



## **CENTRE FOR SOCIAL IMPACT**

Submission to the Productivity Commission's  
Draft Research Report (released 14 October 2009)  
on the contribution of the not-for-profit sector

### **NO. 2 : PROVIDING IMPETUS TO WORKPLACE GIVING**

# PROVIDING IMPETUS TO WORKPLACE GIVING

The following short submission has been developed by the head of the Centre for Social Impact, Macquarie Group Foundation Professor Peter Shergold

## Background

Workplace giving – sometimes called payroll giving – has been a major feature of Australia’s charitable landscape since 2002. In that year the Commonwealth government provided an inducement by allowing employees to donate to a charity through their pre-taxed income and to receive immediate tax relief at their marginal rate. No longer was it necessary to collect receipts and claim them with their annual tax return.

Until now, as the Productivity Commission draft report notes, this important initiative has had only modest success. Today less than 0.6% of Australian employees donate through fortnightly deductions from their salaries. Yet, the impact is greater than that sounds. It is estimated that up to \$20 million is now contributed to charities each year through payroll. That is good news. The question is, why is it not significantly better? In Canada a similar scheme has almost ten times the proportion of employees contributing (5.6%) and in the United Kingdom, where participation is around 1.3%, the average annual individual donation is at least 50% greater. In Australia the extraordinary potential of workplace giving is yet to be fully realised.

The Centre for Social Impact (CSI) strongly supports Draft Recommendation 7.3 of the Productivity Commission’s report “to encourage cost-effective giving, the Australian Government should explore options to promote and support planned giving, especially payroll giving and bequests”.

## The Case for Change

A path-breaking study has recently appeared which provides valuable data on how workplace giving is perceived and whether it might be made more attractive to potential donors. It was initiated and led by the Australian Charities Fund (ACF), and supported by the Centre for Social Impact and a number of socially responsible corporate partners (ANZ, Bain and Company, Buyology Lab, Goldman Sachs JBWere and Mallesons Stephen Jacques). [Cutting to the Heart of Workplace Giving](#) provided over 4,500 employees with the opportunity to give their views. The evidence knocks stereotypes for six.

A major question about workplace giving has been whether workplace donations are really ‘taking from Peter to pay Paul’. There has been a concern that the person who gives regularly through a payroll deduction may then reduce other charitable contributions made during the course of the year. Nothing could be further from the truth.

At least three-quarters of those surveyed indicated that as a result of joining a workplace giving program they had increased the amount they give to charity each year. Around 62% of employees had maintained their donations outside the workplace and a further 14% had increased outside giving. Overall, of the workplace giving donors surveyed, an average of \$574 was deducted from payroll in the last year, in addition to the \$1,090 donated outside.

That is not the end of the story. Around 28% of respondents indicated that they were now contemplating increasing their giving. Just 1% were thinking about decreasing donations. According to ACF's project manager, Mei-Ling Ho, "the big question everyone kept asking us was, does workplace giving increase the size of the fundraising pie? Now we can tell people with confidence, yes – it does."

Perhaps it is time to stop extolling workplace giving as a 'set and forget' scheme. It is more than a very low cost, reliable stream of income for Australian charities. Clearly participation contributes to a caring culture. It's notable that 42% of the donors surveyed had also volunteered for community work through their workplace during the year compared to only 27% of non-donors.

The question is why participation in workplace giving still remains so relatively low in Australia. In part the answer lies with employers. It is clear from the survey that they need to engage in the program and show that they actively support it in concrete ways. The single most important reason that employees participated in the program was because their employer was matching their workplace giving: some 63% gave that as their motive for participation, compared to 56% who identified convenience and 37% who were attracted by the scheme's tax-effectiveness.

There are benefits to companies in supporting such schemes in terms of increasing employee recruitment and retention and enhancing reputational advantage. In-depth interviews with employees indicated that many took pride in their company's community engagement program. For Mallesons Chief Executive Partner, Robert Milliner, the message is clear – "workplace giving is as beneficial for the employer and employee as it is for the charities".

### **Proposed Ways Forward**

The question arises as to whether governments could or should do more, as they have done overseas. There are a range of possible interventions.

First, and boldest, the Commonwealth government could make workplace giving a mandatory responsibility of employers. However, as a 2008 [Review of Payroll Giving](#) noted in the UK, although there was strong support for this approach from the 'third sector', business would probably resist and government is unlikely to respond favourably to an approach that would add to the regulatory burden of 'red-tape' imposed on economic enterprise. *CSI does not recommend this approach at this time.*

Second, the Commonwealth government could consider levelling the giving field for employees. At present those paying a higher marginal tax rate achieve greater leverage in respect of the after tax dollars they donate: for workers on the lowest marginal tax rate, the after tax cost of donating \$200 each year is \$167 compared to \$107 for their colleagues on the highest rate. Perhaps that helps explain why, in the ACF survey, those earning at least \$75,000 accounted for 39% of total respondents but 53% of workplace giving donors.

Administratively, this is not a difficult problem to solve. Employees could be granted a grossed-up deduction to achieve parity between givers on different marginal tax rates. Alternatively, the Australian Tax Office could make additional payments to the charities equal to the difference in tax saving between the top marginal rate and the actual marginal rate (similar to Gift Aid arrangements in the UK). However, there are drawbacks. The latter method is likely to increase compliance costs but the former may be at odds with the commitment of the Treasurer to simplify income tax reporting.

*CSI would welcome an assessment by the Productivity Commission of approaches to providing the same taxation benefits to all workplace givers irrespective of their income.*

Third, governments could do more to encourage small and medium enterprises to participate by subsidising the administrative costs necessary to establish a workplace giving program. In the UK a government-funded SME Grants program was launched in 2005 to provide small one-off grants to each SME that signed up to the scheme, tiered according to the number of people employed (£300 for the smallest company, £500 for the largest). A review of the scheme in April 2008 found that over 3 years almost 3,500 employers had joined, bringing in just under 16,000 new payroll givers. The [SME Grants Program Report](#) concluded that the approach has been “hugely beneficial for the [UK] voluntary sector”.

*CSI strongly supports the view expressed in the Productivity Commission draft report that the “Australian Government could encourage payroll giving schemes, especially for small and medium enterprises, by subsidising establishment costs”.*

Fourth, the Commonwealth government could do more to encourage employee giving by matching their donations up to some agreed level. From 2000-2004, for example, the UK government provided a 10% supplementary payment for any pre-tax payroll giving.

Alternatively, Australian employers could be encouraged through the tax system to match employee donations. Currently an employer who chooses to do so can claim a tax deduction for this matching. Tony Harrington, of PricewaterhouseCoopers, has suggested that this incentive could be significantly increased if employers were entitled to claim an enhanced deduction (perhaps 130%) of the amount matched.

*CSI strongly supports the view expressed in the Productivity Commission draft report that the Australian Government “consider matching additional incentives for a limited period to*

*mobilise employee support for payroll giving programs” and /or provide additional tax benefits to employees to match the giving of their employees.*

Fifth, both Commonwealth and State governments could do far more to promote actively the value of workplace giving. A strong communications strategy, incorporating corporate recognition and awards, could give greater prominence to a scheme that too often has its considerable virtues hidden from public gaze.

*CSI strongly supports the views expressed in the Productivity Commission draft report that “any government program to increase payroll giving must also be conducted with an information campaign to ensure increased public awareness”.*

Finally, governments should at least ensure that their own workforces are given every encouragement to participate. Every public sector agency should be expected to establish a workplace giving scheme. Governments, as employers, should model the best practice they would hope to see in the private sector.

*CSI strongly recommends that the Australian Government actively promotes workplace giving by its own employees.*

## **Conclusion**

It is not unfair to ask why the Commonwealth government, having established the administrative framework to support workplace giving, should feel any obligation to do more. The answer is that a relatively modest investment in enhancing workplace giving could provide a far more cost-effective way of addressing social problems than alternative government programs. Just as Treasury should explore how better to promote a savings culture among Australian households, so it should recognise the financial merits of underpinning a giving culture.

Right now Australian charities are doing it tough. The recent [Managing in a Downturn](#) report revealed that almost a third of charities have seen their incomes decrease by more than 10%, at the very moment when demands for their services from those in need are rising. Workplace giving provides a stable source of income in these uncertain times. As Ted Kerr, CEO of ACF has emphasised, “if just 10% of working Australians made a payroll charity donation of \$5 a week, the Australian community would benefit by more than \$260 million each year”. That’s without taking account of employer matching. It’s a goal both modest and realistic.

Each of the dollars that goes to charity is not just an act of faith: it is an investment that reaps social returns. The multifarious help that charities provide to those in need reduces the call on government welfare programs by providing employment, increasing educational outcomes, keeping people out of hospital, providing emergency accommodation, helping families to be more functional and self-reliant and creating community engagement and civic respect.

Doing good has economic value. Measurement of social returns on community investment in individual charities typically shows a return of at least 5-10 times the level of investment. Jo Cavanagh, CEO of the non-profit Family Life, has recently had the assistance of Bain and Company in measuring the benefit of its activities in improving health, lessening the need for child protection and reducing family violence. Preliminary but conservative estimates suggest that for every dollar invested there is an 11-fold return in beneficial social impact.

Both at the Commonwealth and State levels, there is significant focus on how best to create 'social inclusion'. Perhaps the best thing would be for governments to help charities do what they do best. A small investment in workplace giving could provide social returns of more than \$2 billion each year. Forget philanthropy: this is an economic investment worth making.

**CSI welcomes the opportunity to further discuss this submission with the Productivity Commission.**