# Unlock DGR

Briefing paper

## Summary


- Justice Connect is leading Unlock DGR, a campaign calling for urgent reform of Australia's Deductible Gift Recipient (DGR) system.
- The DGR system determines which charities can receive tax-deductible donations and funding from philanthropy and grant makers, but the current system is overcomplicated and unfair, locking thousands of charities out of vital financial support.
- Under the current DGR system, a charity focused on preventing choking hazards for kids or a neighbourhood house delivering food relief and community cohesion projects would struggle to get DGR status.
- The Productivity Commission's Future Foundations for Giving report (2024) provides a clear, evidence-based roadmap for reform that would make most charities eligible for DGR endorsement.
- Reforming the DGR system will:
  - foster more sustainable charities, enabling them to create more impact in their communities
  - unlock philanthropy and new funding streams, supporting the Australian Government's goal to double giving by 2030, and
  - cut red tape for both charities and regulators.


## We need a tax system that supports the charity sector

Charities drive social and economic progress, contributing to a productive, resilient, and cohesive society in Australia.[ii] The sector is made up of over 60,000 charities that employ over 10% of Australia's workforce.[iii]

But the tax system is holding them back. The Productivity Commission recently highlighted a key barrier to enhancing and amplifying the work and impact of the charity sector: Australia's DGR system. It's outdated, overly complex, ineffective, and unfair.

DGR status is the tax status that enables charities to access to critical funding from philanthropy, grant makers, and donors in the broader community. Right now, many charities miss out on this crucial additional support.

DGR system reform will unlock opportunity for Australia's vibrant charity sector and have real impact for the communities they serve. Providing DGR status to more charities enables greater access to public and philanthropic financial support. This in turn helps ensure the financial sustainability of charities that deliver critical community services, helping them to grow their impact.

## The DGR system needs urgent reform

The DGR system has been identified as a key area in need of reform in successive reports over the past three decades, including the sector endorsed Not-for-profit Sector Development Blueprint (2024),[v] the Productivity Commission's Foundations for Giving report (2024),[vi] the Not-for-profit Sector Tax Concession Working Group final report (2013),[vii] the Productivity Commission's Contribution of the Not-for-profit Sector research report (2010),[viii] and the former Industry Commission's Charitable Organisations in Australia report (1995).[ix]

The DGR system is outdated, overly complex, ineffective and unfair, and around half of registered charities are ineligible for DGR status as a result: [x]

- There are 50+ DGR categories, each with its own eligibility criteria.[xi] The rules for endorsement in each category are complicated and sometimes can only be understood by reading court cases or detailed guidance from regulators.[xii]
- DGR categories have been created ad hoc by governments over the past 100 years.[xiii] The causes that are supported by the DGR system don't always line up with community expectations and many charities are shocked when they find out that they aren't eligible for DGR status.
- Over half of registered charities are classified as small or extra small.[xiv] Most of these charities are not equipped to understand and navigate the DGR system without costly legal help and, as a result, are locked out of the benefits.
- For key DGR categories, a charity must prove that its whole organisation fits into that category. This locks out charities with a range of purposes and activities that don't fit neatly into one category.
- The system's red tape impacts charities at the application stage but also adds an ongoing compliance burden that drains time and resources, as charities with DGR status must ensure they do not lose their endorsement by accidentally straying from their given category.

## Around half of registered charities are locked out of the DGR system

Many charities deliver vital services that are highly valued by the community but are nonetheless unable to secure DGR endorsement. Examples of types of charities that would struggle to get DGR status under the current system include:

- a neighbourhood garden that services the whole community and provides volunteering opportunities to people who are unemployed
- a charity promoting First Nations reconciliation with the public
- an organisation working towards preventing social isolation for older people
- a charity educating parents on avoiding choking hazards for children
- an animal welfare advocacy charity striving for better laws to protect animals
- a regional charity working to make sure communities are prepared for bushfires, and
- a national charity addressing the distress experienced by young LGBTQI+ people through law reform and policy development.

**Neighbourhood houses**

Despite the critical role they play in providing place-based services and supports in their communities, under the current DGR system many neighbourhood houses often struggle to get DGR status.

A neighbourhood house might provide services for people in need, for example emergency food relief, a domestic violence referral service, and a subsidised day care service for low income families, and also promote wellbeing, sustainability, and social cohesion in the general community through activities like free art and exercise classes, community events, community gardening, and a circular economy goods swap program.

Such a neighbourhood house would likely be ineligible for endorsement as a DGR as a whole organisation because it has a diversity of social welfare, environmental and community purposes. This is despite the fact that these purposes are reflected in separate DGR categories such as public benevolent institution, necessitous circumstances fund, environmental organisation, and community shed.

## A solution for reform already exists

The Productivity Commission's Future Foundations for Giving report provides a common-sense pathway for DGR system reform: a simplified system that is fair, modern, and transparent.[xv]

Using a principles-based approach,[xvi] the Productivity Commission recommendations include:

- extending eligibility for DGR status to most types of charitable activity based on the Australian Charities and Not-for-profit Commission (ACNC) charity subtype classifications
- restricting eligibility for government entities to those activities that would be eligible for DGR status if undertaken by a charity
- excluding some types of charitable activities based on the ACNC's charity subtype classifications (for example, all activities under the religion subtype, certain activities under the education subtype and certain activities under the social welfare subtype)
- limiting the use of specific listings for DGR status in the *Income Tax Assessment Act 1997* (Cth)
- implementing other complementary changes to improve the clarity and administration of the DGR system, such as legislating a definition of public benevolent institution, and
- ensuring transitional arrangements enable a smooth and fair transition for all impacted.[xvii]

## Charities and communities can't afford to wait any longer

Charities have long called for DGR system reform to be prioritised, including more recently via the Not-for-profit Sector Development Blueprint which noted DGR system reform was "...a high priority attracting broad agreement among those who contributed to the Blueprint's development".[xviii]

In recent years, charities have been grappling with increased demand for their services in the face of the cost-of-living crisis and rolling climate-fuelled disasters, funding constraints, and volunteer and staff shortages and burnout. Many are concerned about the long-term sustainability of their services and organisations, especially smaller, placed-based charities facing operating costs and community demand rising beyond their means. Extending eligibility for DGR status to most charities would unlock much needed financial support to ensure a more resilient charity sector.

Yet the sector is still waiting for the Government to address the issue of DGR system reform head on following the release of the Productivity Commission report. The removal of DGR eligibility for school building funds was ruled out promptly, and late last year there was a move to scrap the $2 threshold for tax deductible donations and make changes to giving funds, but the Government has not responded to the recommendations around DGR system reform outlined above.

## The Government must invest now in a fairer and simpler DGR system

Acknowledging there is a cost to DGR system reform,[xxi] it's a modest investment in the charity sector with long-term gains that the Government can't afford to ignore.

DGR system reform will:

- unlock more philanthropic and community-driven funding for thousands of charities
- support the Government's own goal of doubling philanthropic giving by 2030
- strengthen the sustainability of the charity sector, supporting charities to increase their impact for their communities, and
- cut red tape for both charities and regulators, saving valuable time and resources.

**Reform will ensure the tax system reflects the diversity, innovation, and richness of the charity sector and bring it into line with modern community expectations, unlocking funding for thousands of charities to increase their vital work in communities across Australia.**

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## Visit

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## Our expertise

In the face of huge unmet legal need, Justice Connect's vision is a world in which legal support is within everyone's reach. We have been serving the community for more than 25 years. We are a registered charity and accredited community legal center.

Not-for-profit Law is Justice Connect's specialist program for community organisations and is a sector-led response that not-for-profits and their peak bodies trust; it is the only service of its kind in Australia. Since its establishment in 2008, Not-for-profit Law has helped prevent and resolve legal, regulatory and governance issues for hundreds of thousands of community organisations across Australia.

## End notes

i Productivity Commission, *Future Foundations for giving* (Inquiry report no.104, 10 May 2024).
ii Ibid at 102; Blueprint Expert Reference Group, *Not-for-profit Sector Development Blueprint* (Final Report, 27 November 2024) 1.
iii Australian Charities and Not-for-profits Commission, *Australian Charities Report* (11th Edition, 2025).
iv Productivity Commission, *Future Foundations for giving* (Inquiry report no.104, 10 May 2024) 177.
v Blueprint Expert Reference Group, *Not-for-profit Sector Development Blueprint* (Final Report, 27 November 2024) 27.
vi Productivity Commission, *Future Foundations for giving* (Inquiry report no.104, 10 May 2024) 177.
vii Treasury (Cth), *Not-for-profit sector tax concession working group* (Final report, May 2013) 5.
viii Productivity Commission, *Contribution of the not-for-profit sector* (Research report, 11 February 2010) LVII.
ix Industry Commission, *Charitable organisations in Australia* (Report No 45, 16 June 1995) 280.
x Productivity Commission, *Future Foundations for giving* (Inquiry report no.104, 10 May 2024) 154.
xi Australian Taxation Office, DGR categories, 4 September 2025 <https://www.ato.gov.au/>.
xii For example, the category of Public Benevolent Institution.
xiii See Ann McConnell, *Taxation of Charities and Not-for-Profits* (LexisNexis Australia, 2020) 254; Treasury (Cth), Not-for-profit sector tax concession working group (Final report May 2013) 22.
xiv Australian Charities and Not-for-profits Commission, *Australian Charities Report* (11th Edition, 2025) 12.
xv Productivity Commission, *Future Foundations for giving* (Inquiry report no.104, 10 May 2024) 177.
xvi See figure 6.1, ibid.
xvii See recommendations 6.1, 6.2 and 6.3, ibid.
xviii Blueprint Expert Reference Group, *Not-for-profit Sector Development Blueprint* (Final Report 27 November 2024) 27.
xix The Hon Dr Andrew Leigh, 'Productivity Commission final report on philanthropic giving' (Media Release 18 July 2024).
xx The Hon Dr Andrew Leigh, 'Supporting philanthropic giving' (Media Release, 5 December 2024).
xxi Productivity Commission, *Future Foundations for giving* (Inquiry report no.104, 10 May 2024) 222.