



Friday 10th August 2018

The Hon Kelly O'Dwyer
Minister for Revenue and Financial Services
Minister Assisting the Prime Minister for the Public Service
Parliament House
Canberra ACT 2600

Dear Minister,

Meeting of the Prime Minister's Community Business Partnership

Australian Community Philanthropy (ACP) writes to you in advance of the Meeting of the Prime Minister's Community Business Partnership on 20th August.

We thank you for your ongoing efforts in reviewing and implementing a healthy regulatory environment that strengthens community life across Australia. ACP understands that the following proposals will be addressed and we wish to provide comment for consideration of the Prime Minister's Community Business Partnership at this meeting;

- 1) The creation of a new deductible gift recipient category for community foundations, and
- 2) Allowing Granting from Private Ancillary Funds to Public Ancillary Funds.

1) The creation of a new deductible gift recipient category for community foundations

Australian Community Philanthropy and Philanthropy Australia wrote to you in August 2017 proposing the creation of a new deductible gift recipient category for community foundations. The Board of Taxation was asked to review this matter and ACP welcomed the opportunity to engage with them on this matter. It is our understanding that the Board of Taxation has identified concerns with this proposal that may delay its adoption. Australian Community Philanthropy believes that this reform is vital to creating better outcomes for charities and the communities they serve, and asks that the Prime Minister's Community Business Partnership consider the following points.

The Deductible Gift Recipient (DGR) framework as it now stands is complex, onerous and mired in red tape. This creates unnecessary barriers to giving and, more importantly, limits the ability of community foundations and other philanthropic bodies to effectively distribute or make grants so Australian communities have the necessary resources to thrive. These barriers are particularly felt in rural and regional communities where there are a limited number of DGR1's, social resources are often scarce and the centralisation of services is usually felt more intensely.

As a valuable and unique form of community infrastructure, community foundations empower communities to address local challenges themselves. They seek to build social capital, catalyse development and strengthen community; they engage with their constituents as donors, advisors and volunteers. Local people are best placed to respond to the challenges and opportunities in their region, due to trust, relationships and experience of what works for them. Community foundations harness their deep local knowledge to respond to need through their purposeful grant-making, strengthening civic participation and responsiveness.

Community foundations play a vital role in directing philanthropic funds to communities, particularly rural, regional and remote communities where there are few local DGRs. The main avenue for community foundations to support grassroots non-DGR charities is through a partnership with the Foundation for Rural and Regional Renewal (FRRR). Since its establishment by the Federal Government in 2000, FRRR has been a strong proponent of the community foundation sector, has supported the initiation and growth of a number of community foundations and provides an ongoing role in supporting the activities of community foundation sector. One of the ways FRRR supports the sector is to partner with community foundations to make grants to non-DGR not-for-profit organisations conducting charitable activities in rural and regional Australian communities.

ACP offers the following example to illustrate the barriers to giving and the issues that the current DGR framework presents to rural and regional community foundations.

Case study – Stand Like Stone Foundation (SLSF), Limestone Coast region, South Australia

The Limestone Coast region is comprised of seven Local Government areas, containing a population of 65 885 (2016 census) and covering a land area of 21 400 square kilometres. Within this region there are only approximately 41 entities that are endorsed as Item 1 DGR, most of whose charitable purposes are narrowly defined and not congruent with the distribution of funds from a community foundation. Due to this, for the majority of distributions that occur from the Public Ancillary Fund, SLSF partners with FRRR to enable grants of these funds to be made to non-DGR Not-For-Profit organisations within their local community for charitable purposes. This process adds an expense (2.5% per grant) and time to the granting process. Prior to approaching FRRR, the Stand Like Stone community foundation has already undertaken a grant round, received applications, assessed applications, undertaken due diligence activities and the Board has made the deliberate and well-informed decisions on distributions that are targeted and appropriate for their local community. FRRR is then approached with details of the preferred grantees, and FRRR makes an assessment of the suitability of the recipients and their proposed activities for consistency with its own charitable remit. The SLSF grant making process takes up to 4 weeks and whilst the partnership with FRRR enables granting to a wider range of organisations than SLF would otherwise be in a position to fund, the need to partner with FRRR adds additional time to the grant making process. A new deductible gift recipient category within Division 30 of the Income Tax Assessment Act 1997 (Cth) specifically for community foundations is needed to remove these barriers, reduce red tape and enable community foundations to focus on generating impact in their communities.

Approximately 80% of FRRR grants are to non-DGR organisations, and similar mechanisms to FRRR exist in other domains. For example the Australian Cultural Fund and Australian Sports Foundation allows culture and sports projects to receive tax- deductibility.

Australian Community Philanthropy implores the Prime Minister's Community Business Partnership to support the recommendation to create a new deductible gift recipient category within Division 30 of the *Income Tax Assessment Act 1997 (Cth)* specifically for community foundations, and accelerate the benefits of local giving for people in communities.

2) Allowing Granting from Private Ancillary Funds to Public Ancillary Funds

If the Government does not decide to create a new DGR category for community foundations, we ask that they address the current barrier to private ancillary funds granting to public ancillary funds.

ACP understands that the Board of Taxation has identified that the current restriction against public ancillary funds receiving grants from other ancillary funds is problematic. This

restriction means that community foundations and others that use a public ancillary fund structure are unable to receive funds from private ancillary funds.

This restriction makes it difficult for philanthropists who use a private ancillary fund structure to benefit from the expertise of community foundations who implicitly understand the issues in their local community. The community foundation structure has the potential to provide the vehicle for other philanthropists to leverage the deep local knowledge of community foundations and therefore direct their philanthropic funds towards specific community needs or target specific areas of interest.

Case Study – the Fremantle Foundation (Fremantle, Western Australia)

The Scanlon Foundation, a Melbourne based private ancillary fund, wished to support social inclusion initiatives in Western Australia. They were interested in contributing to the Fremantle Foundation, which in turn would distribute the funds towards social inclusion initiatives in the local area more effectively by using its knowledge and understanding of community needs. As a private ancillary fund, the Scanlon Foundation was unable to distribute to the Fremantle Foundation.

'Collective Giving and its role in Australian philanthropy' (Boyd, Partridge July 2017), a report commissioned by the Prime Minister's Community Business Partnership, identifies the inability for Private Ancillary Funds to give to community foundations (Public Ancillary Funds) as a barrier to the growth of Collective Giving groups in Australia. Giving Groups are often hosted or embedded within organisations like community foundations.

The report notes: *'If PAFs could give to community foundations, this would open a whole new source of funding for collective giving groups – there are over 1,400 PAFs in Australia, and they gave over \$300 million in 2013-14. These funds could be used for a variety of purposes, such as:*

- *providing funding to support start-ups and potentially accelerate the rate new collective giving groups are forming*
- *providing capacity building grants to build ongoing sustainability, and*
- *increasing the level of donations made to collective giving groups, for example through 'matching initiatives' where a PAF agrees to donate a certain amount to a giving circle provided it is 'matched' by smaller donors.*

Australian Community Philanthropy urges the Australian Government to address this matter and remove the current restrictions against public ancillary funds receiving grants from other ancillary funds. This positive reform would reduce red tape and help support more effective philanthropy in Australia.

Australian Community Philanthropy believes that these positive reforms will help to grow Australia's culture of giving. ACP would welcome the opportunity to discuss these matters with the Prime Minister's Community Business Partnership. In this regard, please do not hesitate to contact me on 0415 731 134.

Yours sincerely,



Ben Rodgers
Chair, Australian Community Philanthropy Ltd

Appendix 1 - Overview of ACP

Australian Community Philanthropy (ACP) is the peak membership organisation for community foundations in Australia. Founded in 2008 by a group of community foundation practitioners to provide support to the voluntary boards and professional staff of new and established community foundations, ACP exists to connect, support and represent the community foundation movement and to strengthen its resources, capacity and impact.

- **What is a community foundation?** Community foundations are community-owned, not-for-profit, charitable organisations, which exist for public benefit in a specific, named geographic area. Their shared purpose is to attract resources to support and revitalise local communities and build social capital. They make philanthropic grants, and often seek to build a perpetual financial asset for their community.
- **Who is involved?** They are governed by voluntary boards, or have input from advisory committees from the local area. Many community foundations also employ a small number of staff, often only 1 or 2 paid employees supported by volunteers. They have multiple sources of funding from a range of donors and supporters.
- **Why are they important?** Community foundations are a valuable and unique form of community infrastructure. They operate at the grassroots to understand community needs at the coalface, and apply their expertise and experience to make better grants. They act as a leader, connector, convenor and funder within communities and encourage civic engagement, volunteering and philanthropy.

Australian community foundations are part of a thriving global sector of more than 1,800 place-based foundations, which collectively have:

- US\$6.3billion in financial reserves
- Granted more than US\$5billion (last fiscal year reported)
- 65% have five or less paid staff

Australian community foundations generally operate a 'public ancillary fund' (an 'Item 2' deductible gift recipient) and, as such, provide grants to 'Item 1' deductible gift recipients

Collectively, Australia's 38 community foundations:

- have presence in over 80% of Australian LGAs
- hold more than \$310 million in funds under management
- grant at least \$21 million annually within their communities
- support hundreds of charitable grass roots projects and initiatives through their granting and community strengthening programs

