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Philanthropy Inquiry
Productivity Commission
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Online: https://www.pc.gov.au/inquiries/current/philanthropy/make-submission#lodge

Future Foundations for Giving

We refer to the draft report *Future foundation for giving* issued by the Productivity Commission in November 2023 and now provide our comments in relation to the report.

DGR Changes

We agree that the Deductible Gift Recipient (DGR) system is not fit for purpose. It is unnecessarily complex and benefits some charities over others on what appears to be an arbitrary basis. Providing DGR status to most charities would increase giving generally and distribute donated funds over a much wider range of charities.

Providing one DGR registration for an entity would also be a positive step. The current need to seek endorsement for different DGR categories for the one charity is expensive, time consuming and creates difficulties in separating the accounting for overlapping activities.

We agree that removing the public fund requirements would also be beneficial. There appears to be no particular rationale as to why some DGRs require a public fund, while others only require a gift fund. Given the requirement for charities to be registered with the ACNC, a gift fund should be sufficient to maintain the integrity of the DGR system.

School Building Funds

However, we do not agree with the report's position that there is a substantial risk of tax-deductible donations being converted into a private benefit for primary and secondary education, religious education and other forms of informal education, including school building funds. We also query the focus on activities with "greater community-wide benefits" to determine DGR status.

In relation to primary and secondary education activities, the report makes the following comments:

- Potential donors are most likely to be those directly involved with the organisation, such as students, their parents or alumni.
- This could lead to tax-deductible donations being directly converted into lower fees.
- Direct solicitation for donations from the people who are also charged fees is strongly indicative that the main beneficiaries from an organisation's service are likely to be the individual recipients of the service.
- Any broader community-wide benefits are likely to be incidental.

We suggest much greater research is required to determine whether the above comments are actually correct. Donations from alumni would not normally provide benefits to the donor. Even donations by existing school families may not provide benefits to their children, given the time frames often seen for building projects. It is quite likely the benefits will be enjoyed by future students rather than existing students,

We are not aware of evidence showing that donations to the school building fund result in lower fees. Payments to the school building fund are voluntary and we suggest schools would rarely lower education fees in an expectation of donations for building projects. We suspect the more likely outcome is a fall in the standard and quality of buildings used by schools, particularly lower fee-based schools in middle to lower socio-economic areas. A lower standard of school buildings and education provided to students will have community wide consequences.

Should DGR endorsement be withdrawn for school building funds, transitional provisions should allow DGR status to remain for all existing building projects. Withdrawal of DGR eligibility for existing projects is likely to result in significant financial distress for some charities.

Religious Entities

The report proposes that religious entities not be entitled to DGR status. The Commission's argument is that religious entities do not generate community-wide benefits that would otherwise be undersupplied by the market (principles in figure 6.1). It then, in somewhat of a contradiction, states that "this is not based on a view that religious practice does not provide a benefit to the community, but rather that the additional net community benefits from extending the DGR system to include the purpose of purely advancing religion are not apparent". The report also states there is a material risk of a nexus between donors and beneficiaries. We suggest this position significantly understates the benefits provided by religious entities to the community as a whole, including prayer, community connection, health and assistance to those in need.

The report does state that charities undertaking a combination of excluded and non-excluded activities could still apply for DGR status. Charities that advance religion would still be eligible for DGR status for non-excluded charitable activities such as advancing social or public welfare. More thought should be given to how this would occur in practice. The proposal creates significant difficulties for religious entities in separating their religious activities from non-religious activities. A DGR system based on activities is not ideal for this reason.

Collecting Information

The report recommends that the ACNC and the ATO collect additional data from charities including DGRs, with the aim of providing the public with more information to make informed decisions. Most charities are open and transparent about their sources of funds and expenditure incurred. However, collecting and reporting any additional information to the ACNC and to the ATO comes at an administrative cost to charities. We suggest considerably more research needs to be undertaken to determine what additional information, if any, would be useful to donors and would impact on their decision-making process in allocating their donations.

From our experience, it is only larger donors that make use of the existing public information on the ACNC portal. These donors are usually able to access any other information they require from the charity's financial statements or directly from the charity. However, it is possible that raising the community's awareness of the ACNC charity register might increase its use by donors.

The report also recommends that listed companies report itemised information on donations of money, goods and time to DGRs. This may well be an expensive administrative burden for these entities. In particular, measuring time would be challenging and likely to result in inconsistencies in reporting among companies, making the resulting data of limited use.

It is also recommended that listed companies disclose donations of money and assets in their income tax return. We note that company income tax returns do not usually require separate disclosures for listed companies and unlisted companies. We suggest that this is not the most appropriate means to obtain this information from listed companies.

In deciding whether to impose additional obligations on charities to report additional information, extensive research ought to be undertaken to ensure that the benefits outweigh the costs. Charities already use significant resources in meeting regulatory requirements and this reduces their ability to meet their charitable purpose.

Yours sincerely

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