

# Second SUBMISSION in response to the Productivity Commission Philanthropy Inquiry Draft Report

from

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This submission is largely in response to the Commonwealth Government's 15 February comment on the Commission's recommendation in the Draft Report (Productivity Commission, 2023) to end tax deductibility for school building funds and similar activities (draft recommendation 6.1).

This submission follows my earlier submission (# 469) (Preston, 2024), and assumes the principles, focus, arguments and recommendations of that submission, and develops some issues.

## 1. DGR status of schools: obscured public funding for private benefit

In Senate Estimates on 15 February, Senator Henderson's asked of Government Senator Chisholm:

I want to ask about the Productivity Commission's recommendation that all schools lose DGR status. Minister, I will direct this to you. This has sent alarm bells through the non-government schools sector. The National Catholic Education Commission estimates this will cost Catholic schools \$2 billion a year. Independent Schools Australia says that it will cost independent schools more than \$1 billion a year. Will you rule out adopting this egregious recommendation, which would bring many schools, particularly low-fee-paying schools, to their knees? . (Commonwealth of Australia Senate, 2024, 15 February, p. 25).

Senator Chisholm said in response:

As you are aware, it was a draft report from the Productivity Commission. It doesn't represent government policy. As the Treasurer has said already on this issue, this is not something we're considering. (p. 26)

Senator Chisholm indicated that the issue was not something that the Government is *currently* considering. In the final report, the Commission must reiterate and emphasise the case against such public funding of private benefits as general tax deductibility for schools that benefit their own students and communities. The issue is then on the record, and might be taken up by future governments, if not by the current government before the next election.

Senator Henderson's question (referring to data provides by Catholic and independent school representatives) indicates that a fair estimate of the unaccounted public funding of private schools would be in the order of \$1 billion annually. This estimate takes account of the Commission's findings that high income individuals (those with incomes of \$180,001 or greater and thus in the top 45% tax bracket) made the large proportion (over 80%) of all tax all-deductible donations, and that Census and other data indicate that families of students in independent and Catholic schools have much higher incomes than the families of students in public schools (and the rest of the Australian community). The foundation of the school my brothers (and uncles) attended received revenue from bequests and investments in 2022 of around \$2.5 million. Assuming tax deductions and exemptions averaging around 30%, this is unaccounted for and inequitable public funding of a very wealthy school of around \$750,000. This is in addition to publicly reported recurrent funding from the Commonwealth

and State governments for a school with annual tuition fees of more than \$40,000 for secondary students and a generally very financially advantaged clientele. Low fee (and low income clientele) private schools have zero or very low tax deductible donations (as reported to the Australian Charities and Not-for-profits Commission). Ever since the 1970s the low and high fee private sectors have supported each other, even when on particular issues their immediate interests have diverged. The Commission needs to take with a grain of salt claims that a loss of DRG status would be devastating for low fee private schools that actually receive little from private donations but receive capital funding directly, accountably and transparency from governments.

In general, one questions the support individuals have for a cause (their own children's school, or the one they attended, for example), if they will not provide financial support unless they can ensure the rest of Australia also provides financial support through a tax expenditure.

It could also be noted that high fee independent schools can (as does the school I attended) charge for the hire of facilities paid for in quite large part by the public through tax expenditures and exemptions.

### **Recommendation 1.**

- (a) That the Commission, in its final report, reiterate and emphasise the case against public funding of private benefits through some entities, including schools, currently with DRG status.
- (b) That the Commission not weaken the substance of Draft Recommendation 6.1.

## **2. Interim measures of accountability and transparency**

As long as private interests are benefitting from public funding through inappropriate tax deductibility (and tax exemptions), it is essential that there is accountability and transparency.

It is against all principles of fairness and equity, as well as accountability and transparency, that the public funding of school buildings (and other private benefits) through tax expenditures (and tax exemptions) is not clearly and publicly reported. It must be recognised that such expenditures are as much public funding as are direct expenditures.

The implications of not dealing with the issue at the Commonwealth level are broad and costly: the granting of unwarranted charity status directs (or influences) the states and territories and local governments to provide exemptions from a range of taxes, levies and rates that otherwise should be paid by enterprises that provide only private benefits. Such benefits generally accrue to privileged, higher socio-economic families and communities, as made clear by data from the My School website (Australian Curriculum Assessment and Reporting Authority, 2024), the Census (type of school attended TYPP by family income FINF) and other sources.

### **Recommendation 2.**

- (a) That the Commission recommends that, until inappropriate DRG status is ended, the Australian Curriculum, Assessment and Reporting Authority (ACARA) estimate and publicly report on the MySchool Website the (indirect) income from:
  - Commonwealth funding of private schools through tax deductibility of donations and the tax free status of bequests and investment income
  - State and territory government funding of private schools by their exemption from payroll tax, land tax, and stamp duties

- Local government funding of both private and public schools through rate revenue foregone.

(b) That the Commission recommends that the Commonwealth include indirect funding through tax exemptions and tax expenditures in future measures of school revenue for the purposes of reporting and the development of an amended model for allocating per student recurrent funding.

### 3. Tax deductions are inequitable, and should be replaced by tax credits

It must be recognised that high income individuals' chosen charitable donation recipients receive a much higher rate of public funding (through tax deductibility) per dollar donated than the recipients of donations chosen by lower income individuals. For example, for every dollar donated, high fee private school building funds receive more public funding (and less funding by donating individuals) than the school building funds of most low fee schools. Similarly for organisations with reasonable grounds for DRG status such as arts organisations: national organisations with high ticket prices and high income supporters receive higher levels of public support and lower support from the donor for every dollar donated than a rural or suburban arts organisation with lower ticket prices.

I therefore repeat my Recommendation 2 (a) in my earlier submission (Preston, 2024) :

#### Recommendation 3.

- (a) That the Commission recommend that tax credits replace tax deductions for donations made for recognised charitable purposes.

### References

- Australian Curriculum Assessment and Reporting Authority. (2024). *My School Website*. Sydney: Australian Curriculum, Assessment and Reporting Authority. Retrieved from <https://www.myschool.edu.au/>
- Commonwealth of Australia Senate (2024, 15 February). *Education and Employment Legislation Committee, Estimates (uncorrected proof)*. Canberra: Commonwealth of Australia Senate Retrieved from <https://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22committees%2Festimate%2F27722%2F0000%22>
- Preston, B. (2024). *Submission in response to the Productivity Commission Philanthropy Inquiry Draft Report (Submission # 469)*. Retrieved from Canberra: <https://www.pc.gov.au/inquiries/current/philanthropy/submissions#final>
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