



Review of Philanthropy

Call for submissions

Plain English version

The Commission has released this paper to assist individuals and organisations to prepare submissions. It contains and outlines:

- the scope of the inquiry
- the Commission's procedures
- matters about which the Commission is seeking comment and information
- how to make a submission.

The Productivity Commission acknowledges the Traditional Owners of Country throughout Australia and their continuing connection to land, waters and community. We pay our respects to their Cultures, Country and Elders past and present.

The Productivity Commission

The Productivity Commission is the Australian Government's independent research and advisory body on a range of economic, social and environmental issues affecting the welfare of Australians. Its role, expressed most simply, is to help governments make better policies, in the long term interest of the Australian community.

The Commission's independence is underpinned by an Act of Parliament. Its processes and outputs are open to public scrutiny and are driven by concern for the wellbeing of the community as a whole.

Further information on the Productivity Commission can be obtained from the Commission's website (www.pc.gov.au).

Call for submissions

The Commission has released this paper to assist individuals and organisations to prepare submissions to the inquiry. It contains and outlines:

- the scope of the inquiry
- the Commission's procedures
- matters about which the Commission is seeking comment and information
- how to make a submission (attachment B).

Participants are not restricted to comment only on matters raised in this paper. The Commission wishes to receive information and comment on issues which participants consider relevant to the inquiry's terms of reference.

Key inquiry dates

Receipt of terms of reference	11 February 2023
Due date for submissions	5 May 2023
Release of draft report	Late November 2023
Final report to Government	May 2024

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1. About this inquiry

The Australian Government wants to double philanthropic giving (donations) by 2030. To do this, it wants to work with people in:

- philanthropy
- not-for-profit (NFP) organisations
- business.

It asked us to hold an inquiry. Our inquiry will look at:

- why people in Australia donate
- ways to increase donations.

At the same time as this inquiry, the Government is acting on other policies related to NFPs and donating.

The Australian Government is:

- developing the *Not-for-profit Sector Development Blueprint* (Department of Social Services (DSS))
- finalising draft laws to reform 4 Deductible Gift Recipient (DGR) categories (Department of Treasury 2023)
- starting a working group to make working with children checks more alike across the nation (DSS 2022)
- funding Volunteering Australia to deliver the sector-led *National Volunteering Strategy 2023–2033* (Rishworth 2023).

State and territory governments want to make their fundraising rules better and more alike (Leigh and Pearson 2023). They are planning reforms to do this.

What we have been asked to do

The Government asked us to do 3 things:

- look at donation trends in Australia and what drives these trends
- find ways to increase donations in Australia, and find what gets in the way
- recommend how to respond to the issues and opportunities.

We will also look at:

- how well the DGR framework works and how fair it is
- whether donors can assess and compare charities
- other review findings (including our 2010 *Contribution of the Not-for-Profit Sector* inquiry)
- current policy processes (including the *Not-for-profit Sector Development Blueprint*).

Our approach

Organisations in Australia's NFP sector vary in size, purpose and where their funding comes from.

They service the community in many ways, including:

- health

- education
- scientific research
- religion
- overseas aid
- sport
- human rights protection
- environment protection.

There have been reforms over the last decades. For example, the way NFPs work and their services have changed to suit:

- a shift towards people choosing their own care
- a changing society and economy.

The nature of giving in Australia has also changed. For example, changes in technology have created new ways to give, including online. Companies that focus on being socially responsible donate and invest in the community as part of their strategy. This creates value for their shareholders and the public.

To reflect these changes, we will look at ways to increase giving from the view of the whole community.

When looking at reform options we will think about:

- the costs
- the benefits
- whether certain people or groups are made better or worse off.

We will take in the views of:

- donors (of all types)
- NFPs
- those who benefit from NFPs
- people working in the NFP sector
- the public, including as taxpayers.

To do this, we will engage with:

- the Australian, state and territory governments
- the philanthropic, NFP and business sectors
- technical and subject matter experts
- the community more broadly.

We want to understand and reflect diverse views on philanthropy. This includes from:

- Aboriginal and Torres Strait Islander people
- religious groups
- culturally and linguistically diverse communities.

Others have done reviews which we will also draw on. We will consider their findings and recommendations in light of what we now know.

We will release a draft report in late November 2023. It will set out what we have found by that time.

The draft report will be open for public comment and feedback to inform our final report. We will also hold public hearings in February 2024.

Find out more and register to get updates at [pc.gov.au](https://www.pc.gov.au).

We will give a final report to government by 11 May 2024.

How to contribute

Attachment A has the terms of reference for this inquiry.

You can send us comments about these and other issues to do with the inquiry.

Attachment B says how to contribute. You can send submissions that are:

- informal
- relevant but made for other review processes.

You can also comment through the website.

We ask that you provide us your submission to the draft report before 5 May 2023.

2. Philanthropy in Australia

Many Australians volunteer and donate to NFPs. They also give food and other goods to NFPs which NFPs then give out to others.

People might give:

- through local community or religious groups
- direct to those in need.

Many workplaces have giving programs. Many different businesses give money and in-kind support to causes.

Who gives and who does not give changes over time, as does:

- capacity to give
- reasons for giving
- how people give.

This means trends about giving also change.

The Government has asked us to consider these trends and reasons for giving.

Defining philanthropy and the scope of the inquiry

There is no single way to define philanthropy. People will have views about what it does and does not cover.

A common way to describe it is: **charitable acts motivated by the desire to improve the welfare of others** (Australian Institute of Health and Welfare 2021, pp. 1–2; McCully 2008; OECD 2020). Others define it differently.

For example:

- Philanthropy Australia (2022, p. 1) says it includes ‘the giving of money, time, information, goods and services, influence and voice to improve the wellbeing of humanity and the community’

- Salamon (1992, p. 130) says it is ‘the private giving of time and values (money, security, property) for public purpose’.

We know philanthropy includes a range of activities. We hope to find out the most important activities and those which affect policy.

The terms of reference and your input will guide us.

We think that the inquiry will have a major focus on money and asset donations, and policies to do with this.

Although philanthropy can be larger-scale giving by people with lots of money, it involves giving of all sizes.

Using 2022 Australian Taxation Office (ATO) data, we estimate that of those people who had a taxable income between \$100,000 and \$150,000 in 2019-20:

- 45% claimed a tax deduction for giving
- the average donation was \$588.

We will need to decide how much focus we give some activities that may not usually be thought of as philanthropy, such as:

- social impact investing
- political donations.

We do not think these activities, or policies to do with them, will be a main focus of the inquiry.

Social impact investing aims to benefit society or the environment while getting money in return (Treasury 2017a).

Our definition of philanthropy focuses on activities by donors who do not expect money in return for their giving.

We will consider social impact investing to an extent when it supports or replaces donating.

Political parties do not need DGR status or to be registered charities — both DGR status and registered charities are focuses of the inquiry.

We want to hear from people about how to include different cultures, views and attitudes toward giving.

For example, in Aboriginal and Torres Strait Islander communities, there are strong cultural norms around:

- giving and receiving
- helping and supporting communities
- informal volunteering.

Many faith-based communities also have goals related to giving.

In some cultures, donors do not make themselves known. In other cultures, it is clear who the donors are.



Information request 1

Defining philanthropy and the inquiry's scope

We would like to know views and information on:

- philanthropic activities that this inquiry should include in its scope
- how to recognise different definitions, views and norms within cultures and communities about philanthropy, for example:
 - Aboriginal and Torres Strait Islander people
 - culturally and linguistically diverse communities
 - faith-based groups
 - younger and older Australians.

Trends in philanthropic giving

People give money, goods and services, and time to the NFP sector (figure 1).

There are 3 main sources of donations in Australia:

- living people
- estates
- organisations.

Some NFPs raise funds using mass marketing. This sort of fundraising is getting harder as more do it.

Some NFPs have campaigns to respond to an event, like a natural disaster. Or they may combine ways to get donations (McLeod 2018, p. 9).

Websites that match donors with causes can support volunteering and in-kind donations of goods and services.

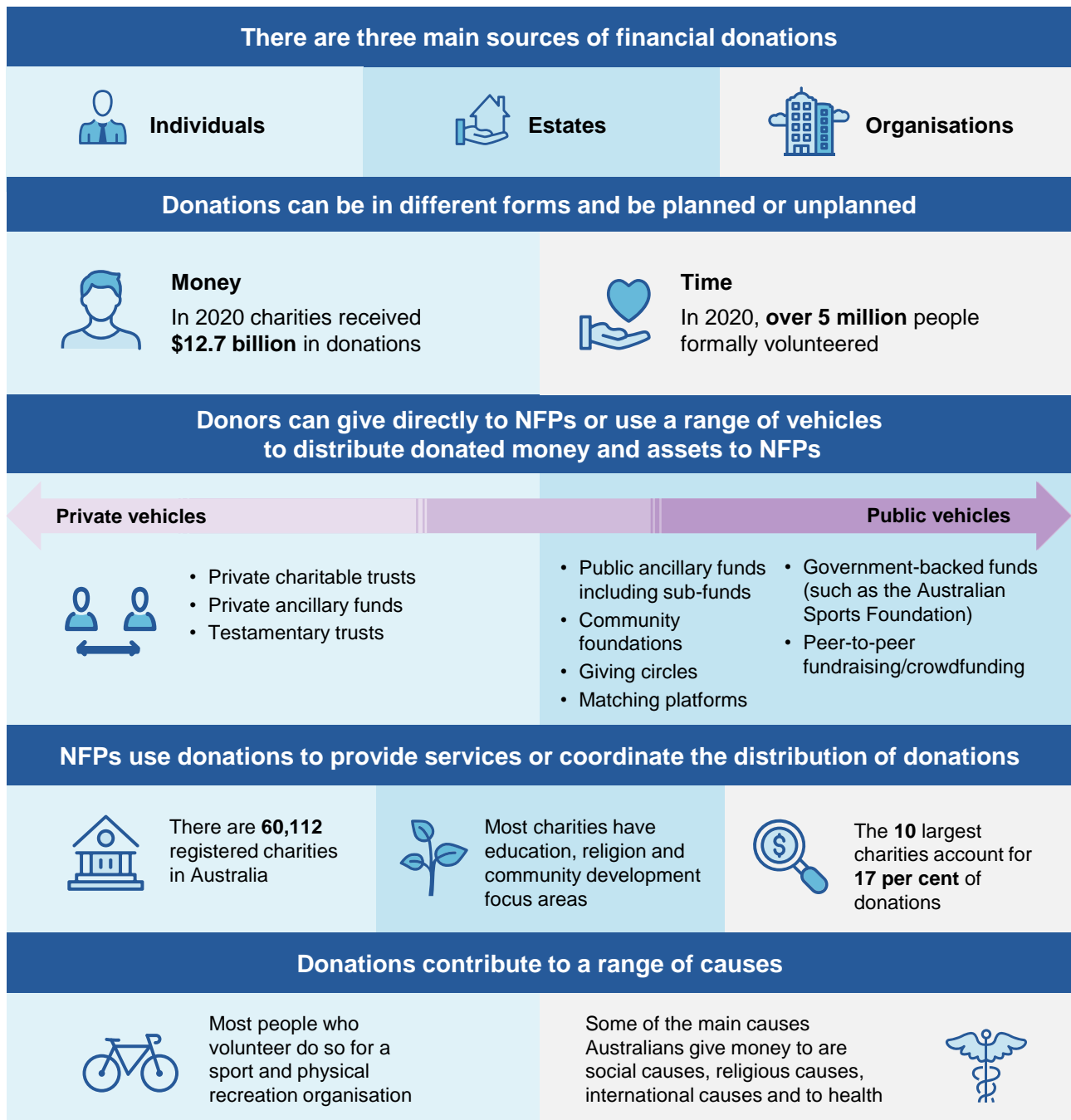
Many NFPs, especially smaller ones, get a lot of their income from donations and bequests (figure 2).

In some cases, donors use a third party to lead, manage or give out money and assets to NFPs. They might be:

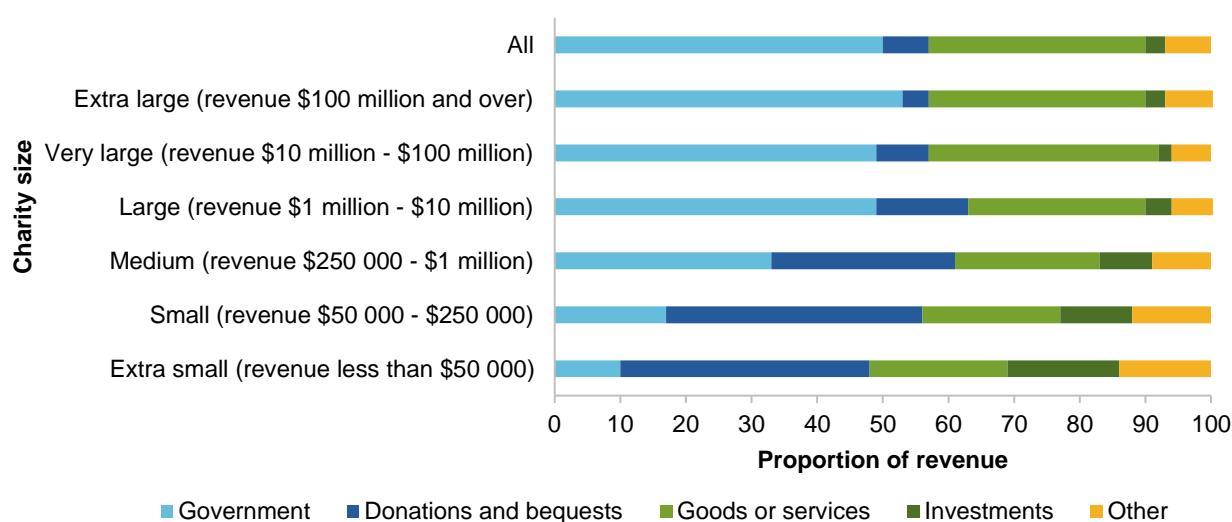
- a trustee company
- a philanthropic service provider
- an advisor.

They use tools such as private ancillary funds (PAFs) and public ancillary funds (PuAFs) so that donors can give funds to organisations over time. They may also get an upfront tax deduction.

Figure 1 – The system of giving



Sources: ACNC (2020, pp. 5, 9, 2023); AIHW (2021); McGregor-Lowndes et al. (2017, p. xxii); Volunteering Australia (2022, pp. 6–7).

Figure 2 – Source of revenue breakdown, by charity size, 2020

Source: ACNC (2020, p. 20).

How much is donated and who gives?

It is hard to work out how much money is given in Australia. There are some data sources, but none cover all types of giving.

For example, bequests can be a major source of income for some NFPs. But there are not enough data to work out how much is given.

A lack of data also makes it hard know who is not giving. There are data about the number of people who do not claim donations at tax time each year. But some people give and do not claim, so this may not show the number of people who do not give.

There are data on some aspects of giving. For example, Australians gave \$12.7 billion to charities in 2020 (ACNC 2020, p. 5).

The percentage of people who claimed donations on tax fell, from 35% in 2009-10 to 29% in 2019-20 (ATO 2022a) (figure 3a). Despite this, the total value of donations almost doubled over the same time, from \$2 billion to \$3.8 billion.

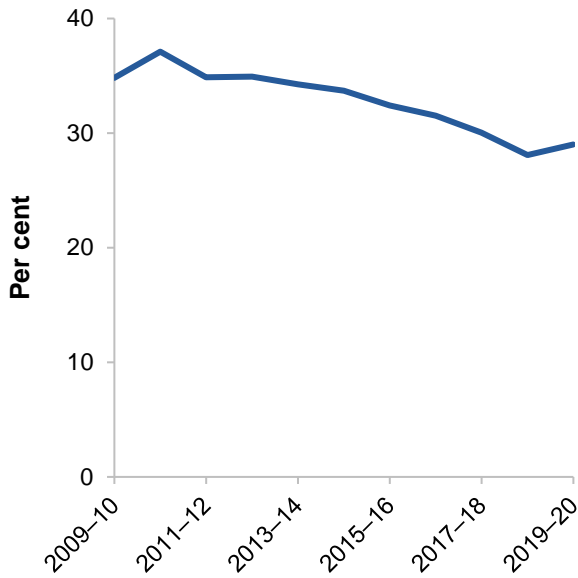
As a proportion of the economy, deductible gifts and donations went from 0.16% to 0.19% during the 10 years to 2019-20 (ABS 2022; ATO 2022a) (figure 3b). This means:

- fewer people were giving
- those who were giving were giving more.

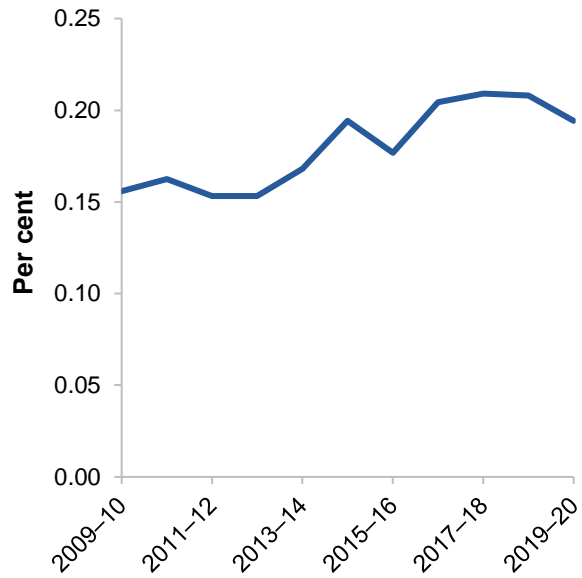
It is also hard to work out how much time people give (and its value). This is partly because of the broad range of activities included in volunteering.

Figure 3 – Australian trends in giving

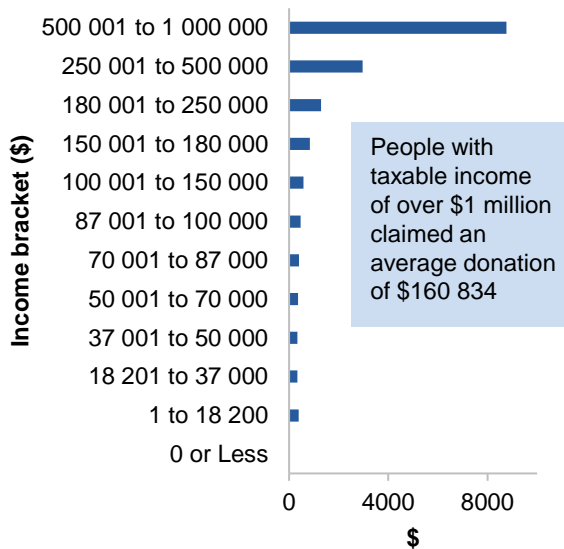
a. Proportion of individual taxpayers claiming a deduction



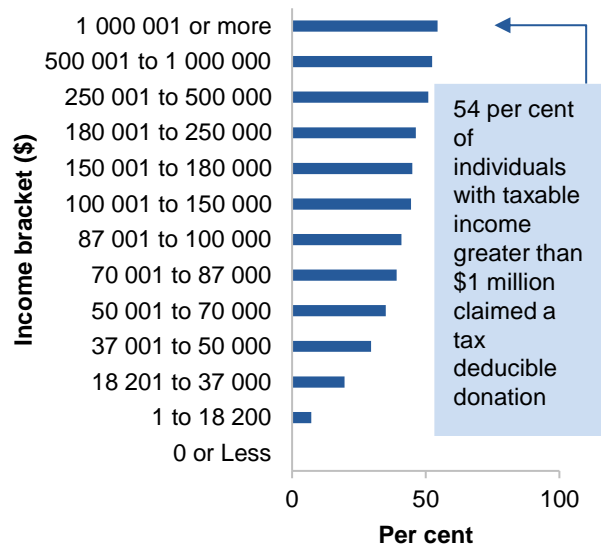
b. Gifts and donations as a proportion of nominal GDP



c. Average claimed donation by those who gave, by income, 2019-20



d. Proportion of taxpayers who claimed, by income, 2019-20



Source: Commission estimates based on ATO (2022d, 2022c, 2022a) and ABS (2022).

A person’s income, age and gender can help predict:

- whether they will give or not give
- the amount they will give.

In general, people who earn more money make larger tax-deductible donations.

In 2019-20, the average donation went up with income.

People who earned more than \$1 million claimed an average of \$160,800 in donations to charities on tax (figure 3c). Just over half of this group donated and gave gifts (figure 3d).

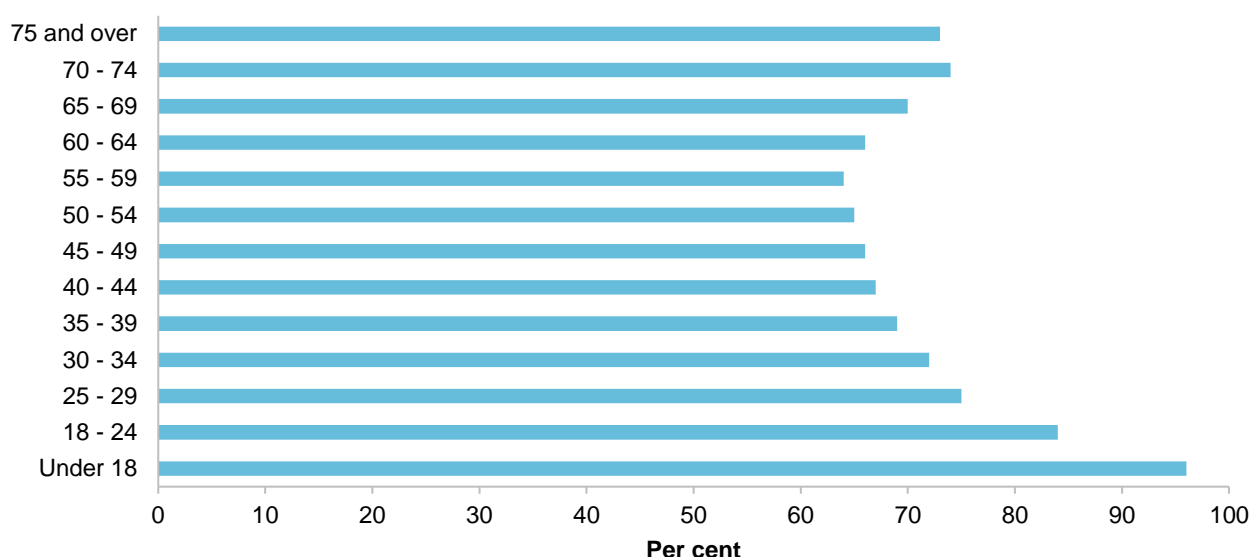
Of the 15 million people who did a tax return in 2019-20:

- 10.6 million people (70%) did not claim gifts or donations (although they may have given to a cause)
- almost 9.2 million people had an income of less than \$100,000.

Younger people were less likely to claim a donation (figure 4).

Figure 4 – Younger people are less likely to make tax-deductible donations

ATO data on the proportion of taxpayers who did not claim a gift or donation deduction in 2019-20 by age



Source: ATO (2022d).

Motivations for philanthropy

Knowing why people donate is key to finding out if and how people respond to activities, including government policies, to change giving behaviours.

Why do people give?

Donors can have multiple and mixed reasons for giving. These can also vary over time (Becker and Murphy 2000).

A person's reasons may:

- be personal, such as to do with values and life experiences
- relate to family, culture or faith (figure 5).

People may just want to do good. Or they might get personal benefit or pleasure from the act of giving. For example, they may want recognition or status, or to be happier.

An Australian study found the most common reasons for giving to organisations were:

1. 'it's a good cause/charity' (39%)

2. 'I respect the work it does' (21%)
3. 'sympathy for those it helps' (14%) (McGregor-Lowndes et al. 2017, p. 19).

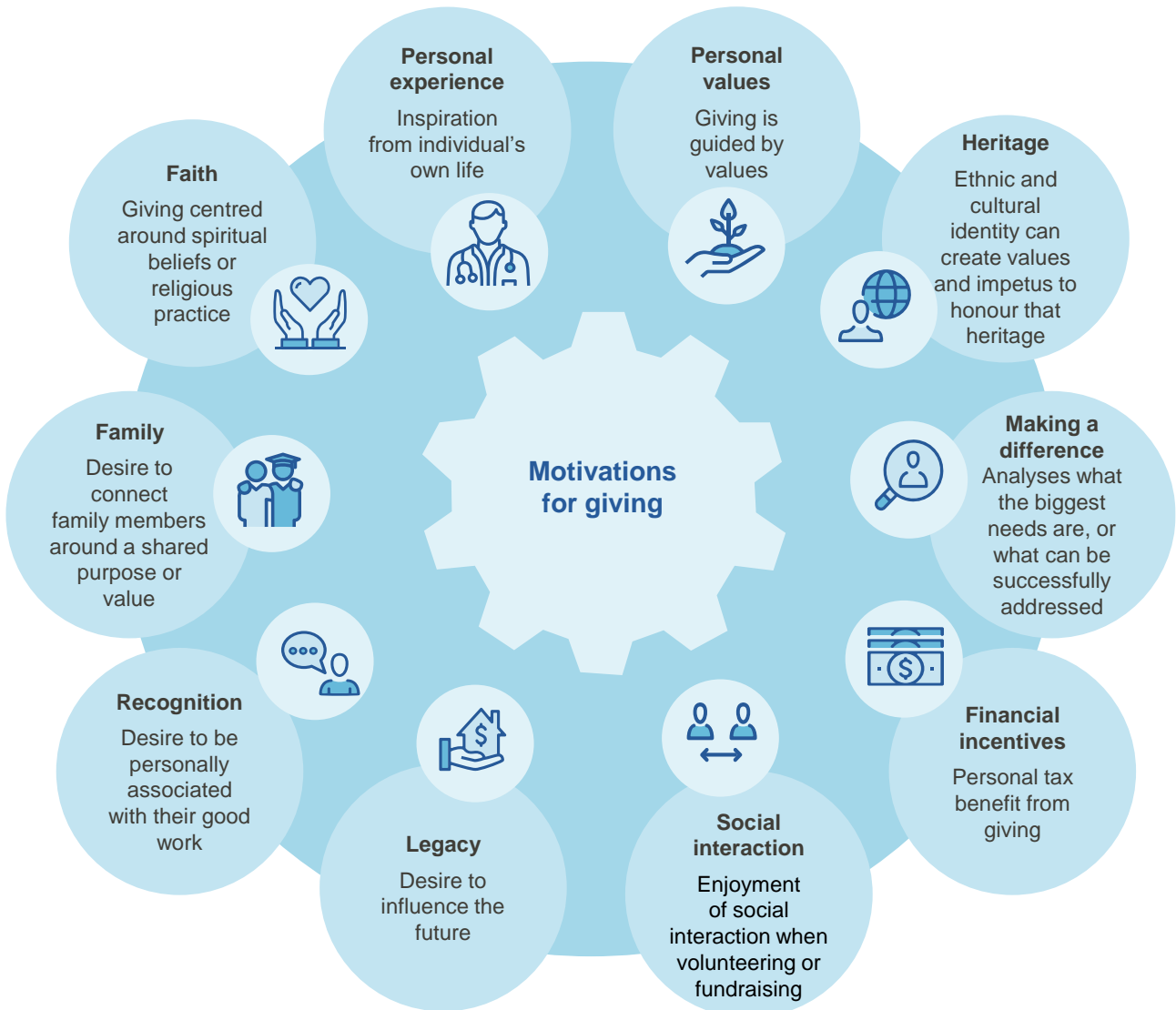
Knowing why people give helps the Government to design policies and other activities to change giving behaviours.

Research shows that public campaigns that aim to increase giving to causes with broader social benefits may be more effective if they appeal to the donor's:

- self interest
- good feelings they get from giving (List et al. 2021).

For some people their faith can be a major motivation for giving. For these groups, changes in giving might be related to social and demographic changes, rather than government policy. Different income tax rates for people can also affect how much they give. Sections 3, 4 and 5 look at these issues in more detail.

Figure 5 – Categories of motivation for giving



Sources: Adapted from Rockefeller Philanthropy Advisors (2023); Michigan State University (2014).



Information request 2

Vehicles, trends and motivations for giving

We would like to know views and information on:

- data that is not available publicly on giving by donors of different ages, genders and incomes, and other characteristics
- Australian-specific data, case studies and other insights about reasons why donors give who have different characteristics, including elasticities of giving
- data on how much NFPs and organisations spend on sourcing revenue, including:
 - the rate of return from different methods
 - fundraising costs compared with costs of other funding sources, such as grants from governments or partnerships
 - how these costs are changing over time.
- the benefits and drawbacks of donations as a source of revenue for NFPs compared with other funding streams, such as government grants
- whether these benefits and drawbacks differ:
 - between different types of organisations, such as Aboriginal Community Controlled Organisations
 - with DGR status or the structure of charities
 - with size
 - whether they are newly-formed.
- ways to give that are not available in Australia and their purpose, and whether they suit the Australian context, benefits, costs and implementation risks.

The role of government in supporting philanthropy

The terms of reference ask us to:

- find ways to increase donations in Australia, and find what gets in the way
- recommend how to respond to the opportunities and barriers.

We will look at:

- current policies that affect giving to find out whether they could be better
- whether there are better ways to shape policy to benefit the community.

When we do this, we will consider the principles of good policy design (below) and policy goals, such as:

- protecting donors as consumers
- keeping a stable tax system
- fiscal and economic effects
- other trade-offs.

These are broad policy settings that affect the level of giving:

- policies that **directly** increase levels of giving, like tax concessions for donors

- policies that **indirectly** affect levels of giving because they affect NFPs' incentives or ability to get private donations. An example is rules that restrict how charities raise funds to protect donors. This could reduce how much money NFPs can raise.

Policies designed to directly increase giving

Tax concessions providing a deduction for donors on their tax lower the costs of giving to NFPs and other eligible organisations that benefit the community.

They are a form of government subsidy for causes that help society, the environment and the economy.

They can also be a way for governments to meet these types of goals without giving money out as grants (Treasury 2013, p. 2).

The aim of using tax concessions in public policy is not exactly about getting more donations. The aim is to get the best outcomes at the lowest cost by finding the right mix of:

- donations
- government grants
- services provided by the government.

Tax concessions also help with choice. A person or organisation, rather than the government, can donate to the cause they choose (Martin 2018; Treasury 2013).

This means when the government gives tax concessions for donations, it also gives up some power over how the money is spent.

Because donations are a big part of an NFP's income, they can:

- be a different choice of service provider to government
- provide services that governments do not.

Sometimes, NFPs are the best option for services. For example, where there are gaps in government services or for some special or local services.

This may be very important for Aboriginal and Torres Strait Islander people. Some government services may not be:

- preferred
- targeted well
- best suited to them or their communities.

Services can also use donations to trial and assess different approaches. Other providers (including governments) can use lessons from these trials to inform how they deliver government-funded services.

More giving and volunteering benefits the community more broadly too. For example, when a person volunteers to coach their child's football team, they may indirectly:

- build relationships between people
- get social rewards that feed into the community.

This may motivate others to give their time or money. For example, another parent could choose to donate funds for new equipment.

Tax concessions also have a cost. When one part of the community has a benefit from concessions, another part may have a higher tax burden.

The OECD (2020) found that some people opposed tax concessions for donations because of how they are given out. These people thought tax concessions were unfair if people with higher incomes benefit more than those on lower incomes.

Some may also oppose tax concessions because they could give donors an unequal say over which organisations and causes:

- get indirect government support
- set agendas instead of other forms of policy forming and public decision making (Horvath and Powell 2016).

Governments can limit how available tax concessions are. For example, they could:

- use rules for who can get them
- put a cap on their costs.

When we assess the costs and benefits of using tax policy to increase giving, we will draw on:

- reviews and other policy processes outlining principles for tax policy design (box 1)
- general principles of good policy design.

Box 1 – Principles for good policy design including tax

Design principles for the tax and transfer system

When we assess tax design options, we use well-known documents on good-practice tax design. For example, there are 3 key design principles for the tax and transfer system noted in:

- Australia’s Future Tax System Review (the Henry Review) (2010, p. 17)
 - the Australia Taxation Review Committee Report (Asprey and Parsons 1975, p. 47).
1. **Efficiency:** the tax and transfer system should raise and redistribute revenue at the least cost to economic efficiency and with minimal administration and compliance costs.
 - Taxes and transfers affect the choices individuals and businesses make by altering their incentives. The tax and transfer system should not unduly get in the way of individuals and businesses acting in their own interests.
 2. **Equity:** the tax and transfer system should treat individuals with similar economic capacity in the same way, while those with greater capacity should bear a greater burden.
 - A tax concession intended to compensate for a particular economic disadvantage should also be designed so that only people affected by the disadvantage can benefit from it.
 3. **Simplicity:** the tax and transfer system should be simple to understand and to comply with.
 - If individuals and businesses understand the system, they are more likely to act in their best interests and respond to intended policy signals. A simpler system will generally also involve lower administrative and compliance costs.

The Not-for-profit Sector Tax Concession Working Group began in 2012. It looked at ways to improve tax concessions for donating.

The Working Group:

- thought about if there are fairer, simpler and better ways of supporting the NFP sector
- built on the principles the Henry Review developed, coming up with principles for the NFP sector.

Good policy design

We will use broad principles of good policy design to assess reform options to increase giving (Banks 2009, pp. 1–27; OECD 2012, pp. 8–33; PM&C 2020, pp. 1–64).

A policy activity should:

- have a sound rationale
- benefit the whole society
- be better than any other idea, including the standard
- match the goal it is trying to achieve
- be assessed over time so it stays relevant and cost effective
- be clear and concise
- work with other laws, agreements and international rules.

Policy settings that indirectly affect giving

The regulatory framework for giving

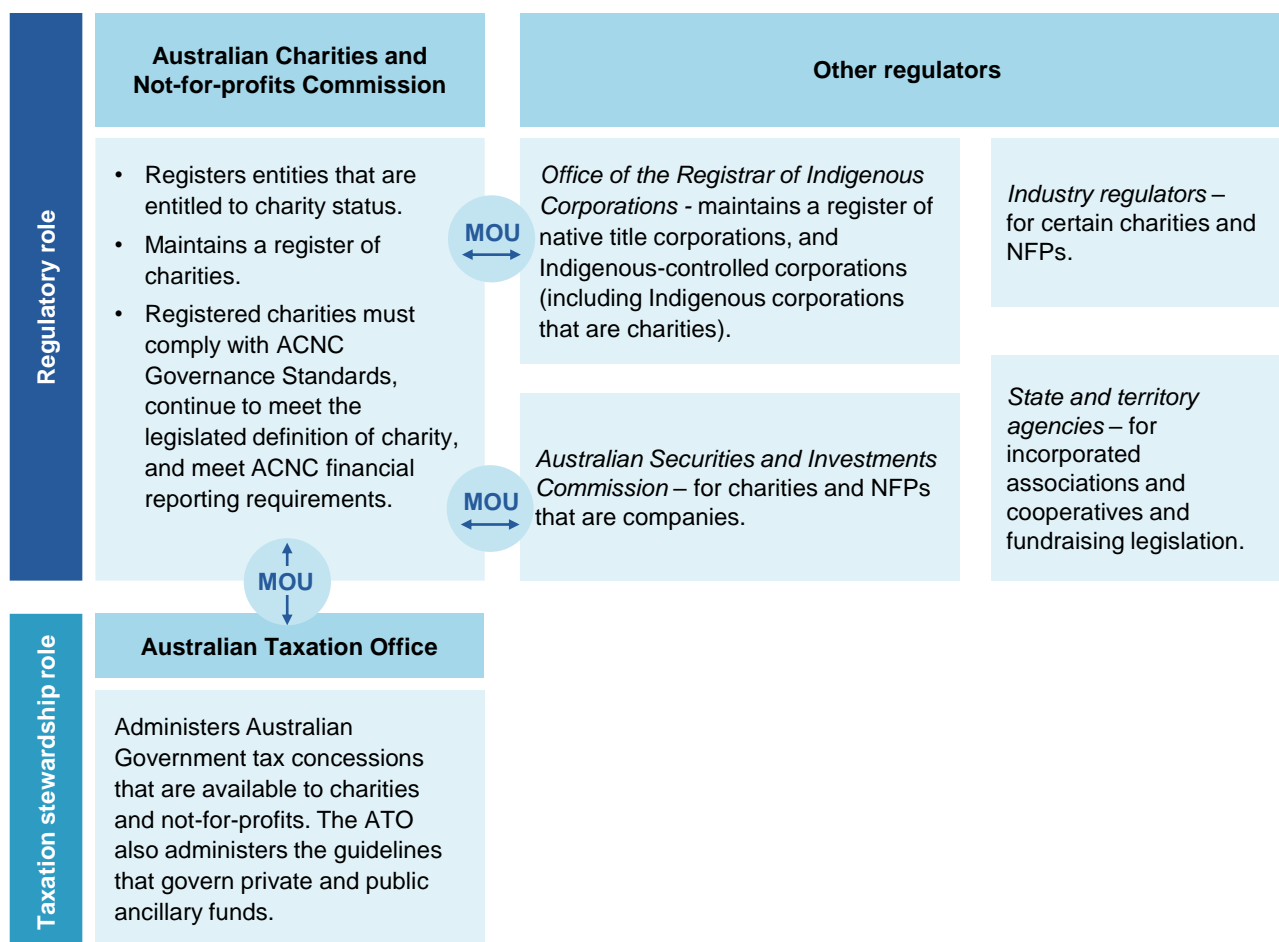
A range of laws and rules govern giving. These include rules for charities, such as those under:

- the ACNC laws
- Commonwealth, state and territory laws which apply more broadly, like the Australian Consumer Law for misleading conduct and state and territory laws for fundraising and safety issues.

The organisations which manage the rules are:

- Australian government agencies:
 - the ACNC
 - ATO
 - Australian Competition and Consumer Commission
 - Australian Securities and Investments Commission
 - Office of the Registrar of Indigenous Corporations
- state and territory agencies (figure 6).

Figure 6 – Responsibilities for administering regulations that affect giving



Note: MOU stands for memorandum of understanding.

Laws and rules that apply to donors, recipients or intermediaries:

- Public information and reporting rules for charities, incorporated groups and other NFPs, and rules on how to give out PAFs and PuAFs.
- Registration processes, for example, rules to vet volunteers or make sure they are capable or hold current working with children checks.
- Rules on safe workplaces for volunteers, for example, occupational health and safety.
- Consumer protection law, for example, laws about misleading people about fundraising.
- Licenses and technical rules and, in some jurisdictions, codes of practice when fundraising.

These rules often aim to create an environment that supports giving, where donors and the community have:

- information to make giving decisions
- confidence that donations will be used for what they were donated for.

But these policies can also cost money. They may come with lots of reporting. They may hinder competition and trying new things.

Principles of good policy design (box 1) also apply when looking into these policy settings so policy leads to good outcomes for the community.



Information request 3 Role of government in philanthropy

We would like to know views and information on:

- the role of philanthropy, including where it can replace or support government funding or services
- reasons why government should (or should not) support philanthropy and if or how this varies between causes and types of giving
- how much government policies can affect philanthropy. This could be to increase, prevent or change it and data to support views where possible
- whether current government support for philanthropy aligns with good policy design and community priorities
- examples where government support for philanthropy may no longer align with community expectations.

3. Encouraging philanthropy through the tax system

The terms of reference ask us to assess the tax system for charities, including how fair and effective the DGR framework is.

Tax concessions, which can provide a benefit by reducing the tax people and organisations pay, are used both to encourage donations and to help NFPs in other ways (table 1).

Donors can claim an income tax deduction for donations to an organisation with DGR status:

- of \$2 or more
- for gifts of property valued at over \$5,000 (or bought and donated within 12 months).

They may also be able to claim gifts including trading stock and shares.

Charities and some other NFPs can get other tax concessions related to their work, including:

- an income tax exemption
- goods and services tax exemption
- refunds on franking credits
- land tax or motor vehicle duty exemptions.

Table 1 – Tax concessions for charities

	Benefit	Eligibility	Tax expenditure estimate (\$m), 2021-22 ^a
Revenue			
Donation deduction	Donors can make tax-deductible donations	DGR endorsed charities and other endorsed entities, including private and public ancillary funds	2035
Income tax exemptions	Organisation not required to pay income tax or lodge income tax returns	All ACNC registered charities and certain other NFPs that meet eligibility criteria	>1000 ^b
Refunds on franking credits	Refund where entities have no income tax liability	Income tax exempt charities and other DGRs, as well as some qualifying entities	>1000 ^c
Inputs			
Fringe benefits tax concessions	Exemptions or partial rebates (up to certain caps) for fringe benefits provided to employees	Exemptions are available to certain charities (such as public benevolent institutions and health promotion charities), public or NFP hospitals and public ambulance services. Other charities and certain classes of NFPs are entitled to a 47 per cent rebate on fringe benefits tax payable	>4700 ^d
Goods and services tax thresholds	Higher turnover threshold for registration for goods and services tax and the ability to choose input taxation for certain activities	Some concessions, including the higher turnover threshold, available to all NFPs. Other concessions limited to a smaller subset, but typically including registered charities and other DGRs	10--100 ^e

a. Tax expenditures provide an estimate of the revenue forgone, compared with an alternative tax treatment used as a benchmark. **b.** Value of tax expenditure not quantifiable but expected to exceed \$1000 million. **c.** Value of tax expenditure not quantifiable but expected to exceed \$1000 million (previous year estimates have ranged between \$1040 million and \$2095 million). **d.** Summation of estimated tax expenditures for various fringe benefits tax concessions available to eligible charities. **e.** Value of tax expenditure not quantifiable but expected to be in this range.

Sources: ATO (2017); Treasury (2023b).

They can also get benefits for their workforce, like:

- fringe benefits
- not paying payroll tax.

The Australian, state and territory governments provide different tax concessions.

The ATO manages the Australian Government tax system for charities and other NFPs. State and territory revenue offices look after tax concessions that apply in their jurisdiction.

Eligibility varies with concessions. To be eligible for DGR status and some other tax concessions, organisations must register as a charity with the ACNC. This does not apply to some government NFPs.

The ATO manages DGR status and access to tax concessions. In a few cases, certain groups can access tax concessions in other ways. One way is through a 'specific listing' as a DGR, which means changing tax laws.

The cost of tax concessions is calculated by measuring the difference in revenue between:

- a scenario where there are tax concessions
- a scenario where there are no tax concessions.

This difference is called a 'tax expenditure' (Krever 1991, pp. 2–8).

Estimates do not always consider the behaviour changes that happen when there is a change in the system. Tax expenditures do not always mean that a tax concession is wrong, not working or unfair.

The deductible gift recipient framework

DGR status allows an organisation to get donations from the public, who can claim the donation on their tax.

It is the main way the Australian Government encourages people to give to charities and other eligible groups by telling donors where they can direct their giving and get a personal tax benefit.

DGR status also affects ways to give. Private and public ancillary funds and community foundations can only give to groups with 'Item 1' DGR status.

It is important for groups to get DGR status if they want to get donations. It is very important for those who have donations as a major source of income. About half of charities have DGR status.

Groups with DGR status must work within the DGR rules. The ATO has the power to take away DGR status. But there is no broad or regular way to review ongoing access to DGR status.

The number of NFPs with DGR status has grown from 28,000 in 2012 to 32,100 in 2020 (ATO 2014, 2022b).

The value of tax concessions from donations to NFPs with DGR status changes with:

- the number of organisations with DGR status
- donor behaviour.

In 2019-20, people donated a total of \$3.8 billion to charities with DGR status. The result was a tax expenditure of around \$1.9 billion (ATO 2022a).

In our early consultations, we heard that getting DGR status can be a challenge for some organisations. For other certain types of organisations, there can be other difficulties.

For example, Aboriginal and Torres Strait Islander groups may operate under a few DGR categories, such as:

- cultural

-
- social
 - environmental.

But getting and keeping DGR status is usually based on having one main purpose or activity (Marrie and Marrie 2013, p. 5; Treasury 2013, p. 23).

Tax concessions for donations in Australia have changed over the last 100 years. This has shaped the design of today's DGR framework.

The number of categories has grown to reflect what the community expects from organisations that deliver public benefit (Treasury 2017b, p. 3). But the rules mean many organisations cannot get DGR status.

The DGR framework has also changed with recent decisions from courts and governments. They have changed the ability of organisations with DGR status to use donated funds to do activities overseas (Silver 2021, pp. 452–453).

As the DGR framework keeps changing, reviews and reforms are trying to make sure its design and delivery stays:

- relevant
- transparent
- fit-for-purpose (box 2).

Box 2 – Reviews into the deductible gift recipient framework

Reviews and consultations have found some issues with the DGR framework and ways to make it better. The issues were mainly about:

- how complex it is
- whether it is strong and managed well
- how it is delivered.

Below are some of the issues found.



Eligibility and scope of DGR

Whether the scope of DGR status should be extended to all charities, but restricted to activities that are not for the advancement of religion, or charitable childcare and primary and secondary education (Productivity Commission 2010, NFP Sector Tax Concession Working Group 2013).



Governance and transparency

The Tax DGR Reform Opportunities (2017) made recommendations regarding reviewing DGR status, sunset periods for specific listings and requiring non-government DGRs to register as a charity which comes into effect on 1 July 2023.



Administration

Legislation is being developed to transfer administration of four registers from portfolio agencies to the ATO. This was explored in the Tax DGR Reform Opportunities (2017) and Parliamentary Inquiry into the Register of Environmental Organisations (2016).



Minimum contribution

Another feature of the DGR subject to debate is the \$2 minimum contribution, and whether this should be increased (Henry Review) or abolished (Industry Commission 1995; Not-for-profit Sector Tax Concession Working Group 2013).

Sources: Henry Tax Review (2010); House of Representatives Standing Committee on Environment (2016); Industry Commission (1995); NFP Sector Tax Concession Working Group (2013); Productivity Commission (2010); Treasury (2017b).

We will consider what changes to the DGR framework will do to:

- government revenue
- benefits to the community.

We must also understand how changes to government policies, including the DGR framework, might affect different types of donors' giving behaviour. We will look at other countries with policies to increase giving and what happened for them (box 3).

Box 3 – Models for encouraging donations adopted overseas

Governments in other countries encourage giving in different ways.

New Zealand and Canada are examples of countries with tax rebates.

In Italy they have the *cinque per mille* (five per thousand) program. There, people can put aside 0.5% of their income tax to give to the non-for profit sector (Agenzia Delle Entrate 2022).

Portugal, Slovenia, Hungary, Lithuania and the Slovak Republic use contribution schemes too. People in those countries can set aside some of their income tax for donations (OECD 2020, p. 89).

The Gift Aid scheme in the United Kingdom is based on matched contributions (OECD 2020, p. 88). When a person donates, the government gives the same amount to the same organisation.

Equity, efficiency and cost to deliver are all very important when talking about the best way to encourage giving.



Information request 4 The Deductible Gift Recipient (DGR) framework

We would like to know views and information on:

- the costs and benefits of the DGR framework as a way to reward people who donate
- if there are other ways to influence policy that would work better or be more equitable
- the reasons for and aims of the DGR framework, including whether it:
 - is clear
 - aligns with the Australian community's welfare and priorities.
- if the DGR framework works well, such as whether its design and delivery:
 - is open and clear
 - meets the aims it says it will
 - may result in needless costs (including forgone tax revenue) or risks to the Australian community
 - could get unequal or bad outcomes.
- how much the DGR framework encourages giving, and which donors or causes it works well (or does not work well) for
- other models Australia could use instead of the DGR framework
- information on whether models used in other places, such as tax rebate or contribution schemes, may or may not suit the Australian context.

Other forms of government tax support for not-for-profits

Table 1 (above) sets out tax concessions that support charities and other types of NFPs. Unlike the DGR framework, these forms of tax support do not exactly aim to increase giving. However, they may affect giving as they affect NFPs which seek private donations (section 2).

Tax settings can change how good certain income sources are for an NFP. For example, being exempt from income tax and not having DGR status may mean some NFPs may choose to earn money through running businesses rather than asking for donations.

Other tax concessions lower the costs for NFPs, which may help them grow their activities and ask for more donations. For example, Fringe Benefits Tax lowers the cost of hiring staff.

There are other state and territory government concessions which NFPs can use to lower their costs to work, like being exempt from or getting benefits with:

- payroll tax
- land tax
- rates
- stamp duty
- motor vehicle registration.

Who can get them and how they work changes between places.

These types of concessions can mean NFPs can better compete with other organisations and businesses that cannot access them. This may also raise concerns about whether it gives them an unfair advantage.

The design of these other forms of tax concessions to support NFPs has changed over time. The Henry Tax Review (2010) and Not-For-Profit Sector Tax Concession Working Group, for example, have looked into these before. We would like to know views and information on these benefits and how they impact giving.



Information request 5

Other tax concessions for not-for-profit organisations

We would like to know views and information on:

- the role of tax concessions and how well they are working (other than those under the DGR framework) to support NFPs and philanthropy
- what is not working with certain concessions and where they are not equitable
- if there are problems that come with being eligible for concessions, including those given by states and territories
- how well tax concessions work and how equitable they are for NFPs
- how tax concessions compare with other ways the Government supports NFPs.

4. Removing unnecessary regulatory barriers to giving

The terms of reference ask us to consider:

- how much burden current regulations put on donors, volunteers and NFPs
- how this burden affects their activities.

Finding barriers

Regulations are vital for giving because they promote public trust and give donors confidence to give. These include rules about:

- consumer protection
- the integrity of the tax system.

But where rules are too broad or do not meet their policy goals, they may be ineffective. They may also deter giving.

Reforms to take away needless rules and restrictions could help to grow the amount and success of giving.

In the past 10 years, governments have put in place reforms that help NFPs. For example, the government created the ACNC partly to help reduce needless rules and laws on the sector (ACNC 2023; ANAO 2020, p. 9).

The government brought in frameworks to regulate public and private ancillary funds in 2009 and 2011 and updated them in the years after (ATO 2019).

Previous reviews have made recommendations that are relevant to this inquiry, including:

- the former Corporation and Markets Advisory Committee's 'Administration of Charitable Trusts' report (2013)
- the Review of the Australian Charities and Not-for-profits Commission Legislation, 'Strengthening for Purpose' (Treasury 2018).

We would like to hear views on:

- the barriers regulation puts on giving
- reforms that would address these barriers.



Information request 6 Unnecessary regulatory barriers to philanthropic giving

We would like to know views and information on:

- the costs and benefits of options to reduce needless rules, restrictions and burdens (but would not take away from the policy goal the rule is meant to serve, like protecting people or keeping them safe)
- the effect of these options on giving and on policy aims, such as consumer protection
- how well current rules are working, including those that apply to:
 - public and private ancillary funds
 - other types of foundations and philanthropic entities.
- issues that may happen under state or territory laws
- needless rules and restrictions which relate to police or working with children checks when volunteering or engaging volunteers
- risks or gaps in the rules, including in areas such as:
 - cyber security
 - privacy and donor protection with certain types of giving, such as peer-to-peer donations or crowdfunding, fundraising or marketing.
- Barriers in the rules that limit donor choice and flexibility, such as:
 - rules and tax for bequests
 - giving superannuation death benefits to charities.

5. Other opportunities to increase giving

Information about the effectiveness of charities

The terms of reference ask us to consider:

- donors' ability to assess and compare charities based on proof of success, including through impact evaluations
- overseas impact evaluation comparison sites
- whether better use of donations could increase giving.

For a typical market to work well, buyers need enough information so they:

- know the price, quality and details of goods and services on offer
- trust they will get what they paid for.

In philanthropy, donors may also need the right information so they trust that the organisation will use the donated money, assets or time for the purpose they say.

Donors may not want to give unless they find causes and organisations that:

- align with what they like

- share their values
- are managed well and have been successful.

There are a few places to find out about how charities work and what they do. They vary in whether they assess success well (box 4).

Box 4 – Information sources on the effectiveness of charities

The ACNC has a website where the public can find data on finances for all ACNC registered charities. People can look up income from donations and other sources. There are some exceptions, such as for 'Basic Religious Charities'.

This information may not relate to success or impact. But it gives donors information to help them decide.

Organisations can also use ACNC and other public data to inform donor decisions. Australian websites like ChangePath let donors compare spending and assets across charities.

Some organisations collect and publish data about how certain groups or causes perform, such as those that do:

- overseas aid
- global poverty protection.

Others recommend charities that they think are best based on their methods, research, and judgment. Examples include:

- US-based Charity Navigator and Australian-based ChangePath
- US-based GiveWell and A Life You Can Save (which has an Australian branch) and others that align with the 'Effective Altruism' movement.

Some private firms do personalised services like tailored evaluations and donor matching.

Some that have comparison websites also accept donations and direct them to their organisation of choice. Some of these:

- assess impact in areas such as the environment and stopping poverty
- pool charities together for donors to target a certain cause.

It costs the government and NFPs money and other resources to make and put in place policies to collect and show more information. It can be a challenge to measure and report on outcomes and success in a way that:

- is regular
- is cost effective
- can be compared.

Some donors may rely on certain types of information, such as administration costs. But it can be hard to measure this information properly. It can also be a poor way of telling how well a charity is doing to meet its purpose.

Limited public information on NFPs may not always be a problem if it just shows lack of demand. So we want to know about the types of information donors:

- value when deciding

- cannot access from current sources.

To assess reform options which aim to make information for donors better, we will use some principles which relate to buyer decision making.

- **Reliability** — the information is fact, balanced, correct and current.
- **Usefulness and relevance** — the information is relevant to the cause and shows donors their donation will get outcomes. For example, data to compare NFPs that do medical research may not help those that:
 - service Aboriginal and Torres Strait Islander people
 - support people to rebuild after a natural disaster.
- **Accessibility** — the information is in one place and in one format, making it easy to compare organisations.
- **Proportionality** — the cost of collecting and providing the information is equal with the benefits. This notes that small and new NFPs may have less resources to:
 - meet information needs
 - align with what donors want.



Information request 7

Consumer information on the effectiveness of not-for-profit organisations

We would like to know views and information on:

- the roles of government and the non-government sector to give extra information to donors
- the reasons, costs and benefits of government data sources to inform donors' choices about where to give
- information donors would like on how effective NFPs are, but cannot access and why
- data sources that donors benefit from most and examples of data that government gives to donors (directly or indirectly) overseas that could benefit the whole community if used in Australia.

We would also like to know views on how NFPs assess and talk about whether they meet their goals, including:

- weakness or gaps in data sources about how effective NFPs are that:
 - make the data less reliable or useful
 - make the NFP look better than it is by using metrics that are easy to collate but are not a true measure of success.
- how much the information on NFP success matters to donors when deciding to give and not give
- overseas policies that measure success which may relate, including using accounting standards and other reporting tools.

Other ways to support potential donors

These are some other things governments could do that may help people decide on where, when and how to give.

Donors can find out about giving from professionals like:

- financial advisors

- accountants
- lawyers (Philanthropy Australia 2021, p. 20).

However, a survey of 269 of people in these jobs found that:

- more than 1 in 3 felt unsure about how best to advise on giving (Crittall, Scaife and Bolderman 2016, p. 32)
- more than 1 in 4 felt that advising on giving was outside their role
- more than 1 in 2 found formal training and development were useful
- more than 1 in 7 said information packs and guides were useful (Crittall, Scaife and Bolderman 2016, p. 38).

We would like to know views on ways to help donors decide, including through training professional advisors.



Information request 8 Other measures to support potential donors

We would like to know views and information on:

- what governments can do to support professionals to advise clients on giving
- any other ways for government to improve giving in Australia which we have not yet talked about.

Making public data sources more cost effective

Government agencies like the ABS, ACNC and ATO, collect data and other information to do with giving. They do this because they must, and to:

- keep the system strong
- help assess policy and design
- aid decision makers (government, NFPs and donors) to sort resources.

Collecting and publishing data has a cost. There can also be a cost to those who give the data, including for:

- admin (which can be particularly costly for NFPs with less money)
- commercial or operating activities
- privacy issues.

This means that government should only ask for information:

- when it is important to protect donors and the public
- if it can help with looking into things.

Governments should look at ways to make collecting data easier. One way is to improve data sharing so data requests do not repeat.



Information request 9 Cost-effectiveness of public data sources

We would like to know views and information on:

- serious data and information gaps about giving and how these hurt policy making and deciding
- good ways to collect information with the right costs and benefits, including where:
 - collecting current information is needless or hard to do
 - the same data are being given to different government bodies
 - the same data are in different formats for different purposes
 - more simple data collection would make the data more useful and compare better with other data, such as overseas sources.
- risks and other things to think about with growing or changing reporting rules and processes
- who should pay for collecting new information and take care of current and new information
- extra issues about data for:
 - organisations run by, or which service, Aboriginal and Torres Strait Islander people
 - small or new NFPs
 - state and territory government organisations, and those overseas.

Public strategies to improve the status of giving

The terms of reference ask us to look at:

- other ways to increase giving
- public strategies from overseas governments, and the business, NFP and philanthropy sectors, that have improved the status or amount of giving.

Drawing focus on certain causes and encouraging people to give to them is a strategy used in different contexts.

Some campaigns use direct advertising through social media, for example. Some do events where people raise funds or volunteer, including at work.

Some strategies also use 'nudges' to consumers or staff to donate to causes. An example of this is when a shop has a sign at the checkout (online or in person).

The government can pay for public campaigns. There may be a case for that if the campaigns improve the status of giving and:

- result in large, broad public benefits, like social unity or avoiding government spending
- align with other policy goals
- are better than other options, like more targeted support to causes through grant funding (section 2).

There are overseas examples of public campaigns to increase giving.

In Canada, 'the giving moment' campaign has a way for donors and volunteers to share stories. This gives information to and inspires others (Governor-General of Canada 2013).

In Alaska, residents claim money from the Alaska Permanent Fund on a government website. This website asks them to donate part of their payout (in \$25 increments) (List et al. 2021).

We will look into these and other public campaigns to better understand if they can increase giving.

To help with this, we want to know:

- more about public strategies in Australia and overseas to increase giving
- evidence on their success to increase giving and their public benefits and costs.



Information request 10 Public strategies to increase the status of giving

We would like to know views and information on:

- public strategies and initiatives that increase giving in other countries which are cost effective and are proven
- assessments on overseas initiatives
- behaviours and trials on 'nudging' and getting new donors and volunteers
- other ways to attract new donors and different people into philanthropy.

Other matters

The terms of reference ask us to:

- find reforms to address barriers or use opportunities to increase giving
- assess benefits, costs, risks, real life and delivery issues and advise on focus areas for reform.

We would like to know information and views that could help us do this (particularly on things which requests 1 to 10 did not cover).



Information request 11 Identifying and assessing reform options

We would like to know views and information on:

- the costs and benefits of reforms most likely to increase giving in Australia, including:
 - useful evidence from other countries that have similar reforms
 - older research showing the effects of the proposed (or similar) reforms.
- evidence on the costs and benefits with reform options to increase giving, including:
 - impacts on government spending
 - impacts on the quality of service delivery
 - other benefits, like better social capital.

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A. Terms of reference

Review of Philanthropy

I, Jim Chalmers, pursuant to Parts 2 and 3 of the *Productivity Commission Act 1998*, hereby request that the Productivity Commission undertake an inquiry into philanthropy.

Background

Philanthropic giving underpins the crucial efforts of charities, not-for-profit organisations and community groups to support vulnerable Australians and build social capital and connectedness in Australian communities.

This has been highlighted by the challenges of recent years, with not-for-profits mobilising monetary donations, supplies, and volunteers to support those affected by the COVID-19 pandemic, natural disasters, and the rising cost of living. As we confront these and other challenges, not-for-profits will continue to play a vital role in strengthening and reconnecting our communities.

The Government is committed to taking this opportunity and will collaborate with the philanthropic, not-for-profit and business sectors to double philanthropic giving by 2030. Identifying and assessing opportunities and obstacles to increasing philanthropic giving will provide a roadmap to achieving this objective.

Scope of the inquiry/ research study

The purpose of the inquiry is to understand trends in philanthropic giving in Australia, the underlying drivers of these trends, and to identify opportunities and obstacles to increasing such giving. The inquiry should make recommendations to Government to address barriers to giving and harness opportunities to grow it further.

In undertaking the inquiry/study, the Commission should:

1. Consider the tendencies and motivations for Australians' charitable giving, including through different donation channels such as workplace giving, bequests, private foundations, in-kind donations, and volunteering.
2. Identify opportunities to increase philanthropic giving and the extent of their potential impact, including:
 - i. The role of, and effectiveness of, foundations in encouraging philanthropic giving and supporting the charitable sector.
 - ii. Successful public strategies in other jurisdictions – across business, not-for-profits and philanthropic sectors – that have enhanced the status of giving or the level of philanthropic activity.
 - iii. The potential to increase philanthropy by enhancing the effectiveness and efficiency of the use of donations.
3. Examine current barriers to philanthropic giving, including:
 - i. The burden imposed on donors, volunteers and not-for-profits by the current regulatory framework for giving and how this affects their philanthropic decisions.
 - ii. The ability of donors to assess and compare charities based on evidence of effectiveness, including through impact evaluations and making comparisons across charities. In doing so, the Commission should consider the work of overseas impact evaluation comparison sites.

-
4. Consider the appropriateness of current sources of data related to philanthropic giving, and how databases could be enhanced in a cost-effective manner.
 5. Examine the tax expenditure framework that applies to charities. In particular, assess the effectiveness and fairness of the deductible gift recipient framework and how it aligns with public policy objectives and the priorities of the broader community.
 6. Identify reforms to address barriers or harness opportunities to increase philanthropy, and assess benefits, costs, risks, practicalities and implementation considerations. In doing so, the Commission should advise on priority areas for reform, having regard to:
 - i. The integrity of the taxation system and the current fiscal environment.
 - ii. The benefits that flow to not-for-profits from existing programs.
 - iii. The benefits that would flow from increased philanthropic giving.

Process

The Commission is to undertake an appropriate public consultation process including holding public hearings, inviting public submissions and releasing a draft report to the public.

The Commission should consult broadly, including with Commonwealth, state and territory governments, and the philanthropic, not-for-profit and business sectors.

In undertaking the inquiry, the Commission should have regard to previous inquiries where relevant, including the *Contribution of the Not-for-Profit Sector* inquiry concluded in 2010, and other reviews in train, including the Not-for-profit Sector Development Blueprint being delivered by the Community Services Advisory Group.

The final report should be provided within 15 months of the receipt of these terms of reference.

Dr Jim Chalmers

Treasurer

[Received 11 February 2023]

B. How to make a submission

Ways to submit

You can send a submission:

- in writing
- as a video
- by calling Karen Godfrey on 02 6240 3277.

You could write a short comment that outlines your views on a topic. Or you could write a long document about a range of issues.

If you can, please give evidence, like data and documents, to support your views.

Publishing submissions

We will publish each submission, except for attachments given in confidence, on our website soon after we get them. Submissions will stay online forever as a public document.

We have the right to not publish material on our website that:

- could offend or defame someone
- is clearly out of scope for the inquiry.

Copyright

The author(s) have copyright of submissions sent to us.

Do not send us material if you are not the copyright owner. This includes pictures, photos and newspaper articles. Instead, reference or link to this material in your submission.

In-confidence material

This is a public review. All submissions should be public documents that can go on our website for others to read and comment on.

You must let us know if you want your submission to be confidential.

We can ask for:

- a nonconfidential summary of the confidential material
- the reasons why you cannot give a summary.

Clearly mark in-confidence material as 'IN CONFIDENCE' and put it as a separate attachment to non-confidential material. We will not publish confidential material.

Please contact us for more information and advice before submitting such material.

Privacy

To protect your privacy, we remove all **personal** details before we publish submissions on our website. That includes home and email address, signatures and phone numbers.

You can leave out your details or use a different name. Doing this can lessen the weight of your submission.

Technical tips

We prefer to get submissions as Microsoft Word (.docx) files. We accept PDF files if made from a Word document or other text-based software.

There is information online about how to make your document more accessible. One place is the Web Content Accessibility Guidelines (WCAG) 2.0 at [w3.org/TR/WCAG20/](https://www.w3.org/TR/WCAG20/)

Do not send files that need a password to open.

Please remove track changes, editing marks, hidden text and internal links.

Type any web addresses in full (for example, <https://www.referredwebsite.com/folder/filename.html>).

How to send a submission

Use the online form on our website to send your submission.

If you post it, add a cover sheet (there is a template on our website).

Online www.pc.gov.au/inquiries/current/philanthropy

Post Philanthropy inquiry
Productivity Commission
GPO Box 1428
Canberra City ACT 2601, Australia

Phone Administrative Officer Karen Godfrey on 02 6240 3277

Contact the Administrative Officer if you do not hear back from us after you send your submission by post or online.

Due date for submissions

Please send submissions for the draft report to us by **05 May 2023**.