

What does it say?

The Henry Review includes 4 recommendations that address the charitable sector specifically.

- FBT concessions should be re-configured.

The capped FBT concessions should be phased out over 10 years and over this period of time the FBT concession caps will be gradually reduced. Reportable fringe benefits provided over the FBT concession cap will be taxed at the employee's marginal tax rate and any non-reportable fringe benefits will be taxable to the employer.

FBT concessions should be replaced with direct government funding. The administration of the funding process will be a relevant Government Portfolio or the charities commission.

All NFP organisations eligible for tax concessions should be able to apply for funding for specific projects or for assistance with the costs of recruiting specialist staff.

- Gift deductibility should be retained, however the \$2 tax deductibility threshold should be increased to \$25.
- A national charities commission should be established to monitor, regulate and provide advice to all NFP organisations, including private ancillary funds.

This commission should be tasked with streamlining the NFP tax concessions (including the application process for gift deductibility), and modernising and codifying the definition of a charity.

- NFP organisations that currently receive income tax or GST concessions should retain these concessions. NFP organisations should be permitted to apply their income tax concessions to their commercial activities.

Government Response

Treasurer Press Release

On 2 May 2010 the Treasurer released a media statement which outlined part of the Government's response to the Henry Review.

In relation to the Henry Review recommendations that specifically affect charities, the following statement was made:

(the Government will not) *Do any changes to the tax system that harm the not-for-profit sector, including removing the benefit of tax concessions, raising the gift deductibility threshold or changing income tax arrangements for clubs.*

What does this mean?

It would appear on the surface that the first 3 recommendations (outlined to the left) have been ruled out (the 4th is status quo).

The concern with this Government response is its subjective interpretation on what would or could 'harm' the not-for-profit sector.

Unfortunately there is a lack of detail and discussion from the Government on these issues at this point.

This means that at the moment the status quo remains and salary packaging, FBT, gifts and donations and access to tax concessions are still available to the charitable sector in the foreseeable future.

It will be vital to ensure that close attention is paid on these matters going forward, especially in an election year, to ensure that any future Government proposals affecting the charitable sector genuinely do not 'harm' the sector. (cont)

Services include:

- FBT / GST Compliance
- ATO Endorsements
- Accounting for NFPs
- Salary Packaging
- Fleet Management Services

What does this mean?(cont)

One of the concerns with the current Government response is: what does this mean for the sector in light of the recommendations contained in the recent Productivity Commission report?

When the Productivity Commission report was released in February 2010, the Government informed the sector that it was going to 'carefully consider the detail of the report'.

To date, no further response has been provided and certainly the Treasurer's post-Henry Review media release does not outline the Government's future vision for the sector and whether this will include any reforms.

We will be following this matter and will provide additional information and commentary as required.

If you know some one who might benefit from this information feel free to pass this newsletter on.

Navigating the remainder of the Henry Review

What are some of the in-direct recommendations and findings of the report that might affect NFPs?



Superannuation

There will be an increase in the superannuation guarantee charge (SGC) to 12% over the coming years and this will have a direct unfunded effect on the bottom line of charities across Australia.

Charities will not benefit from a reduction in the company tax rate to 28% and in fact those charities that claim refunds of franking credits will receive lower refunds in years to come.

Charities will also miss out on the small business tax concessions that have been identified as being compensation for these SGC increases in coming years.

Once fully implemented an organisation with 30 staff members with an average salary of \$40,000pa will be required to find an additional \$36,000pa from their budget without any financial compensation unless they can incorporate these amounts in their current funding contracts.

Fringe Benefits Tax

The Henry Review recommends wholesale changes to the way fringe benefits are valued for all employers and employees.

The recommendation is to tax fringe benefits in the hands of the employee (as opposed to the employer who is currently taxed) at the fringe benefit's market value and at the employee's marginal rate of tax.

There is also a recommendation to change the way motor vehicles are valued for FBT purposes. The recommendation is to use a flat 20% statutory rate across all vehicles and only use the operating cost method in 'exceptional circumstances'.

The Government has not at this point made it clear whether or not the recommendations will be accepted or rejected.

Reporting of information to Government

Integral to the mooted concept of streamlining an individual's tax return information for easier compliance will be the need for organisations across Australia to report all tax related financial information electronically to the Government.

One of the recommendations in the Henry Review is to make the provision of such information electronic and mandatory.

This obviously will be a major impost on charities who issue tax deductible donation receipts. This will increase compliance costs, have privacy legislation implications and require sophisticated systems to enable this to happen.



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Call us on 1300 737 062 if you have any questions.