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Australian churches collectively raise billions of dollars a year – why aren't they taxed?

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There's a good reason your local volunteer-run netball club doesn't pay tax. In Australia, various nonprofit organisations are exempt from paying income tax, including those that do charitable work, such as churches.

These exemptions or concessions can also extend to other taxes, including fringe benefits tax, state and local government property taxes and payroll taxes.

The traditional justification for granting these concessions is that charitable activities benefit society. They contribute to the wellbeing of the community in a variety of non-religious ways.



Churches and other nonprofits run a wide range of programs that benefit society. addkm/Shutterstock

For example, charities offer welfare, health care and education services that the government would generally otherwise provide due to their obvious public benefits. The tax exemption, which allows a charity to retain all the funds it raises, provides the financial support required to relieve the government of this burden.

The nonprofit sector is often called the third sector of society, the other two being government and for-profit businesses. But in Australia, this third sector is quite large. Some grassroots organisations have only a tiny footprint, but other nonprofits are very large. And many of these bigger entities – including some “megachurches” – run huge commercial enterprises. These are often indistinguishable from comparable business activities in the for-profit sector.

So why doesn't this revenue get taxed? And should we really give all nonprofits the same tax exemptions?

Why don't churches pay tax?

The primary aim of a church is to advance or promote its religion. This itself counts as a charitable purpose under the [2013 Charities Act](#). However, section five of that act requires a church to have only charitable purposes – any other purposes must be incidental to or in aid of these.

Viewed alone, the conduct of a church with an extensive commercial enterprise – which could include selling merchandise, or holding concerts and conferences – is not a charitable purpose.

 Audience and performers at a Hillsong concert

Some large churches sell tickets to put on commercial-scale concerts. Pixelite/Shutterstock

But Australian case law and [an ATO ruling](#) both support the idea that carrying on business-like activities can be incidental to or in aid of a charitable purpose. This could be the case, for example, if a large church's commercial activities were to help give effect to its charitable purposes.


Because of this, under Australia's current income tax law, a church that is running a large commercial enterprise is able to retain its exemption from income tax on the profits from these activities.

There are various public policy concerns with this. First, the lost tax revenue is likely to be significant, although the government's annual tax expenditure statement does not currently provide an estimate of the amount of tax revenue lost.

And second, the tax exemption may give rise to unfairness. A for-profit business competing with a church in a relevant industry may be at a competitive disadvantage – despite similar business activities, the for-profit entity pays income tax but the church does not. This competitive disadvantage may be reflected in lower prices for customers of the church business.

What about taxing their employees?

Churches that run extensive enterprises are likely to have many employees. Generally, all the normal Australian tax rules apply to the way these employees are paid – for example, employees pay income tax on these wages. Distributing profits to members would go against the usual rules of the church, and this prohibition is required anyway for an organisation to qualify as a charity.

 man in leather jacket standing on stage at church holding microphone

Any wages paid to church leaders are taxed the same way as salaries in the private sector. Manuel Filipe/pexels

Some churches may be criticised for paying their founders or leaders “excessive” wages, but these are still taxed in the same way as normal salaries.

It's important to consider fringe benefit tax – which employers have to pay on certain benefits they provide to employees. Aside from some qualifications, all the usual fringe benefit tax rules apply to non-wage benefits provided to employees of a church.

Just like their commercial (and taxable) counterparts, the payment for “luxury” travel and accommodation for church leaders and employees when on church business will not generate a fringe benefits taxable amount for the church.

One qualification, though, is that a church is likely to be a rebatable employer under the fringe benefit tax regime. This means it can obtain some tax relief on benefits provided to each employee, up to a cap.

We may need to rethink blanket tax exemptions for charities

Back in an age where nonprofits were mainly small and focused on addressing the needs of people failed by the market, the income tax exemption for such charities appeared appropriate.

But in the modern era, some charities – including some churches – operate huge business enterprises and collect rent on extensive property holdings.

Many are now questioning whether we should continue offering them an uncapped exemption from income tax, especially where there are questions surrounding how appropriately these profits are used.

Debates about solutions to the problem have focused on various arguments. However, more data may be needed on the way charities apply their profits to a charitable purpose, particularly those involved in substantial commercial activities.

An all-or-nothing rule exempting the whole charitable sector may no longer be fit for purpose if it fails to take into account the very different circumstances of different nonprofits.