

9 February 2024

Productivity Commission
GPO Box 1428
Canberra City ACT 2601, Australia

Dear Commissioners Robson, Abramson and Seibert

Philanthropy Inquiry: Submission to the Draft Report

Thank you for the opportunity to make submission to the Productivity Inquiry in response to the inquiry's draft report.

National Seniors Australia (NSA) is the leading advocacy organisation for older Australians with 230,000 members and supporters. Through our research and advocacy activities, NSA works to improve the wellbeing of all older Australians.

Australia's philanthropy ranks only 19th in the world, but it could be better if donation incentives made donating more attractive for older people.

NSA research shows that older people want to contribute to society and are concerned about future generations.¹ Older people already make significant contributions to charity, with the 75+ age group having the highest donations of any age group².

However, several surveys also show that donating to charity is resource dependent and tends to increase as income and financial comfort increases^{3,4}.

While charity laws provide a tax deduction to encourage people to donate, this only provides an incentive to people who pay tax. As the draft paper notes, while some older people do pay tax, many do not and will not benefit from tax deductions as an incentive to donate.

With persistent fears about cost-of-living⁵ and retirement income, older people may be more conservative with their money and less inclined to give if this has a negative impact on their income and financial wellbeing.

NSA disagrees with the draft report's assertion that setting up an alternative scheme to encourage donations for people who do not pay income tax is not justified. An alternative system *already exists* for pensioners in the form of Age Pension gifting rules. However, gifting rules and limits are outdated and not fit-for purpose.

¹ <https://nationalseniors.com.au/uploads/NSA-ResearchReport-intergen-clean-22.7.21.pdf>

² <https://melbourneinstitute.unimelb.edu.au/data/taking-the-pulse-of-the-nation-2022/charitable-giving>

³ <file:///C:/Users/b.radford/Downloads/Giving-Australia-2016-Individual-Giving-and-Volunteering.pdf>

⁴ <https://melbourneinstitute.unimelb.edu.au/data/taking-the-pulse-of-the-nation-2022/charitable-giving>

⁵ <https://nationalseniors.com.au/research/finances/financial-wellbeing-and-the-cost-of-living>

The gifting limit of \$10,000, set in July 2002, has not changed in more than 20 years despite strong inflation. For example, housing prices have risen on average 8.6% per annum from 2002 to 2020⁶ and inflation has increased on average by 2.6% per annum, yet gifting limits haven't.

This means the amount of money an individual can legitimately give to charity has decreased in real terms. This is problematic because there is a financial disincentive to giving beyond the gifting limit.

When a part-pensioner gives money beyond the \$10,000 gifting limit (single or couple) they lose access to wealth to support their own consumption. Logically, it would be against their own interests to gift beyond the gifting limit as they would be financially worse off because they lose access to wealth from which to generate income.

When people give to charity and claim a tax deduction they are doing so, in part, because the tax deduction has a positive impact on their annual income. This same logic applies to Age Pension gifting rules, but current limits are inadequate.

Raising Age Pension gifting limits could encourage part-pensioners, of which there are around 800,000, to give more to charity to help those in need, similar to charitable tax deductions.

As such, NSA is calling on the Australian Government to review and reform gifting limits as a means to encourage greater giving.

Ideally the Australian Government should:

- adjust indexation to align with inflation (and index gifting limits annually) to maintain the real value of gifting, and
- adjust the limit for couples to bring their gifting limit in line with the Age Pension asset test.
- fund an ongoing campaign to explain gifting limits and how part-pensioners can use gifting to give to charity (and younger generations).

What would this look like in practice:

- Based on average inflation of 2.6%, the overall gifting limit for a single pensioner should be at least \$17,500 in 2024.
- The gifting limit for couples should be increased in line with means testing rules. Based on the difference in the assets test for singles and couples, the gifting limit for a couple should be \$26,500 in 2024.

⁶ <https://data.oecd.org/price/housing-prices.htm>

This would have an impact on the budget similar to the way that tax deductions impact on the budget as revenue forgone.

Part-pensioners gifting beyond the \$10,000 limit would receive a higher pension payment in 2024 if the gifting limit was increased in line with inflation because the additional amount will not count towards the pension means test. Currently, under the pension assets test, a reduction in a single person's assets of \$100 results in an increase in their annual pension payment of \$7.80.

There are currently 346,000 part-pensioners, roughly half of whom are single.⁷ Under our proposed changes, if every part-pensioner gifted to the maximum gifting limit:

- The total cost to the Federal Budget would be approx. \$593 million in 2024 in revenue forgone.
- Approx. \$324m of this total would be additional forgone revenue (assuming every part pensioner gifts to the current limit, which they may not).
- The total money gifted under the new limits would equal \$7.6b
- \$4.2b of this would be additional gifts or donations (assuming every part pensioner gifts to the current limit) – a significant transfer of wealth within the economy.
- In comparison, taxpayers claimed \$3.9b in tax deductions in 2019-20⁸.
- If the entire \$7.6b was directed to charities, this would be 12 times the cost to government – a significant multiplier effect.

If government were concerned that increased gifting limits would result in increased transfers of wealth, as opposed to increased transfers to charity, they could simply quarantine a portion of the gifting limit for charity donations only.

To support any change, it would be beneficial to commission research into the current and potential gifting behaviours of older Australians, a task that NSA could contribute to through its research capability and access to older people for surveys.

Yours Sincerely

Chris Grice
Chief Executive Officer

⁷ <https://data.gov.au/dataset/ds-dga-cff2ae8a-55e4-47db-a66d-e177fe0ac6a0/distribution/dist-dga-78864f05-50a8-47e1-8b15-5d54359d6918/details?q=>

⁸ <https://www.pc.gov.au/inquiries/current/philanthropy/draft/philanthropy-draft.pdf>