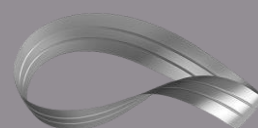

THE PRODUCTIVITY
COMMISSION DRAFT
REPORT INTO
PHILANTHROPY –
FUTURE
FOUNDATIONS FOR
GIVING

INDEPENDENT SCHOOLS AUSTRALIA
SUBMISSION
9 February 2024



INDEPENDENT
SCHOOLS
AUSTRALIA



Independent Schools Australia is the national peak body and the voice for the Independent school sector. Our membership and board are comprised of the state and territory Associations of Independent Schools. We work closely with our members to promote choice, diversity and partnership in education, and advocate for ongoing and sustainable levels of Australian Government support through effective policy and fair funding.

Through these Associations, ISA represents more than 1,209 schools and 688,638 students, accounting for 17 per cent of Australian school enrolments and a workforce of 115,090 people.

Independent Schools Australia acknowledges the traditional custodians of country throughout Australia and recognises the continuing connection to land, waters and community. We pay respect to Elders past and present, and commit to the ongoing journey of reconciliation.



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1. ABOUT INDEPENDENT SCHOOLS AUSTRALIA

Independent Schools Australia (ISA) is the national peak body representing the Independent school sector. Working with the eight state and territory Associations of Independent Schools (AISs), ISA's major role is to represent the sector on national issues and bring the unique needs of Independent schools to the attention of the Australian Government and community.

Nationally, 688,638 students attend 1,209 Independent schools, and the latest available data shows that one in six Australian school students attends an Independent school and over one in five secondary students attends an Independent school. These schools employ around 115,000 people.

Independent schools are a diverse group and serve a wide range of communities. The median fee for an Independent school in 2021 was around \$5,300, and the majority of Independent schools charge fees in the range of \$3,000 – \$5,500.

Most families with children enrolled in non-government schools are middle-to-low-income earners, increasingly from culturally diverse backgrounds, and residing in outer-suburban and inner-suburban communities. Many of these families are currently facing economic stress and are making substantial sacrifices for their children's education.

Independent schools are long-established partners in Australia's education system, alongside government and Catholic schools. They make a valuable contribution to society and the learning and wellbeing of Australian children.

Many Independent schools provide a religious or values-based education. Others promote a specific educational philosophy or interpretation of mainstream education. Many Independent schools have been established by community groups seeking to meet particular needs or to reflect the religious values of a community. Independent Catholic schools are a significant part of the sector, accounting for eight per cent of the Independent sector's enrolments.

Most Independent schools are set up and governed independently on an individual school basis. However, some Independent schools with common aims and educational philosophies are governed and administered as systems, for example, Lutheran schools. Systemic schools account for 20 per cent of schools in the Independent sector. Four out of five schools in the sector are autonomous non-systemic schools.

2. INTRODUCTION

In February 2023, the Productivity Commission was asked to undertake an Inquiry into Philanthropic Giving. The Terms of Reference for the Inquiry note the importance of philanthropy as it "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"¹. The Terms of Reference also clearly state the purpose of the Inquiry which is to better understand philanthropic giving and to identify opportunities and obstacles to increasing philanthropy in Australia.

The Productivity Commission's draft report – *Future Foundations for Giving* – has provided a range of recommendations about philanthropic giving in Australia. Independent Schools Australia (ISA) welcomes this opportunity to provide feedback on the draft report. The eight state and territory Associations of Independent Schools have been consulted in the development of this submission, and through them over 1200 Independent schools and their communities.

ISA's initial submission to the Inquiry outlined the role of Independent schools in fostering a culture of giving in students and their broader school communities. The submission also noted the charitable status of schools and the important but limited access to Deductible Gift Recipient (DGR) status to support specific activities in schools i.e., school building funds, scholarship funds and libraries.

The draft report includes a range of recommendations including a recommendation in *Part 6 – Reforming the Deductible Gift Recipient System* to remove DGR status for school building funds on

¹ <https://www.pc.gov.au/inquiries/current/philanthropy/terms-of-reference>.

the basis that there is “the potential for a donor to be able to convert a tax-deductible donation into a private benefit.”

Independent schools fund the majority of their capital costs (building and equipment) from private sources including parental fees, external (borrowed) finance and DGR donations. While there is access to small amounts of capital funding assistance provided by the Commonwealth and state/territory governments, the majority of the capital funding burden – close to 90 per cent - falls directly upon the school to source.

Independent schools, families and school communities around Australia have expressed concern and anger about the inclusion of this recommendation in the draft report. Removing DGR status for school building funds would have a significant negative impact on schools, families and wider communities around Australia and ISA urges the commission not to include this recommendation in its final report.

As a general principle, all schools should continue to be able to access DGR status, and therefore tax deductibility, for voluntary donations that support specific activities in a school setting, including school building funds. The ability to offer tax deductibility for donations is critical for schools in sourcing support that may not be otherwise available and enhances their capacity to offer quality educational resources to all students.

3. KEY POINTS

- On behalf of over 1200 schools and almost 690,000 students and their families, ISA strongly opposes any proposal to revoke the Deductible Gift Recipient (DGR) status for education activities, and we urge the Commission to remove this recommendation from the final report on its Inquiry into Philanthropic Giving.
- Independent schools foster and encourage strong community links and encourage volunteering and contributing to society in both their students and the broader school community.
- The current DGR status available to schools is vital to the ability of Independent schools to fund and provide a range of services and programs including bursaries and scholarships and to fund capital works in schools.
- It is ISA’s view that the argument that “the potential for a donor to be able to convert a tax-deductible donation into a private benefit” is significantly flawed and has not been demonstrated.
- Removing DGR status for non-government school building funds will shift more financial burden onto families, who already make significant sacrifices to support their children’s education and are doing their best to manage the ever-increasing cost of living pressures.
- The removal of DGR status for school building funds will also directly impact the capacity of the school to provide the best possible learning environment for students.
- Limiting DGR status for scholarships reduces educational opportunities for students and families.
- ISA does supports moves to make DGR status more streamlined and consistent.
- Consideration should instead be given to ways that the DGR framework could be expanded to enable other forms of philanthropy in the school sector. For example, consideration could be given to making the DGR requirements for scholarships more open and accessible to a wider range of students.

4. DIVERSITY IN INDEPENDENT SCHOOLS

The Independent sector encompasses considerable diversity in size, location, student cohorts and fees charged. With a greater percentage charging less than \$1,000 per year than those charging over \$20,000, it is clear that Independent schools cater to the full spectrum of Australian society. The median annual fee charged per student is just under \$ 5,300 per year (excluding full fee-paying international students), with more than 50 per cent of recurrent income being derived from families and school communities.

Independent schools cater to specific groups of disadvantaged students including high-needs students with disability attending special schools; Aboriginal and Torres Strait Islander students attending remote 100 per cent Indigenous schools in Western Australia and the Northern Territory; and highly disadvantaged urban youth who have been excluded from both government and non-government schools attending Independent special assistance schools.

The numbers of disadvantaged students in Independent schools, including students with disability, Indigenous students and students with a language background other than English, have been increasing at a higher rate than overall sector enrolments for many years.

- 140,000 students with a disability attend an Independent school.
- 143 Independent Special and Special Assistance Schools play a crucial role in educating 16,571 students unable to access mainstream schools due to complex barriers and facilitating their pathways to employment or further education outcomes.
- 17,752 Aboriginal and Torres Strait Islander students are enrolled across 983 Independent schools. 47 of these are Majority Aboriginal or Torres Strait Islander schools, and many are leading the way in developing and delivering highly innovative educational programs.
- 138,000 students attend 416 Independent schools across regional, rural and remote Australia. For many students in remote communities, an Independent school is the only available option.
- Independent schools are the largest provider of boarding places with 14,577 students, twice the enrolments of the government and (systemic) Catholic sectors combined.

Independent schools are active members of and contributors to their local and wider communities and regularly engage with a wide range of community and other organisations such as sporting clubs and associations, performing arts groups, doctors and mental health professionals and community groups.

5. SCHOOLS AS NOT-FOR-PROFIT ENTITIES

The vast majority of non-government schools in Australia are not-for-profit entities, registered with the Australian Charities and Not-for-Profits Commission (ACNC) with the charitable purpose of 'advancing education'. This recognition of the importance and public benefit of the work of schools in educating Australia's young people underpins the DGR status of school building funds in schools around Australia.

All Independent schools that are eligible to receive Commonwealth funding are individual not-for-profit (NFP) institutions that are established and governed independently. All Independent schools are registered by the relevant state or territory education authority. Not-for-profit Independent schools are entitled to charitable status under the *Charities Act, 2013*.

Key decisions around education provision, school development and staffing are usually made by governing boards. Unlike other educational sectors, the majority of Independent schools operate autonomously, without reliance upon central bureaucracies which enable redistribution of funding and economies of scale. All are accountable to their parent and school communities.

It has been noted by Independent schools that there is a genuine desire within school communities to give to schools, usually from parents and other relatives of existing or past students or from alumni. However, donations are not limited only to the direct school community. Independent schools serving disadvantaged communities may also seek out additional sources of support and income to support particular programs or offerings. The importance of having a framework in place that encourages philanthropy towards key national endeavours, such as education, cannot be overstated.

6. REFORMING THE DGR SYSTEM

In the draft Report, the Productivity Commission has proposed "a comprehensive overhaul of the DGR system applying a principles-based framework to assess and improve the DGR system."² These

² Future foundations for giving Draft report, Productivity Commission, p.16

changes intend to simplify the current system, to try and ensure that there is the same treatment of activities that offer similar outcomes, and to provide guidance for future changes to the DGR systems.

Underpinning this new approach, the Commission proposes three tests to determine whether a class of charitable activity should be within the scope of the DGR system.

- Is there a rationale for taxpayer support because the activity is expected to generate net community-wide benefits and would otherwise likely be undersupplied by the market?
- Are there net benefits from providing government support for the activity through subsidising philanthropy using a tax deduction for giving?
- Is the activity unlikely to be a material risk of converting tax-deductible donations to private benefits for donors?

As set out in the draft Report, the Productivity Commission has put forward a view that “converting a tax-deductible donation into a private benefit is, in principle, a substantial risk for primary and secondary education, religious education, and other forms of informal education, including school building funds”.³

While ISA sees value in efforts to streamline and reform DGR status to simplify and enhance the consistency of the current system, it is ISA’s view, and the view of the Independent sector more broadly, that the Productivity Commission has erred in its assessment of school education with its proposed tests, particularly in relation to the risk of converting donations to private benefit. It is also unclear why, in an Inquiry with the stated aim of increasing philanthropic giving, the Commission is calling for a reduction of philanthropic giving in a few specific areas.

7. GOVERNMENT FUNDING OF INDEPENDENT SCHOOLS

Part of the rationale for removing DGR status for the activities of primary and secondary education, religious education and some other types of informal education in the draft report appears to be based on the argument that government support for non-government schools has significantly expanded since 1954, when DGR status for school building funds was first introduced.⁴ However, there appears to be a conflation of recurrent funding, which has increased with successive school funding models and enrolment change, and capital funding which remains minimal.

Independent schools are funded by a combination of parental contribution (usually in the form of fees) and Australian Government and state and territory government funding. Of the two broad categories of government funding to schools, recurrent and capital, it is recurrent funding that supports the ongoing operating expenses of schools and is by far the most significant.

7.1 Recurrent funding

The Australian Government has the primary role in providing government funding for non-government schools. This recurrent funding supports the ongoing operating expenses of all schools. State and territory governments are the primary source of support for government schools.

In 2021-22, Commonwealth and state and territory governments spent a total of \$78.7 billion on school education - \$58.7 billion of this public investment went to government schools and \$19.9 billion went to non-government schools.

In 2021-22, some 64 per cent of school enrolments were in government schools, which received 75 per cent of total government expenditure on schooling. In comparison, non-government schools accounted for 36 per cent of enrolments and 25 per cent of total government expenditure.

On a per student basis, in 2021-22 total government spending on students in government schools averaged \$22,511, while in non-government schools (both Catholic systemic and Independent schools) this was \$14,032 per student. Average government expenditure on students in Independent

³ Future foundations for giving Draft report, Productivity Commission, p.18

⁴ Future foundations for giving Draft report, Productivity Commission, p.189

schools is estimated to be about \$12,260 per student, or 54 per cent of the average spending per student in government schools. Independent school students receive considerably less government funding than their counterparts in government schools.⁵

The proportion of government funding for individual Independent schools varies greatly from school to school. Some Independent schools receive as little as 10 per cent of their funds from governments, while others, where the parents and school community have extremely limited capacity to contribute, are almost fully funded by governments.

Except for a very small number of schools serving the most highly disadvantaged students in Australia, non-government schools are not allowed to use government recurrent funding for capital purposes.

7.2 Parental Contribution

Most of the income from private sources comes to Independent schools through fees charged to parents. In 2022 this accounted for 91 per cent of their private source income. Income from donations, fundraising, sponsorship and investments made up the remaining 9 per cent of their income.⁶

Independent school fees vary widely and are influenced by the community the school serves, the level of schooling, the types of education programs offered, and the level of government funding provided to the school.

The amount of government funding per Independent school student, from both state and territory governments and the Australian Government, is considerably lower than the level of funding for Catholic systemic and government school students however families make up the difference in total per student funding in the Independent sector through school fees, donations and fundraising.

7.3 Capital funding

Most of the capital development (land, buildings, equipment) in Independent schools is funded from private sources. Governments provide only a small fraction of the capital investment made by Independent schools. Parents contribute the vast majority of capital investment through fees, fundraising and voluntary contributions.

In 2021, parent and community contributions provided about 86 per cent of capital funding in the sector equalling over \$1.14 billion being spent on capital development. Parents and school communities make their contribution through school fees, donations to school building funds and fundraising activities. According to available data, ISA estimates donations in the Independent sector to total approximately \$120 million although it is not possible to quantify the DGR component.

The remaining 14 per cent of capital funding for non-government schools comes from governments through capital grants programs, state or territory government interest subsidies or loan schemes.

The Australian Government grants contribute an estimated 6 per cent of total capital funding. The remaining 8 per cent comes from state and territory governments. Access to these grants varies considerably across Australia.

The sector also uses borrowings for capital as well as for some recurrent purposes. In 2021, the net total borrowings of the sector was \$4.2 billion which equates to \$6,320 per student. This borrowing has increased steadily over the last decade. In 2021, debt servicing – which is built into school fees – accounts for about 0.9 per cent of recurrent expenditure in the Independent school sector.

7.4 Australian Government Capital Grants Program

Australian Government capital funding to non-government schools is delivered mainly through the Capital Grants Program which aims to improve infrastructure such as school facilities, particularly for the most disadvantaged students. Block Grant Authorities in each state and territory administer

⁵ Data sourced from the Productivity Commission Report on Government Services 2024 and ACARA My School

⁶ Data sourced from ACARA My School

Australian Government capital grants for Independent and Catholic schools. In 2022, capital grants for the Independent sector totalled approximately \$79 million.

These grants are based on need, with priority given to disadvantaged school communities with the least capacity to raise funds. Most Independent schools receive no capital grants from governments. The extent and quality of their facilities reflect the contributions from families, former students and other donors.

The argument put forward in the draft report that “schools servicing communities with greater socio-economic disadvantage are less likely to benefit from DGR endorsement for school building funds”⁷ as a rationale for removing DGR status for school building funds is flawed. It ignores the fact that most Independent schools have limited available sources of capital funding given the relatively small amount of capital funding available from governments, and the loss of DGR status would have a significant impact on schools’ ability to raise funds through donations.

Many low and medium fee Independent schools that apply to the Capital Grants Program are unsuccessful due to the large volume of schools applying for a small pool of funding. The lack of government funding and the need for schools to accommodate students and provide the necessary infrastructure for learning means that it is essential for schools to have access to school building funds for capital.

Schools rely on DGR donations to build and refurbish both existing and much needed additional school infrastructure, such as school furniture, classrooms, libraries, specialist equipment for science labs and specialised learning areas within schools. For example:

- Austin Grove Baptist College (WA) used \$144,000 in DGR donations towards the development of much needed infrastructure, including a new classroom in 2023.⁸
- Geelong Baptist College (Vic) used \$65,000 in DGR donations over 2021 – 2023 to develop school infrastructure and restore classrooms.⁹
- Emmanuel College (QLD) used \$250,000 in DGR Donations in 2023 towards a new building for Josiah College (an Emmanuel College subsidiary school) a special school educating students with autism spectrum disorder.¹⁰

8. SCHOOL BUILDING FUNDS

As noted above, Independent schools are a diverse group of schools and serve a wide range of communities. Across Australia, Independent school families, alumni and communities collectively contribute 86 per cent of school capital income nationally. Two-thirds of Independent schools receive no government funding for capital expenditure. In many schools, capital funding is 100 per cent sourced from parents and school communities.

In 2021, the value of this contribution from Independent school families, alumni and communities was around \$1.14 billion for school building and capital works. These same families contribute around \$5.7 billion annually to the ongoing costs of educating their children, with their after-tax dollars.

The loss of DGR status for school building funds would make it more difficult for all schools to meet the challenge of building new classrooms and facilities to meet the projected demand for schooling in all sectors. This would shift the burden of meeting those costs on to governments and would impose a greater cost on Australian taxpayers than would be the case through the continuation of the existing DGR status for schools.

Building works in schools are for the use of future, as well as current, students and are also often utilised by the broader community.

⁷ Future foundations for giving Draft report, Productivity Commission, p.190

⁸ https://www.pc.gov.au/_data/assets/pdf_file/0005/375827/sub301-philanthropy.pdf

⁹ https://www.pc.gov.au/_data/assets/pdf_file/0004/375817/sub299-philanthropy.pdf

¹⁰ https://www.pc.gov.au/_data/assets/pdf_file/0011/372989/sub284-philanthropy.pdf

8.1 Private Benefit

The Productivity Commission has argued in its report that in the case of school building funds, there is “the potential for a donor to be able to convert a tax-deductible donation into a private benefit is especially apparent for primary and secondary education, particularly where students are charged fees.”.

However, the Productivity Commission has shown no real evidence to support its argument that there is a material risk of tax-deductible donations to school building funds being converted into a private benefit or quantified the degree of risk involved.

The Commission notes that “some activities that remain in scope for DGR status may still have a material risk of substitution between donations and fees or generally enable donors to convert donations to a private benefit. For example, for cultural activities such as performing arts, audience members may be motivated to make donations, which could over time make ticket prices lower for all audience members. Similarly, some health charities (including not-for-profit private hospitals) charge fees to patients and raising revenue through donations could offset some of the need to charge fees.”¹¹

It is not clear why on this basis, a delineation has been made between educational activities and the performing arts that both have a degree of perceived risk. It is also not clear why, if there is a perceived risk, the Report recommends removing DGR status for schools rather than relying on the existing governance and compliance requirements associated with DGR activities.

Further, the Report recommends the removal of DGR status for schools but for the retention of DGR status for Higher Education, such as universities and TAFEs, while acknowledging that these institutions also charge fees.

It appears that there has been a misapplication of the level of risk associated with schools based on key assumptions, and those assumptions represent a misunderstanding of the Independent school sector and the beneficiaries of capital works funded through school building funds.

Who contributes to school building funds?

It is not only the families of current students that contribute to school building funds, but alumni, community groups, and others through a range of fundraising activities. As noted above, many schools also seek out additional sources of support and income to support particular programs or offerings.

Scotch College in Adelaide, through a community partnership with YMCA, has built a multi-use wellbeing facility, the Purruna Centre, which is used by the broader public on a daily basis.

The building of the centre was underpinned by philanthropy and a significant proportion of donors were not parents of current or future students. They were motivated by the vision of a multidisciplinary space that sought to become a lighthouse for mental health and wellbeing interventions in a genuinely charitable way.

A range of external allied health professionals use the treatment and consulting rooms in the building, providing mental health, paediatric developmental and physiotherapy services to the local community. It was DGR status that made the building possible.

Who benefits from and utilises capital works funded by school building funds?

School Building Funds support capital works programs and develop assets with a life that extends far beyond the 13 years a child spends at school. It is extremely unlikely that a member of the community, or a school alumnus – who may have left the school many years ago – could benefit directly from these donations. The lifespan of school buildings means that any philanthropic donation will have a substantial impact on future cohorts in years to come.

Further, Independent schools are situated within a broader community context, and it is generally the case that schools make their facilities available for community use. This may be even more pronounced

¹¹ Future foundations for giving Draft report, Productivity Commission, p.187

in regional and remote areas where there are limited local facilities available. Across all geographic areas, Independent schools are an integral part of the communities they serve and in which they are situated. Examples of this include:

- Schools have partnerships with community groups enabling access to and use of school facilities, such as local sporting clubs and associations.
- Schools make sporting, meeting, performing arts and other facilities available to the public and other third-party providers including external and allied health professionals.
- Schools enable the use of school facilities to host local events and educational conferences.

Firbank Grammar School, Vic receives no government funding for infrastructure development. As a result, the school's growth and development has been achieved through the generous support of its community, including current and past parents, alumni, and staff.

An example of this community support is the school's dedicated Arts Precinct, which opened in 2022. Designed to promote student participation in the Arts, the Arts Precinct includes spaces for performance and dance, as well as specialised learning spaces for digital and studio arts. Community donations contributed 15 per cent of the total project cost.

These teaching and learning and performance spaces are widely used by the local community outside of school hours. This use ranges from classrooms for external language providers through to rehearsal and performance spaces for acting schools. Many local primary schools also use the performance spaces for their school productions and presentation nights.¹²

Do school building funds subsidise school fees?

While the draft report raises the possibility of there being a link between donations and fees charged for education services, this is not the case in schools. Capital works are funded separately to the recurrent operating costs that are recouped through fees, and deductible donations to a School Building Fund therefore do not reduce the fees payable by parents.

Further, many schools in the Independent sector serve communities that are either unable to or have limited capacity to pay fees. There are Independent schools serving remote Aboriginal and Torres Strait Islander communities both on-country or through the provision of boarding. There are Independent schools serving students from highly disadvantaged backgrounds and who are disengaged from education. These families and students are not paying for a benefit from these schools.

Recent ISA research showed that Independent schools also provide important financial support for students and families in need through the provision of scholarships and bursaries. More than four in five Independent schools (85 per cent) who participated in the recent School Insights Survey, provide scholarships or bursaries to students in need. This financial support is generally directed towards Aboriginal and Torres Strait Islander students, students from low socioeconomic backgrounds and families facing financial hardship.¹³

Do capital works in Independent schools provide a public benefit?

As articulated in ISA's recent report on the Social Contribution of Independent Schools in Australia, "education in all its forms is a central part of building a flourishing, prosperous and sustainable society. Schools, teachers, education leaders, policy makers, parents and community members across all sectors are invested in making meaningful social contributions through education".¹⁴

¹² https://www.pc.gov.au/_data/assets/pdf_file/0010/375814/sub297-philanthropy.pdf

¹³ [THE SOCIAL CONTRIBUTION OF INDEPENDENT SCHOOLS – Independent Schools Australia \(isa.edu.au\)](#), p.23

¹⁴ [THE SOCIAL CONTRIBUTION OF INDEPENDENT SCHOOLS – Independent Schools Australia \(isa.edu.au\)](#), p.6

The benefits of school education to the broader Australian community are many. As noted in the Productivity Commission's 5-year *Productivity Inquiry: From Learning to Growth*, "A quality education benefits both individuals and society. Evidence shows a significant earnings premium for those with extra years of schooling or post-school qualifications. In addition, rising skill levels have accounted for about one-fifth of Australia's labour productivity growth in recent decades, and will become increasingly important in maintaining future growth. The benefits extend beyond improved productivity — education can provide fulfillment, improve health outcomes, reduce crime, and increase social and economic mobility."¹⁵

Independent schools recognise the importance of participating in and contributing to the broader education sector and are invested in improving the educational landscape in Australia through supporting educational innovation and best practice."¹⁶

Enabling philanthropic giving to schools through DGR Funds is an enabler of developing and promoting education excellence in Australia.

8.2 Impact of the removal of DGR status for school building funds

There is no basis for assuming that schools will be able to maintain current levels of philanthropic giving if DGR status for school building funds is removed. Removing DGR status for non-government school building funds will shift more financial burden onto families, who already make significant sacrifices to support their children's education and are doing their best to manage the ever-increasing cost of living pressures.

It is also highly likely that there would be calls to increase the capital funding available from governments. Currently, there are only limited funds available through the Australian Government Capital Grants Program and that funding is directed at the schools with the least capacity to raise funds for capital projects.

Removing DGR status for school building funds without a commensurate increase in direct capital funding for schools will only serve to increase the number of schools competing for a relatively small funding pool. It will also directly impact the capacity of schools to accommodate projected increases in enrolments across all school sectors and to provide the high-quality learning environments for students. Schools will be forced to reconsider or abandon future projects that could have significant long-term benefits. Longer term this will impact the provision of quality education nationally.

9. SCHOLARSHIPS

In the draft Report, the Commission also proposes that education charities would be able to obtain DGR status for specific activities that have an equity objective, without the need to be registered as a Public Benevolent Institution. The inference of this wording is that scholarships based on merit would no longer have DGR status.

Limiting DGR status for scholarships would reduce educational opportunities for disadvantaged students and families. Merit-based scholarships also provide alternative education pathways for students who may otherwise not be able to access those educational opportunities.

10. OPPORTUNITIES TO GROW PHILANTHROPIC GIVING IN SCHOOLS

As a broad principle, Independent schools should be able to access DGR status and therefore tax deductibility for voluntary donations to support specific activities in a school setting. The ability to offer tax deductibility for donations greatly assists schools in sourcing support that may not be otherwise available and enhances their capacity to offer additional educational resources.

¹⁵ <https://www.pc.gov.au/inquiries/completed/productivity/interim5-learning/productivity-interim5-learning.pdf>
p.ix

¹⁶ [THE SOCIAL CONTRIBUTION OF INDEPENDENT SCHOOLS – Independent Schools Australia \(isa.edu.au\)](https://www.isa.edu.au/our-work/our-reports-and-publications/the-social-contribution-of-independent-schools),
p.22

It has been noted that in addition to broadening the DGR categories for schools, schools would greatly benefit from more flexibility within the application of existing DGR categories that are applicable for schools. For example, the current requirements for scholarships include that they are “open to individuals or groups of individuals throughout a region of at least 200,000 people, or at least an entire state or territory” which precludes targeting scholarships to particular cohorts of need.

Another area of interest to schools is pastoral care and student wellbeing. In 2022, it was announced that a new deductible gift recipient (DGR) category would be added to the *Income Tax Assessment Act 1997*, allowing the establishment of a fund to collect tax-deductible donations, for use in the provision of pastoral care services in Australian schools.

This proposal was broadly supported by the Independent school sector as a way to enhance the provision of services to students and improve student wellbeing. However, in the October 2022 Federal Budget, it was noted that this change would not go ahead.

The *Review of Funding for Schooling Final Report* (the ‘Gonski Report’) devoted a chapter to the topic of philanthropic giving in schooling, stating the following.

“Philanthropy can and should be used to create partnerships with those schools that have the greatest need to improve student outcomes. There is growing recognition that, at the local community level, many schools cannot overcome their particular schooling challenges alone and that collective action through school and community partnerships can help to strengthen efforts by governments to address educational disadvantage (Black 2009)”¹⁷

The Gonski Report goes on to note that, rather than discourage philanthropic giving in schooling, more should be done to encourage activity in this area including examining “approaches to encourage philanthropy in schools should increase their capacity to form philanthropic relationships, reduce barriers to private investment, and provide national leadership and direction in focusing philanthropic activity to all disadvantaged school communities.”¹⁸

The report further suggests that there is scope for the Australian Government, in consultation with the school sectors, to develop a philanthropic fund with DGR status which would focus on assisting schools to develop philanthropic partnerships. Amongst other activities, the proposed fund would provide information on how individuals and others could donate to schools and facilitate connections between donors and education providers.

The Gonski Report provides an alternative perspective on philanthropic giving in schools to the one proposed in the draft report. It highlights an approach of maximising support for education, rather than taking support away. Rather than reducing the capacity of schools to raise funds through philanthropic giving, the Independent sector would support the exploration of additional ways in which schools could utilise DGR status to supplement, not replace, existing funding for a range of critical areas within schools’ activities to provide the best possible educational experience and outcomes for all students.

10. CONCLUSION

Independent Schools Australia (ISA), on behalf of over 1200 schools and almost 690,000 students and their families, strongly opposes any proposal to revoke the Deductible Gift Recipient (DGR) status for education activities, and we urge the Commission to remove this recommendation from the final report on its Inquiry into Philanthropic Giving.

This DGR status has and continues to play a crucial role in enabling independent schools to fund essential services, programs, bursaries, scholarships, and capital works. By maintaining DGR status, schools can continue their mission of providing quality education while fostering strong community ties and encouraging volunteerism and a culture of giving among students, families and the broader school community.

¹⁷ <https://www.education.gov.au/download/1307/review-funding-schooling-final-report-december-2011/1280/document/pdf>, p.200

¹⁸ <https://www.education.gov.au/download/1307/review-funding-schooling-final-report-december-2011/1280/document/pdf>, p.204

ISA challenges the argument that the DGR status of school building funds poses a significant risk that tax-deductible donations can be converted into private benefits. We can see no empirical evidence that this occurs in practice, and no evidence that this theoretical risk outweighs the enormous public benefit that current arrangements deliver.

Furthermore, removing DGR status for non-government school building funds would disproportionately burden thousands of families who already make significant sacrifices to support their children's education amidst rising living costs. Such a move would directly impact the school's ability to create optimal learning environments for students.

ISA also strongly advises against limiting DGR status for scholarships, as it would curtail educational opportunities for both students and families. Instead, ISA supports streamlining and ensuring consistency in the DGR framework while maintaining current DGR funds.

ISA recommends exploring ways to expand the framework to facilitate other forms of philanthropy within the school sector, such as making scholarship requirements more accessible to a wider range of students.