

Productivity Commission

Review of Philanthropy

Submission by Alexandra Dimos



**ACCELERATING CHARITABLE GIVING
THROUGH
CAPITAL GAINS TAX REFORM
ON
LISTED EQUITIES**



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We also acknowledge Donald K Johnson, O.C., LL.D who started the campaign in Canada in 1996.


NUNN DIMOS FOUNDATION
LUCRAT LUX VESTRA



1.0 INTRODUCTION



Thank you for the opportunity to comment on the Productivity Commission's inquiry into philanthropy.

Accelerating charitable giving through capital gains tax reform on listed equities will:

- Help to strengthen not-for-profits to deliver positive impact to our communities.
- Encourages individuals to give.
- Provides a simple and proven measure that will increase philanthropic giving that immediately and effectively addresses the Government's commitment to a Strategy to Double Giving by 2030.

Accelerating Charitable Giving Through
CAPITAL GAINS TAX Reform on **LISTED EQUITIES**

2.0 ABOUT THIS PROPOSAL



Unlike countries with a similar tax regime to Australia, (UK, Canada) there is no relief from capital gains tax (CGT) on the donation of listed equities to eligible charities, by an individual whilst alive.

This submission evaluates the merits of accelerating charitable giving in Australia through CGT reform on the donation of listed equities to registered charities.

For donations to eligible charities (known as Deductible Gift Recipients or DGRs), a tax deduction is available to the donor, equal to the market value of the donation – whether it be cash, or a donation of shares or property.

For gifts of shares or property, donors must pay CGT* on any gain.

In Australia, the only time CGT does not apply** is when a gift of shares or property is made to a charity from an estate***.



FIGURE
Current situation in Australia, of a donor gifting listed equities to a charity

We believe that this exemption should be extended to exclude all gains from CGT when listed shares are gifted to a DGR and not just when made as part of a distribution from an estate.

NOTES

*. equal to the difference between the market value of the shares or property gifted, and the cost price (less a 50% discount if the shares or property are held for more than 12 months).

** . CGT does not apply on the gifting of art, through The Australian Cultural Gift Program

***. Section 118-60 of the Income Tax Assessment Act 1997 (Cth) (ITAA 97) specifically excludes an estate from paying tax on capital gains on donations to a DGR.

3.0 BRIEF BACKGROUND



1996

In Canada, the campaign to remove CGT from the donation of listed equities was initiated by Don Johnston, in 1996.

1997

The Federal Government first recognised the importance of this measure in 1997 by reducing the CGT on donations of listed securities by 50% on a five-year trial basis.

The measure was originally enacted on a temporary basis, set to expire after five years, with extension to depend on whether the measure was found to have increased donations overall and whether the additional donations were distributed fairly among charities.

2001

Budget 2001, announced that the measure had met these objectives, and the one-half inclusion rate was made permanent.

2006

In 2006, the Federal Government removed the remaining CGT on gifts of listed securities, effectively doubling the tax incentive of this measure.

2007

In Australia, a tax incentive was introduced for the Donation of Property. The deduction is equal to the market value of the donation, whether it is cash, donation of shares or property. Unlike Canada (and the UK) CGT is payable by the donor.

4.0

WHY THIS PROPOSAL IS GOOD PUBLIC POLICY

LISTED EQUITIES OPPORTUNITY



Almost half of Australians (46%), an estimated 9.9 million people, hold investments outside of their home and super.

Of those who invest, 74% or 6.6 million people hold listed investments (or 35% of 9.9 m).

The estimated market value of these listed investments is estimated to be around \$2.5 trillion.

If 1% of the value of these investments is activated, through this proposal, the charity sector could receive up to \$25 billion.

With many Australians investing in the share market, this proposals will incentivise many more Australians to give and not only the wealthy, whilst they are alive.



FIGURE How Australians Invest Source: ASX Australian Investor Study 2020

Accelerating Charitable Giving Through CAPITAL GAINS TAX Reform on LISTED EQUITIES

4.0

WHY THIS PROPOSAL IS GOOD PUBLIC POLICY

CAPITAL ASSETT OPPORTUNITY



The argument to eliminate CGT is focused on removing the cost and psychological impediment of CGT on the donation.

The cost of CGT prevents donors from giving capital property because they see it as paying taxes to donate even though the capital gains would be offset by the credit or deduction.

This is particularly relevant with our ageing population who have owned parcel of shares for a long period of time and the shares are likely to have gained significant gains.

John has donated shares with a market value at the date of donation of \$10,000 to a charity listed on the DGR register.

He purchased the shares 4 years ago for \$2,000.

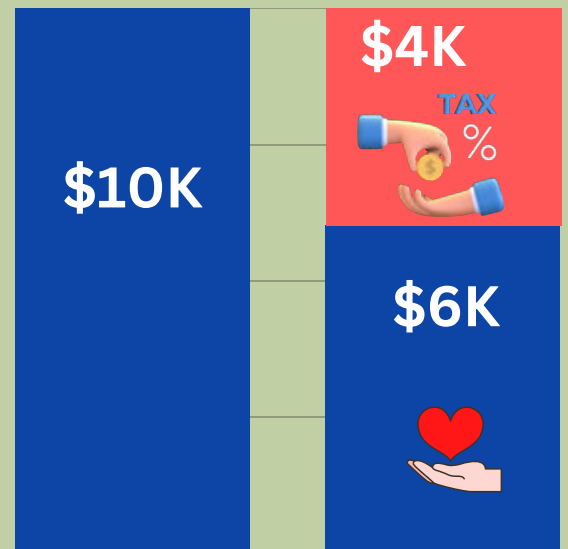
The capital gain on the disposal of shares is calculated as follows: $\$10,000 - \$2,000 = \$8,000$

Since John has held the shares for 4 years, he would be eligible for the 50% CGT discount which would further reduce the capital gain amount to \$4,000.

John would then include a deduction of \$10,000 in his tax return for a donation and a capital gain of \$4,000. The net effect is a deduction of \$6,000.

That is. the charity is likely to receive only \$6,000 of the \$10,000 gifted.

Under our proposal, the charity is more likely to receive the full \$10,000 donation.



EXAMPLE OF THE TAX LIABILITY TO THE DONOR ON THE GIFTING OF LISTED EQUITIES TO A CHARITY

4.0 WHY THIS PROPOSAL IS GOOD PUBLIC POLICY



AGEING POPULATION

Australia is expecting an unprecedented transfer of intergenerational wealth to be passed from baby boomers to their children in the next two decades.

A transfer that will earn little or no revenue for the Government, because these intergenerational wealth transfers are not subject to tax.

If we incentivise and make it easier for the many Australians (6.6 million) who own shares, to donate this asset, whilst they are alive, it would be a transformational shift in charitable giving.

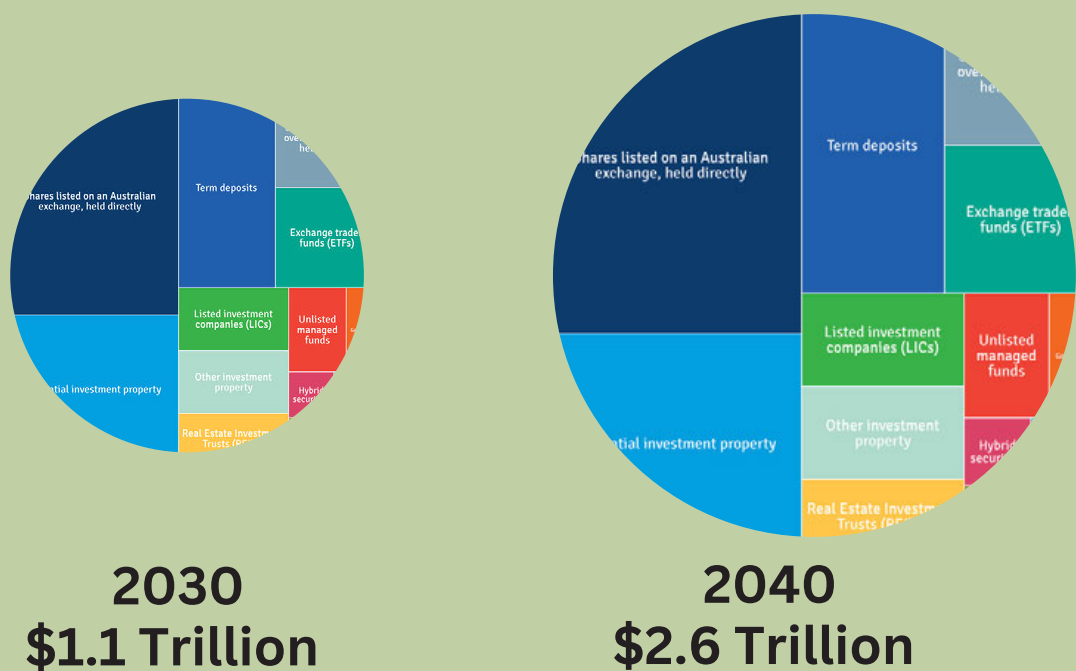


FIGURE
Estimated intergenerational wealth transfer in Australia

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on **LISTED EQUITIES**

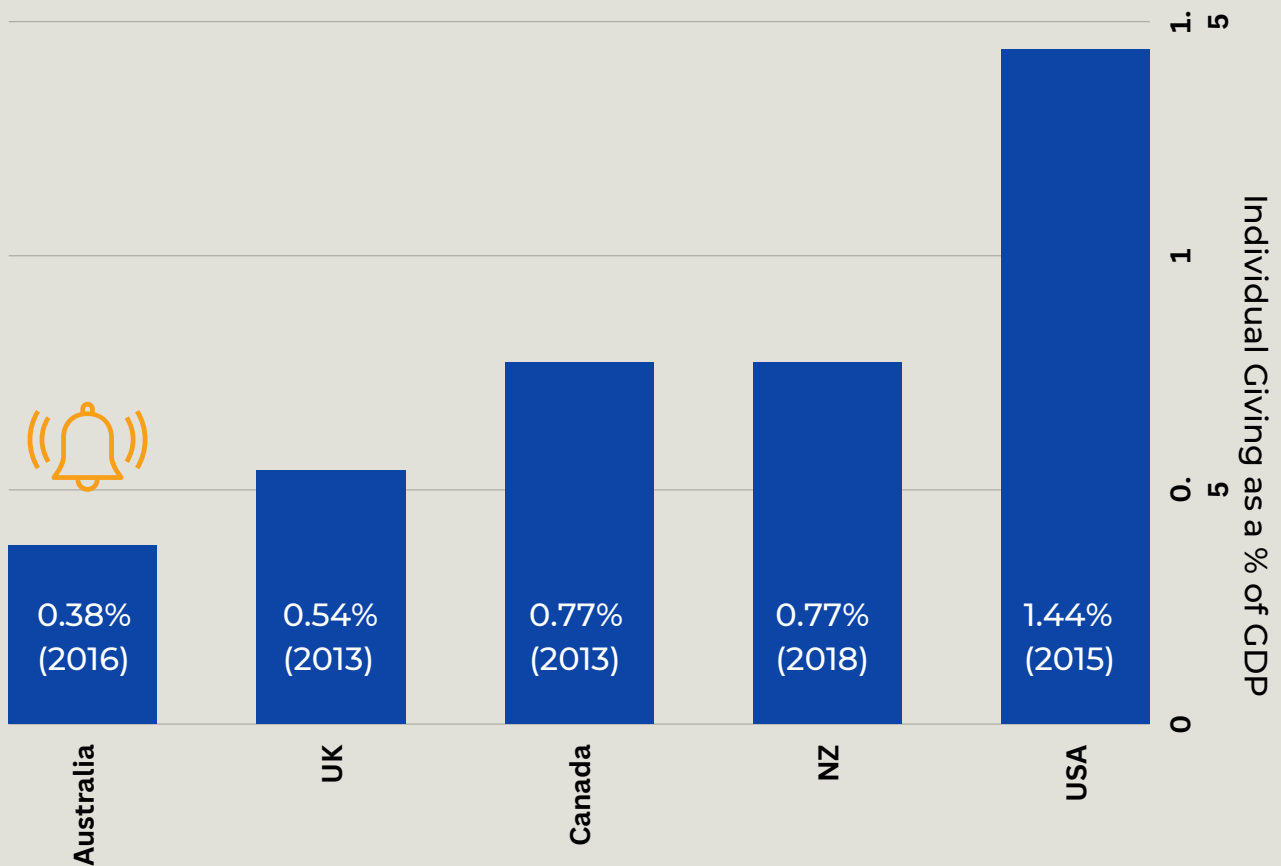
4.0

WHY THIS PROPOSAL IS GOOD PUBLIC POLICY



Global trends suggests that both total giving and individual giving (as a percentage of GDP) in Australia lags behind other countries.

Can we afford not to introduce new incentives in Australia to encourage more people to give?



FIGURE

Individual Giving as a % of GDP

Source: *Philanthropy Australia, Giving Trends and Opportunities, 2023*

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CAPITAL GAINS TAX Reform on **LISTED EQUITIES**

4.0

WHY THIS PROPOSAL IS GOOD PUBLIC POLICY

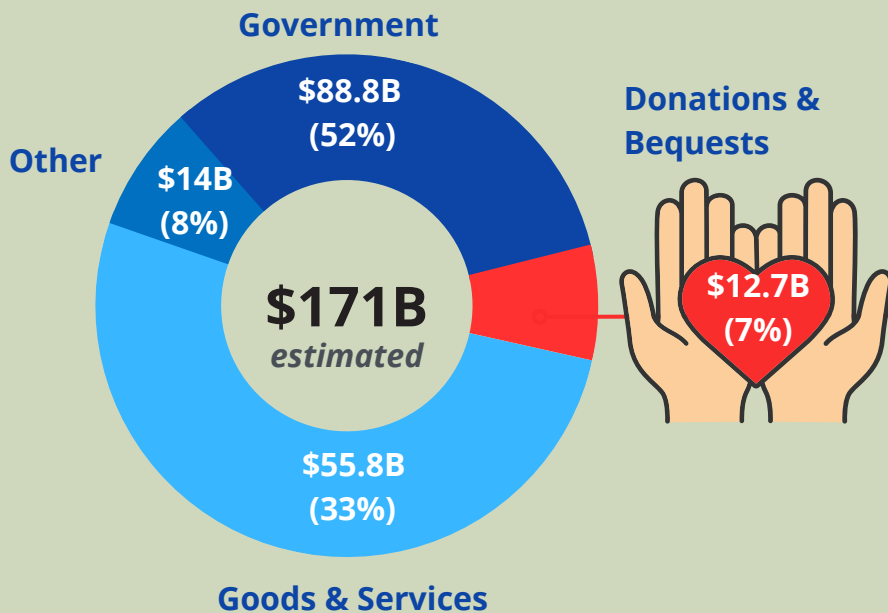
TO STRENGTHEN THE NOT-FOR-PROFIT SECTOR



The charity sector is estimated to be valued at \$171 billion. In 2020 charities received \$12.7 billion or 7% contribution of funds by private gifting.

This proposal is an effective tool to address the Government's commitment to a Strategy to Double Giving by 2030, enabling and encouraging more Australians to give and those that already give, to give more.

2020



2030



CGT reform on listed equities, a tool to meet the 2030 Double Giving Campaign

FIGURE

How the charity sector is funded

Source: ACNC, Australian Charities Report 7th and 8th EDITION

Accelerating Charitable Giving Through
CAPITAL GAINS TAX Reform on **LISTED EQUITIES**

5.0

WHAT CAN WE EXPECT



The Australian Cultural Gift Program

Domestic Evidence

This program provides tax incentives to encourage gifts of culturally significant items from private collections to public art galleries, libraries, museums, and archives.

The market value specified in valuations from approved valuers for the gift is fully tax deductible

These gifts are exempt from capital gains tax.

THE IMPACT

Since inception the Australian Cultural Gift Program

1978 - 2018

\$1 billion donated
by 20,000 donors

2017 - 2018

\$57 million donated
by 450 donors
to 100 institutions

We recommend the impact of the Australian Cultural Gift Program be used to 'calibrate' and evaluate the likely impact of this proposal

Accelerating Charitable Giving Through
CAPITAL GAINS TAX Reform on **LISTED EQUITIES**

5.0

WHAT CAN WE EXPECT

A BRIEF OVERVIEW OF THE IMPACT OF LISTED SHARE DONATIONS IN AUSTRALIA

Domestic Evidence

In 2007, a tax incentive was introduced for the donation of assets, including listed shares, however, the CGT liability is payable by the donor.

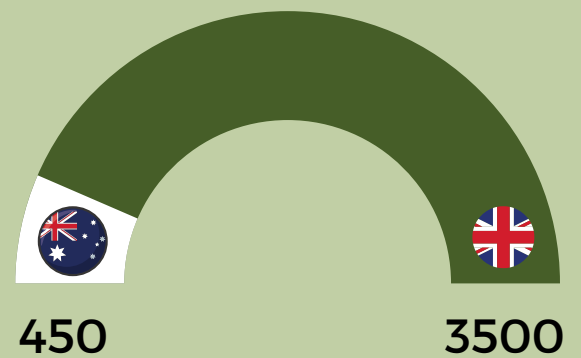
The only time CGT does not apply is when a gift of shares or property is made to a charity from an estate (refer to Section 118-60 of the Income Tax Assessment Act 1997 (Cth) (ITAA 97) and gifts of culturally significant items through the Australian Cultural Gift program.

For this submission, the amount (\$) individuals donate annually using listed shares was unable to be accessed.

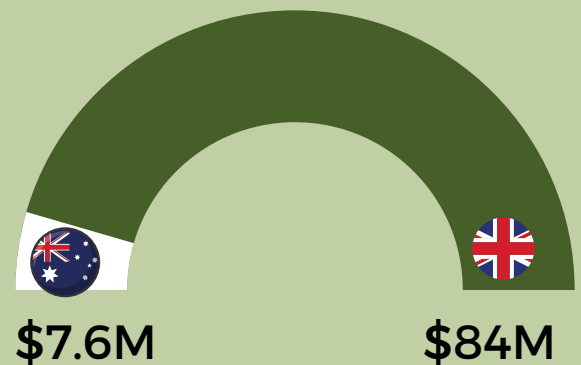
ShareGift Australia and ShareGift UK are two platforms that assist donors to donate listed shares to charities. Published data from these two platforms was used to compare the giving trends of listed equities.

Unlike Australia, in the UK there is no CGT on the donation of listed equities to eligible charities, by an individual whilst alive.

ShareGift Australia vs ShareGift UK NUMBER OF CHARITIES SUPPORTED



ShareGift Australia vs ShareGift UK AMOUNT (\$) DONATED TO CHARITIES



We recommend that we closely examine the number of donors and value of donations made in Australia (whilst alive) of listed equities.

Accelerating Charitable Giving Through
CAPITAL GAINS TAX Reform on **LISTED EQUITIES**

5.0

WHAT CAN WE EXPECT

A BRIEF OVERVIEW OF THE IMPACT OF LISTED SHARE DONATIONS IN CANADA

International Evidence

- In Canada (since 2006) approximately \$1 billion of equities is gifted to charities each year
- **Long Start Up Time:** In Canada, when the incentive was introduced It took several years to become widely adopted by donors. Therefore this measure is unlikely to disrupt Government finances in the short term.
- **Significant Impact for Relative Low Cost:** Canadian data suggest that each \$1 of foregone CGT revenue results in over \$13 of donations to the charities.
- **The Introduction of New Donors:** This measure resulted in significant increase in first time donors.
- **Existing Donors, Donated More.** This measure resulted in existing donors, donating more money to their chosen charities.
- An example of the financial impact that this change made to a registered charity is the United Way of Greater Toronto (UWGT), the largest investor in social services in the greater Toronto area. From 1956 to 1996 (measure not in place), UWGT was in receipt of under \$50K in charitable donations of listed securities. Since 2006 (measure legislated), UWGT received over \$250 million in charitable donations of listed securities.

6.0

IMPLEMENTATION OF REFORM

We recommend the PC examine the merits, benefits and costs of removing capital gains tax on donations of shares to DGR charities.

This may include a feasibility study and an economic model that considers:

- A review of the the impact of the Australian Cultural Gift Program.
- A review of the impact that this measure has had in Canada and UK.

1

The donor completes an off market transfer form

2



3

The registered charity would issue a donation receipt equal to the market value on the date of transfer

The charity would either sell or hold

Currently in Australia, the CGT of any gain is payable by the donor.

HOW TO DONATE LISTED SHARES

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7.0 CONCLUSION

Experience of this initiative in Canada and UK suggests, that this simple change to our legislation, would enable a significant amount more transfer of capital to charities by people during their lives.

The international evidence shows that both the number and the value of donations of securities have significantly increased and a broad range of charitable areas—education, health, religion, welfare, the arts—have benefited from it.

The measure was implemented in Canada and the UK, approximately 20 years ago with proven success.

As the Canadian Finance Minister Martin, noted in 1992:

“**From the data available, it appears that this measure has been an effective additional incentive for people to make donations to charities. This is exactly what the measure was designed to do**”