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News release

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GST Free Kick for Political Parties

Parties classified as charities

The federal government has given political parties a GST free kick according to leading think-tank The Australia Institute.

Institute director Dr Clive Hamilton said today this is revealed in a new study, *Defining Charity in a New Tax System*, by Institute tax specialist Julie Smith.

“Our study exposes a loophole allowing political parties to claim the same GST-free status as charities running a soup-kitchen or a women’s refuge. Political parties will enjoy a tax break at the expense of other groups,” Dr Hamilton said.

“Caviar served at a political party dinner for corporate donors will be GST-free whilst the snags at the local child care centre’s regular Saturday morning sausage sizzle and handmade furniture from a sheltered workshop will attract the new tax.”

Dr Hamilton said the problem lay in dubious definitions of what constituted charitable activity. He understood the resulting potential windfall for political parties had been drawn to the Government’s attention but that there was a reluctance to make the necessary changes to the legislation.

“It’s one thing for the definition of charities under GST rules to be in a mess; it’s quite another for political parties to benefit from the confusion,” he said.

Ms Smith said political parties were classified as gift-deductible entities under a broad and arbitrary income tax definition. Under GST legislation, gift deductible entities were eligible for GST-free treatment as charities if they charged their clients cheaply enough for the goods and services provided.

“The current tax definition is very broad in some areas – for example counting political parties, local infrastructure works and industry advancement as ‘charitable’ – but too narrow in others”, she said.

“Community childcare centres are not counted as charities, and there is even legal doubt about whether some bodies including advocacy and self-help groups for the disabled are considered charitable.

“The result is that the restrictive pricing rules for determining GST-free activities of charities are likely to cause significant damage to some genuine charities relying on various sales activities to finance their work, while treating organisations such as political parties to unwarranted tax breaks.

“For example, sheltered workshops who use their profits to support the employment of disabled workers pay full GST on what they sell.

“We have the worst of both worlds – a system that will place a burden on genuine charitable endeavour, yet risks wasting public revenue through concessions to organisations that most people would not consider to be charities.”

The Institute called for immediate change to the legislation to close the loophole. It also called for the Government’s forthcoming inquiry to set unambiguous definitions of charities and charitable activity in order to avoid rorting by groups that are clearly not charities.

Defining Charity in A New Tax System can be read under ‘What’s New’ at The Australia Institute’s web site: www.tai.org.au.