



28 August 2008

Committee Secretary
Senate Economics Committee
Department of the Senate
PO Box 6100
Parliament House
Canberra ACT 2600

***Re: Senate Inquiry into the Disclosure regimes for charities
and not-for-profit organisations***

Thank you for the opportunity to make a submission to this Inquiry.

ACL endorses the important work undertaken by not-for-profit organisations in Australia. They provide important health, educational, religious, cultural and environmental services. They support the needy and protect the vulnerable.

Not-for-profit organisations are an essential element of Australia's social fabric and a necessary facet of a truly democratic society. We believe governments should do all they can to support the sector and, in particular, its charitable aims. Charity and philanthropy are values the government can and should promote.

Comments on regulatory reform

The terms of reference to the inquiry and its background paper seek suggestions for improving standards of transparency and accountability within the not-for-profit sector. ACL is supportive of initiatives to improve levels of transparency and accountability within the sector.

With increased levels of transparency and accountability Australians can feel assured their charitable donations reach their intended beneficiaries. If this leads to increased generosity we view reform in this area positively.

ACL suggests, however, that any regulatory reform must not detract from the work undertaken by the sector. A significant number of not-for-profit organisations do not have the bureaucracy to meet complex disclosure arrangements. Any additional regulatory burden would directly impact on the ability of entities to meet their aims.

We strongly urge, therefore, that any new regulatory arrangements should replace existing procedures, or, at the very least, simplify existing regulatory arrangements.

Any significant changes that occur must be matched with comprehensive education and training programs for the not-for-profit sector that are funded entirely by the

government. Any additional cost burden placed on the sector will impact adversely the ability of not-for-profit organisations to undertake their important work.

The value of charities is far greater than their opportunity 'cost' in terms of lost revenue

ACL notes that much of the debate about the not-for-profit sector in Australia is misleadingly framed in terms of how much the sector costs the government through lost taxation revenue. This conception seriously devalues the social endeavours undertaken by charitable organisations and reduces the debate to one of pure economics.

A more accurate assessment of the role of the sector takes into account how much it saves the government, both directly and indirectly in the provision of social services. There is a strong case for arguing that charities are able to provide such services more cost-effectively than governments, thus alleviating governments of a huge financial burden.

More and more Australians are turning to the charitable sector for help in a time of volatile economic conditions, with spiralling housing, grocery and petrol costs. The charitable sector is an important safety net for society's most needy and vulnerable. Government needs this safety net more than ever.

It is important to tread carefully to ensure that no regulatory change will impede the work of the sector, as the government must meet any decline in charitable services. The strict rules of the bureaucratic state are hardly a suitable replacement for the compassion of charities sought by those experiencing vulnerability and need.

The not-for-profit sector, therefore, is a necessary element of a healthy and equitable society. The government has a responsibility to ensure that those within the sector are supported in their important social service. It is to this end that ACL argues that churches and their charities must retain their tax-exempt status.

Commercial activities with a charitable purpose

ACL likewise contends that charities should retain their ability to undertake fundraising activities of a 'commercial' or 'entrepreneurial' nature with the benefit of tax concessions. The 2001 Committee of Inquiry into the Definition of Charities and Related Organisations reached a similar conclusion.

The current climate of fiscal restraint, increasing cost pressures and competition for donations, means that charities are employing more innovative ways in which to raise funds to meet their benevolent goals. We believe charities should retain tax exemptions on funds raised through their commercial ventures.

ACL notes that particular attention in recent debate about the not-for-profit sector has been paid to the principle of "competitive neutrality". The principle suggests that government business enterprises that run in direct competition to private business ought not enjoy tax and other regulatory advantages over private enterprise.

Some contend the principle of competitive neutrality should apply to the not-for-profit sector, but we would argue strongly otherwise. Tax concessions do not improve a company's competitiveness, as both private and charitable organisations spend resources to make a profit. The use of that surplus then attracts tax concessions or rebates if it is spent with a charitable purpose, in both cases.

Where the surplus of a commercial enterprise is primarily intended for meeting the central charitable aims of a not-for-profit organisation, we believe it should retain tax exemption. To remove this assistance from the not-for-profit sector is to devalue its important work and will inevitably mean a shift in charitable responsibilities to the government, which we have already argued is a less than ideal outcome.

Conclusion

In summary, ACL would like to highlight the following key points of its submission to the inquiry into disclosure regimes for charities and not-for-profit organisations:

- Churches and their charities should retain their tax-exempt status given their important work with the vulnerable and needy of the community;
- ACL supports efforts to improve standards of transparency and accountability;
- Any regulatory changes should be within the scope of, or simplify, existing arrangements and not increase regulatory burden and associated costs;
- Charities should be free to undertake business-like activities to raise funds with the assistance of tax relief so long as those funds are primarily allocated to the central charitable aims of the organisation;
- Any regulatory changes should support and nurture the important role of charities in Australian society.

Any proposals to meet demands for improved transparency and accountability must not distract the sector from its charitable aims, nor undermine its role in Australian society. It is particularly important that government sends a clear message to the not-for-profit and charitable sector that it is supportive of its work, the values it upholds, and the importance of its social endeavours.

I hope this information is useful to the Committee.

Yours sincerely



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