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News release

Contact Julie Smith (02) 6241 8861 or 0416 099 630 (mob)
Stuart Gardiner (02) 9959 3509

GST Will Have Severe Negative Impact on Charities

But PM's Intention That Charities Should Be No Worse Off Can Still Be Achieved, Says Research Study

Australian charities will be substantially worse off from the GST in its present form, says a new study released by The Australia Institute today.

Implications of the GST for Charities acknowledges the Government's intention that charities should not be worse off, but says: "In its present form charities will be disadvantaged. They will pay tens of millions of dollars in GST because they are not 'GST-free'.

"Both the Government and charities must face unpalatable choices between competing priorities. But with genuine commitment and understanding of the sector, and community clarification of what a 'charity' now means, there is no fundamental reason why the Prime Minister's intention that charities will be no worse off cannot be met."

The author, Julie Smith, an economic researcher specialising in tax at the Australian National University, observes that the Prime Minister's guarantee that charities will be no worse off can only be met if substantial changes are made to the definition of what constitutes a charity and its "non-commercial" activities.

The paper argues that:

- The present common law definition of "charity" is outdated and arbitrary, and discriminates against certain charities.
- Present policy is based on the "soup kitchen" model of charities, and does not recognise the need for modern charities to finance their mission through business-like activities.
- The argument has concentrated on achieving "competitive neutrality" between charities and businesses; but a more appropriate focus for GST policy would be to prevent tax avoidance by sham charities.

The report says that the government wrongly views the sale of goods below market value as the only pricing strategy for charities. This approach fails to acknowledge

voluntary contributions. It is also inaccurate in that many sales by charities are pitched at or above market value.

“The Government has overlooked the donation element in purchases from charities.”

Ms Smith adds: “Charities employ economic resources that would not otherwise be available for public use, especially volunteer contributions of time and product. Little consideration has been given to the demonstrably negative impact of taxing these volunteer contributions.

“Understanding is scant at Government level of the diversity of charities and the potential of the GST to impose severe financial costs on some of them.

“Throughout the debate there has been little recognition of the extent to which charities fill the role of government – and more cheaply than government – and the extent to which the new tax would curtail this role.

“Weakening the financial capacity of charities through application of an inappropriate GST will result in net fiscal costs as activities formerly conducted by charities will need to be replaced by government.

“Many charities clearly and accurately foresee reduced operations because of the substantial real tax burden and compliance costs they soon will face. Paying taxes to the government reduces the surplus charities can distribute to their ‘shareholders’ – the disadvantaged – or means a heavier load on its members or supporters.

“This tax obstacle to serving the needy or subscribing to a charitable endeavour contrasts sharply with the policy of leaving GST-free all share subscriptions to companies like BHP, Mobil and Westpac, motivated by personal profit rather than by public spirit.”

She argues that a starting point in solving the problem would be to define the word “charity” in accordance with modern perceptions and the financial environment in which charities exist, rather than with outdated and inappropriate tax definitions.

“We need to draw a line on what constitutes a charity, make all of a charity’s legitimate activities GST-free, and then prevent tax avoidance by effective monitoring and regulation.”

ENDS

The Executive Summary of *Implications of the GST for Charities* can be read at The Australia Institute’s web site: www.tai.org.au.