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Committee Secretary
House of Representatives Standing Committee on Economics
PO Box 6021
Parliament House
Canberra ACT 2600

By email: economics.reps@aph.gov.au

Dear Sir/Madam,

Inquiry into the Implications of Removing Refundable Franking Credits

Philanthropy Australia thanks the Committee for the opportunity to make this submission to the House of Representatives Standing Committee on Economics.

As the peak body for philanthropy in Australia, Philanthropy Australia's purpose is to serve the philanthropic community to achieve more and better philanthropy.

The community we serve consists of funders, grant-makers, social investors and social change agents working to achieve positive social, cultural and environmental change by leveraging their financial assets and influence.

Informed, independent and with reach and credibility, Philanthropy Australia gives its Members a collective voice and ability to influence and shape the future of the sector and advance philanthropy.

We also serve the community to achieve more and better philanthropy through advocacy and leadership; networks and collaboration; professional learning and resources; and, information and data-sharing.

Our membership consists of approximately 700 trusts, foundations, organisations, families, individual donors, professional advisers, intermediaries and not-for-profit organisations.

The taxation and regulatory framework for philanthropy is critical to supporting a vibrant and growing culture of giving in Australia.

A critical element of this framework is the availability of refundable franking credits.

Philanthropy Australia has been consistently of the strong view that the existing refundable franking credit arrangements applying to philanthropic trusts and foundations and other charities should be retained.

No changes should be introduced which may have an adverse impact upon philanthropy, and by extension the various charities and charitable causes supported by philanthropy.

The reasons for this are twofold.

Firstly, the availability of refundable franking credits ensures that philanthropic trusts and foundations remain fully exempt from income tax.

Because of the charitable purpose of philanthropic trusts and foundations and the fact that their funds are applied for public rather than private benefit, they are entitled to an income tax exemption.

Philanthropic trusts and foundations generate income in various ways, but most commonly it is by investing their corpus in a variety of asset classes including equities, property, fixed interest and cash. Any returns from these investments, in the form of capital gains, dividends, rents, or interest, are exempt from income tax. These returns can then be applied to support important charitable causes in the community.

The availability of refundable franking credits is relevant in the case of dividend income, and is consistent with this income tax exemption. That is because refundable franking credits ensure that no income tax is paid either directly or indirectly by the philanthropic trust or foundation.

If refundable franking credits were no longer available, philanthropic trusts and foundations would no longer be fully income tax exempt as they would be indirectly paying tax on some of their income through the corporate taxation system.

This would offend the principle that where funds are applied for charitable purposes for the public benefit, they should be exempt from income tax.

Secondly, the availability of refundable franking credits provides an important flow of funds which support charities and charitable causes in the community.

When announcing the introduction of refundable franking credits in 2000, the then Treasurer, the Hon Peter Costello MP, stated that:

The Government's announcement will provide a significant financial boost (around \$50 million annually) to charities and they will therefore be in a position to provide more services and assistance to their beneficiaries.¹

This was recognition of the fact that the availability of refundable franking credits will make more funds available to support charities and charitable causes in the community.

¹ 'Refunding Excess Imputation Credits to Charities', Treasurer of Australia, 13 April 2000. Available here: <http://ministers.treasury.gov.au/DisplayDocs.aspx?doc=pressreleases/2000/024.htm&pageID=003&min=phc&Year=2000&DocType=0>

This has indeed been the case.

Based on Australian Taxation Office data, between 2001-02 and 2016-17, refundable franking credits have provided a cumulative total of over \$8.3 billion dollars to philanthropic trusts and foundations and other charities.

In 2016-17, the value of refundable franking credits claimed was just over \$1.1 billion dollars.

If refundable franking credits were no longer available, this would mean a drastic reduction in income to philanthropic trusts and foundations and other charities.

Consequently, there would be a very large decrease in the amount of grants philanthropy can provide to charities and charitable causes, which would have major ramifications for charities and the broader community.

Philanthropy Australia notes that the Federal Opposition has a policy of ending the availability of refundable franking credits, however this policy will not apply to income tax exempt charities and deductible gift recipients.

This means that philanthropic trusts and foundations would be exempt from the changes and would continue to be able to access refundable franking credits.

Philanthropy Australia welcomes the exemption contained within the Federal Opposition's policy and the recognition of the importance of refundable franking credits to philanthropy in Australia.

We have no position on the Federal Opposition's policy more broadly and how it may or may not impact other groups.

Philanthropy Australia hopes this submission is of assistance to the Committee. If the Committee wishes discuss the matters raised in this submission or any other matters further please do not hesitate to contact Sarah Wickham, Policy & Research Manager, on (03) 9662 9299.

Yours Sincerely,

A handwritten signature in black ink, appearing to read 'Sarah Davies', written in a cursive style.

Sarah Davies
Chief Executive Officer