

Productivity Commission Philanthropy Inquiry

Submission from Fairer Future - <https://fairerfuture.au/>

As a signatory to the Universal Declaration of Human Rights government in Australia has the responsibility to provide for all to live lives of dignity. No-one should, though many do, need charity for this. Government can and must fix this. In the meantime, our charity system is not working to facilitate philanthropy being directed to the greatest needs. A system where one dollar given to a privileged private school or elite sporting club is subsidised just the same as one dollar given to homelessness relief or to lift people out of poverty in the developing world isn't capable of this – it needs change.

People in some nations are more philanthropic than in others – that is, they give more money away.

This isn't just about who is most generous. It's a matter of the role of governments. For instance, while American citizens [donate](#) a lot more money than Swedes, citizens of Sweden pay much more tax on average than Americans.

In this comparison, rather than donating directly themselves, Swedish citizens vote for an approach to government that results in the same thing – their money going to help the less fortunate and build a better society. In the United States, and many other places, giving directly to support these things is more common.

The deeper difference is what 'needs' financial support in the community is determined collectively in Sweden and individually in the United States.

This is not superficial – especially when one of these approaches doesn't seem to work very well.

A collective system lowers transaction costs, reduces the incentive for charities to spend on marketing themselves, and provides government resources to ensure the charities that benefit from the community's donations are achieving their goals.

An individual system has none of these strengths. While its advocates can say that people should have a right to directly choose who benefits from their money, they cannot hide from its weaknesses.

Australia's system is a funny mix of both. Individual donors elect to donate to a charity, but the government then uses collective funds to subsidise that choice by forgoing revenue on it. This is because all donations to designated charities in Australia are 'tax-deductible', meaning that any income an Australian earns, but then donates, is not counted as part of their taxable income, lowering their overall tax rate burden.

As long as it does not substitute for government meeting its obligations, Minister Leigh's plan to [double](#) giving in Australia by 2030 is fine. Australia, one of the world's wealthiest countries, has about three million live below the poverty line and government must increase support to tackle this. We also need to meet our obligations on international development and lift official development

assistance from .2% of GDP to at least .7%. In large measure governments are better suited than private charities to tackle many, especially systemic, issues.

However, citizens, of their own volition, getting together to improve their community is crucial to a healthy society. And civil society groups very often can lead the way on the most effective methods and are better suited to helping communities directly and engaging with those in need than government agencies and for-profit organisations. So, either supporting them adequately by government funding or increasing philanthropy is critical.

At least as important is ensuring charities and civil society organisations in general may freely lobby for better public policy and programs on, for example, social welfare, international development and environment protection.

While most in the [sector](#) are involved in education and [religious](#) activities, it's important to note the supplementary role some charities play when it comes to relieving poverty.

Ensuring charities keep playing this supplementary role, and enabling them to lobby to do so better, solves a number of problems with charitable giving. It encourages citizens to contribute to their communities, while those in poverty are still entitled to the government support they need.

However, Australia's tax-deductible donation system needs a rethink. As it stands, every deductible dollar is worth the same. This means that when a dollar is donated to a wealthy private school to construct a luxurious building, the taxpayer subsidises it just as much as a donation to a charity doing crucial work with those living rough.

Under this system, any charity, no matter its specific values and goals, and whether they reflect the majority of the Australian community, is subsidised – just as long as it can qualify for tax-deductible status

For one, this system means that Australians support international development in two capacities – as taxpayers directly via the government, and as donors.

But only eight per cent of charities [provide](#) aid to people outside Australia. Reforming Australia's system could help it better assist developing countries, where, as Australian philosopher, Peter Singer, convincingly shows in his book "The Life You Can Save" a donated dollar can go much further when it comes to improving lives.

If the government does achieve its plan to double giving, it must consider that the current system is not always sending resources to where they are most needed. As it stands, the giving system is uncoordinated and blind to genuine public need – the personal preferences of donors entirely direct government subsidies. As already stated, charities play roles the government cannot, especially when it comes to building communities, and they need support, but nobody could fairly say every charity is of exactly equal value.

Definition of Charitable Purpose

Some causes that may receive tax deductible donations seem very unlikely to pass the "pub test". While the [Charities Act 2013](#) seems sound the way it has been interpreted is questionable. On their face the following purposes in Section 7 and the list in Section 12 of the Act seem unexceptionable:

- (a) the purpose of preventing and relieving sickness, disease or human suffering;*
- (b) the purpose of advancing education;*
- (c) the purpose of relieving the poverty, distress or disadvantage of individuals or families;*
- (d) the purpose of caring for and supporting:
 - (i) the aged; or*
 - (ii) individuals with disabilities;**
- (e) the purpose of advancing religion.*

However, there seem to be instances where any benefit deriving from a tax-deductible donation is only available to privileged citizens. Examples include donations to wealthy private schools, to sporting clubs with membership fees out of the reach of ordinary citizens and to any cultural organisations the activities of which are all highly priced. Any argument that our community in general or humanity at large indirectly benefits from such enterprises is very doubtful.

The education of the population in general is more likely to be reduced by the private schooling. It achieves no better results when correction is made for socio-economic status, and removing privileged students from the public system has significant detrimental effects on the students in the latter. It is hard to see how “advancing education” for the nation is achieved with donations to private schools especially when in some cases they seem to have been used simply to add to privileges. At the very least donations should be restricted to purposes that genuinely contribute to education in general or to assist the underprivileged, for example as bursaries.

The ideals of the [Australian Sports Foundation](#) are unquestionable as are most of its projects. Some though allow tax deductible support [for clubs](#) that are way beyond the reach of people of ordinary means let alone those on low incomes. Neither do they seem justified on the basis that they are providing an indirect benefit to the community in general in terms of advancing elite sport. Rather in some cases it appears that club members may make tax deductible donations to improve facilities from which mainly they will benefit.

Clearly there are cultural activities that many would regard as “highbrow” and for which many would question the appropriateness of ordinary taxpayer support. A system that would be widely acceptable for determining what culture should receive the support of taxpayers and what should not is a pipe dream. What should be possible is a requirement that any cultural organisation that is to get such support take reasonable steps to make its activities accessible to all.

The Commission should consider whether a general test for receipt of tax-deductible donations should be that the least privileged are not excluded from benefit.

Transparency

Every citizen has a clear financial interest in charities with DGR status as every dollar of revenue forgone in a tax deduction is a dollar that could have been allocated by collective decision to a purpose democratically determined. DGR status should be determined in some form of public process. A proposal to award DGR status could be publicised on the ATO website and submissions invited to inform the decision.

Decisions on recipients of tax-deductible donations is effectively outsourced in the case of the Australian Sports Foundation and there might be other cases. Similar transparency requirements should apply.

The Commission should consider ways that DGR decisions could be made transparent and means for public input.

Inequality of donors

Under our system a dollar donated by a low-income donor is not the same as one donated by a high-income donor. The former might be supported by taxpayers at 30% while the latter might be supported at 45%. Under a system in which there is no tax deduction but rather all donations are matched by government every donor's dollar would be worth the same. Theoretically the income to charities would be the same. With no tax deduction donors would donate commensurately less, but the matching government grants would make up the difference. In practice this might result in higher income people donating less, but the dollar for dollar matching of donations of lower income people might offset this. The effect on revenue forgone could be neutral.

The Commission should consider the feasibility of options for a fairer donation system.

Collective altruism

A model to leverage collective altruism operates in the US. The "President's Emergency Plan for AIDS Relief (PEPFAR), has had a big impact on the treatment for HIV/AIDS. According to the [US State Department](#) it has saved 21 million lives. There are many global and regional emergencies an Australian government could use such a model to tackle.

pick a few and run PEPFAR style programs under the principles articulated in your paper.
The Commission should consider the potential of collective altruism programs such as the US President's Emergency Plan for AIDS Relief.

(Much of this submission is drawn from an [article](#) published in the Australian National University's Policy Forum)

About Fairer Future

Fairer Future is the operating name for the Foundation for Effective Markets and Governance, a for-purpose, not for profit ACNC registered organisation. It engages in advocacy, research and development consultancy to improve governance and markets nationally and globally so as to work effectively and sustainably to meet the needs and wants of all people fairly and fairly across generations.

Its members have backgrounds in governance and accountability, consumer and competition policy and regulation and other areas of public policy and administration and delivery of technical

assistance in developing countries. Amongst the members are academics specialising in regulation, former officials of the Australian Competition and Consumer Commission and Office of the Commonwealth Ombudsman and former senior officers of other government agencies and people with civil society organisation leadership experience.