



*Australian Council  
of State School  
Organisations Inc.*

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

### **Deductible Gift Recipient Status – School Support Organisations**

Dear Taskforce Committee Members

The Australian Council of State School Organisations (ACSSO) is the national peak parent body that is the voice for families of over 2.4 million students in the nation's public secondary, primary, special and hospital schools in Australia. Our organisation's membership is drawn from the peak parent organisations of the states and territories. Each of our members represent the parent organisations in each of their jurisdictions. These organisations provide the back bone of support to our nation's public schools.

Please find attached P&Cs Qld's submission to the Tax White paper. This paper is written in the context of Queensland in particular but the content is applicable to all our states and territories.

We, as the national organisation forward this submission to you with our full support.

During the process we also have written endorsement of this submission from:

- Tasmanian Association of State School Organisations
- South Australian Association of School Parent Clubs
- ACT Council of Parents and Citizens
- P&Cs QLD
- Northern Territory Council of Government School Organisations
- Parents Victoria

We thank you for the opportunity to make this submission and hope that you will look upon it favourably

Sincerely

Dianne Giblin AM  
Chief Executive Officer  
0418470604  
May 15, 2015

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

### **Deductible Gift Recipient Status – School Support Organisations**

Dear Sir/Madam,

P&Cs Queensland is the peak body representing approximately 1,250 Parents and Citizens Associations for state secondary, primary, special and hospital schools in Queensland. This submission addresses the following discussion questions listed in the Tax White Paper;

***47. Are the current tax arrangements for the NFP sector appropriate? Why or why not?***

***50. What, if any, changes could be made to the current tax arrangements for the NFP sector that would enable the sector to deliver benefits to the Australian community more efficiently or effectively?***

The board of P&Cs Qld is concerned about ongoing challenges which reduce the fundraising effectiveness of its affiliates. This submission focusses on the ability of our members to use a key Commonwealth tax concession; the ability to receive tax deductible gifts.

In this submission we use the term ‘school support organisations’ to refer to both parents and citizens bodies in Queensland and similar entities in other Australian jurisdictions.

#### **A. Overview of Current Situation**

1. The tradition of corporate and philanthropic funding of schools and school support organisations is much less developed in Australia than many other comparable countries, especially the United States.
2. The ATO estimates that 38 in every 100 Australian people donated to charities and then claimed deductions in 2011-12,<sup>1</sup>
3. In Australia, tax deductible donations for school education purposes are permitted to eligible school building funds, as well as funds which are applied to bursaries and scholarships.

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<sup>1</sup> Taxation statistics: 100 people; based on 12.3 million tax returns in 2008-09

4. In 2012-13, there were 4,760 school building funds.<sup>2</sup> P&Cs Queensland maintains that although many of these funds exist, this mechanism really is effective for only a small number of wealthy independent schools, certainly not the vast majority of state schools.
5. The application of donated funds to school building funds of course is also relatively limited; being the acquisition, construction or maintenance of school buildings. Anecdotally, 'maintenance' of school buildings is a very grey area, for example is a donation a legitimate tax deduction when it is spent on the installation of a new or replacement shade cover structure that is attached to an existing building?
6. There were 495 scholarship funds in 2011-12.<sup>3</sup> P&Cs Qld contends that the ability of students to benefit from scholarship funds also clearly favours independent schools with higher income parents rather than those catering for the mainstream of Australian school students. Government schools do not charge school fees and therefore they do not need to raise funds for scholarships.
7. In 2000, Deductible Gift Recipient status for donations to schools was introduced for a tiny fragment of the 9,435 schools in Australia; 220 **government special schools**, or 2.3% of all schools<sup>4</sup>. In Queensland, 43 schools are covered by this provision; about 3.4% of the total number of State schools. This DGR actually applies directly to the school itself, not the parent support organisation which support the school. This allows donations to be tax deductible when made directly to the school.
8. Prima facie; special schools would also appear to be as eligible as any other DGR entity to seek grant funds from those DGR charities which are limited to making grants to DGR applicants, however, these philanthropic bodies also require the applicants to possess status as a tax concession charity which special schools (being government bodies) do not possess.
9. In summary, there are relatively few options for schools to seek philanthropic donations. In particular, state schools (including special schools) and their relevant parent support organisations are ineligible from applying for most grants for school activities and projects. Almost all philanthropic sources are not permitted to provide funds to applicants which do not possess DGR status, are not Public Benevolent Institutions (PBIs) and which are not registered tax concession charities.

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<sup>2</sup> Taxation statistics 2011–12

<sup>3</sup> Taxation statistics 2011–12

<sup>4</sup> Income Tax Assessment Act 1997 (Cth) Section 30-25; p236, "*Item 2.1.12: A government school that (a) provides special education for students each of whom has a disability that is permanent or is likely to be permanent; and (b) does not provide education for other students.*"

**B. School Support Organisations and Not for Profit Fundraising in Australia**

1. As noted in the Tax White Paper, around 60,000 NFPs are registered charities and around half of these charities are eligible for deductible gift recipient (DGR) status. The remaining NFPs that are not eligible for DGR include school support organisations.
2. About 80% of P&Cs Qld members are small entities, with assets of less than \$50,000. Most affiliates either employ no staff and when they do employ staff, they are casual tuck shop employees and after school services staff. They rely on donated goods and services from their local communities.
3. Although all of P&C's Qld affiliates possess ABNs, they overwhelmingly fail a 'reasonable person's definition' of being classed as 'economically significant' as they run cash based accounting systems with low turnovers of \$5,000 - \$30,000 per annum. Although they are exempt from income tax they do not earn net income of any substance. They are not registered for GST. DGR eligibility is the only tax concession that would benefit all sizes of school support organisations.
4. P&Cs Queensland believes that there is a critical need to overhaul taxation law applying to philanthropic funding NFPs but especially so for school support organisations. It is a complex area of tax law and time consuming for applicants to apply for and receive approval.<sup>5</sup>
5. DGR status is highly valued but it is defined narrowly and it currently excludes school support organisations. Until recently regular checks were not made to ensure the list of DGR organisations were kept up to date.<sup>6</sup> Eligibility for DGR is limited in order to reduce lost income tax revenue, but the needs and social aims of school support organisations have never been fully understood or properly provided for by the ATO.
6. Income tax foregone through tax deductible donations is quite substantial. Nevertheless, the White Paper points out the deduction for gifts to DGRs has remained relatively stable, increasing from nearly \$900 million in 2010-11 to almost \$1.2 billion in 2017-18<sup>7</sup>. P&Cs Qld believes that this overall cost is not likely to change dramatically if school support organisations are granted DGR status.

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<sup>5</sup>Not-For-Profit Sector Tax Concession Working Group; Commonwealth of Australia, 2013; 22. This found that the DGR framework was intended to encourage philanthropy, however, the current system for granting DGR status was '*cumbersome, inequitable and anomalous*'.

<sup>6</sup> The ACNC's welcome checks of compliance by charities is starting to weed out those DGR organisations listed in the Act and many others who are also entitled to DGR but which no longer operate as charities.

<sup>7</sup> "Rethink – Not-for-profit sector - Tax White Paper" 2015 p. 125

7. Providing DGR status to potentially 9,000 additional entities may initially seem to be an unsustainable increase. The impact on the amount of tax forgone should not be overestimated, however, as the addition of new DGR options for taxpayers does not also guarantee additional community capacity to make donations. It is much more likely there would be a voluntary adjustment of taxpayer's donations from other DGRs, plus perhaps some additional giving.
8. An important distinction must be made at this point. Although state special schools already possess DGR status (see Point A.7), P&Cs Queensland is not asking for this DGR to be extended to all primary and secondary schools. We advocate that DGR status instead be provided for school support organisations.
9. As already noted, DGR status for special schools does not actually solve the problem of those schools still being ineligible to apply for grants from DGR foundations, trusts and charities. In addition, a recent working party report into tax concessions explained that if schools were to have DGR status, it would open up opportunities for abuse of the system.

*“As a result of the private benefits provided by charities for the advancement of education through childcare or primary or secondary education, the unlimited extension of DGR status to all donations to these charities would generate significant integrity issues. For example, it would be difficult to distinguish between the payment of fees and voluntary donations”.*<sup>8</sup>

10. Taking into account the likely problems if schools were to be granted DGR, our organisation therefore strongly advocates that parent support organisations for all schools in Australia need a general tax concession granted by the Income Tax Assessment Act 1997 (Cth) for them to be deductible gift recipients.

**C. Current Developments in the Public School Sector**

1. Across the Australian, European and North American school education systems, a public policy of encouraging state schools to become Independent Public Schools (IPS) is now in full implementation phase. The aim of this initiative is to introduce renewal to the traditional school financing and administration model.

The IPS model facilitates global budgeting and staffing plans which are controlled at school level, significantly increases local autonomy of schools and encourages parents and community to engage with their schools via devolved decision making.

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<sup>8</sup> Not-For-Profit Sector Tax Concession Working Group; Commonwealth of Australia, 2013; 24.

2. The trend across all Australian states and territories is a rapidly increasing rollout of IPS schools. This requires the formation of new structures at IPS schools; School Councils. These have been granted a key governance role and are responsible for focusing on local based strategies to provide better education outcomes for their students. In Queensland there will be an additional 100 IPS schools added during 2015, which will mean about 20% of schools will be classed as IPS.
3. This movement also naturally leads to School Councils and traditional school support organisations such as Parents and Citizen Associations to seek ways to boost publicly funded budgets by means of ongoing corporate partnerships and grants from philanthropic foundations, trusts and charitable sources.
4. Sadly there are almost no structural incentives within the current tax system for school support organisations to relieve the huge upward pressure on government education budgets by local fund raising and corporate sponsorship. As noted in point A4, tax incentives are primarily restricted to building projects eligible for a building fund. P&Cs Queensland’s anecdotal evidence is that very few state schools in Queensland are able to effectively use this facility.
5. More than 60% of the state schools in Queensland have less than 450 students. P&Cs Qld also estimates that less than 30% of its total affiliates maintain an active building fund. Our experience as a respected peak body of school support organisations for state schools is that parents believe the funding of major building projects is well beyond their capacity and that governments have responsibility to take carriage of them.
6. Consequently state school support organisations typically focus on many other activities which support educational outcomes. Whilst these activities are substantial and offset the need for government tax funded expenditure, they are not tax deductible.<sup>9</sup>
7. Direct expenditure by school support organisations to help achieve educational outcomes include the purchase and maintenance of library and educational materials, electronic white boards and tablet computers, sporting equipment, sensory and therapeutic play equipment, shade sails, construction of school ovals, purchase and maintenance of school buses and electronic schools signs, assistance for school cultural events, construction of vegetable and fruit gardens, landscaping, irrigation systems, drainage improvements and provision of artworks such as murals.

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<sup>9</sup> Not-For-Profit Sector Tax Concession Working Group; Commonwealth of Australia, 2013; 31. *“There is no clear policy rationale for why some entities have been provided DGR status and others have not. The arbitrary nature of the categories leads to inequities and anomalies, with some entities being granted DGR status while similar entities or entities which provide significant public benefits have not”.*

8. None of these support activities are eligible to be funded by donations to a DGR fund. Although this would be a very efficient financial mechanism which avoids the costs of raising and spending funds via the public sector, they are not included in the DGR arrangements. This leads P&Cs Queensland to the conclusion that the current tax system as it applies to Not for Profit organisations is dismally failing the state schools system.

**D. Summary**

1. In considering the future of tax deductible donations, it is essential the government understands the wider benefits of this particular NFP activity. School support organisations provide services that for-profit private sector organisations do not and this tax concession clearly does help to improve societal outcomes.
2. A tax concession to school support organisations which provide direct educational outcomes is actually a far more efficient contribution to social capital than raising tax revenue and then draining off significant portions of the revenue pool to pay the overheads of the Commonwealth and State education bureaucracies.
3. There are continuing calls from leaders in the Not For Profit Sector to simplify and modernise the current tax concession arrangements for NFPs. In particular, there is a need to widen the criteria for DGR status which would help many organisations who currently have limited access to philanthropic support, particularly from Private and Public Ancillary Funds.<sup>10</sup>
4. A DGR category for all school support organisations is a key structural reform that would expand and strengthen partnerships between business and Not for Profit organisations and increase the capital available to the Not for Profit sector.

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<sup>10</sup> Peak Not for Profit body, the Community Council for Australia and Donor peak body, Philanthropy Australia; 25 February 2015 See more at: [http://www.probonoaustralia.com.au/news/2014/02/exclusive-nfp-tax-concession-report-revealed?utm\\_source=Pro+Bono+Australia+-+email+updates&utm\\_campaign=8bf2849a1a-Pro+Bono+Australia+News2+24+2014&utm\\_medium=email&utm\\_term=0\\_5ee68172fb-8bf2849a1a-#sthash.woUtSPOv.dpuf](http://www.probonoaustralia.com.au/news/2014/02/exclusive-nfp-tax-concession-report-revealed?utm_source=Pro+Bono+Australia+-+email+updates&utm_campaign=8bf2849a1a-Pro+Bono+Australia+News2+24+2014&utm_medium=email&utm_term=0_5ee68172fb-8bf2849a1a-#sthash.woUtSPOv.dpuf)

## E. Recommendations

P&Cs Qld recommends two options to expand DGR status to school support organisations be considered. Both aim to achieve efficiency, fairness and simplicity, provide a supportive environment for giving to the NFP sector and to maximise the social good.

### ***Option A -Granting of a blanket DGR status to approved school support organisations which covers all state, independent and catholic school support organisations.***

- This approval should retain existing DGR arrangements applying to building funds, scholarships and bursaries etc including their requirements to meet separate auditing and compliance requirements.
- An issue for consideration with this option is the school support organisations that run tuck shops and after school care activities. These operations can generate significant income, particularly in larger schools. To ensure fairness, this income should be quarantined from donations and not be DGR income.
- Option A has two benefits, it encourages donations to school support organisations and allows them to actively and efficiently support positive educational and social outcomes. Secondly, it enables them to access funds administered by many charities, trusts, philanthropic foundations and Private and Public Ancillary Funds which cannot currently allow school support organisations (as non DGR entities) to be applicants.

### ***Option B - Granting of a new classification of DGR status which applies only to approved school support organisations. This new approval would not allow school support organisations to be eligible to receive donations, but it would allow school support organisations to apply for grants from DGR charities, trusts, philanthropic foundations etc.***

- It is similar to Option A as it would also retain existing DGR arrangements applying to building funds, scholarships and bursaries etc.
- The key difference with Option A is that it does not impact on the amount of income tax foregone by tax deductible donations. However it does enable school support organisations to access grant funds from charities, trusts, philanthropic foundations and Private and Public Ancillary Funds which cannot currently allow school support organisations (as non DGR entities) to be applicants.

- Option B is a compromise on full DGR status (Option A) as it continues the current situation where donations directly to the school support organisation are not tax deductible. For the reasons mentioned above in section B, the current arrangement completely fails to recognise the social value of the expenditure by school support organisations and the tax efficiency of their direct expenditure.
- P&Cs Queensland therefore prefers Option A.

Closing date for submissions: Monday, 1 June 2015

Electronic submissions can be emailed to [bettertax@treasury.gov.au](mailto:bettertax@treasury.gov.au)

Please ensure you include a submission coversheet when sending written submissions.