

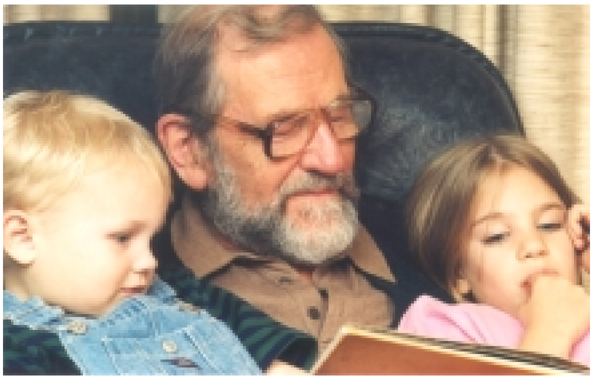
5 Unlocking resources for new partnerships and social enterprises

Social entrepreneurs are leaders committed to transforming their communities by using innovative and dynamic approaches and working in alliances across the public, private, and not-for-profit sectors. … They combine vision and creativity with the ability to focus on the concrete and practical steps needed to bring about changes in society.

McClure Report, 2000[18]

Recent years have seen the emergence of a new breed of social entrepreneur. In the United Kingdom, non-profit groups are issuing 'community bonds' to fund development projects that create local employment and provide assets of lasting social value, such as community housing or public facilities. In the United States, grassroots innovators are developing integrated community service programs that, for example, provide training and job search assistance, mentoring, and develop improved community facilities.[19]

Similar approaches and partnerships are emerging in Australia, many of which have been highlighted by the Prime Minister's Community Business Partnerships and the associated Awards for Excellence. The Playford Partnership,[20] for example, brings together Mission Australia, Anglicare South Australia, the City of Playford and two South Australian government agencies to:



- improve local housing and infrastructure;
- create education and employment opportunities; and
- strengthen families and communities.

Other opportunities have grown out of the new partnership approaches to delivering Government initiatives, such as JobNetwork, Work for the Dole, and aspects of the Natural Heritage Trust. Even among our leading examples, however, most partnerships have not been able generate the funds required to invest in community facilities or other assets, rather than delivering services. One or two outstanding projects have managed to use a philanthropic 'anchor' to leverage other community and government resources. Visy Industries, for example, supported a public fundraising effort that raised $400,000 towards a co-located youth centre, that was then able to attract $600,000 in state and local government funding.[21] Individual and corporate philanthropists with these levels of capacity and commitment are rare, however.

… while the [community sector] market is beginning to demonstrate resourcefulness and skill in leveraging new money, unmet needs continue to outstrip available resources

UK Social Investment Taskforce, 2000

Australian organisations are not alone in facing this constraint, as indicated by a groundbreaking report on building 'enterprising communities' in the United Kingdom, which found the following:

> "… while the [community sector] market is beginning to demonstrate resourcefulness and skill in leveraging new money, unmet needs continue to outstrip available resources. Access to funding is limited because, to date, Community Development Financial Institutions (CDFIs) have only been able to seek grants and low or zero return capital. This means that private sector companies and individuals take investment in CDFIs out of their

> 'charitable giving' or 'public relations' budgets. This is a very limited pool. To expand the pool of investors willing to invest in the sector, there is a need for Government incentives to bring returns closer to market rates. The clearest way to do this is through tax credits."[22]

This report, by the Social Investment Task Force, recommended the introduction of a 'community investment tax credit' and a number of other measures. The report and the tax credit proposal was warmly welcomed by UK Chancellor of the Exchequer, Gordon Brown, who said:

> "I believe this proposal has the potential to unlock significant new flows of private investment where it is needed most – in our most disadvantaged communities."[23]

Following public consultations the UK Government has announced that it is going ahead with this new tax credit, publishing draft legislation in March 2002. Under this initiative, accredited community development finance institutions (CDFIs) will apply for a share of a government nominated pool of tax credits, which CDFIs will pass through to individual investors in the form of a 'tax relief certificate'. This reduces the income tax liability of investors by up to five percent of the capital sum invested each year for five years. Investments must be arms length and are subject to a number of anti-avoidance provisions, including accreditation of CDFIs. The budget impact of the credit is controlled through the application process, which effectively allocates the available tax assistance through a competitive assessment of the merits of different proposals.[24]

This approach to leveraging private investment through tax concessions is a well established policy tool for responding to economic issues, such as funding major infrastructure projects and encouraging research and development. It has also been proposed in relationship to leveraging investment in sustainable resource use and urban renewal in Australia.[25] The UK community tax credit leverages four dollars of investment for every dollar of revenue forgone, and provides investors with a competitive rate of return. Higher leverage are quite possible.

These and related policy initiatives offer tremendous potential to address the challenges of the new century, helping to build stronger communities and foster new community business partnerships.

Recommendation 9

That the Government explore options for providing tax support for funds invested in social enterprises and other 'public good activities', with particular attention to the community investment tax credit announced by the UK Government.

More information

This paper was commissioned by the *Steering Group on Incentives for Private Conservation*: a coalition of Australian Bush Heritage Fund, Greening Australia and Trust for Nature (Victoria).

www.bushheritage.org

www.greeningaustralia.org.au

www.tfn.org.au

The full and summary reports are available electronically from:

http://www.allenconsult.com.au/publications_research.php

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Endnotes

1 Charity Definition Inquiry, 2001, *Report of the Inquiry into the Definition of Charities and Related Organisations*, Commonwealth of Australia, p.51

2 CCH, 2001, Australian Master Tax Guide 2001, 32nd edition, CCH Australia, Syndey.

3 Charity Definition Inquiry, 2001, *Report of the Inquiry into the Definition of Charities and Related Organisations*, Commonwealth of Australia, pp.43-48

4 Deductions claimed are larger than the revenue cost because tax payable is only a share of taxable income. For example, a person who earns around $40,000 per year and claims $200 under the gift provisions will result in around $60 in 'lost' tax revenue, as their marginal tax rate is 30 cents in the dollar.

5 "There is general agreement among researchers that people will give more when the cost of giving falls, but some studies estimate that the sensitivity of giving is low, while others find that giving is fairly responsive to such changes." J. Cordes, J. O'Hare and E. Steuerle, May 2000, 'Extending the Charitable Deduction to Nonitemizers: Policy Issues and Options', *Charting Civil Society* No.7, The Urban Institute, Washington DC, p.3. See also Industry Commission, 1995, *Charitable Organisations in Australia*, Report No.45, AGPS, Melbourne, and D. Joulfaian, 2001, 'Charitable Giving in Life and Death' in W.G. Gale, J.R. Hines Jr and J. Slemrod (eds), 2001, *Rethinking Estate and Gift Taxation*, Brookings Institution Press, Washington DC. It is also important to note that tax deductible gift recipient status is usually a precondition of attracting financial support from philanthropic trusts and foundations.

6 More generally, gifts claimed by taxpayers with incomes between $6,000 and $39,999 averaged 0.54 percent of donor's income in 1998-99, compared to 0.48 percent for donors with income of $40,000 or more. (Estimated by The Allen Consulting Group from ATO 2000 *Taxation Statistics 1998-99*.)

7 Fundraising as a share of GDP was 0.49 in Australia, 0.77 in Canada, 0.88 in UK, and 2.17 in the USA. Data for late 1980s, reported in Industry Commission, 1995, *Charitable Organisations in Australia*, Report No.45, AGPS, Melbourne.

8 HM Treasury, 2000, £400 Million a Year Boost for Charitable Giving, Press Release (http://www.hm-treasury.gov.uk/budget/budget_2000/press_notices/bud_bud00_pressrevcust3.cfm); Charities Aid Foundation (CAF), Inland Revenue and National Council of Volunteer Organisations (NCVO), July 2001, *Research Briefing: Charity Tax Review*, London (http;//www.cfaonline.org/research/giving_comes_of_age.cfm)

9 See Table 3. All provide effective exemption, or its equivalent, although the technical mechanism varies. Some special provisions apply, such as for gifts of artworks by the artist.

10 Bioregions and subregions are defined as part of a biogeographical framework for Australia and form the basis for the National Land and Water Audit's assessments of landscape health (2001) and biodiversity (2002). (See http://audit.ea.gov.au/)

11 Productivity Commission, 2001, *Harnessing Private Sector Conservation of Biodiversity*, Commission Research Paper, Ausinfo, Canberra

12 The capital gains tax treatment of living bequests depends on the detail of how the gift is structured, and the timing of the transfer of ownership. Transferring full title in the property would be likely to be considered a disposal for capital gains tax purposes, triggering a potential capital gains tax liability (unless gifts are exempt, such as under the measure proposed in Recommendation Three). This would reduce the value of the tax deduction to the donor. Alternatively a donor might give some form of binding right or option over the property that provides an enforceable material benefit to the recipient, but does not trigger a current capital gains tax liability on behalf of the donor. It is not clear whether the subsequent transfer of the underlying property by the donor's estate would be considered a testamentary gift, and thus be exempt from capital gains tax.

13 Note this formulation would prevent situations where a donor would gain financially from a bargain sale, as it prevents the capital gains tax relief being more valuable than the real cost of providing the discount.

14 Treasurer Peter Costello, August 1998, *Tax Reform – not a new tax, a new tax system: The Howard Government's Plan for a New Tax System*, Commonwealth of Australia; Prime Minister John Howard, 31 May 1999, *Changes to A New Tax System*, Press Release,

(http://www.pm.gov.au/news/media_releases/1999/changes3105.htm); Australian Taxation Office, 2001, *Taxation Statistics 1998-99*, Commonwealth of Australia (http://www.ato.gov.au/content.asp?doc=/content/corporate/taxstats9899.htm)

15 Calculated from data provided in ATO, 2001, *Taxation Statistics 1998-99.*

16 HoR SCEH, September 2001, *Public Good Conservation: Our challenge for the 21st Century*, Recommendation 7, p.152

17 See The Allen Consulting Group, August 2001, *Repairing the Country: Leveraging Private Investment*

18 Reference Group on Welfare Reform (McClure Report), 2000, *Participation Support for a More Equitable Society*, Final Report of the Reference Group on Welfare Reform, Department of Family and Community Services, Canberra.

19 Mission Australia, 2002, *There's something different about this place: local, national and global directions in community capacity building*. Mission Australia, Sydney; Jim Wallis, 1994, *The Soul of Politics: A practical and prophetic vision for change*, Fount, London; Social Investment Task Force, October 2000, *Enterprising Communities: Wealth Beyond Welfare*, UK Social Investment Forum, the New Economics Foundation and the Development Trusts Foundation

20 Mission Australia, 2002, p.8

21 Prime Minister's Community Business Partnership, December 2001, *Community Business*, p.2

22 Social Investment Task Force, 2000, p.15

23 HM Treasury, 1 March 2001, *New £1 Billion Tax Credit for Community Investment*, www.hm-treasury.gov.uk/Newsroom_and_Speeches/Press/2001/press_26-01

24 HM Treasury, March 2002, *Finance Bill 2002: Community Tax Credit – Commentary on Draft Legislation*, www.hm-treasury.gov.uk/consultations_and_legislation/finance-bill_2002/consult_f

25 See, for example, The Allen Consulting Group, August 2001, *Repairing the Country: Leveraging Private Investment*, and May 2002, *Recapitalising Australia's Cities: A Strategy in the National Interest* (www.allenconsult.com.au).

Photos courtesty of AngliCare Victoria, Australian Bush Heritage Fund, Australian National University, Greening Australia,The Nature Conservancy, USA, Trust for Nature (Victoria), and UnitingCare Victoria

The Government has agreed upon a … package of measures which demonstrates our commitment to encouraging philanthropy... That these measures come at a cost to government revenue is evidence of this...

In making these announcements I remain open to further representations about how the tax law interacts with incentives for philanthropy...

May the new initiatives I have announced tonight play an important role in forging a more robust philanthropic culture and tradition.

John Howard, Prime Minister,
March 1999

Our aim is to help build a vibrant and thriving voluntary sector, transforming the relationship between the individual, the community, and the state. The creation of a new partnership between individuals, communities and government is at the heart of recent government initiatives … But if voluntary and community groups are to play a full role in our society of the future … we need the voluntary sector to grow bigger, stronger and more confident. So we have been working to strengthen and empower the voluntary sector, with changes to the taxation of charities, and campaigns to build a culture of giving - of time as well as money

Paul Boateng, Financial Secretary
to the UK Treasury, July 2001

There is a role for the federal government in making sure that charitable organizations thrive and flourish. We must also promote more private sector giving, besides just words of encouragement. And so I want to make sure that the tax code is changed... It is a wise use of the tax code to encourage more charitable giving to programs that are positively affecting people's lives.

President George W. Bush,
November 2001

The expectation that the Government should solve all of our problems or can solve all of our problems is a big problem.

We need to remind ourselves that there is a whole sphere of life outside Government... This is the place of the shared experience and the voluntary commitment. This is the place of the community. This is the place of the volunteer.

I'm not talking exclusively about charity work here, although that is a special kind of volunteer activity. I'm talking about … the thousands of non-government voluntary organisations that bring people together in a shared experience and build relationships and form a network of joining together, and mutual support, and human contact..

In the midst of our substantial economic improvements we should not forget to celebrate and cultivate the role of the volunteer."

Peter Costello, Treasurer,
August 2001

As our social security systems developed, particularly in the post-war era, … many people would have said that the age of the charitable institution had passed. But we knew it hadn't. Because there was something different about the voluntary association. …

And so we have been learning that of course there is a role for government … but there always will be a role for the voluntary organisations that come in with that breakthrough work... … That is why over recent years our Government has determined to encourage business and community partnerships and to encourage a greater culture of corporate philanthropy here in Australia.

Peter Costello, Treasurer,

April 2002

The community sector in Australia, that complex web of non-profit organisations, viciv associations, community and church groups, makes a substantial and important contribution not only to the provision of services to people in need byt also to the quality of lif in Australian society. the communicty sector is a key component of social capital, the 'glue that keeps our society together'.

Adequate financial support is essential to the functioninglity of the sector. Apart from Government, the major source of funds is the generosity of fellow austrralians and contributions from the business and corporate world. The discussion paper from The Allen Consulting Group notes that Australian phlanthropy does not match that of the USA, Canada and the United Kingdom. Tax provisions are a key factor influencing philanthropy and this discussion paper is a timely and well argued case for new measres to encourage increased philanthropy and stronger support for the communicty sector in Austalia.

AngliCare Australia welomes this thoughful discussion paper and its practical recommendatins and hopes the federal government will give careful consideration to the recommendations for action.

Russell Rollason
Executive Officer, AngliCare Australia