

PRODUCTIVITY COMMISSION

Submission on behalf of
Duncan and Margot Baillie

Response to draft report

9 February 2024

Background

We reside in Brisbane and are retired with independent means.

We both take a strong interest in our community and are pleased to be able to provide donations to support a number of charities including RideWest, Royal Flying Doctor Service, St Jude School, 4 Voices and BestLife Foundation. The charities that we support have Deductible Gift Recipient (DGR) status.

Submission



Draft finding 4.1

People respond to incentives, with those on a higher income more likely to give

Preliminary modelling undertaken by the Commission indicates that people give more than they otherwise would because of the personal income tax deduction for donating to entities with deductible gift recipient status. The modelling draws on Australian taxpayer panel data and is the first time panel data has been used in Australia to estimate how people respond to personal income tax deductions for donations.

The Commission estimated the price elasticity of giving - which is how people change their giving behaviour in response to changes in tax incentives for giving - and the income elasticity of giving, which is how people change giving behaviours in response to changes in their own income.

The Commission's preliminary estimates for:

- price elasticity of giving in Australia ranges from -0.87 to -0.92, meaning a 1% increase in the tax deduction for giving is associated with a 0.87% to 0.92% increase in giving
- the income elasticity of giving in Australia ranges from 0.555 to 0.564, meaning a 1% increase in income is associated with a 0.555% to 0.564% increase in giving.

However, these estimates are only one factor to consider when evaluating the effectiveness of tax incentives to give.

The share of taxpayers claiming a deduction for giving increases with income. Most of the tax benefits from giving that accrue to people in the lowest taxable income decile go to people who had high incomes before claiming any tax deductions.

The Commission will present final estimates, using different modelling approaches, of the price elasticity of giving and the income elasticity of giving in the final report.

The tax deductibility of a donation is a significant factor in our decision of whether or not to support a particular cause. We will support organisations that do not have DGR status but that support will be minor when compared to the support for charities with DGR status.



Draft finding 4.2

A personal income tax deduction is likely to be an effective way to encourage giving

Tax incentives can be designed to target the total amount donated, increase the number of people participating in giving or to encourage particular types of giving, such as money, physical assets or time. The current design of the personal income tax deduction is likely to be the most cost-effective way for the Australian Government to encourage giving.

A flat tax credit would likely incentivise more people to give, but the total amount given overall would likely fall if people who have a high income faced a higher price of giving than they currently do. Adjustments to a tax credit to account for the likely fall in overall giving, including a hybrid approach - a tax deduction for some income cohorts and a tax credit for others - would add complexity and the effect on total donations would be uncertain.

Whether a tax deduction or tax credit would encourage more people to volunteer is highly uncertain, but they would likely increase tax integrity risks and compliance costs given volunteer work and expenses are often undocumented or informal. Government grants to support volunteering where there is a clearly identified need would likely generate greater net benefits to the community than tax incentives for volunteering, if properly targeted and evaluated.

We make donations to a number of charities during the course of the year.

Many of these are planned donations but we will periodically support additional opportunities such as disaster relief funds and new opportunities to support where we can see the impact being made.

In each instance one of the criteria we check is the tax deductibility.



Information request 4.2

Government policies to support giving

The Commission is seeking feedback on the advantages and disadvantages of using alternative government policies to support giving, including a tax credit and matched giving, as opposed to a tax deduction.

- How would donors likely change their giving behaviour under different types of tax incentives, such as a tax credit, and what would drive those changes?
- What would be the effect on charities of moving to a tax credit if more people were likely to give smaller amounts, but the overall amount of giving decreases?
- If it were to be adopted, how should a tax credit be designed?
- What would be the effect on donations of moving to a matched giving scheme, like Gift Aid, given it does not provide a direct personal benefit to encourage all taxpayers to give?
- Would such a matched giving scheme be an improvement compared to a tax deduction and, if so, how should it be designed?

An important issue for us is whether the entity seeking a donation is a DGR. The ability to claim a deduction and the extent of that deduction are both relevant to every decision we make regarding a donation.

If we were to receive a tax credit rather than an income tax deduction, this would act as a disincentive if our marginal rate of tax was higher than the rebate level.

We would reduce the donation or just discontinue the donation to some charities all together. Why donate money if there is a reduced tax deduction?

In summary we do not support the concept of a tax credit / rebate in place of the existing deduction regime for donations.

The concept of Gift Aid and digital vouchers do not offer any appeal to us as donors.

We select a charity to support based on our consideration of the work of the charity.

We consider that there are many advantages of a donor sourced contribution when compared to a government grant and hence our support as donors.

For example, RideWest supports the Royal Flying Doctor Service deliver mental health programs through the Wellbeing Out West program, a program made possible through donations rather than government funding. As donors we value the innovation and flexibility that this donor led program can offer. As donors, we support both RideWest and the Royal Flying Doctor Service.

In addition, Jo Westh the CEO of 4 Voices has commented that they also value the flexibility of our donations which are not tied to any restrictive conditions.