

Friday, 5 May 2023

Philanthropy Inquiry
Productivity Commission
GPO Box 1428
Canberra City ACT 2601

Via online submission: <https://www.pc.gov.au/inquiries/current/philanthropy/make-submission#lodge>

Review of Philanthropy

As the representatives of over 300,000 professional accountants around the world, CPA Australia and Chartered Accountants Australia and New Zealand (CA ANZ) make this submission to the Review of Philanthropy (the inquiry) on behalf of our members and in the broader public interest.

We are strong supporters of the not-for-profit (NFP) sector and many of our members are involved with the sector as advisors, auditors, employees and volunteers. The following high-level comments in response to the inquiry are based on feedback from members and stakeholders involved in the Australian NFP sector.

- The scope of the inquiry should have been broader to truly understand and modernise the entire Australian NFP sector. Whilst acknowledging the importance of philanthropy to the sector, a broader review, similar to the 2010 Productivity Commission inquiry into the “Contribution of the Not-for-Profit Sector”, would have been a more valuable initiative to the sector and its stakeholders.
- The lack of data on not just philanthropic giving, but on a number of other aspects of the sector, remains a significant concern.
- It is important to clarify what impact, if any, an increase in philanthropic giving will have on other sources of revenue, including government funding. We presume an increase in philanthropy will contribute to an overall increase in sector revenue and not be seen as a substitute for other revenue sources such as government funding.
- The government should provide necessary financial and other support to the sector to facilitate investment in technology and other capability-building activities essential for the sector to operate effectively and efficiently. This should include support that is comparable to certain tax incentives available to small business but not NFPs, such as the technology investment boost, the skills and training boost, and the small business energy incentive. Smaller NFPs also need support and incentives to invest in those areas.
- NFPs provide essential services on behalf of government and in doing so lower the cost to government for delivery of such services, through specialised and specific goals and objectives and with closer links to the community. Therefore, the tax concessions are justified on the basis that the tangible and intangible social benefits generated by the sector exceed the tax revenue that is sacrificed. However, there is scope for further streamlining of the tax system as it applies to the NFP sector.
- Accountability and transparency are important to ensure there is public trust and confidence in the sector.

- Regulatory burden borne by the sector has eased significantly over the last decade through various reforms at the Commonwealth and State/Territory levels, but there is still more refinement needed to further reduce red tape.

Our detailed comments are provided in the **Attachment** to this letter. Should you have any questions about the matters raised in this submission or wish to discuss them further, please contact Ram Subramanian, Senior Manager Reporting and Audit Policy (CPA Australia) at ram.subramanian@cpaaustralia.com.au or Amir Ghandar, Reporting and Assurance Leader (CA ANZ) at amir.ghandar@charteredaccountantsanz.com.

Yours sincerely

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Attachment



Information request 1 Defining philanthropy and the inquiry's scope

The Commission is seeking views and information on the following.

- Philanthropic activities that should fall within the scope of this inquiry.
- Ways of recognising different definitions, perspectives and norms relating to philanthropy among different cultures and communities, including but not limited to:
 - Aboriginal and Torres Strait Islander people
 - culturally and linguistically diverse communities
 - faith-based groups
 - younger and older Australians.

A limited scope for the inquiry

The Terms of Reference directs the inquiry to focus on philanthropic giving in Australia. We acknowledge philanthropic giving is an important pillar that supports the Australian NFP sector and a better understanding of philanthropy through this inquiry can benefit the sector and those it serves.

However, in our view, limiting the scope of the inquiry to just one of the many of the pillars that support the NFP sector is a missed opportunity to truly understand and modernise the Australian NFP sector. An inquiry scope similar to that which resulted in the 2010 Productivity Commission Research Report “Contribution of the Not-for-Profit Sector” could have formed the basis for a much more in depth and timely inquiry. Whilst we agree that there are a number of challenges associated with such a far-reaching inquiry into the NFP sector, without undertaking such a major exercise we are concerned that any improvements, whilst incremental, are likely to be minimal.

In addition to specific matters as they relate to philanthropy noted in the Terms of Reference and the Call For Submissions (CFS), broader matters that affect, and are affected by philanthropic giving, should also be considered. This includes:

- social impact investing, (see below)
- lack of data, not just in relation to philanthropy, but across the sector as a whole (see our response to Information request 2)
- revenue from other sources (see our response to Information request 2)
- innovative philanthropic giving, regulations over accepting and investing crypto assets as philanthropic giving and supportive technology (see our response to Information request 3)
- regulatory burden (see our response to Information request 6)
- transparency and accountability across the sector (see our response to Information request 7)
- building sector capabilities and the cost-effectiveness of the sector (see our responses to Information request 8 and 9)

Social impact investing

The CFS notes that both social impact investing and political donations are activities that lie at the boundaries of conventional definitions of philanthropy. Whilst we offer no comments on political donations, we are of the view that social impact investing is an important activity that should be a

primary focus of this inquiry and should not just be considered as a complement to, or substitute for, philanthropic giving.

The “Motivations for philanthropy” section of the CFS notes that financial incentives through tax deductions can also motivate people to give. In our view, focusing just on the role of encouraging philanthropy through the tax system (Section 3 of the CFS) is a conservative approach to the challenge at hand. Whilst we acknowledge that social impact investing may not be considered as philanthropy, as it is currently understood and described, we are of the view that there is scope through this inquiry to explore other incentives that may drive philanthropy, such as the financial returns a social investor may receive through social impact investing. This approach also has the benefit of reducing the financial burden on the taxpayer, by shifting focus from tax deductions associated with traditional philanthropic giving to financial returns for a social impact investor.

In CPA Australia’s 2017 [submission](#) to the Treasury consultation on Social Impact Investing, we observed that this nascent approach to funding the activities of the NFP sector should be supported by government, with thought given to developing appropriate governance structures and regulatory structures. In addition to the previous Treasury consultation, we note there was a [Social Impact Investing Taskforce](#) set up in 2017 and a Department of Social Services [initiative](#) on the same topic. However, we are unable to ascertain the progress of these initiatives. Other than the aforementioned initiatives and some ad-hoc State/Territory government initiatives we have identified (e.g., the NSW government [initiatives](#) on social impact investment) we are not aware of any significant initiatives arising from the previous Treasury consultation on this topic.

We recommend that the inquiry explore how social impact investing can be further developed as a subset of philanthropic giving, by revisiting and building upon some of the findings from the 2017 Treasury consultation. The experience of other countries that have established regulatory structures (e.g., the United Kingdom [social enterprise initiatives](#) that include a dedicated Community Interest Company legal structure) may also be of benefit.



Information request 2 Vehicles, trends and motivations for giving

The Commission would welcome the following.

- Any data, in addition to what is publicly available, on giving by donors who have different characteristics, such as age, gender or income.
 - Australian-specific data, case studies or other insights regarding motivations of donors who have different characteristics, including elasticities of giving if available.
- Data on the costs to not-for-profit (NFPs) organisations of sourcing revenue through different approaches, including:
 - data on the rate of return of these different methods
 - data comparing fundraising costs with costs of other funding sources, such as securing grants from governments or corporate partnerships
 - how these costs are changing over time.
- Information on the advantages and disadvantages of philanthropy as a source of revenue for NFPs compared with other funding streams, such as government grants, and whether these advantages and disadvantages differ:
 - between different types of organisations, such as Aboriginal Community Controlled Organisations
 - according to deductible gift recipient status or the organisational structure of charities
 - according to size or whether they are newly-formed.
- Giving vehicles that are not currently available in Australia and their purpose, suitability in an Australian context, benefits, costs and implementation risks.

Lack of data

We concur with the observation in the CFS that there is insufficient data available to measure the value of total financial giving in Australia. This lack of data significantly undermines not just assessing and addressing the matter of philanthropic giving, but the ability to assess and address the performance of the entire Australian NFP sector.

Although the Australian Charities and Not-for-profits Commission (ACNC) only represents a small proportion of Australia's NFPs through its regulation of charities, the data it collects and provides on charities is a timely reminder of the value of such data to making informed policy decisions. We expect similar data are received and stored by other Commonwealth and State/Territory regulators which may not be readily and publicly available in the same way as they are with the ACNC. This would include:

- NFPs registered with the Australian Taxation Office (ATO)
- Public companies limited by guarantee (that are not ACNC registered charities) regulated by the Australian Securities and Investments Commission (ASIC)
- Indigenous corporations regulated by the Office of the Registrar of Indigenous Corporations (ORIC)
- Incorporated associations regulated by State/Territory regulators

In our view, it would be a worthwhile exercise to obtain data from the various regulators that govern Australia's NFP sector, including those listed above, to develop a dataset that is more representative of Australia's NFP sector.

Vital data collected by the ATO on NFPs, including financial and other performance data relating Private Ancillary Funds and Public Ancillary Funds, are not publicly available. As noted in our response to Information request 7, some information, such as information relating to impact measurement, may not be easy to measure, recognise and report accurately.

To address the data challenges noted above, it is our view that this inquiry should recommend that the government initiate a NFP data strategy that:

- Identifies data that are considered critical to both increasing philanthropic activity and more importantly, to the efficient and effective operation of the NFP sector as a whole and developing the appropriate mechanisms to facilitate the free and easy access to such data.
- Reviews current data collection by regulators that is not made publicly available and amend the relevant regulatory or other requirements to ensure such data can be de-identified and made publicly available.
- Develops a common source or portal to facilitate free and easy access to the data that are currently held by multiple regulators at the Commonwealth and State/Territory levels.

Sources of NFP revenue

We have considered the data extracted from the [ACNC Charities Report 8th Edition](#) in Table 19, source of revenue by charity size, and draw the following conclusions:

- Donations (philanthropy) represent around 7 percent of total charity revenue. Most of the revenue (around 83 percent) is from government funding (around 50 percent) and revenue from goods or services (around 33 percent).
- Extra small to medium charities (revenue up to \$1m) benefit the most from donations as a proportion of their total revenue. Donations make up between 28 percent to 38 percent of total revenue for this segment. The remaining (larger) charities' reliance on donations amounts to between 4 percent to 14 percent of total revenue.

We make the following observations based on the above:

- Donations (philanthropy) makes up a small proportion of overall revenue. This reaffirms our comments in response to Information request 1 that the scope of the inquiry should have been broader than its consideration of philanthropy.
- A doubling of philanthropy by 2030 (one of the primary objectives of this initiative) will have a small impact on overall revenue.
- The inquiry should not only consider how philanthropic giving can be increased, but also which particular areas of the NFP sector should benefit. Given the proportion of overall charity income philanthropy represents, based on the available statistics, it will be important to target philanthropy to areas that are likely to benefit the community the most. For example, the current statistics indicate smaller charities rely more on philanthropy compared to larger charities and policies that encourage giving to such charities would be valuable to them and their beneficiaries.
- We acknowledge that there are limitations to the data used in the CFS and in our above analysis. The data only relates to charities and not the entire NFP sector, it is outdated (from 2020) and may also be impacted by variances in revenue during the COVID pandemic.

As noted above, the sector relies on multiple sources of revenue, including philanthropy. Whilst the objective of the inquiry is to increase or “double” philanthropic giving by 2030, there is no clarity as to whether this is intended to:

- Increase philanthropy and the income received by the sector as a whole, or
- Increase philanthropy, with such increase substituting revenue from other sources such as government funding.

We do not believe it would be appropriate to replace other funding sources, including government funding, by an increase in philanthropic giving. In many cases, philanthropic giving targets specific purposes or causes and NFPs are required to apply such revenue to those specific purposes or causes. NFPs often rely on other sources of income, such as government funding or revenue from sale of goods or services, for general operational funding. For these reasons, it would be helpful if there is clarity on how the increase in philanthropic funding interplays with other NFP revenue sources.

There are inherent limitations in collecting data relating to philanthropy. Revenue represented by “goods or services” included in Figure 2 in the CFS could include philanthropic elements which are inseparable. Notably, the accounting requirements in [AASB 15 Revenue from Contracts with Customers](#) recognise such inseparability and permits, in some circumstances, an aggregated presentation of income that includes both revenue and donations, as revenue. For example, the purchase of a ticket to a charity event may be recorded as revenue arising from goods or services but include a donation element which, in certain circumstances, is not separated from revenue relating to the actual provision of goods or services.

Whilst a primary goal of this inquiry is to “double” philanthropy, this could potentially and perceptively be achieved by collection and correct classification of all relevant data relating to philanthropic giving. Any goal to increase philanthropy, including a “doubling” of philanthropy, should recognise and adjust for data-related limitations that currently exist.

Volunteering

Placing a monetary value on volunteering, a major element of philanthropy, is another significant limitation. We suggest non-monetary measures should be used in determining the contribution of volunteering to overall philanthropy. Concerningly, we note that there is a decline in those who indicate they are providing unpaid voluntary work, based on the most recent [2021 census data](#) (we appreciate this data relates to all volunteering and not volunteering as it relates to the NFP sector exclusively). This data indicates a decline of volunteering by 19 percent when compared to the previous census of 2016.

In addition to considering philanthropy represented by monetary giving, we recommend the inquiry should also consider the overall decline in volunteering and how this situation can be improved.



Information request 3 Role of government in philanthropy

The Commission is seeking views and information on the following matters.

- The role of philanthropy, including where it can be a substitute for, or complement to, government funding or provision of services.
- The reasons why government should (or should not) support philanthropy and whether or how this may vary between causes and various types of philanthropic giving.
- The extent to which government policies can increase, impede or distort philanthropic giving, including data to support those views where possible.
- The extent that existing government support for philanthropy aligns with good policy design and community priorities, and examples where it may no longer align with community expectations.

The significant role of the government in funding the NFP sector is reflected in the statistics provided in Figure 2 in the CFS and in our analysis of the same provided in response to Information request 2. Based on these statistics, an increase in philanthropic giving could reduce the sector’s reliance on government funding, but even with a doubling in philanthropy, unless other innovative initiatives are considered, such impact is likely to be minimal. In our view, the government should consider newer

and alternative forms of philanthropic giving such as social impact investing, as noted in our response to Information request 1.

Good policy design that supports philanthropic giving should include consistency in regulatory approach. Whilst major steps have been taken in streamlining NFP regulation over the last decade, there remains much to be achieved. Each cent in the dollar that goes towards unnecessary compliance costs reduces the efficacy of philanthropic giving, potentially undermining the trust and confidence donors place in the sector. We have highlighted some of the notable challenges that need addressing in our response to Information request 6.

The role of digital technologies, including online and social media platforms that facilitate philanthropic giving, should be explored further to identify how the government can assist in the development, maintenance and regulation of technology-enabled solutions that can support philanthropic giving.

The performance of NFPs can be improved by helping them build their capability and capacity to choose, buy, implement and leverage technologies. With many having limited resources, government support is necessary to drive digital transformation in the sector.

Cyber-crime and cybersecurity issues are also increasingly affecting NFPs. Too many entities are unprepared for this eventuality. Increasing digital literacy and cyber-awareness is critical to combatting this issue. We also understand that there has been an increase in donations in the form of crypto currencies. The ACNC has issued [guidance](#) to assist charities to address governance and risk-related issues associated with this emerging form of transacting in, and holding of, economic value.

CA ANZ's 2020 publication "[Steering charities and not-for-profit organisations through the pandemic](#)" points to likely significant changes for charities in the coming years. Charities will invariably move towards new operating models in the post-pandemic environment. The use of digital technology will be essential despite the costs of implementation being quite prohibitive for many charities. Digital technology will provide longer term efficiencies through more effective stakeholder engagement and virtual fundraising. Data and information will be more efficiently maintained and retrieved, but the significant cybersecurity risks and the need for more sophisticated management will challenge many charities with priorities to deliver services rather than investing on defensive strategies. As part of this inquiry, we consider it essential to encourage cybersecurity experts to volunteer their services to assist charities.

Government funded programs that support investment in selected technologies may help smaller NFPs overcome a low understanding of technology and its applications, a major barrier to effective technology investment.

There is a range of government support available to assist the digital transformation of small business such as the technology investment boost (a tax incentive currently before Parliament) and the Australian Small Business Advisory Service (ASBAS). Such support should be extended to small NFPs. Where the support is delivered to small business through tax incentive, an equivalent program of direct support should be designed for small NFPs.



Information request 4 The Deductible Gift Recipient (DGR) framework

The Commission is seeking views and information on the following.

- The costs and benefits of the DGR framework as a way to incentivise donors to give to particular organisations or whether other policy levers would be more efficient, effective, or equitable.
- The policy rationale and objectives of the DGR framework, including whether it is:
- sufficiently clear
- consistent with promoting the welfare and priorities of the Australian community.
- The efficiency, effectiveness, and equity of the DGR framework, including whether its design and administration:
- is clear, transparent and fit-for-purpose for its intended objectives, and result in any unnecessary costs (including forgone tax revenue) or risks to the Australian community
- results in any inequities, inefficiencies, or perverse outcomes.
- The extent to which the DGR framework encourages giving to charities and other eligible entities, and the donors or causes for whom it is particularly effective (or not effective).
- Alternative models to the DGR framework that could be adapted to the Australian context. The Commission would also welcome information on whether models used elsewhere, such as tax rebate or contribution schemes, may or may not be suited to the Australian context.

We appreciate that the government continues to undertake reforms aimed at streamlining the DGR framework, including the latest reforms in the form of the [Treasury Laws Amendment \(Refining and Improving Our Tax System\) Bill 2023](#) that is currently being considered by the Parliament.

Feedback we have received indicates there is scope for further refinement of the DGR framework. The 52 DGR categories can give rise to administrative challenges for many NFPs that rely on philanthropic revenue through the DGR system. We understand some NFPs resort to establishing multiple-entity structures to ensure maximising income streams. However, this increases cost and administrative effort.

We are of the view that there is scope for further rationalisation of the DGR system, both to alleviate the administrative burden on NFPs and to strengthen the registration, reporting and regulatory environment.



Information request 5 Other tax concessions for not-for-profit organisations

The Commission is seeking views and information on the following.

- The role and effectiveness of tax concessions (other than those available under the DGR framework — see above) in supporting the operation of not-for-profit organisations and philanthropy.
- Anomalies and inequities in the operation and application of particular concessions.
- Unintended and adverse consequences arising from compliance with concession eligibility criteria, including those applicable in Australian States and Territories.
- The efficiency, effectiveness and equity of tax concessions in supporting not-for-profit organisations, and how they compare with alternative approaches to providing government support for not-for-profit organisations.

Private and Public Ancillary Funds

In addition to the lack of data surrounding Private and Public Ancillary Funds noted in our response to Information request 2, our stakeholder feedback indicates there is a general lack of knowledge and understanding about these philanthropic vehicles. Whilst some peak bodies and advisors who specialise in philanthropy are knowledgeable about these vehicles, there remains a lack of general

awareness about the nature, purpose, structure, governance, operational and regulatory requirements surrounding these vehicles.

We also understand that there is scope for improving the governance structures that underpin Private and Public Ancillary Funds and the financial literacy of boards of Public Ancillary Funds. As the primary regulator of these vehicles, the ATO publishes some guidance and the relevant regulatory requirements, but we have no visibility over what oversight, if any, is undertaken by the ATO in respect of these vehicles.

The role of Private and Public Ancillary Funds in philanthropic giving should be considered in light of the above observations and recommendations made to improve both the awareness and governance/regulation of Private and Public Ancillary Funds.

Capital Gains Tax K3 event

Timing issues arising from a Capital Gains Tax (CGT) K3 event could have implications for non DGR donations made from a deceased estate. Although any capital gain or loss from a CGT K3 event is included in assessable income as part of a deceased individual's date of death tax return, the CGT K3 event may not happen until a few years after the assessable period, due to circumstances relating to the administration of the deceased estate. In circumstances where the amendment period for the final income period has lapsed (usually either 2 or 4 years from the date of assessment), an amended assessment cannot be made. We understand that both the Australian Treasury and the ATO are aware of this matter and amendments to address it were considered in 2012 as part of a [Proposals Paper – Minor Amendments to the Capital Gains Tax Law](#).

This issue gives rise to challenges in respect of philanthropic giving from the deceased estate:

- The executor of the estate can be held personally liable if they miss the CGT K3 event and distribute the estate assets ([s260-140 of the Taxation Administration Act 1953](#)).
- Due to estate administrative issues, the philanthropic giving can occur post the tax return amendment period. This could give rise to a situation where there is no mechanism for the ATO to collect the appropriate CGT due.
- We understand the complexity and risk (in particular to executors) associated with these circumstances are deterring testators from considering philanthropic gifts in their wills.

We suggest that the relevant legislative provisions in respect of CGT K3 events are revisited and appropriately amended to address the above concerns.



Information request 6 Unnecessary regulatory barriers to philanthropic giving

The Commission is seeking views and information on the following.

- The costs and benefits of options for reducing any unnecessary regulatory restrictions and burdens, their effect on philanthropic giving and on policy objectives, such as consumer protection, but would not detract from the policy objective the regulation is meant to serve, such as, consumer protection or public safety.
- The effectiveness of existing regulations, including those that apply to public and private ancillary funds and other types of foundations and philanthropic entities, including any issues that may arise under state or territory laws.
- Unnecessary or inconsistent restrictions or regulations relating to requirements like police or working with children checks when volunteering or engaging volunteers.
- Emerging risks or regulatory gaps, including in areas such as cybersecurity, privacy and donor protection associated with certain of modes giving, such as peer-to-peer donations or crowdfunding, fundraising or marketing.
- Regulatory barriers that may limit donor choice and flexibility, such as rules and taxation arrangements for bequests and the distribution of superannuation death benefits to charities.

We agree with the observation in the CFS that over the past ten years regulatory reforms have benefited the charities and NFPs sector and the ACNC has been part-catalyst and part-instigator for such change. However, regulatory burden still remains a reality for the NFP sector as different regulatory approaches within the Commonwealth, between the Commonwealth and States/Territories and across States/Territories all give rise to unnecessary compliance burden. Notable challenges include:

- Differences in the regulatory approach to the NFP sector within the Commonwealth. For example, financial reporting and audit requirements differ between private/public ancillary funds (ATO), public companies limited by guarantee (ASIC), charities (ACNC) and indigenous corporations (ORIC).
- Differences between State/Territory regulation of NFP incorporated associations. Whilst significant progress has been made in streamlining financial reporting, audit, and other requirements for incorporated associations by alignment with the ACNC requirements, differences still remain for those incorporated associations that are not also charities registered with the ACNC. The CA ANZ publication "[Enhancing Charity and Not-for-Profit Reporting](#)" provides an overview of the Commonwealth and State/Territory statutory financial reporting and audit provisions that are applicable to much of the sector.
- Differences between State/Territory regulation of fundraising. We commend the efforts of the Commonwealth and State/Territories for their joint efforts through a working group to [agree a common set of fundraising principles](#) that will form the basis of streamlined fundraising regulation in the future. As members of the #fixfundraising coalition, we have been actively advocating for this reform and urge the government to continue its efforts to achieve streamlined and simplified fundraising regulation across Australia.

The vision behind the establishment of the ACNC in 2012 was for a regulator for both charities and NFPs. However, this vision has only been partially fulfilled as the ACNC's legislated regulatory focus has remained on charities for the past decade. We continue to believe that a common Australian regulator for all NFPs should remain the government's focus and fulfilling this vision should remain a medium to long-term goal.



Information request 7

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

The Commission is seeking views and information on the following.

- The role of government and the non-government sector in providing additional information to donors.
- The policy rationale, costs and benefits of government provision of specific data sources to inform donors' choices about where to give.
- Information donors would value on the effectiveness of not-for-profit (NFP) organisations, but cannot access and why.
- Data sources that are most beneficial to donors and examples of data that is provided by government to donors (directly or indirectly) overseas that could have net benefits to the community if applied in Australia.

The Commission would particularly welcome views on measures used by NFPs to assess and communicate how they perform against their objectives, including views on the following.

- Weakness or gaps in existing data sources relating to the effectiveness of NFPs that limit their reliability and usefulness or create perverse incentives by focusing on metrics that may be easier to collate but do not provide an accurate measure of effectiveness.
- The extent to which providing information on the effectiveness of NFPs influences decisions made by donors, including decisions not to give.
- Any overseas policy responses to measuring effectiveness which may be relevant, including the use of accounting standards and other reporting tools.

CPA Australia published a research report in February 2022 titled "[Annual reports of Australian NFP organisations: insights from internal and external stakeholders](#)". We believe the findings of the research included in the report will be of value to the inquiry.

Key points from the report include:

- Despite varying (but usually complementary) views of what accountability represents, accountability has undoubtedly high importance in the NFP sector. Accountability is about being held responsible for the actions and operations of the organisation. Conceptually it is related to transparency and effectiveness, how effectively the organisation raised and utilised funds, and how costs were managed to achieve its objectives.
- The ability of NFPs to articulate outcomes, and the different approaches to measurement, especially in niche domains in which the NFP operates, can be challenging.
- Activity can be measured easily, but it is not always easy to measure outcomes – some such things in the NFP domain are not measurable/quantifiable, despite being at the core of the mission.
- Although the CPA Australia funded research did not specifically consider the role of organisations that collect and publish NFP financial and other performance data, it did note that for a number of reasons (see section 5.7 of the report), there is difficulty in making legitimate comparisons across different charities.

We note the observation in the CFS that "Limited public information on NFPs may not necessarily be a problem if it simply reflects lack of demand". Whilst this is partly true, it should also be recognised that the act of preparing and lodging financial and other information with a regulator can provide confidence to a donor (whether or not they choose to read such lodged information) that certain standards of accountability, transparency and good governance are being met. For example, the ACNC "charity tick" aims to reassure the public that a charity is transparent and accountable and is listed on the ACNC charity register.

The CPA Australia research report finds that NFPs, many with limited financial acumen, face challenges when applying Australian Accounting Standards to prepare financial reports. This issue has been recognised by the Australian Accounting Standards Board (AASB) and they are currently developing a simpler financial reporting standard aimed at smaller NFPs. We expect this simpler reporting standard will alleviate some of the compliance costs faced by the sector in relation to their statutory financial reporting obligations.

As noted above, the CPA Australia research report finds that measuring and reporting outcomes can be particularly challenging (see section 5.6 of the report). Given the challenges associated with measuring and reporting impacts, the report does not recommend mandated impact reporting. However, the report highlights the importance of NFPs explaining their priorities and endeavours taken in meeting their mission. We note the AASB plans to recommence its “reporting of service performance information” project that is likely to inform future developments in outcomes/impact reporting by NFPs. We also note that the Treasury has commenced a consultation “[Measuring what matters – second consultation process](#)” that could inform the direction of impact reporting by NFPs.

In addition, the reporting of NFPs priorities, endeavours and how they meet their mission is crucial to the sector, as there is significant competition for financial and in-kind support to operate. However, reporting financial viability alone is often not enough. Reporting must also convey that the entity is effective and is a low risk and high outcome funding choice, by being more transparent about its governance. CA ANZ’s publication “[Enhancing Charity and Not-for-Profit Reporting](#)” aims to assist NFPs in this regard.

CPA Australia and CA ANZ are also involved with the [International Financial Reporting for Non-Profit Organisations](#) (IFR4NPO) project that aims to develop international financial reporting (including service performance reporting) guidance for NFPs. The proposed guidance arising from this project may also be of relevance to the reporting of effectiveness of Australian NFPs.



Information request 8 **Other measures to support potential donors**

The Commission is seeking views and information on the following.

- Steps governments can take do to better equip professional advisers to advise their clients on philanthropic giving.
- Aside from those mentioned so far, any other opportunities for government to improve philanthropic giving in Australia.

Building the NFP sector’s capabilities can assist in more effectively meeting its objectives and fulfilling donor expectations. As noted in CPA Australia’s [Federal budget submission 2023-2024](#), smaller NFPs can build their capabilities in a variety of ways. It is our experience that one of the best and fastest ways to build capability is with the help of a professional advisor. However, many NFPs do not have the capacity to pay for advice or have given it a low priority. With the decline in volunteering, the importance of building the capacity of smaller NFPs to respond to this environment in partnership with professional advisers is of increasing importance.

Accordingly, we recommend that the government should fund incentive payments to NFPs to encourage them to access tailored advice from approved professional advisors of their choice. We suggest the Commonwealth Government model such a program along similar lines to the Victorian Government’s Small Business Special Advice Pathways Program.

In November 2022, CA ANZ published “[Purpose, people and planet – an environmental and social approach to sustainability in not-for-profits and charities](#)”, a playbook which outlines the importance for

NFPs to apply a sustainability lens to their purpose, in order to create positive impact and minimise unintended negative impacts. The playbook notes that many corporate donors, grantors and shared value partners are setting goals and targets for social and environmental issues such as diversity and inclusion, reducing emissions and eliminating modern slavery from their supply chain. It is inevitable that they look to NFPs in their value chain to contribute to these goals and as such, sustainability makes financial sense.

We believe that the NFP sector has a lot to gain from incorporating sustainability into their operating models and see Government having a supporting role to help raise awareness and support the sector. Additionally, as funders' expectations around the sustainability of NFP activities increases, it will be important for the cost of these activities to be incorporated into funding arrangements.

Professional and peak bodies including CPA Australia and CA ANZ have a significant role in better equipping professional advisors to serve the sector. In this regard, we continue to develop and provide a range of resources for the NFP sector through our websites ([CPA Australia](#) and [CA ANZ](#)) and other communication channels.



Information request 9 Cost-effectiveness of public data sources

The Commission is seeking views and information on the following.

- Critical data and information gaps about philanthropic giving and how these impede policy development and decision making.
- Effective ways to collect information that balance the costs and benefits, including where:
 - current information collection is unnecessary or unduly onerous
 - there is duplication of data provision to different government bodies, or it is in different formats for different purposes
 - more streamlined collection would make the data more useful, and if relevant, more comparable with other data, such as international sources.
- Risks and other factors to consider in expanding or changing information reporting requirements and processes.
- Who should pay for any new information collection and be the stewards of current and any new information.
- Any additional data-related considerations for:
 - organisations run by Aboriginal and Torres Strait Islander people or that provide services to Aboriginal and Torres Strait Islander people
 - small or newly-formed not-for-profit organisations
 - organisations that operate across States and Territories, and internationally.

The cost-effectiveness of data made publicly available by the NFP sector is a critical factor in ensuring the sector's ability to continue to demonstrate its accountability to donors and other stakeholders. The sector could benefit from data similar to the [benchmarking data](#) produced by the ATO for small businesses and which allow for a comparison between NFPs operating in a similar field. As noted in our response to Information request 6, regulatory red tape remains a factor that undermines the cost-effectiveness of data publicly provided by the NFP sector. We have also provided relevant comments relating to the "lack of data" in response to Information request 2.

Although there are many public registers of NFP data throughout Australia, both at the Commonwealth and State/Territory levels, the only source of data that we are aware of that is both readily accessible and freely available is the ACNC Register. We need a similar data portal that not only includes charities currently covered by the ACNC Register, but all other NFPs that seek and benefit from philanthropy.

We do not agree with the observation in the CFS that “information should only be required by government where it is necessary for compliance activity, including to protect donors and the public, or it is of high analytical value”. In addition to these valid reasons for information required by government, the information made available through government portals such as the ACNC is an important source of information for donors and other stakeholders.

In our view, there should be no expansion of information provided, but rather a reduction and streamlining of information provided by NFPs. The Australian NFP sector is already burdened with excessive and duplicative compliance requirements and any expansion to the amount of information that is already provided is likely to have a negative effect on the sector as a whole. Hence, any new information requirements should seek to rely on existing data sources. Below are examples of opportunities to streamline data requests from the sector:

- The ATO is currently planning to implement new requirements from 1 July 2023 for self-assessing income tax exempt NFPs to complete an annual return that confirms their income tax exempt status. Whilst the expectation is that NFPs providing information under this new requirement will not have to do anything additional to what they should already be doing to ensure they remain income tax exempt, we do not know the format and content of the requirements at this time.
- Feedback we have received indicates that NFPs are spending excessive effort in acquitting grants received from government agencies and private organisations. These acquittals can be a “one size fits all” approach that do not always match the size of the grant or the size of the NFP and the resources available to it to undertake the grant acquittal. The [Commonwealth Grant Guidelines](#) issued by the government in 2017 was intended to simplify the grant acquittals process (for government grants) but we do not know if government agencies follow these guidelines in seeking acquittals.
- The AASB is currently undertaking a [project](#) to develop a simple, fit-for-purpose NFP financial reporting standard for smaller NFPs. We are of the view that this project has the potential to simplify and streamline financial reporting by smaller NFPs that will ensure ongoing transparency and accountability in a cost-effective manner. Our joint [submission](#) to a recent consultation by the AASB as part of this project identifies the considerations relevant to the development of this standard.

In addition to supporting the uptake of technology-based solutions by the sector, as noted in our response to Information request 3, the government should also look to digital reporting solutions for more cost-effective collection and reporting of data by NFPs. A good example of the collection of data digitally is the ACNC’s Annual Information Statement for charities, which proves to be a valuable source of information to stakeholders, including policy developments such as this inquiry, as reflected in the information presented in Figure 2 of the CFS. Whilst the initial investment in digital technologies for data collection and reporting may be high and require government support, we expect this to be offset by lower costs in subsequent years and the significant benefits associated with digitised data.



Information request 10 Public strategies to increase the status of giving

The Commission is seeking views and information on the following.

- Public strategies or initiatives that have proven cost-effective in increasing philanthropy in other countries and evaluations conducted on those initiatives.
- Developments in behavioural economics and other social experiments in ‘nudging’ and engaging new donors and volunteers.
- Other approaches that could be used to attract new donors and different demographics into philanthropy.

We support an increase in the overall status of giving and acknowledge that some jurisdictions encourage or ‘nudge’ to engage new donors and volunteers. However, we consider that the government should be cautious about the risks and negative impacts associated with the potential for excessive requests and targeted behavioural and social campaigns that may be used by some charities and NFPs to increase philanthropy. The Olive Cooke tragedy that gave rise to subsequent fundraising reforms in the United Kingdom is a noteworthy case in this regard. We encourage the government to focus on broader public strategies and initiatives to increase philanthropic giving.



Information request 11 Identifying and assessing reform options

The Commission is seeking views and information on the following.

- The costs and benefits of reforms most likely to increase giving in Australia, including:
 - empirical evidence from other countries that have adopted similar reforms
 - previous research modelling the effects of the proposed (or similar) reforms.
- Evidence on the costs and benefits associated with reform options to increase levels of giving, including:
 - impacts on government expenditure
 - impacts on the quality of service delivery
 - other benefits, including intangible benefits such as enhancing social capital.

We have no further comments.