



Does your not-for-profit need to pay income tax?

Explains when NFP organisations are exempt from income tax as only some types are exempt.

Income tax exempt organisations



The steps required to work out if your not-for-profit (NFP) organisation is exempt from income tax.

Types of income tax exempt organisations



The tax law sets out the types of not-for-profit organisations that can be exempt from income tax.

Requirements for self-assessing entities



Check if your organisation can self-assess your entitlement to income tax exemption.

Taxable organisations



Some not-for-profit (NFP) organisations aren't exempt from income tax and may have CGT or PAYGI obligations.

Review your tax status



We recommend an annual review, or whenever there is a major change to your organisation's structure or activities.

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Income tax exempt organisations

The steps required to work out if your not-for-profit (NFP) organisation is exempt from income tax.

16 October 2023

To work out if your not-for-profit (NFP) organisation is exempt from income tax you first need to know if it is a charity.

If your organisation is a charity, it must be endorsed by us to be exempt from income tax.

If your organisation is not a charity, you can self-assess its income tax status. 'Self-assess' means an organisation can work out for itself whether it is income tax exempt or taxable. Organisations that can self-assess their income tax status do not need to be endorsed by us or get confirmation of their income tax status from us.

This flowchart shows how to work out if your organisation is exempt from income tax.

Working out if your organisation is exempt from income tax

 Working out if your organisation is exempt from income tax flowchart

Charity endorsement

Charities must be endorsed by us to be income tax exempt.

Charities, including health promotion charities, public benevolent institutions and religious institutions, must be registered with the Australian Charities and Not-for-profits Commission (ACNC) before we can endorse them to access charity tax concessions.

If your organisation is a charity, it cannot self-assess as income tax exempt, even where it might fall in the description for a type of entity that can self-assess. Instead, it must meet the requirements for charity registration and then become endorsed to be income tax exempt.

Example: Charity and income tax exemption

The XYZ School is a public educational institution and a charity.

As The XYZ School is a charity it cannot self-assess as income tax exempt. It must be registered with the ACNC as a charity and endorsed by us to access income tax exemption.

See also:

- Tax concession charity endorsement
- [Not-for-Profit Law - !\[\]\(aca6fcc8bd95e8255b9ea1b1d08ef300_img.jpg\)](#) provides legal information and advice

Self-assessment

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

See also:

- Types of income tax exempt 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.

You will be directed to further information if these requirements apply.

See also:

- Requirements for self-assessing organisations

3. Complete the worksheet

Complete the relevant worksheet as a record of your review.

Next steps:

- Sporting organisations use the worksheet in our guide [Income tax exemption and sporting clubs](#)
- Other not-for-profit organisations use the worksheet [Income tax status review worksheet for self-assessing non-profit organisations](#)

4. Understand the outcome

Understand what the outcome from the worksheet means for your organisation and what to do next – see the table below.

Table: Self-assessment outcomes

Exempt	Not-exempt	Unsure
If you work out your organisation is income tax exempt:	If you work out your organisation is not income tax exempt:	If you cannot work out if your organisation is income tax exempt:

<ul style="list-style-type: none"> • Your organisation does not need to pay income tax or lodge income tax returns, unless we specifically ask it to. • Your organisation does not need to get confirmation of its exemption from the ATO. • You should carry out a yearly review to check if your organisation is still exempt. You should also do this when there are major changes to your organisation's structure or activities. The worksheet will help you self-review. See Review your tax status. 	<ul style="list-style-type: none"> • Your organisation is taxable and may have to lodge income tax returns and pay tax. • Your organisation may have the benefit of special rules for working out its taxable income, lodging income tax returns and special rates of tax. <p>For more information refer to our guide Mutuality and taxable income (QC 23099).</p>	<ul style="list-style-type: none"> • You can phone us on 1300 130 248 from 8.00am to 6.00pm Monday to Friday for help. • You can apply for a private ruling from us on the exemption of your income - refer to Application forms and supporting documentation for private ruling applications (QC 17010). We will need information and copies of documents relevant to your possible exemption.
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Types of income tax exempt organisations

The tax law sets out the types of not-for-profit organisations that can be exempt from income tax.

31 January 2019

Not all not-for-profit (NFP) organisations are exempt from income tax. The tax law tells us the types of NFP organisations that can be exempt from income tax.

Registered charities are a type of exempt entity. If your organisation is a **charity**, it must be endorsed by us to be exempt from income tax. It cannot self-assess whether it is exempt.

See also

- Tax concession charity endorsement

The other type of exempt entity is an organisation that meets the requirements to self-assess as exempt from income tax. Your organisation can self-assess that it is exempt from income tax if it is **not** a **charity** and meets the requirements of one of the following categories:

- Community service organisations
- Cultural organisations
- Educational organisations
- Health organisations
- Employment organisations
- Resource development organisations
- Scientific organisations
- Sporting organisations

See also

- self-assessment

Community service organisations



A community service organisation is a not-for-profit society, association or club established for community purposes except

Cultural organisations



A cultural organisation is a not-for-profit society, association or club established for the encouragement of art, literature, music or musical purposes.

Educational organisations



An educational organisation is a public educational institution.

Health organisations



A health organisation is a public hospital, a hospital that is carried on by a not-for-profit society or association or a non-profit organisation that is a private health insurer within the meaning of the Private Health Insurance Act 2007.

Employment organisations



Employment organisations are employee associations, employer associations or trade unions.

Resource development organisations



A resource development organisation is a not-for-profit society or association established for the purpose of promoting the development of aviation, tourism or various Australian resources.

Scientific organisations



Scientific organisations are scientific institutions, science associations and scientific research funds.

Sporting organisations

Sporting organisations are not-for-profit societies, associations or clubs supporting a game, sport or animal racing.

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Community service organisations

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

22 August 2017

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.

Organisations that seek to advance the common interests of their members are not altruistic and cannot be community service organisations. If an organisation's main purpose is lobbying or political, its income will not be exempt.

Organisations that are not community service organisations include:

- clubs that promote public speaking or debating
- clubs that provide a social forum for retired or semi-retired business people, senior public servants and similar groups
- clubs that provide a social forum for expatriates of a particular country

- pensioner associations that conduct significant political or lobbying activities
- military service unit organisations
- social clubs for newcomers to a particular residential area.

See also:

If your organisation does not meet all the requirements for exemption for this category, you should check the other exemption categories in the Types of income tax exempt organisations.

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Cultural organisations

A cultural organisation is a not-for-profit society, association or club established for the encouragement of art, literature, music or musical purposes.

20 July 2015

A cultural organisation is a not-for-profit (NFP) society, association or club established for the encouragement of art, literature, music, or for musical purposes.

Income tax exemption checklist – Cultural 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 either of the following [purposes](#)
 - the encouragement of art, literature or music
 - musical 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 your organisation must be the encouragement of art, literature, music, or for musical purposes. To work out your organisation's main purpose, look at your organisation's constituent documents, activities, use of funds and its history. Any other purpose of the organisation must be incidental, ancillary or secondary to the musical purposes or encouragement of art, literature or music.

For income tax exemption, art includes drama and ballet as well as painting, architecture and sculpture. It does not include exhibition of stamps by philatelic clubs and associations.

Literature includes a wide range of written or printed works. It includes works in different languages, on particular subjects or by particular authors.

Music includes the performance of vocal or instrumental works, and covers various styles (for example, classical, jazz, popular and liturgical).

Encouragement can include training, performing, displaying, providing information, studying, judging and critiquing. Professional associations set up to advance the common interests of their members (for example, artists or performers) do not have the required purpose.

Example 1 – Cultural organisation to encourage literature

A not-for-profit society is set up to give people access to the writings of John Dennis. It lends books to members, runs a reading circle and helps people doing tertiary study on the author.

The society is established to encourage literature.

Example 2 – Cultural organisation established for musical purposes

A not-for-profit association is set up to perform Indian music written by contemporary Queensland composers. It liaises with composers, gets instruments and performs the music.

The association is established for musical purposes.

If your organisation's main purpose is providing social and recreational facilities and activities it will not be exempt. This is the case even if your organisation also gives money to encourage the arts, literature or music.

Example – Not an exempt organisation

A not-for-profit club's main operations are providing dining, gaming and leisure facilities at its clubhouse. It gives a yearly grant to an associated singing club, but is not involved with the singing itself.

It is not exempt.

See also:

If your organisation does not meet all the requirements for exemption for this category, you should check the other exemption categories in the [Types of income tax exempt organisations](#).

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Educational organisations

An educational organisation is a public educational institution.

20 July 2015

Income tax exemption checklist – Educational 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 [public educational institution](#)
- 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.

Public educational institution

A public educational institution is an institution that is available or open to the public or a section of the public and whose sole purpose is providing education. Any other purpose of the organisation must be incidental or ancillary to providing public education. Education in this context does not extend to merely providing information or lobbying.

Public educational institutions include:

- universities or colleges managed by public bodies
- grammar schools
- primary and secondary schools run by churches or religious bodies
- NFP business colleges.

Organisations that are not public educational institutions include:

- colleges run for the profit of the private owners
- associations operated for their members' professional benefit
- promotional and lobbying bodies.

Many other organisations connected with education are not public educational institutions. Examples are:

- parents and friends committees
- scholarship providers.

See also:

If your organisation does not meet all the requirements for exemption for this category, you should check the other exemption categories in the [Types of income tax exempt organisations](#).

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Health organisations

A health organisation is a public hospital, a hospital that is carried on by a not-for-profit society or association or a non-profit organisation that is a private health insurer within the meaning of the Private Health Insurance Act 2007.

31 January 2019

A health organisation is a public hospital, or hospital operated by a not-for-profit (NFP) society or association or a NFP health insurer within the meaning of the Private Health Insurance (Prudential Supervision) Act 2015.

Income tax exemption checklist – Health organisations

Your organisation can self-assess that it is exempt from income tax if it meets all of the following requirements of being either:

- a [Hospital](#)
 - either a public hospital or a hospital that is carried on by an not-for-profit society or association
 - not a charity
 - meets one of the **three following tests**
 - physical presence in Australia test
 - DGR test
 - prescribed by law test
 - complies with all the substantive requirements in its **governing rules**
 - applies its **income and assets** solely for the purpose for which it is established; or
- a private health insurer within the meaning of the Private Health Insurance (Prudential Supervision) Act 2015 that is not carried on for the profit or gain of its individual members.

Hospital

A hospital is an institution in which patients receive continuous medical care and treatment for sickness, disease or injury. The provision of accommodation is integral to a hospital's care and treatment.

Clinics that mainly treat ambulatory patients who return to their homes after each visit are not hospitals. However, day surgeries that provide beds for patients to recover after surgery may be hospitals.

Homes to provide nursing care such as feeding, cleanliness and similar care are not hospitals. However, nursing homes for people suffering from illness are accepted as hospitals.

Hospices for the terminally ill will generally be hospitals. Minor outpatient and nursing care will not prevent an institution being a hospital.

Not-for-profit hospitals include those run by churches and religious orders.

See also:

If your organisation does not meet all the requirements for exemption for this category, you should check the other exemption categories in the Types of income tax exempt organisations.

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Employment organisations

Employment organisations are employee associations, employer associations or trade unions.

31 January 2019

Income tax exemption checklist – Employment organisations

Your organisation can self-assess that it is exempt from income tax if it meets **all** of the following requirements:

- it is one of the following types of organisations
 - a trade union
 - an employee association registered or recognised under the *Fair Work (Registered Organisations) Act 2009* or an Australian law relating to the settlement of industrial disputes.
 - an employer association registered or recognised under the *Fair Work (Registered Organisations) Act 2009* or an Australian law relating to the settlement of industrial disputes
- it is **not** a charity
- 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
- it meets [further conditions](#) for exemption.

Further conditions

For an employment organisation that is not a charity to be exempt from income tax, it must meet both of the following conditions:

- be located in Australia
- pursue its objectives and incur its expenditure principally in Australia.

Principally means mainly or chiefly. Less than 50% is not considered principally.

The pursuit of objectives in Australia can include things done offshore if they are only a means of pursuing those objectives. For example, sending employees to an offshore conference to aid their efficiency for the Australian objectives will be pursuing objectives in Australia.

You will also meet these conditions if your organisation exists, operates, pursues its objectives and incurs its expenditure solely and entirely in Australia.

See also

If your organisation does not meet all the requirements for exemption for this category, you should check the other exemption categories in the [Types of income tax exempt organisations](#).

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Resource development organisations

A resource development organisation is a not-for-profit society or association established for the purpose of promoting the development of aviation, tourism or various Australian resources.

31 January 2019

A resource development organisation is a not-for-profit (NFP) association established to promote the development of aviation,

tourism or various Australian resources.

Income tax exemption checklist – Resource development organisations

Your organisation can self-assess its income tax exemption if it meets all of the following requirements:

- it is a not-for-profit society or association
- it is **not** a charity
- it is established for the [purposes](#) of promoting the development of one of the following
 - aviation
 - tourism
 - agricultural resources of Australia
 - aquacultural resources of Australia
 - fishing resources of Australia
 - horticultural resources of Australia
 - industrial resources of Australia
 - manufacturing resources of Australia
 - pastoral resources of Australia
 - viticultural resources of Australia
 - Australian information and communications technology resources.

Purposes

Aviation, tourism and the various resources have their ordinary meaning. Industrial resources include building, mining, quarrying, shipping and transport, but do not include business and commercial resources (such as insurance, and services, such as surveying). Pastoral resources include infrastructure, facilities, plant and equipment, personnel, knowledge, expertise and skills relating to the raising of stock on rural properties.

Promoting development can be by various means, including:

- research
- providing facilities
- training
- improving marketing methods
- facilitating cooperation and similar activities.

Example 1: Resource development

A not-for-profit association's purpose is to run a tourism information booth. Volunteers provide brochures and information to tourists and residents about the tourism opportunities in the district.

The association is promoting the development of tourism.

The main purpose of the society or association must be promoting the development of the relevant resources. To work out your organisation's main purpose you should look at its constituent documents, activities, use of funds and history. Any other purpose of the organisation must be incidental, ancillary or secondary to promoting development of the relevant resources.

If the organisation's main purpose is merely to provide services to its members, it will not be exempt. This is the case even if the services result in better use of resources by those members.

Example 2: Not resource development

A not-for-profit association is set up by a group of horticulture businesses. Its purpose is to buy supplies for the members in bulk and undertake joint marketing of their businesses.

The association is not promoting the development of horticultural resources.

See also:

If your organisation does not meet all the requirements for exemption for this category, you should check the other exemption categories in the [Types of income tax exempt organisations](#).

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Scientific organisations

Scientific organisations are scientific institutions, science associations and scientific research funds.

31 January 2019

Income tax exemption checklist – Scientific organisations

Your organisation can self-assess its income tax exemption if it meets all of the following requirements:

- it is one of the following [types of organisations](#)
 - a scientific institution
 - a **not-for-profit** society, association or club established for the encouragement of science
 - a fund established to enable scientific research to be conducted by or with a public university or public hospital
- it is **not** a charity
- 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
- it meets [further conditions](#) for exemption.

For these purposes, science has its ordinary meaning. It is not limited to the physical sciences and includes the human and applied sciences.

Scientific institutions

Scientific institutions are set up and operated primarily to advance science. Common ways of advancing science include research, exploration and teaching. Disseminating information will often be involved.

Scientific institutions do not include:

- organisations run for the profit of their individual owners or members
- professional associations primarily run for the professional or business interests of their members.

Example 1: Scientific institution

An institution is set up to hold conferences and meetings on an aspect of engineering. Any professional advantage the engineer members gain is only through the institution's advancement of science.

The institution is a scientific institution.

Example 2: Not a scientific institution

A not-for-profit organisation is set up to carry out scientific research. All research is carried out under contract, with the client owning the intellectual property and the organisation bound not to disclose any information about the research.

The organisation is not a scientific institution.

Scientific associations

The main purpose of the not-for-profit society, association or club must be the encouragement of science. Recreational or hobby clubs do not qualify. The main purpose must not be promoting the professional or business interests of members.

Example 1: Scientific association

A group of frog enthusiasts sets up an NFP society to observe frogs in the district and record changes in their types, numbers and habits.

The society is established for the encouragement of science.

Example 2: Not a scientific association

A not-for-profit organisation is set up to advance the profession of surveying, raise professional standards and represent the profession to government and industry.

The organisation is not a scientific association.

Scientific research funds

The organisation must only be a fund with sufficient links with public universities or public hospitals. The fund itself does not conduct the scientific research. The research is conducted by the university or hospital, or by other bodies in conjunction with the university or hospital. The fund may enable the research by various means, including providing money or facilities.

Example: Scientific research funds

A fund's sole object is to provide money to a public university for it to carry out medical research. The fund's investment income is given to the university under an agreement requiring it to be used only for medical research.

The fund can qualify for income tax exemption if it meets the other conditions.

Further conditions

Scientific institutions and scientific associations

For a scientific institution or scientific association that is not a charity to be exempt from income tax, it must pass one of the following:

- physical presence in Australia test

- deductible gift recipient (DGR) test
- prescribed by law test.

If your organisation exists, operates and incurs its expenditure solely and entirely in Australia, you meet the physical presence in Australia test. You do not need to read anything further about the three tests.

If your organisation does not exist, operate and incur its expenditure solely and entirely in Australia, see the **Explanation of the three tests** to work out if you meet any of them.

Scientific research funds

For a scientific research fund that is not a charity to be exempt from income tax, the fund must be applied for the purposes for which it was established. If it is being applied for other purposes it will not be exempt.

The scientific research fund must also meet at least one of two conditions.

One condition is that the fund is a DGR. DGRs are entitled to receive income tax deductible gifts.

To meet the other condition, the fund must:

- be established to enable the scientific research to be conducted principally in Australia by, or in conjunction with, the public university or public hospital
- be located in Australia
- incur its expenditure principally in Australia.

In working out if expenditure is principally incurred in Australia, the fund can disregard any distributions it makes of amounts it received as gifts or government grants.

See also:

If your organisation does not meet all the requirements for exemption for this category, you should check the other exemption categories in the **Types of income tax exempt organisations**.

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Sporting organisations

Sporting organisations are not-for-profit societies, associations or clubs supporting a game, sport or animal racing.

15 September 2022

Income tax exemption checklist for sporting 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 the [purpose](#) of encouragement of either of the following
 - a game or sport
 - animal racing
- 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.

For more information, see Taxation Ruling TR 2022/2 *Income tax: the games and sports exemption*.

Purposes

The main purpose of the society, association or club must be encouragement of a game, sport or animal racing. To work out your organisation's main purpose, look at its:

- constituent documents
- activities
- use of funds
- history.

Any other purpose of the organisation must be incidental, ancillary or secondary to encouragement of the game, sport or animal racing.

For instance, if your organisation's main purpose is providing social and recreational facilities and activities, it will not be exempt. This is the case even if your organisation also gives money to encourage games, sports or animal racing.

Example – Not for the encouragement of a game or sport

An NFP club's main operations are providing dining, gaming and leisure facilities at its clubhouse. It gives a yearly grant to an associated rowing club but is not involved in rowing itself.

It is not exempt.

Game or sport

The terms 'game' and 'sport' are not defined and take their ordinary meaning. Games and sports extend to athletic games or sports (such as football and swimming) and non-athletic games (such as chess and bridge). They do not extend to:

- stamp-collecting
- keeping and showing pets
- making model railways
- maintaining vintage cars

- various social and recreational pursuits.

Encouragement of the games or sports extends to less direct means such as:

- research or testing
- developing referees
- providing sporting facilities.

Example – For the encouragement of a game or sport

An NFP association's purpose is to provide a sports ground for use by the local hockey, soccer and cricket clubs.

The association will be exempt if it is not a charity and also meets the other requirements.

More information can be found by going to [Income tax exemption and sporting clubs](#).

Animal racing

The income tax exemption includes horse racing, trotting and greyhound racing, and the racing of other animals.

If your organisation does not meet all the requirements for exemption for this category, you should check the other exemption categories in the [Types of income tax exempt organisations](#).

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Requirements for self-assessing entities

Check if your organisation can self-assess your entitlement to income tax exemption.

20 July 2015

Organisations that fit within the description of an exempt entity that can self-assess their income tax status must meet certain requirements to be exempt.

For many of the exempt entity types, your organisation must be not-for-profit (NFP) 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 it was established for.

Follow the links below for information on:

- [Explanation of the three tests](#)
- [Governing rules condition](#)
- [Income and assets condition](#)

See also

Check the [Types of income exempt organisations](#) to see if your organisation fits within any of the exempt entity types. If you think your organisation fits within one of the entity types, check the requirements for that type to make sure your organisation meets them.

Explanation of the three tests



Some organisations must pass one of three tests to be exempt from income tax.

Governing rules condition



Your organisation will meet the governing rules condition if it complies with all the substantive requirements in its governing rules.

Income and assets condition

Your organisation will meet the income and assets condition if it applies its income and assets solely for the purpose for which it is established.

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Explanation of the three tests

Some organisations must pass one of three tests to be exempt from income tax.

20 July 2015

Some not-for-profit (NFP) organisations must pass one of three tests to be exempt from income tax. The tests are the:

- physical presence in Australia test
- deductible gift recipient (DGR) test
- prescribed by law test.

If your organisation exists, operates and incurs its expenditure solely and entirely in Australia, you meet the physical presence in Australia test. You do not need to read anything further about the three tests.

If your organisation does not exist, operate and incur its expenditure solely and entirely in Australia, read on to work out if you meet any of them.

Physical presence in Australia test

Your organisation will meet this test if it meets both of the following requirements:

- your organisation has a physical presence in Australia
- to the extent your organisation has a physical presence in Australia, it pursues its objectives and incurs its expenditure principally in Australia.

See also:

If your organisation does not meet these requirements, it could still meet the test – see [Disregarded amounts](#).

Physical presence

An organisation has a physical presence in Australia if it is wholly in Australia, or it has a division, branch or sub-division in Australia.

It does not have a physical presence in Australia if it is present in Australia only through an agent, or it merely owns investment property in Australia.

Objectives and expenditure principally in Australia

If your organisation has a physical presence in Australia only, it must pursue its objectives and incur its expenditure principally in Australia.

Principally means mainly or chiefly. Less than 50% of expenditure is not considered principally.

The pursuit of objectives in Australia can include things done offshore if they are only a means of pursuing those objectives. For example, sending employees to an offshore conference to aid their efficiency for the Australian objectives will be pursuing objectives in Australia.

Example – Physical presence in Australia test

A community service association is physically present only in Australia, but it also sends materials to organisations overseas. As long as these activities and expenditure are not major, it will meet the physical presence in Australia test.

If your organisation has a physical presence in Australia as well as another country, you need to work out the extent to which your organisation is physically present in Australia. It is only to that extent that your organisation's purposes and expenditure must be principally in Australia.

Therefore, even if your organisation, when viewed as a whole, does not principally have its purposes and expenditure in Australia, it can still meet the physical presence in Australia test.

Example 1 – Physical presence test

A sports club operates two centres, one in Australia and one in Papua New Guinea. Each centre operates separately, with general administration being done in Papua New Guinea.

If the Australian activities and expenditure are mainly for the Australian centre, it will meet the physical presence in Australia test.

Example 2 – Physical presence test

BNM Welfare is a community service organisation. It runs four centres, one in Australia and three in Malaysia. All funding comes from Australia and a similar amount is spent on each centre.

To the extent BNM Welfare has a physical presence in Australia, it is not principally pursuing its objectives and incurring its expenditure in Australia. It could only meet the physical presence in Australia test through the distribution of disregarded amounts.

Disregarded amounts

An organisation may still meet the physical presence in Australia test even if it does not pursue its purposes and incur its expenditure principally in Australia, to the extent it has a physical presence in Australia. This will depend on its distribution of disregarded amounts.

Disregarded amounts are amounts that the organisation receives as:

- gifts, including testamentary gifts (that is, gifts made under a will)
- proceeds from raffles, dinners, auctions, jumble sales and similar fundraising activities
- government grants.

Distributions of these amounts are disregarded when working out where the organisation pursues its objectives and incurs its expenditure.

We assume any offshore distributions are made first from any disregarded amounts that can be distributed offshore. The assumption does not apply if a disregarded amount cannot be distributed offshore. For example, government grants made only for use in Australia, or gifts

of land physically in Australia, are not assumed to be distributed offshore.

The effect of this assumption is that offshore distributions can be made, up to the total of these amounts, without affecting your entitlement to income tax exemption.

Example – Disregarded amounts

An Australian musical association also provides funding to a school in the Philippines for the purchase of musical instruments. The association hopes to promote and nurture musical education there. The distribution does not exceed its disregarded amounts.

Because the disregarded amounts are assumed to pay for the Philippine activities, the association can still meet the physical presence in Australia test.

Does your organisation meet the physical presence in Australia test?

- If **yes**, your organisation has passed one of the three tests. Read the **Governing rules condition**.
- If **no**, read on.

Deductible gift recipient test

The deductible gift recipient test requires your organisation to be a deductible gift recipient (DGR). DGRs are entities donors can make income tax deductible gifts to. The income tax law determines which organisations and types of organisations can be DGRs.

To be a DGR, you must either:

- be listed by name in the income tax law – includes organisations such as Amnesty International Australia and Landcare Australia
- meet the requirements of a general DGR category set out in the income tax law – includes registered PBIs, public universities, public hospitals, school building funds, public libraries, registered cultural and environmental organisations, and ancillary funds.

DGRs that are not listed by name in the income tax law need to be endorsed by us.

Several general DGR categories require your organisation, if it is a charity, to be registered with the Australian Charities and Not-for-profits Commission (ACNC).

See also:

Endorsement requirements

Your organisation will meet the DGR test if it either:

- has been endorsed as a DGR in its own right and not merely for a fund or institution that it operates
- is listed by name in the income tax law as a DGR.

Your organisation will not meet the DGR test if it is endorsed as a DGR only for a fund or institution that it operates.

Example – DGR test

A community service organisation is endorsed as a DGR for a necessitous circumstances fund it operates. Gifts made to its necessitous circumstances fund could be tax deductible.

The community service organisation would not meet the DGR test because it is a DGR only for the necessitous circumstances fund.

Does your organisation meet the DGR test?

- If **yes**, your organisation has passed one of the three tests. Read the **Governing rules condition**.
- If **no**, read on.

Prescribed by law test

Your organisation will meet this test if it is prescribed by name in the income tax regulations and it is located outside Australia and is exempt from income tax in its country of residence.

The government decides which organisations will be prescribed by name in the income tax regulations. You can send applications for prescription to us and we will forward them to the government for consideration.

If your organisation is not listed by name in the income tax regulations for exemption purposes, it does not meet this test.

Does your organisation meet the prescribed by law test?

- If **yes**, your organisation has passed one of the three tests. Read the **Governing rules condition**.
- If **no**, read on.

Conclusion

If your organisation has not passed one of the three tests, your organisation is not income tax exempt. To understand the outcomes of this, see Table: Self-assessment outcome 'Not-exempt' in **Self-assessment**.

If you are unsure if your organisation meets the requirements, see Table: Self-assessment outcome 'Unsure' in **Self-assessment**.

46351

Governing rules condition

Your organisation will meet the governing rules condition if it complies with all the substantive requirements in its governing rules.

20 July 2015

You do not need to read this section if your not-for-profit (NFP) organisation is not required to meet this condition.

See the **Requirements for self-assessing entities** to work out if your organisation must meet this condition.

Your organisation will meet this condition if it complies with all the substantive requirements in its governing rules.

This means that an organisation must operate only in a manner consistent with the rules of core importance to its operation, including those related to its object and purpose and those relating to its NFP status.

Minor procedural irregularities, such as an absence of a quorum at a meeting or missing a required lodgment date, will not prevent an organisation from meeting this condition for income tax exemption.

Does your organisation meet this condition? If your organisation is new, does it intend to meet this condition?

- If **yes**, your organisation meets the Governing rules condition, see the **Income and assets condition**.
- If **no**, or if you are unsure if your organisation meets the requirements, see **Self-assessment**.

46353

Income and assets condition

Your organisation will meet the income and assets condition if it applies its income and assets solely for the purpose for which it is established.

31 January 2019

You do not need to read this section if your not-for-profit (NFP) organisation is not required to meet this condition.

See the **Requirements for self-assessing entities** to work out if your organisation must meet this condition.

Your organisation will meet this condition if it applies its income and assets solely for the purpose for which it is established. If your organisation is new, it will meet this condition if it intends to apply its income and assets solely for the purpose for which it is established.

Your organisation cannot self-assess that it is exempt from income tax if it is requested to meet this condition and does not.

See **self-assessment** to determine your organisation's next step.

46357

Taxable NFP organisations

Some not-for-profit (NFP) organisations aren't exempt from income tax and may have CGT or PAYGI obligations.

26 September 2022

Income tax

Examples of taxable NFP organisations include:

- social clubs
- some business and professional associations
- clubs whose main purpose is providing hospitality services for members
- political parties.

If your NFP organisation is taxable, you may have to lodge tax returns and pay income tax. Understanding **mutuality and taxable income** is also important as it affects lodging and what you pay tax on.

To work out if you need to lodge a tax return and what rate of tax you pay, you'll need to work out if your organisation is an [NFP company](#) or [other taxable company](#). This distinction is important because NFP companies have special arrangements for lodging tax returns and special rates of income tax.

NFP companies

If the organisation's constituent documents prohibit it from making any distributions –whether in money, property or otherwise – to its members, the organisation is treated as an NFP company.

An NFP company with taxable income of:

- \$416 or less a year is not required to lodge a tax return if an Australian resident (unless specifically requested to do so)
- more than \$416 a year is required to lodge a tax return for that year.

Income tax rates for the 2021–22 income year – other NFP companies

Taxable income	Rate of tax
0 – \$416	nil
\$417 – \$915	55% for every dollar over \$416
\$916 and above	30% on the whole amount of taxable income

Example: income tax payable by NFP companies

An NFP company has taxable income of \$380 in the 2021–22 income year. The income tax payable is nil. The tax rate is nil regardless of whether the organisation is a base rate entity or not.

An NFP company has taxable income of \$900 in the 2021–22 income year. If it is a base rate entity, the income tax payable is \$225 and is calculated as $\$900 \times 0.25$. If it is **not** a base rate entity, the income tax payable is \$270 and is calculated as $\$900 \times 0.30$.

An NFP company has taxable income of \$2,000 in the 2021–22 income year. If it is a base rate entity, the income tax payable is \$500 and is calculated as $\$2,000 \times 0.25$. If it is **not** a base rate entity, the income tax payable is \$600 and is calculated as $\$2,000 \times 0.30$.

Other taxable companies

Clubs, societies and associations whose constituent documents don't prohibit them from making distributions to their members are treated as other taxable companies.

Other taxable companies must lodge a tax return each year, regardless of their taxable income. They have the same **rates of tax** applied as other companies.

There is no tax-free threshold for other taxable companies – they are taxable from the first dollar. That is, they are taxable on all levels of taxable income.

For the 2021–22 income year, the rate of tax is:

- 25% if the company is a base rate entity
- 30% if the company **isn't** a base rate entity.

The taxable income of a club, society or association is calculated in the same way as a company for tax purposes. However, you will need to know about how amounts received from members are treated.

Briefly, under the mutuality principle:

- receipts derived from mutual dealings with members are not assessable income (these are called mutual receipts)
- expenses incurred to get mutual receipts are not deductible.

For help completing your tax return, see **Not-for-profit guide to company tax return**.

Income tax rates for the 2021–22 income year – NFP companies that are base rate entities

Taxable income	Rate of tax
0 – \$416	nil
\$417 – \$762	55% for every dollar over \$416
\$763 and above	25% on the whole amount of taxable income

Capital gains tax

Capital gains tax (CGT) applies to NFP clubs, societies and associations that are treated as companies for income tax purposes in the same way as it does for other companies that pay income tax.

Pay as you go instalments

Pay as you go (PAYG) instalments is a system for paying amounts towards the expected tax liability on your business and investment income for the financial year.

Consolidations

Wholly-owned corporate groups may have the option of consolidating for income tax. Consolidation is optional but cannot be reversed. The consolidated group operates as a single entity for income tax purposes, lodging a single tax return and paying a single set of PAYG instalments.

When a group consolidates, it is a 'one in, all in' situation, in which all of the head company's eligible wholly-owned subsidiary members become part of the group.

There are specific rules about the types of entities that can be a head company or a subsidiary member of a consolidated group.

33593

Review your tax status

We recommend an annual review, or whenever there is a major change to your organisation's structure or activities.

20 July 2015

We recommend you do a review:

- once a year
- when there is a major change to your organisation's structure or activities.

Charities have a different review process to organisations that can self-assess their income tax status.

See also

Charities should refer to [Review your TCC endorsement](#).

For organisations that can self-assess, we provide worksheets to help you review your organisation's tax status. Once you have completed the relevant worksheet, submit it to your Board or Committee for approval. Keep the completed and approved worksheet with your other records – it will show why and how you worked out income tax status and will help future office bearers.

Next steps

- Sporting organisations use the worksheet in our guide **Income tax exemption and sporting clubs**
- Other not-for-profit organisations use the worksheet **Income tax status review worksheet for self-assessing non-profit organisations**

When we review

We review both income tax exempt and taxable not-for-profit organisations. The reviews help establish whether your organisation is correctly assessing its income tax status.

We may request that you provide information and documents that are relevant to your assessment of your organisation's income tax status. While you must comply with this request, you will be given at least 28 days to provide the required information and documents. Failure to comply can lead to prosecution.

We will provide written notice of the result of the review.

If your organisation has not lodged income tax returns for the period under review and our review shows that your organisation is not income tax exempt, we may require that income tax returns be lodged.

If your organisation has lodged returns and there are inaccuracies in income, deductions or entitlements, we may amend your assessment.

If your organisation is dissatisfied with the review, you can lodge an objection.

Our commitment to you

We are committed to providing you with accurate, consistent and clear information to help you understand your rights and entitlements and meet your obligations.

If you follow our information and it turns out to be incorrect, or it is misleading and you make a mistake as a result, we will take that into account when determining what action, if any, we should take.

Some of the information on this website applies to a specific financial year. This is clearly marked. Make sure you have the information for the right year before making decisions based on that information.

If you feel that our information does not fully cover your circumstances, or you are unsure how it applies to you, contact us or seek professional advice.

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