

IMPORTANT TAX CHANGES

Changes to income tax exemption self-assessment from 1 July 2023

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In the 2021-22 budget, the Commonwealth Treasury announced that, from 1 July 2023, non-charitable income tax exempt not-for-profit organisations possessing an active ABN will need to submit online self-review forms to the ATO to remain eligible for the income tax exemption.

Previously, not-for-profit organisations have not been required to provide their self-assessments to the ATO, or obtain confirmation of their income tax status.

The new measures are intended to enhance trust and confidence in the sector by increasing transparency around the exemption to ensure only eligible not-for-profits access income tax exemptions.

The self-review report process is not expected to be onerous and is likely to be similar to how not-for-profit organisations can already conduct their self-assessment – see the ATO review worksheet for self-assessment at the following link:

[Income tax status review worksheet for self-assessing non-profit organisations | Australian Taxation Office \(ato.gov.au\)](#)

From 1 July 2023, a failure to lodge the self-review report may trigger penalties under the ATO's penalty framework and loss of the not-for-profit's exemption from income tax.

While the new measures will add to annual reporting obligations, the ATO's confirmation of exemption may give comfort to not-for-profits from a compliance perspective, particularly regarding penalty concerns should the organisation be subject to an ATO audit.

This new self-review process will likely apply to Lions Clubs, as Lions Clubs fall within the "Community service organisations" group of self-assessing income tax organisations – refer links to, and extracts from, the ATO website below.

The online system for submission of the self-review forms is still in development by the ATO, and there has also been no advice from the ATO to date regarding the lodgement deadlines for the online self-review forms. Further information will be provided once details are available from the ATO.

Extracts from ATO website

Types of income tax exempt organisations

[Income tax exempt organisations | Australian Taxation Office \(ato.gov.au\)](#)

If your organisation is not a charity, it can self-assess if it is exempt from income tax. It does not need to be registered with the ACNC or endorsed by us to be exempt.

To self-assess, you need to take the following steps:

1. *Check the types of income tax exempt organisations*

Check the Types of income tax exempt organisations to see if your organisation fits within any of the types listed. Entities that can self-assess their income tax status come from these broad groups:

- *Community service organisations*
- *Cultural organisations*

- Educational organisations
- Employment organisations
- Health organisations
- Resource development organisations
- Scientific organisations
- Sporting organisations

2. Check your organisation meets all the requirements

If you think your organisation fits within any of the types of exempt entities, check the requirements for that entity type to make sure your organisation meets all the requirements.

For many of the exempt entity types, your organisation must be 'not-for-profit' and also meet the following conditions:

- pass one of three tests
- comply with all the substantive requirements in its governing rules
- apply its income and assets solely for the purpose for which it is established.

Community Service organisations

[Community service organisations | Australian Taxation Office \(ato.gov.au\)](https://www.ato.gov.au/Community-service-organisations)

A community service organisation is a not-for-profit (NFP) society, association or club established for community service purposes except political or lobbying purposes.

Income tax exemption checklist – Community service organisations:

Your organisation will be exempt from income tax, and can self-assess its exemption, if it meets all of the following requirements:

- it is a not-for-profit society, association or club
- it is established for community service purposes (except political or lobbying purposes)
- it is not a charity
- it meets one of the three following tests
- physical presence in Australia test
- DGR test
- prescribed by law test
- it complies with all the substantive requirements in its governing rules
- it applies its income and assets solely for the purpose for which it is established.

Purposes

The main purpose of the organisation must be community services. To work out your organisation's main purpose, look at your organisation's constituent documents, activities, use of funds and history. Any other purpose of the organisation must be incidental, ancillary or secondary to the community service purpose.

Community service purposes are altruistic. This means they are established and operated for the wellbeing and benefit of others.

Community service organisations promote, provide or carry out activities, facilities or projects for the benefit or welfare of the community or any members who have a particular need by reason of youth, age, infirmity or disablement, poverty or social or economic circumstances.

Community service organisations include:

- associations of Justices of the Peace
- associations of play groups
- traditional service clubs
- community service clubs
- pensioner or senior citizens associations
- industry ombudsman.