

Not for Profit – what does it mean?

Background of the sector in the Australian economy

The Not-for-Profit sector is a significant component of the Australian business and community sector. The Australian Bureau of Statistics indicates that there are as many as 700 000 Not-for-Profit organisations in Australia, most of which are small and entirely dependent on voluntary commitment of members. Around 35 000 of those organisations employ staff and of those approximately 20 000 have what is called Deductible Gift Recipient status which is a taxation status where donations to the organisation can be claimed as a tax deduction by the person or entity making the donation.

In terms of contribution to the economy, it is estimated that the not-for-profit sector contributes over \$36 billion in revenue and employs some 610 000 people.

Not-for-Profit organisations can be small local clubs, small or large charitable organisations like Care Australia and Vision Australia, sporting organisations like Swimming Australia, or Australian Olympic Committee, and professional membership associations such as Chartered Accountants and ALIA.

What organisational structure do not-for-profits follow?

Not-for-Profit organisational structures can take many different forms, the most common being:

Adhoc committee with no formal legal structure – Normally small local committees who get together and create a club or community organisation. They tend to have no formal legal identity and therefore cannot enter into any legal contract as an organisation. All members have a responsibility for any debts which may be incurred by the organisation.

Incorporated body – This is the most common form of not-for-profit structure. It works best if the organisation only operates within one state. Rules for incorporation vary from state to state and are generally defined by the Office of Regulatory Services in each state. This structure provides legal basis for the organisation and it can enter legally binding contracts in its own name. Issues of debts etc are limited to the organisation and do not apply to individual members

Company Limited by Guarantee – This structure best suits organisations who conduct business throughout Australia. These Companies are registered with The Australian Securities and Investments Commission (ASIC) and must operate under the Corporations law. For all operational purposes they are no different than any commercial company listed on the stock exchange, except they are not-for-profit.

What does Not-for-Profit actually mean?

The most common misconception with the Not-for-Profit sectors is that this status means the organisation should not make profits or surpluses. This belief is completely incorrect. The Not-for-Profit status is actually a status given to organisations by the Australian Taxation Office (ATO) for income tax purposes. If an organisation gains Not-for-Profit status they are exempt from paying income tax, however they are still required to pay other taxes such as GST, FBT, and State taxes such as payroll tax.

To gain this status an organisation must operate so that any profits are not distributed to members and always remain within the organisation for the benefit of members. Unlike commercial companies who may distribute profits to shareholder by way of dividends, Not-for-Profit organisations cannot do so.

It is also important in gaining the Not-for-Profit status that the organisation's Constitution has a specific clause within the Constitution regarding retention of any profits within the organisation for the benefit of members.

Should Not-for-Profits make Profits? Like any well run organisation Not-for-Profits attempt to grow each year so they are in a position to provide new and enhanced services to their members. Without profits, growth cannot be achieved and the organisation may not be able to provide additional benefits/services to its members. Profits in the Not-for-Profit sector should be considered a healthy outcome.

What level of profit is acceptable? There is no definitive acceptable level of profit an organisation in this sector should achieve. Unlike 'Listed Companies', Not-for-Profits have the advantage of not having shareholder expectations on a return on their shares and are therefore generally not expected by members to make large profits; however should they do so these profits will be totally retained within the organisation for the benefit of members.

What about ALIA?

ALIA is a Company Limited by Guarantee and operates under the auspices of ASIC and must comply with the Corporations Law. As required by the Corporations Law, each year ALIA is formally audited by a registered professional auditor and must produce financial statements in accordance with the Australian Accounting Standards.

ALIA has Not-for-Profit status and therefore does not pay income tax; however we are subject to GST and FBT. ALIA has also gained Deductible Gift Recipient status and therefore any donation to ALIA over \$2 can be claimed as a tax deduction.

ALIA is committed to growing benefits to members and therefore strives to achieve profits/surpluses each year.

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