



BUSINESS COUNCIL  
OF CO-OPERATIVES AND MUTUALS

1 June 2015

Tax White Paper Task Force  
The Treasury  
Langton Crescent  
PARKES ACT 2600

Dear Chair

The Business Council of Co-operatives and Mutuals (BCCM) represents co-operative and mutual models of enterprise. BCCM is an association of the chief executives of Australia's member and customer-owned business and peak industry groups representing a sector with a combined membership of more than 13.5 million Australians.

The BCCM welcomes the opportunity to make a submission to the Tax White Paper, and thanks the Task Force for their consideration of this important matter.

The BCCM would welcome the opportunity to discuss any matters raised in this submission should the Task Force require.

Yours sincerely

Melina Morrison  
Chief Executive Officer



## Submission

Tax Discussion Paper

## Prepared by

Business Council of Co-operatives and Mutuals

### What are Co-operatives and Mutuals?

A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise. One of the purposes of a co-operative is that it works for the sustainable development of its community through policies approved by its members.

Co-operatives must demonstrate these principles to be registered under state law.

A mutual is a group of individuals who join together to contribute to a common fund, created and controlled by them for a common purpose. Such a body is not required to adopt prescribed principles in relation to their internal processes, operations and objectives to be recognised as a mutual.

The involvement by Australians in co-operatives and mutuals is strong and longstanding. Eight in every ten Australians is a member of a co-operatively owned or mutually owned enterprise. These 13.5 million members collectively own 1,700 registered co-operatives and 100 financial mutuals.

Co-operatives operate for profit and not for profit businesses throughout the economy, including book sales, cotton growing, dairy produce and processing, fishing, fruit marketing, grain handling, health care, labour hire, plumbing supplies, property sales, recycling, taxis, tourism and supermarkets.

The mutual sector comprises customer owned banking enterprises, such as credit unions, building societies and community banks, along with superannuation funds, health funds and roadside assistance organisations.

Due to their substantial membership in communities and extensive presence in all kinds of markets, co-operatives and mutuals are part of the fabric of Australian social and economic life.

### How are Co-operatives and Mutuals taxed?

Some co-operatives operate as for profit enterprises and they are taxed in the same manner as other entities: their revenue is assessable income.

Mutual income is not assessable for income tax, but all income from outside the mutual is assessable.

Income received by not for profit (NFP) entities, be they co-operatives or any other entity, is tax exempt if its purpose falls within one of the categories listed in Division 50 of the Income Tax Assessment Act 1997. Such NFP entities include charities, scientific institutions and public educational institutions, community service bodies, trade unions, public hospitals, NFP private hospitals and health insurers, and NFP bodies established for the encouragement of sport, culture and recreation.



## What issues does the tax discussion paper raise?

### (i) Income tax exemption

The tax discussion paper notes that a range of NFP organisations are income tax exempt and makes the point that “there appears to be no clear rationale underlying this exemption” (p126).

Each of the tax exemption categories in Division 50 is conditional on the bodies:

- being not for profit or gain to individual members; and
- their income and assets being applied solely to a purpose specified in Division 50.

The conditions for tax exemption do not admit bodies that make profits from other activities such as gambling or profiteering from gaming.

The BCCM believes that where an entity is unable to distribute profit or gain to members and it adheres to the community or social purpose prescribed under Division 50, then there is a clear public policy rationale for the exemption.

Both the Australian Charities and Not For Profits Commission and the Australian Tax Office monitor compliance with the income tax exemption provisions.

### (ii) Mutuality

The Tax discussion paper presents a statement of the mutuality principle and identifies some of the different kinds of bodies that are mutuals (p126).

Mutuality is a common law principle by which a person or organisation cannot derive an income from itself. Income derived from member transactions and contributions is not assessable income, because assessable income can only be derived from external sources.

Where income is derived by the mutual from external sources, that income is assessable in the same way as income is assessable in the hands of any other entity.

The Australian Tax Office has a thorough set of criteria by which it determines which income derived by the mutual is from external sources and therefore assessable.

## Conclusion

The BCCM supports the existing taxation arrangements for co-operatives and mutuals. These arrangements properly recognise the public benefits of these organisations and the way in which they work.