SUBMISSION

TO

THE PRODUCTIVITY COMMISSION

ON

INCENTIVES

FOR

THE CONSERVATION OF HERITAGE PLACES

PRESENTED BY

THE JAYCEES COMMUNITY FOUNDATION INC.

AUGUST 2005

SUBMISSION TO THE PRODUCTIVITY COMMISSION ON INCENTIVES FOR THE CONSERVATION OF HERITAGE PLACES

PRESENTED BY

THE JAYCEES COMMUNITY FOUNDATION INC.

Introduction

The Jaycees Community Foundation Inc ("the Foundation"). is an incorporated not-for-profit association established in 1976 by the Western Australian state organisation of the international young peoples' organisation JCI (formerly known as Jaycees International and Junior Chamber International).

In December1980, the Foundation was gifted what remained of Australia's last operating whaling station which had been closed by the Cheynes Beach Whaling Company (1963) Ltd some two years before. The gifted assets at Albany, Western Australia included two whalechasers, six whaler's cottages, the residual processing plant (that hadn't been sold or scrapped) and factory buildings – all of which were in a poor state of repair.

Over the last 25 years, the Foundation has successfully converted the station into Whale World - Albany's No. 1 heritage tourist attraction and an internationally significant tourism icon. Average visitor stay is now up to 3.2 hours with annual visitor numbers consistently between 65,000 and 72,000. Whale World provides full and part time employment for 26 people and is still administered by a voluntary Board of Directors.

This year, the Foundation has been recognised for its contribution to heritage with awards from Museums Australia (WA) for achievement in partnership development with funding sources and also from the Heritage Council of WA for the Foundation's outstanding commitment to heritage conservation and interpretation in Western Australia by an organisation.

The Foundation has been more successful than most in its applications for grants from federal and state governments and other institutions such as Lotterywest and the Foundation for Rural and Regional Renewal. This support has enabled the restoration of what was a derelict industrial site and the development of major interpretive exhibits within heritage guidelines.

The Foundation has been far less successful in attracting significant support from the private sector with periodical contributions from the family of the original donor company and one or two other individuals making infrequent donations. Support from this sector has largely been "in kind" by way of concessions on materials and services and advertising sponsorship.

The Foundation is of the view that Australians' attitude to philanthropy is not yet developed to the extent that occurs in a number of other countries such as the USA and Heritage Conservation is a low priority in the philanthropic ladder – well behind the more emotive human and environmental causes.

The Foundation believes that if Government is serious about conservation of Australia's built heritage then it needs to offer an administratively simple and "user-friendly" system that will, in time, encourage a change in attitude to philanthropy in Australia - as it relates to heritage.

Having been at the "coal face" for some 25 years, the Foundation believes that it is well placed to offer some suggestions on how this may be achieved. However, this submission is focussed on one specific area rather than being a wide ranging review of all possibilities.

Difficulties with the Grant System

In reviewing information from various sources, the Foundation was impressed by the extent of local and international information contained in "Making Heritage Happen" ("MHH") (National Incentives Taskforce, April 2004) and supports a number of the contentions and recommendations made in that report.

However, it is clear that the system of grants is too cumbersome and inadequate to meet demand. This is confirmed in paragraph 4.3 at page 37 of MHH where oversubscription multiples of up to 12:1 were identified.

Our Foundation has frequently experienced the frustration of preparing detailed applications for grants taking considerable time and resources - only to face rejection – usually after an extended period of time. Only through persistence, significant community support (at all levels) and an enviable track record of performance, has success been achieved.

Two examples of current experience with federal grant schemes highlight the underlying problems.

In 2004, at its third annual attempt, the Foundation was successful in obtaining an Australian Tourism Development Program grant of $60,000 towards a budget of $120,150 for its skeleton exhibit which is due to open on Boxing Day 2005. It was interesting to note that only one in ten applicants for that grant round were successful.

In 2004, the Foundation was one of 176 parties to lodge an expression of interest ("EOI") for a grant under the Department of Industry Tourism and Resources' new Tourism & Conservation Partnerships Initiative. The EOI sought a matching contribution for a feasibility study for the Foundation's Biodiversity Park development alongside Whale World. The Foundation, backed by similar funds from the state government's Regional Development Scheme, offered the matching funds. Only 17 parties were invited to submit formal proposals and 13 did with only six grants being made. It was no surprise that, despite a national roadshow promoting an expanded scheme in 2005, the number of parties expressing interest dropped by half to 88. Fortunately, the Foundation is one of 36 parties invited to lodge a formal proposal from which about 20 will be awarded. (The grant range is between $20,000 and $70,000). The full formal proposal required extensive information including research that would normally be obtained during the development of the actual feasibility study.

While it could be argued that a competitive grant process should address the greatest need and identify priority projects it could also be argued that success could depend more on the ability of the submission wordsmith than the quality of the project.

The above examples serve to illustrate the frustration of grant applicants and support the contention that ***"Oversubscription can lead to disenchantment, particularly given the paperwork involved in making applications."*** (MHH, paragraph 4.3, page 37)

Similarly, it may be the case that priority projects needing greater funding may be rejected because of a desire to satisfy as many applicants as possible by making many smaller grants.

An Argument for Deductible Donations rather than Rebates

While grant systems certainly have their place, the Foundation is of the view that a simpler and more convenient process offering a greater degree of certainty would encourage wider public support for Heritage Conservation.

However, while similar concessions to those offered in the environmental area would be a start in the right direction, the less emotive appeal of Heritage Conservation would still place it at a disadvantage.

For this reason, consideration should be given to a leveraged tax deduction program, similar to that previously offered for expenditure on Research & Development.

While government policy may have a preference for a tax rebate system, from a public understanding and promotional perspective, a tax deduction system will have more impact on potential donors. This coupled with a leveraged deduction will, at least in part address the emotive imbalance from which human and environmental causes benefit.

Table 1 below presents the impact of leveraged tax deductions using the 2005 Income Tax Rates and the assumptions referred to in MHH (Commonwealth Tax Incentives for Heritage Conservation (Australia) at Page 37) which claim that ***"for each $1 million of new expenditure in the construction industry, 64 jobs are created which generates $316,870* of tax receipts and savings of $160,000** in social security payments".*** The full schedule from which Table 1 was prepared is an Annexure to this submission.

TABLE 1: Type of Taxpayer:	**Company**	**Individual**		
Tax Rate (incl Medicare levy)	30.00%	31.50%	43.50%	48.50%
Prospective Donation Amount	$1.00	$1.00	$1.00	$1.00
Tax (including Medicare Levy)	30.00%	31.50%	43.50%	48.50%
Tax receipts from private expenditure*	31.68%	31.68%	31.68%	31.68%
Social Security savings**	16.00%	16.00%	16.00%	16.00%
Total Tax & Social Security savings	**47.68%**	**47.68%**	**47.68%**	**47.68%**
Leveraged Rate: 150% of Tax Rate				
Saving/- Additional cost to Revenue	22.68%	20.43%	2.43%	-5.07%
Net cost to Donor	55.00%	52.75%	34.75%	27.25%
Leveraged Rate: 175% of Tax Rate				
Saving/- Additional cost to Revenue	15.18%	12.56%	-8.45%	-17.20%
Net cost to Donor	47.50%	44.88%	23.88%	15.13%
Leveraged Rate: 250% of Tax Rate				
Saving/- Additional cost to Revenue	-7.32%	-11.07%	-41.07%	-53.57%
Net cost to Donor	25.00%	21.25%	-8.75%	-21.25%

The Table serves to demonstrate that for a relatively nominal extra impact on the Revenue, private sector donations to the Heritage Conservation cause should become far more appealing than a 20% rebate to a company or individual by leveraging a deduction for Heritage Conservation expenditure. The examples below are those highlighted in the Table.

In the case of a company on a 30% tax rate a 250% deduction for expenditure on Heritage Conservation would mean the net cost to the donor would be only 25% of the amount donated while the cost to the Revenue would only be 27.32% (compared with a rebate of 20%).

It is assumed that those individuals on the highest marginal tax rate would:

(a) have greater ability and inclination to make a philanthropic contribution; and

(b) would be more inclined to do so if the net cost to them was a relatively small percentage of the amount actually contributed – say, 15% to 25%

In the case of an individual on a 47% tax rate (+ 1.5% Medicare levy) a 150% deduction for expenditure on Heritage Conservation would mean the net cost to the donor would be only 27.25% of the amount donated while the cost to the Revenue would only be 25.07% (compared with a rebate of 20%). Similarly, if the leverage rate was increased to 175% then the net cost to the donor would drop to 15.13% and the cost to the Revenue would increase to 37.20% (or nearly double the 20% rebate). Using the 150% leverage rate and a prospective donor at lower marginal tax rates, the cost to Revenue would actually be less than a 20% rebate but the net cost to a donor would have less appeal and is unlikely to attract donations.

These examples serve to demonstrate that for marginal increase in the net cost to the Revenue of the previously offered 20% rebate incentive, a net cost of between 15% and 25% of expenditure on Heritage Conservation should encourage greater contribution towards it by companies and individuals.

The Foundation is of the view that such an approach, if properly managed, promoted and explained (with appropriate measures to prevent system abuse) would generate considerable support from potential benefactors because of its:

(a) simplicity

(b) net cost to donors

(c) certainty

These concessions should, at least initially, be limited to expenditure related to built heritage assets that are listed on federal, state or municipal heritage registers or inventories.

It is understood that while built heritage assets listed on federal and state registers have had, in the main, at least some reasonable level of assessment, many such assets listed on municipal inventories have limited basis for listing and should be subject to proper assessment to determine whether, in fact, they should continue to be listed or removed from the inventory.

The second stage would be the preparation of a conservation plan followed by a quantity surveyors report for restoration and, where appropriation, plans and works to convert the asset to another format for practical use while satisfying heritage guidelines.

It is recognised that the issue of size and complexity of the asset will have a bearing on the cost of all of these elements. For this reason and, to limit the opportunity for abuse of concessions, a classification and expenditure capping system is suggested.

Classifications:

A. Domestic residences
B. Commercial buildings and industrial complexes
C. Other

Where the nature of the asset does not readily fit within classification A or B, or is likely to involve expenditure beyond that nominated in the proposed capping schedule, then an "Other" classification (with appropriate capping amounts) could be sought from the respective state or territory Heritage Council to which an Application Fee would be payable.

Capping:

To limit the opportunities for abuse of the system, caps on the level of expenditure qualifying for the leveraged tax deduction concessions could be applied. Subject to closer investigation of costs in all states and territories, the following are offered as preliminary caps for different types of qualifying expenditure.

TABLE 2 Classification:	A	B	C
1. Heritage Assessment	5,000	10,000	Note 1
2. Conservation Plans	10,000	20,000	Note 1
3. Quantity Surveying for Conservation/Restoration	1%	1%	1%
4. Conservation/Restoration Works	Note 2	Note 2	Note 1
5. Annual maintenance	5,000	10,000	Note 1
6. Plans for alternative format	Note 3	Note 3	Note 1
7. Quantity Surveying for alternative format	1%	1%	1%
8. Conversion for alternative format	Note 2	Note 2	Note 1

Note 1: The value caps would be set by the respective state or territory Heritage Council at the time of granting the "Other" classification.
Note 2 The value caps proposed would be 10% more than the values nominated in the Quantity Surveyors Report to allow for increases in costs between the date of the Report and the time the actual works take place. Quantity Surveyor fees capped at 1% of project value determined from Conservation/Other plan.
Note 3: Applications for cap values would be subject to approval by the respective state or territory Heritage Council against a formal quote from a qualified architect approved by the Heritage Council.

Qualifying Payments

Only payments to consultants or firms approved by the relevant Heritage Council or to recognised, incorporated, not-for-profit bodies with Deductible Gift Recipient status, would qualify in the case of Items 1 to 4. In the latter case, a listing on a Heritage equivalent of the Register of Environmental Organisations would be required.

An application to and approval by the relevant Heritage Council would be necessary for any expenditure covered by Items 6 to 8 and a completion certificate from that body required.

Subsequent sale of privately owned Listed Assets

It is recognised that a potential abuse of the system could occur in the case of privately owned buildings converted to alternative format rather than simply conserved and/or restored.

This could be overcome by requiring that a recoup of at least part of the tax benefit claimed for the actual expenditure on modifications for alternative format from the sale proceeds.

Benefits of the Proposed System

The proposed system offers the following benefits:

1. Relatively simple and easily understood by prospective contributors
2. Could accelerate the proper heritage assessment of listed places – particularly municipal inventories
3. Does not depend on a competitive program
4. No significant or complicated application process
5. Offers certainty (in most cases)
6. Places responsibility for approval of any unusual project or material variations to nominated expenditure caps on the relevant state or territory Heritage Council thereby offering greater supervision and recording of the nation's heritage assets
7. Minimises federal administration
8. Encourages proper conservation and maintenance of heritage assets
9. Cost of the system would be only marginally more than a 20% rebate system
10. Grants could be more appropriately directed to heritage assets owned or managed by incorporated not-for-profit organisations (by excluding privately owned heritage assets).

Overview

While the actual percentages used in the Tables may well be inaccurate due to changed rates and circumstances applicable today, the principles behind the matrix used should warrant further verification and review.

The Foundation is of the view that the principle of leveraged tax deductions offers an administratively simple, fair and easy to understand system that will encourage public support for the conservation and restoration of heritage assets in Australia's built environment.

This submission is made for and on behalf of The Jaycees Community Foundation Inc. by

Peter J. Snow
EXECUTIVE CHAIRMAN

1st August, 2005

ANNEXURE

SCHEDULE OF EFFECT OF LEVERAGED TAX DEDUCTIONS

Type of Taxpayer			**Company**	**Individual**		
Tax Rate (incl Medicare levy)			30.00%	31.50%	43.50%	48.50%

Prospective Donation Amount			$1.00	$1.00	$1.00	$1.00
Tax (including Medicare Levy)			30.00%	31.50%	43.50%	48.50%
Net retained if amount not donated			70.00%	68.50%	56.50%	51.50%

Tax receipts from private expenditure*	31.68%		31.68%	31.68%	31.68%	31.68%
Social Security savings*	16.00%		16.00%	16.00%	16.00%	16.00%
Total Tax & Social Security savings			**47.68%**	**47.68%**	**47.68%**	**47.68%**

(*MHH at Page 37 Planning Ministers' Conference in 1986)

Donor's tax saving at leveraged rate of	125%		37.50%	39.38%	54.38%	60.63%
Net benefit/-cost to the Revenue			10.18%	8.31%	-6.70%	-12.95%
Compared with a rebate @	20%		20.00%	20.00%	20.00%	20.00%
Saving/- Additional cost to Revenue			**30.18%**	**28.31%**	**13.31%**	**7.06%**
Net cost to Donor			**62.50%**	**60.63%**	**45.63%**	**39.38%**

Donor's tax saving at leveraged rate of	150%		45.00%	47.25%	65.25%	72.75%
Net benefit/-cost to the Revenue			2.68%	0.43%	-17.57%	-25.07%
Compared with a rebate @	20%		20.00%	20.00%	20.00%	20.00%
Saving/- Additional cost to Revenue			**22.68%**	**20.43%**	**2.43%**	**-5.07%**
Net cost to Donor			**55.00%**	**52.75%**	**34.75%**	**27.25%**

Donor's tax saving at leveraged rate of	175%		52.50%	55.13%	76.13%	84.88%
Net benefit/-cost to the Revenue			-4.82%	-7.45%	-28.45%	-37.20%
Compared with a rebate @	20%		20.00%	20.00%	20.00%	20.00%
Saving/- Additional cost to Revenue			**15.18%**	**12.56%**	**-8.45%**	**-17.20%**
Net cost to Donor			**47.50%**	**44.88%**	**23.88%**	**15.13%**

Donor's tax saving at leveraged rate of	200%		60.00%	63.00%	87.00%	97.00%
Net benefit/-cost to the Revenue			-12.32%	-15.32%	-39.32%	-49.32%
Compared with a rebate @	20%		20.00%	20.00%	20.00%	20.00%
Saving/- Additional cost to Revenue			**7.68%**	**4.68%**	**-19.32%**	**-29.32%**
Net cost to Donor			**40.00%**	**37.00%**	**13.00%**	**3.00%**

Donor's tax saving at leveraged rate of	250%		75.00%	78.75%	108.75%	121.25%
Net benefit/-cost to the Revenue			-27.32%	-31.07%	-61.07%	-73.57%
Compared with a rebate @	20%		20.00%	20.00%	20.00%	20.00%
Saving/- Additional cost to Revenue			**-7.32%**	**-11.07%**	**-41.07%**	**-53.57%**
Net cost to Donor			**25.00%**	**21.25%**	**-8.75%**	**-21.25%**