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Philanthropy Inquiry
Productivity Commission
GPO Box 1428
CANBERRA CITY ACT 2601

Impact of current DGR rules on Community Foundations

Community Foundations form a vital part of the philanthropic sector in Australia, and embody a unique set of characteristics:

- CFs' sole focus is on providing benefits to their local communities.
- CFs are community-based organisations managed by local people.
- Their PuAF structure (DGR 2) allows donors to receive a tax deduction at time of donation, knowing the funds will be invested and used exclusively for the benefit of local communities.
- Unlike "fundraise and spend" charities, CFs generally invest a corpus of funds in perpetuity. The earnings on these funds are used to provide ongoing benefits to the community year after year.

The Eyre Peninsula Community Foundation was established in 2004, and covers a very large area in South Australia – from Whyalla, 200 km south to Port Lincoln and 1,000 km west to the Western Australia border. Fewer than 60,000 people are spread out across that area, with just two towns having a population over 5,000. Eleven LGAs and part of SA's Unincorporated Areas are covered. All EPCF Board members are volunteers.

There are two aspects of the current DGR rules which impact on the EPCF's ability to maximise its effectiveness:

- the limitations imposed by the use of DGR 2 status;
- the very restrictive "responsible persons" requirements imposed under the Tax Act.

Both are discussed in detail below.

Limitations of DGR 2 status

The EPCF, like many CFs, has found that very few small local rural community groups have DGR 1 status. This means that we need to either use non-deductible funds or pay a percentage to DGR 1s (like FRRR) to pass the funds through. This has two consequences:

- we tend to encourage non-deductible donations, which is self-defeating when you can't promote deductibility as a donor benefit;
- making arrangements for passing funds through an external DGR 1 takes considerable volunteer time and paperwork.

The other issue with CFs having DGR 2 (as PuAFs) is that the few locals with significant wealth generally have PAFs, and PAFs cannot give to PuAFs so that a significant avenue of potential funding is closed. It should be noted that allowing PAFs to give to CFs would have zero impact on the government's budget, as a tax deduction had already been taken when the funds were given to the PAF.

These issues would be eliminated if CFs were given DGR 1 status. We believe this is currently being worked through the system by Treasury, which is excellent, but in case that process falters we thought it best to highlight the situation in this submission.

Responsible Persons requirement

Rural CFs (and other DGR organisations) such as the EPCF often have great difficulty in complying with the Tax Act requirement for a majority of Responsible Persons (as defined in the Act) on the Board. Meeting this requirement is a lot easier in cities, where a much larger population base is available to draw on. In rural areas it is always an issue to populate Boards with a majority of those who qualify.

The list of automatically-compliant people is heavily skewed towards professional people in full-time employment. Those few who do qualify are usually time poor and/or are already involved with multiple community groups.

It does seem strange also that people who may have worked in a position such as accountant or teacher for many years, suddenly lose “responsible” status when they stop work (and in the case of accountants, relinquish their expensive professional body membership).

The outcome of all this is that organisations need to put time and energy into succession planning which is skewed to Responsible Person status, at the expense of potentially more valuable candidates who may bring much-needed skills to the Board but do not tick the Tax Act’s boxes.

Peter Knife
Director and Co-Treasurer
On behalf of the EPCF Board