



Monday, 29 March 1999

The Secretary  
Review of Business Taxation  
Department of the Treasury  
Parkes Place  
CANBERRA ACT 2600

### **A Proposal for the Establishment of a Social Dividend**

The Mission Statement of the Review of Business Taxation states: -

*"The goal of an effective business taxation system is to improve the international competitiveness of the economy in order to attract capital for investment and maximise the opportunities for job creation."*

This proposal argues that to achieve this goal, the Review should consider Corporate Australia's relatively low contribution to social needs (in the form of charity, welfare, environment, overseas aid, medical research etc.) Further, without such corporate commitment to addressing the country's social needs that Australia stands to: -

- lose its international competitiveness, because it will
- risk the possibility that investment capital, intellectual capital and technology will gravitate towards more advanced societies (for social reasons), while we
- face the emerging reality that the under-privileged will be unable and unskilled to participate in the workforce (and be adequately skilled for the job opportunities which arise).

This proposal promotes the concept that profitable companies should be required to contribute a defined proportion of profits as a Social Dividend. To comply with this requirement, companies with an annual taxable income over \$10m would demonstrate that in the following year they contribute at least 1% of the prior year's taxable income to community development, welfare, conservation or other approved social causes. If the contribution fell short of 1% then the difference would be payable as a Social Dividend to the Australian Taxation Office to support Federal Government expenditure on similar activities.

## **The Need for a Social Dividend**

Historically, Australia has primarily relied on government to fund social needs, as with retirement incomes and health. It is now widely accepted that Australians should look to fund their own retirement. The Superannuation Guarantee, paid by employers, will be a major factor working to achieve this long-term goal. The Federal Government is also working on a better balance between Medicare and private health insurance to fund the country's growing health budget. It should also be noted that hospitals and medical research bodies are increasingly looking to public and corporate fundraising to meet health expenditure needs.

One factor underlying these trends is the desire to have several sources of funding; to share the burden amongst the various stakeholders in each social need. It also reflects the philosophy that those who derive benefits from the economy should contribute directly to fund those social needs even though they also contribute via the taxation system. There is also a widespread belief that private sector participation means better delivery of these services, i.e. better retirement income products and better health care options for those who opt for private health insurance.

The same principles could also apply for the funding of other social needs. Government would like to reduce reliance on the public purse. Increasingly, charities are developing fundraising programs in order to diversify their funding sources, as well as meeting the increased demand on their services and reducing their reliance on government funding.

A major policy imperative for implementing a GST is to provide long-term government funding for social needs. However, by definition it cannot provide the required level of direct private sector funding.

## **Private Funding for Social Needs**

Australia does not have a strong *culture of giving*. In 1995 the Industry Commission estimated the value of donations to charity at ½% of GDP, which is around half of that experienced in the UK and Canada and a quarter of US levels. Subsequent, studies published by Givewell ([www.givewell.com.au](http://www.givewell.com.au)) demonstrate that individual donations and bequests are supporting the growth in fundraising income of charities, while the financial contribution from the corporate sector is apparently in decline. Business provided around 7% of the income of major Australian charities in 1997. This compares to 43% from State and Federal governments, 12% by individuals and 7% from bequests and charitable trusts. Unfortunately, the value of voluntary work or pro bono services is not valued in these surveys.

Givewell believes that Australia should aim to lift the level of private sector support for social causes to 1% of GDP and that an increase in Corporate Giving is a key component of achieving this goal.

## Issues for Corporate Giving

Many large Australian companies have some type of corporate giving program and budget. Comments from members of the philanthropy sector suggest that these programs are often integrated with commercial and professional sports sponsorships and that genuine corporate giving is attracting less support. In response the business sector points out that its in-kind and *pro bono* support for the charitable sector is not taken into account in evaluating their contribution.

On March 26, 1999 the Prime Minister announced some welcome improvements to tax incentives for major gifts. The Prime Minister also noted that he remains open to further representations about how the tax law interacts with incentives for philanthropy. Givewell's analysis of the new incentives is that they are unlikely to induce a major increase in corporate giving. They simply remove some disincentives that currently exist, at a cost to revenue. This proposal is for encouraging more corporate giving within existing tax incentives, at no cost to revenue.

## The Social Dividend

In the context of the above a Social Dividend of 1% of taxable income could achieve the following: -

- A contribution to social needs from profitable companies which is no more or less than an appropriate benchmark for Australian companies.
- An opportunity for business to value its contribution of in-kind, *pro bono* and employee volunteer support.
- Not for profit organisations would derive a more reliable source of funding from the corporate sector.
- More disclosure about the interaction between the business and community sector.
- Companies, which benefit from a lower corporate tax rate, will have the requirement to pass on a defined proportion of this benefit direct to the community.
- There will be a positive impact on government revenue to the extent that companies do not spend over their 1% threshold and become liable for the levy.

## Calculation

The minimum Social Dividend could be set at 1% for companies with taxable income over \$10m, payable in the following year. Any shortfall is payable as a levy to the Australian Taxation Office. The \$10m income threshold will ensure that the compliance burden only falls on profitable companies whose Social Dividend would start from \$100,000 pa.

If the policy were implemented from 1 July 1999 then Social Dividend payments would commence from 1 July 2000. This would provide companies with at least 12 months to develop or improve their giving programs. It also ensures profits are earned before the relevant Social Dividend is payable.

The following costs could be eligible Social Dividend payments: -

- Gifts that are currently tax deductible. That is, cash, property and trading stock donations to not for profit organisations recognised as Public Funds under the Income Tax Assessment Act.
- 2/3 of the cost of sponsorships paid to Public Funds, assuming that 1/3 of the value is a benefit to the organisation.
- 1/3 of the cost of goods or services purchased from a Public Fund, assuming that 2/3 of the cost is the commercial benefit derived.
- The direct payroll costs while employees engage in volunteer work for a not for profit organisation in lieu of their normal employee obligations. This might include situations where senior management or executive directors of a company sit as volunteers on the Board of a not for profit organisation.
- Contributions to a company foundation which is established for charitable purposes, regardless of whether it is recognised as a Public Fund by the ATO.

The administration of the Social Dividend would be similar to the Training Levy, which operated in Australia in the early 1990s.

## **Disclosure**

While Corporations Law disclosure does not fit within the Terms of Reference of the Review of Business Taxation it is recommended that an important aspect of the Social Dividend is to require summary disclosure in each qualifying company's Annual Report. This should be sufficient to enable interested parties to determine the amount of Social Dividend paid and the mix of qualifying components, which form its makeup.

## **Examples of Similar Commitments**

### Perpetual Trustees Australia Limited

The Managing Director of Perpetual Trustees, Graham Bradley outlined Perpetual's commitment to Corporate Philanthropy at an address to CEDA on Wednesday, 16 September 1998 entitled -  
RISING INVESTOR POWER: HOW CORPORATE AUSTRALIA MUST RESPOND

*"One of our five principles is to be a good corporate citizen. We do this in many ways. Last year we established the Perpetual Foundation, to institutionalise our corporate giving. The Foundation gives visible expression to our corporate citizenship values. The board committed to give 1% of annual profits for three years to set up the Foundation and so far over \$500,000 has been given. The Foundation will make gifts to meet a range of worthy community needs, including welfare, medical research, educational, cultural and environmental needs."*

## Imagine Program – Canada

The following description is from the Internet site of the Canadian Centre of Philanthropy at [www.ccp.ca](http://www.ccp.ca).

*“Imagine, founded in 1988, is an initiative of the Canadian Centre for Philanthropy. It challenges Canadians - from all walks of life - to tackle the problems and issues facing our communities and to find new ways to increase support to the voluntary organisations and networks that are at the core of our communities.*

*Imagine's programs are designed to create a new spirit of citizenship and of caring commitment to the communities we live in. They are designed to provide practical tools and resources to help voluntary organisations, businesses and individual citizens find new ways to build the partnerships we need to sustain our communities.*

### *A New Spirit of Community Partnership Program*

- *Over 400 Imagine Caring Companies*

*Imagine encourages and recognises business support for community through its Caring Company program. These companies, which have made a commitment to Imagine's corporate giving standards, donate a minimum of 1% of their pre-tax profits to community organisations and encourage employee volunteering. Imagine Caring Companies includes many large national corporations as well as smaller enterprises across Canada. Our goal is to increase the family of Caring Companies and strengthen Imagine's standards for measuring and encouraging corporate support for community.”*

An article on the Imagine Program published in the Spring 1998 edition of Philanthropy, by Philanthropy Australia noted that in 1995 Caring Companies donated 1.37% of pre-tax profits to charity, about 40% of total corporate giving. It also noted that –

*“The Imagine benchmark of at least 1% of pre-tax profits for charity, and encouragement of employee volunteering, is widely accepted as the minimum norm for corporate giving by many business and non-profit leaders and the media.”*

## Giving USA

One reason why charitable giving is high in the USA is that Corporate Philanthropy remains at high levels. *Giving USA* is an annual survey of levels of charitable giving published by the American Association of Fund-raising Counsel. The 1998 survey estimates US corporate giving at 1.1% of pre-tax income, excluding strategic corporate support (i.e. sponsorships).

## **Conclusion**

The Social Dividend is about delivering a springboard to corporate giving in Australia. It establishes a benchmark at a time when corporate profits are relatively healthy and the economy is strong. For many companies who have well developed giving programs, or those who will be beneficiaries of a lower tax rate, it will not mean a reduction in after tax profits.

Finally, it is appropriate that the business tax system should take corporate giving into account because it will foster better relationships between the corporate and community sector. It will also improve the balance of contribution to social needs from key stakeholders in the Australian economy.

Yours Sincerely,

**Michael Walsh**  
Principal