



Australian National Food Donation Tax Incentive Implementation Analysis

Testing the feasibility of a national food donation tax incentive scheme for Australia.



Acknowledgement

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KPMG is committed to making sustainable, positive change in our local communities and in society at large, striving to make the world a better place.

We wish to thank Catherine Dean for her contribution to this report on the tax technical design and consultation relating to the proposed National Food Donation Tax Incentive.

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01. Executive Summary

Purpose of this work

Reducing Food Waste in Australia

Australia produces enough food for 75 million people every year, enough to feed the population three times over.¹ However, an estimated one in six adults and 1.2 million children in Australia go hungry every year.² Australia currently wastes more than 7.6 million tonnes of food each year, while 70 percent of the food is still perfectly edible. This situation is estimated to cost the Australian economy over \$36.6 billion per annum.³

One potential solution to this problem is to design a food donation tax incentive for primary producers, manufacturers and organisations who are unable to absorb the additional costs associated with picking, packing, storing and transporting surplus or out of specification food that would be cheaper to dump. This incentive would contribute to meeting increasing demand from the food relief sector to address persisting food insecurity in Australia.

Over the last two years, KPMG has been actively involved in designing, defining and articulating the need for a National Food Donation Tax Incentive (NFDTI) as a means of working toward Australia’s food waste reduction ambitions. KPMG’s [National Food Waste Tax Incentive Report](#) released in 2020 explored the concept in more detail and proposed the following policy cost estimates:



\$522 Million

A \$522 million direct cost estimate, based on an average retail value of food of \$6 per kilogram, and an estimated annual demand of 87 million kilograms of food donations.

\$2 Billion

\$2 billion per annum estimated social, economic and environmental benefits to be generated by the national implementation of a food Donation tax incentive.

A NFDTI aims to tackle Australia’s food insecurity by diverting more excess food to the food relief sector. By increasing the appetite of businesses to invest in additional time and resources in allocating stock to the food relief sector that would otherwise be written off, industries can more proactively support Australia’s ambition to halve food waste by 2030.

Following the report’s release, the concept of a National Food Donation Tax Incentive has gained significant traction amongst the food relief sector, government stakeholders, and food and agribusiness supply chain participants.

This project served to test the NFDTI across the food waste ecosystem to substantiate its ability to drive impactful change in the food relief sector, and deliver support to the Australian environment, population and economy.

1 Australian Food & Grocery Council, 2021, No Need to Panic, Australia Produces Enough Food For 75 Million
 2 Foodbank Australia, 2021, Hunger Report 2021
 3 Department of Climate Change, Energy, the Environment and Water, 2021, Tackling Australia’s food waste

Scope

Enclosed in this report are the outcomes of an ‘implementation analysis’ of the proposed food donation tax incentive.



The NFDTI has been shaped and finalised through this analysis, testing the program across various food supply chains, stakeholders, and geographic regions, to:

- Assess the appetite of businesses to leverage the NFDTI if implemented;
- Understand how the NFDTI will work in practice across businesses ranging in size and complexity, with regard to record keeping, reporting, and other administrative processes;
- Test whether the incentive will motivate businesses to begin donating or increase food donation levels; and
- Explore potential behavioural, cultural or operational changes that may be required of businesses to uptake the use of the incentive.

In testing these points, this project aimed to demonstrate to influential stakeholders across Australia’s food waste ecosystem the viability of the NFDTI to reduce food waste and address food insecurity in Australia.

To do so, this project undertook a number of key steps to form a holistic view on what the Australian food system would look like with the NFDTI in place:

Analysis of Australian food waste supply chain baseline

In-depth consultation with 33 businesses across the Australian food waste supply chain

Analysis of findings to form recommendations on NFDTI implementation and promotion

This report includes detailed outcomes of the activities listed above, including indicative views on how businesses will seek to leverage the NFDTI and the potential impact the program offers for food security in Australia.



Findings

Overall, the key outcome of the NFDTI implementation analysis was a majority of highly receptive views received on the proposed reform, with most stakeholders indicating with certainty they would direct more surplus to food relief and claim the tax incentive if it was implemented.

The NFDTI received whole-of-sector support, with businesses engaged across food supply chains and geographies able to seamlessly grasp both the economic and social opportunity the initiative represents.

Ultimately, one of the end-goals of the NFDTI, to divert food destined for landfill into food relief programs, has been endorsed through these conversations. While stakeholders agree they will be interested in leveraging the tax incentive in future, they appreciate that ideally the need to do so will reduce in time. Particularly in the manufacturing, processing and retail parts of the supply chain, where production and capacity levels are tightly controlled, considerable work is being undertaken to reduce waste at the source.

This means that while stakeholders were attracted to the financial returns offered by the NFDTI, ultimately the sector acknowledged the need to work together to both reduce food waste at the source and support food insecure Australians as a first priority.

A number of stakeholders also suggested that where the NFDTI was available they would seek to reinvest the funds gained back in to enhancing charitable food relief programs which at present require significant investment.

This project has also endorsed the potential of the NFDTI to bring together Australia's food supply chain participants to collectively work towards the ambitious goal to halve the nation's food waste by 2030. The proposal is a win/win for Australia to help people in need whilst reducing the financial and environmental costs of addressing the inherent issue of food waste.

Feedback on the Scheme Revolved around a Number of Key Sentiments:



I am already donating therefore I would absolutely like to claim a greater tax deduction on my existing donations.



We currently spend a lot of money running our charity food donation program. Most locations have weekday collections but higher labour costs make weekend collections economically unviable at present. The incentive would allow a business case for further food rescue activities and help cover some of the logistics costs to donate the food.



However, the decision to increase my existing donation levels beyond the current state is less motivated by an increase to my bottom line, it is more influenced by my business's capacity, access to resources and benevolence position.



I would be eager to leverage the opportunity to earn a tax offset or a credit for additional service costs required to donate food, including predominantly transport, logistics, storage, production overhead and additional labour resources to clear excess stock.



However, ensuring I can delineate between service costs such as transport and storage for products that go to food relief, versus service costs that my business wears as part of business-as-usual (BAU) operations, will be a key consideration.



I do not envision engaging with the scheme would require a significant operational or behavioural shift in the operations of my business, we already maintain the necessary record keeping measures that would be needed to claim the incentive.



Our business engages in the necessary processes to maintain consistent awareness of both the quantities of excess food and/or excess capacity generated by my business at a given point in time, and therefore my capacity to use the incentive.



For me, this scheme is a game changer because I can earn an extra 10% or 20% back on the costs of donation, in some instances in a cash refund format.

Recommendations

Australia's food system is ready, willing and able to use the National Food Donation Tax Incentive (NFDTI). This work has demonstrated whole-of-sector support for the initiative, with businesses at all stages of the supply chain able to envision a scenario in which the NFDTI could be leveraged.

In order to action this vision, a number of overarching recommendations are proposed in this report relating to the design, implementation, extension and adoption of a National Food Donation Tax Incentive in Australia. An overview of these recommendations is included below, with further detail in Recommendations.

Realising the NFDTI

01.

Before implementing the NFDTI in full, additional work needs to be undertaken with Treasury and the Australian Taxation Office (ATO) will need to agree on the final costing, scope parameters, definitional aspects, reporting processes, legislative amendments required and other general administrative supporting processes of the NFDTI.

02.

The NFDTI should be implemented under its original scope applying to food fit for human consumption, with consideration given to an extension to cover pet food and essential grocery items only donated via registered food relief charities for food insecure households.

03.

From a reporting perspective, it is recommended that the NFDTI be claimed as part of the annual income tax return process, in line with the majority of stakeholder feedback.

Implementing the NFDTI

04.

Once the design of the NFDTI is finalised, the tax reform may be implemented by the Federal Government, in consultation with the food relief sector and all relevant stakeholders.

05.

In implementing the tax incentive, Government should consider developing an easy-to-use self-assessment calculator tool to ensure the NFDTI is accessible to all supply chain players, particularly given common capacity challenges, and to avoid unintended exploitation of the scheme.

06.

To support the reporting and substantiation of claims verification of the NFDTI, food relief charities will need to expand their receipt allocation processes to cover all donations, regardless of volume or value, as well as the donation of services. Further, for some businesses upgrades to existing systems may be required to identify food and services which are eligible for the NFDTI.

Promoting the NFDTI

07.

It is recommended that further work be undertaken to re-engage those participants in this study who were enthusiastic to support the NFDTI's implementation. Select stakeholders should be tasked with acting as 'champions' of the NFDTI, promoting the scheme to their supply chain networks to support capacity building and making stakeholders aware of new pathways available to donate food.

08.

Communication campaigns developed to underpin the NFDTI's implementation should be focused on articulating the NFDTI's key differentiating factors from current Australian tax policy. This includes its application to the donation of services, its offer of a cash incentive for eligible small businesses, its application to both food relief and food rescue, and its inclusion of all supply chain participants.

Glossary and acronyms

Abbreviation	Definition
ACNC	Australian Charities and Not-for-profits Commission
ATO	Australian Taxation Office
CSR	Corporate Social Responsibility
DGR	Deductible Gift Recipient (status)
ESG	Environmental Social Governance
ERP	Enterprise Resource Planning
FIAL	Food Innovation Australia Limited
Food security	When all people have access at all times to enough food for an active, healthy life ⁴
Food insecurity	When the availability of nutritionally adequate and safe foods or the ability to acquire acceptable food in socially acceptable ways is limited or uncertain ⁴
NFDTI	National Food Donation Tax Incentive
PBI	Public Benevolent Institution
Tax deduction	A business expense that can lower the amount of tax a business is required to pay, deducted from gross income to arrive at taxable income. ⁵
Tax credit	An amount of money that taxpayers can subtract directly from the taxes they owe. ⁶
Tax rebate	Money paid back to a person or company when they have paid too much tax.
Refundable tax credit	A refundable tax credit can be used to generate a federal tax refund larger than the amount of tax paid throughout the year.
Non-refundable tax credit	A credit that is applied to taxes payable that only reduces a taxpayer's liability to a minimum of zero.

4 National Library of Medicine, 2002, Measurement of household food security in the USA and other industrialised countries

5 <https://www.xero.com/au/glossary/tax-deductions/>

6 <https://www.investopedia.com/terms/t/taxcredit.asp>



02. Introduction

Background

Food Security and Food Waste in Australia

While more than 25 million hectares of Australian land is used to grow food that is not eaten,⁷ over one million people every month rely on food relief providers for support.

Over the last two years in particular, the onset of the global pandemic has seen disparity in food insecure groups worsen. Three in ten Australians experiencing food insecurity had not gone hungry before the pandemic.⁸ Food relief organisations have been overwhelmed with meeting the demand for food relief, particularly as new demographic groups including parents, school leavers, First Nations People and other groups have experienced food insecurity. Further, disruptions to supply chains both locally and globally during the COVID-19 pandemic have put severe pressure on the delivery of food relief.

Lockdown-induced dependency on food donations and other institutional support measures have created a reliance on the food relief sector, which has had to find new ways to attract donations at scale. As a result the Australian market is in need of more drastic measures to address food insecurity. Further, with the cost of food waste to the Australian economy estimated at \$36.6 million per annum⁹ together with ambitious 2030 food waste reduction targets, there is a need to undertake reform as a priority.

On a global level, the war in Ukraine, ongoing climate change challenges and the pandemic are all driving rising costs of fuel, food and fertiliser, the world is now facing a global food security crisis. The UN estimates there are currently 345 million people across 82 countries now facing acute food insecurity with the UN World Food Program now requiring an unprecedented US\$22.2 billion in funding.¹⁰

A major disconnect between Australia’s vast national food supply and the demand from food insecure groups results in unsustainable quantities of excess food diverted to landfill every year. Currently, taking measures to reduce this waste and redistribute supply to those in need comes at a cost that many businesses are unable to absorb, nor have the capacity to action. A lack of support to address these barriers creates an ongoing waste problem with detrimental impacts on Australia’s environment, society and economy.

To address this situation, food relief organisations rely on two different kinds of donations:

<p>Food Rescue</p> <p>The practice of safely retrieving wholesome food still fit for human consumption that would otherwise go to waste, also referred to as food recovery.</p>	<p>Food Relief</p> <p>Proactively sourcing key staple food products that do not come in sufficient or consistent quantities via food rescue to meet a sudden or protracted food shortage.</p>
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Ultimately, the current cost of food insecurity in Australia is alarmingly high, from both an economic and social standpoint. Australia finds itself in an illogical situation where excess food is abundant, yet people are still going hungry. Particularly as costs of living rise across the board, the end-to-end supply chain is in need of urgent reform.

7 FIAL, 2021, National Food Waste Strategy Feasibility Study

8 Foodbank Australia, 2021, Hunger Report 2021

9 FIAL, 2021, National Food Waste Strategy Feasibility Study

10 United Nations World Food Program, 2022, Global Food Crisis

Current State of Food Waste-Related Tax Frameworks in Australia

Currently, Australia allows taxpayers to claim certain deductions for certain donations made to food relief organisations, and other similar organisations. These deductions are available both under the general rules for deductions in Australia's tax law, and specific rules regarding organisations that are registered charities with deductible gift recipient (DGR) status. Currently the tax system does not provide any additional benefits for donating stock over and above simply disposing it as waste.

Further, one of the key barriers to many companies actively participating in food waste reduction and food relief in Australia is the costs of related services such as transport and logistics which are often the key driver behind an unmanageable cost burden in donating. Too often, such related services, the prices of which can be quite volatile, can create an insurmountable barrier to donating food to food relief versus diverting waste to landfill.

Section 30-15 of the ITAA 1997 provides for a specific deduction for gifts made to DGR recipients. Gifts of money, property and trading stock from a taxpayer to a food relief charity which has DGR status may be deductible under this section.

Under the general deductibility rules deductions may be allowable for goods if there is a sufficient nexus between the donation and the purpose of gaining assessable income (for donors who are carrying on a business). A deduction for services such as transportation and logistics, pallet hire, storage and refrigeration may be allowable on a cost basis if the donation is incurred in carrying on a business and there is a nexus to the production of assessable income, for example under a sponsorship, advertising or marketing arrangement.

Businesses across the Australian food supply chain, from production through to consumption, need to be better incentivised to donate excess food to the food relief sector providing for people in need. Not only will this help those experiencing food insecurity in Australia, the NFDTI will also reduce the amount of food waste going to landfill with its high economic and environmental cost. Tax reform has the capacity to strengthen the food relief system in Australia by enabling more seamless integration of sustainable habits into business and supply chains of all sizes.

For further detail on Australia's current food waste policy setting, see KPMG's first 2020 report '[A National Food Waste Tax Incentive](#)'.



Designing, Defining and Articulating the need for a National Food Donation Tax Incentive

Enter the National Food Donation Tax Incentive, which has the potential to act as a 'game changer' to the Australian food relief system for two key reasons:

- Its application to both food relief and food rescue, meaning a tax incentive can be earned for excess food that would have otherwise been written off as well as 'new' food products
- Its application to both the costs of producing donated goods and the additional service costs required to donate the goods, such as transport, storage, logistics, and so on.

KPMG worked with the Fight Food Waste CRC and Foodbank Australia to propose the concept of the NFDTI in the report '[A National Food Waste Tax Incentive](#)'. The report recommends a tax policy to optimise Australia's food donation incentives by leveraging global examples of food donation tax policies, as well as elements of Australia's current tax system.

Most importantly, articulated in this report is the enormous opportunity a tax incentive for food donations represents, by showcasing the success it has seen across the globe.

Economic modelling undertaken in designing the NFDTI proposed an estimated \$2 billion per annum in social, economic and environmental benefits for Australian society.¹¹

The incentive would provide a tax offset or tax credit to primary producers, food processors, manufacturers, wholesalers and retailers, the logistics and transport industry, as well as other service providers who are committed to the reduction of food waste in Australia.

The initiative has been designed to increase supply of donations in alignment with the demand of the food relief sector, not only to ensure food insecure Australians can more easily access well-rounded meals, but also to ensure the incentive does not encourage donations beyond the food relief sector's needs or capacity. The report proposed the policy cost estimates below:

- A direct cost to Federal Government revenue of approximately \$50 to \$100 million per annum, depending on the corporate tax rate paid and annual turnover of businesses donating, which determines the tax incentive received, calculated as follows:
- A \$522 million direct cost estimate based on an average retail value of food of \$6 per kilogram, and an estimated annual demand of 87 million kilograms of food donations.
- Based on the application of a non-refundable tax offset of 40 percent applicable to a corporate taxpayer paying tax at a 30 percent tax rate, a tax incentive of 10 percent would be available (\$52 million).
- Based on the application of a refundable tax offset of 45 percent applicable to a corporate taxpayer paying tax at a 25 percent tax rate, a tax incentive of 20 percent would be available (\$104 million).

The above costs appear small in comparison to the large offsetting of social, economic and environmental benefits of approximately \$2 billion per annum for Australia, as well as the current cost of food waste to the Australian economy of over \$36.6 billion annually.¹²

In allowing all participants across the supply chain to claim a tax offset for both the donation of food as well as related services, the NFDTI stands to reduce barriers many businesses face in contributing to food relief in Australia.

¹¹ FIAL, 2021, National Food Waste Strategy Feasibility Study

¹² FIAL, 2021, National Food Waste Strategy Feasibility Study

What would a National Food Donation Tax Incentive look like?

Design of the NFDTI

As an overall policy, the NFDTI is designed to provide a top-up incentive through the tax system, not completely reimburse those who donate food or services.

The proposed NFDTI will likely take the form of a refundable (cash) or non-refundable (credit) tax offset made for the donation of food and related services to food relief organisations.

Designed to reflect a similar structure and function to the Australian Tax Office’s (ATO) current Research and Development Tax (R&D) Incentive, it is proposed the NFDTI would take the following form depicted in the graphic below. The amount a business will be eligible to claim will be dependent on its annual aggregated turnover:¹³



Business with up to \$20m annual aggregated turnover
(paying corporate tax at a 25% rate)....

Are eligible to receive a refundable tax offset equal to 45% of:
The costs of goods and related services donated

When accounting for the tax deduction foregone (at **25%**), this means a business receives a net tax incentive of up to **20%**.



Business with \$20m and over annual aggregated turnover
(paying corporate tax at a 30% rate)....

Are eligible to receive a non-refundable tax credit equal to 40% of:
The costs of goods and related services donated

When accounting for the tax deduction foregone (at **30%**), this means a business receives a net tax incentive of up to **10%**. This 10% incentive is carried forward if the company is in a tax loss position.

The NFDTI is a tax reform policy proposal and the final design and implementation will be subject to Treasury approval and consultation. However, it should be noted that all stakeholders engaged were receptive to the design of the scheme and satisfied with the amount they would be eligible to receive in its current state. This is explored in more detail in the Findings section.

¹³ Aggregated turnover is defined in section 328-115 of the ITAA 1997 broadly as annual turnover comprising all ordinary income you earned in the ordinary course of running a business for the income year plus the annual turnover of any connected entities or affiliates

Demand for the NFDTI

It is important to emphasise the nature of the NFDTI's design and the testing of this initiative was inherently demand-led. The target users for the NFDTI, and therefore the focus of who was consulted during this project, have been selected based on the alignment of their outputs with the products in highest demand by the food relief sector.

In order to identify these products, initial analysis was undertaken of the food production and waste ecosystem in Australia. The supply chain for key Australian agricultural products was mapped by volume and value of production, and then overlaid with the food waste hotspots identified in the Food and Agribusiness Growth Centre (Food Innovation Australia Limited, **(FIAL)** National Food Waste Strategy Feasibility Study.¹⁴ This was then underpinned by national food donation data from the food relief sector to demonstrate indicative areas of interest for the project and the NFDTI more broadly.

This analysis was then combined with in-depth consultation with Australian food relief providers to understand which products are in highest demand by the sector. Consultation validated the findings of the food ecosystem mapping exercise to form a holistic, robust view of the areas of demand for food relief and therefore the direction of the project.

This exercise resulted in confirmation that the products in highest demand by the food relief sector, as well as in supply by the Australian food industry, are those required to form a well-rounded, nutritious meal.

This includes protein sources such as red meat, seafood, poultry or vegetarian protein sources, fresh fruit and vegetables, and grains and legumes such as bread, pasta or lentils. Geographically, both food waste ecosystem mapping and consultation with food relief providers indicated that New South Wales, Queensland and Victoria should be the focus of the study given their high levels of current food production, waste and donation volumes. All supply chain nodes were consulted, including production, transport and logistics, processing and manufacturing, wholesale, retail and foodservice.

While the scope of stakeholder consultation for this study extended across the entirety of the food supply chain to identify the stakeholders from which the NFDTI will see highest levels of demand, the focus of consultation was to consult providers of the kinds of products mentioned above to ensure the initiative will attract donations of the products the food relief sector truly needs. Based on this analysis, extensive consultation was a useful exercise in identifying both the groups for whom the NFDTI will be the most useful, as well as those for whom the initiative will have less relevance. Greater detail on this scope of analysis can be found in Stakeholder Consultation Findings.

¹⁴ FIAL, 2021, National Food Waste Strategy Feasibility Study – Final Report

Scope Parameters and Indicative Reporting Requirements of the NFDTI

While the exact structure and function of the NFDTI remains a proposed reform, the guidelines below were presented to stakeholders as the parameters under which the scheme will operate.

Figure 1: NFDTI Scope Parameters

Scope	Definition
<p>01. Donors are eligible to leverage the incentive for...</p>	<p>Donations of both food rescue and food relief.</p>
<p>02. Donations must be...</p>	<p>Fit for human consumption, accounting for all required ingredients and related processes including packaging (e.g., products such as grain repurposed into consumable food would still be eligible).</p> <p>Only eligible for food donations made to a 'registered charity providing food relief or other welfare services to people in need'. A direct link between the donation and the given charity must be provided, typically via a paper trail.</p> <p>Made in the course of doing business. However, in the case of the donation of ingredients to an intermediary (e.g., manufacturer) which may not yet be fit for human consumption but are repurposed into food relief, a tax incentive can be claimed for the costs of these ingredients by the original donor if a paper trail to prove a direct link to food relief can be maintained.</p>
<p>03. Donors will be required to provide...</p>	<p>Receipt of donation from a registered food relief organisation, indicating donation of both product and services.</p>
<p>04. Donors will seek to claim the incentive via...</p>	<p>The options below for claiming the tax incentive were proposed for discussion with stakeholders.</p> <ul style="list-style-type: none"> • Business Activity Statement (BAS) • As part of standard annual tax return • Through a new mechanism, similar to the R&D Tax Incentive reporting system <p>The outcomes of this discussion are explored in more detail in the Findings section.</p>

Supported by the structure and indicative design depicted above, the NFDTI was tested with 33 different stakeholders to form a holistic view on the feasible implementation of the scheme. This report explores the detailed findings of these conversations, which collectively form a view on Australia's appetite for this tax reform.

A man wearing a dark hat and a long-sleeved shirt is walking away from the camera down a dirt path in a rural field. The field is covered with rows of plants, and there are irrigation systems with long pipes and nozzles visible. The background shows rolling hills and trees under a clear sky.

03.

Stakeholder Consultation Findings

Methodology and Scope

Stakeholder engagement followed a robust consultation methodology to create an accurate depiction of a business's current and future state in relation to the NFDTI, and to ensure all relevant findings were extracted. The overarching purpose of stakeholder engagement was to:

01.

Inform recommendations developed for the design and implementation of the NFDTI, and relay these recommendations to stakeholders.

02.

Ensure stakeholders are willing to leverage the scheme and identify whether the promise of a tax incentive may motivate them to begin or increase food donations.

03.

Gain feedback on how the scheme will work in practice, particularly in relation to reporting, self-assessment, and supply chain flows.

04.

Identify any operational or behavioural changes that may be required to claim the incentive.

05.

Validate the ability of the NFDTI to attract donations of the products experiencing highest demand from the food relief sector.

Stakeholders were Questioned on Several Key Criteria in Relation to:



01.

Current food supply chain and day-to-day operations, including understanding of a business’s ongoing excess production or capacity.



02.

Historic and current food donation behaviour and policies toward the food relief sector, as well as future ambitions in the space. This included the volume and value of both food rescue and relief donations.



03.

Current data and reporting measures in relation to food donations made to food relief organisations, including record-keeping and a business’s understanding of its fluctuating production costs and market value of goods.

When presented with the proposed NFDTI, stakeholders were queried around a number of key areas:

Understanding of the NFDTI and its applicability to the operations, as well as cultural principles, of their respective businesses.

Practicality of the NFDTI in line with a business’s day-to-day function and capacity

How and at what frequency they believe their business would prefer to claim the NFDTI

Capacity of the NFDTI to motivate the following changes in behaviour:

- Begin donating to food relief
- Increase volume and frequency of existing donations
- Divert products from alternative distribution means where non-specification food is allocated, such as processing or imperfect markets, to food relief
- Give products to food relief charities free-of-charge, where previously those products would have been sold to food relief at a reduced rate

Scope of Project Participants

33 different stakeholders from across the food supply chain were consulted to test the NFDTI. Businesses engaged ranged in size, geographic location, supply chain role, and food donation maturity level. The scope of participants was determined by a number of factors:

Demand by the Food Relief Sector

Priority for inclusion was given to businesses producing the foods of which the food relief sector was in the most need. Upon consultation with food relief organisations, this was determined to include:



Current Role in the Food Relief Supply Chain

The scope of participants was also led by businesses' existing role in the food relief supply chain. Existing donors to food relief organisations which are mature in the space were consulted as a first priority, to test whether the NFDTI resonates with existing policies and processes.

From a geographic standpoint, New South Wales, Victoria and Queensland were prioritised as consultation focus areas given these areas currently generate the highest volumes of both food waste as well as food donation in Australia. Production, manufacturing, processing and retail businesses within these geographies made up a strong focus of consultation given their prominent role in the Australian food supply chain and capacity to directly contribute to food relief.

However, inclusion of participants who contribute to the food relief sector indirectly, such as transport, was also a priority. In this scenario, transport and logistics providers evidently play a role in transporting food donations however do not take ownership of the goods, and therefore are not considered to currently engage in the food relief space. Analysis of how these participants could be more formally involved in food donation was key to the scope of NFDTI testing, therefore inclusion of indirect supply chain participants was a priority.

The food service part of the food supply chain was also included in the scope of consultation, including restaurants, fast food chains, hotels and catering companies. These kinds of businesses have the potential to play a critical role in the food relief ecosystem given substantial volumes of food waste frequently generated. Food service proposes various unique use cases for the NFDTI, as discussed in Key Findings.

Key Findings

Above all, the most critical finding to emphasise across broad consultation of Australia’s food supply chain is unequivocal whole-of-sector support for the scheme. All stakeholders engaged were able to clearly understand the opportunity of the NFDTI and were able to understand the various ways in which it may apply to their businesses, the most critical input to the scheme’s success.

Further, the majority of businesses interviewed were highly passionate about the potential of the NFDTI to really shift the dial.

Many consultees currently unable to donate surplus food due to capacity and financial constraints were excited and enthusiastic and eager to learn that the promise of a tax credit or refund could help them to commence or scale food donation behaviour. All stakeholders were eager to see food waste volumes in Australia be reduced, and to be able to do so by better supporting food insecure groups was viewed as an inspiring prospect.

Specific findings have been mapped into four key categories



Current state. Barriers to donating food



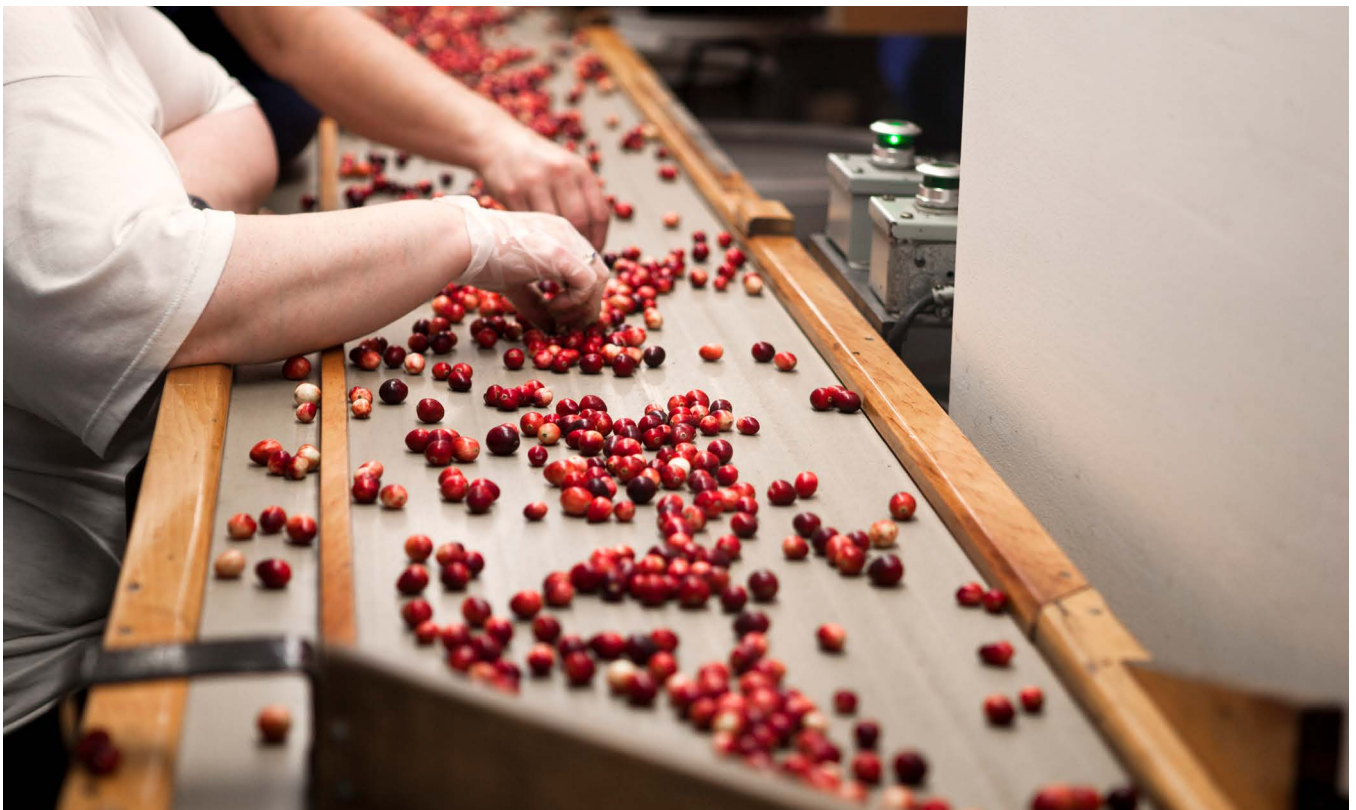
Overall appetite for the scheme



Behavioural and operational changes required



Key areas for consideration



Current State of Food Relief Policies

The maturity of food donation policies, food waste policies and relationships with food relief organisations ranged amongst stakeholders with respect to the size of their business, their position in the supply chain and the relative perishability of their trading stock. While many businesses engaged who are existing food relief donors had robust systems in place to clear excess stock, the promise of a tax incentive was seen as a potential game changer to generate funds to be re-invested back into these programs.

Barriers to donating: Accessibility and capacity

Peak harvest generally creates the most waste or excess stock in horticultural supply chains. For smaller, family-owned farms, as well as small retail and foodservice outlets, the lack of proximity to food relief organisations as well as lack of time or labour to transport food can limit the ability to donate excess supply. This can often lead to the dumping of food or giving away large amounts of excess product as animal feed or other low-value products. In the case of horticulture, perishability increases the logistical difficulty of rapidly coordinating the donation of food.

A small number of local charities available to collect product may travel directly to regional areas to collect donations from small food businesses, however this is typically ad hoc in nature and does not include the record keeping that would be required to claim the NFDTI.

Barriers to donating: Cost of services

Related service costs are often a key barrier to donating food for businesses which are located far away from food relief charities and distribution centres. The opportunity for the incentive to provide a cash or credit back was suggested as a potential way to overcome this. There were select cases of businesses which believed the cost of transporting donations was not necessarily high enough for the incentive to be viewed as beneficial for such claims. These were instances where food relief charities would predominantly bear the cost of transport, or where partners in a collaborative arrangement to manufacture food were located in close proximity. Such scenarios were explored on a case-by-case basis regarding relative geography and the strength of the relationship between suppliers and processors.

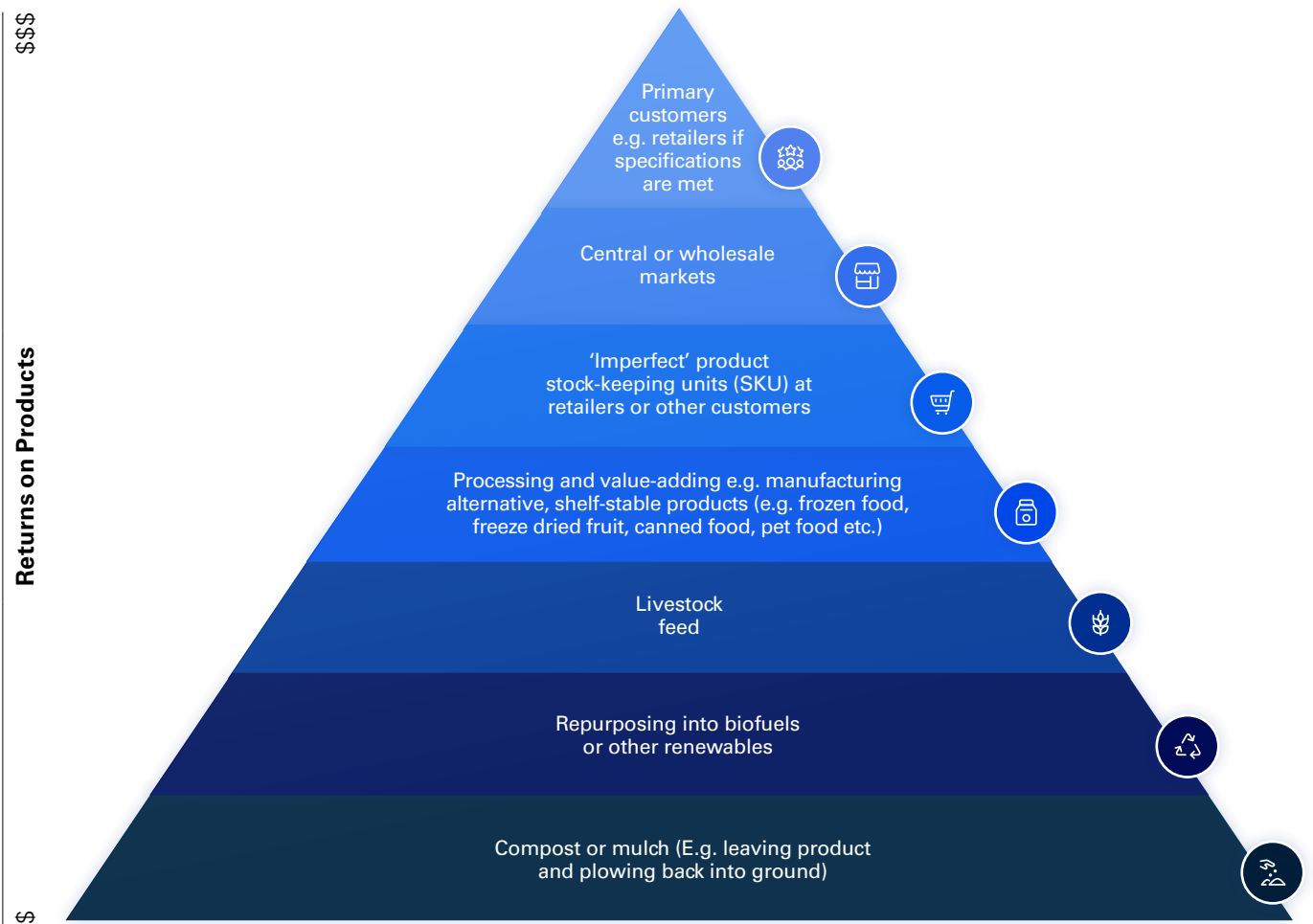
Barriers to donating: Fluctuating costs of food relief programs

Particularly in the case of retail businesses, the fluctuating costs of running food relief programs regarding labour and other inputs was a deterrent to scaling donation volumes. Some stakeholders indicated that the cost of transport and logistics labour on the weekend often means a food relief program is not cost effective enough to run. Businesses indicated a strong preference to maintain not only cost effectiveness in food relief programs but more importantly, operational consistency. Stakeholders were intrigued by the potential to allocate top-up funds generated through the NFDTI back into food relief, to enable programs to run seven days per week without disruption.

Existing pathways for non-specification food: A competing hierarchy

Many businesses engaged, particularly large manufacturers and commercial-scale horticulture producers, refer to their product distribution streams in a hierarchy. Figure 2 below describes the various avenues where food waste or second-third tier produce which does not meet primary customer specifications can be reallocated, sold or repurposed to recoup costs.

Figure 2: Alternative Food Distribution Pathways



Food processors and manufacturers typically have tight operations designed to minimise waste and often engage in secondary markets to extract value from products that do not meet initial retailer specifications. Similarly, large horticultural enterprises repurpose fruit and vegetables that are rejected on a cosmetic basis into value-added products (e.g. juice, jam, canned foods). Food relief is typically at the lower end, often the final option, of the 'hierarchy' of options listed above.

The ability of a NFDTI to motivate food businesses to move 'food rescue and food relief' up in the hierarchy of options listed above was a key point of discussion in stakeholder conversations.

In many cases, if capacity and accessibility to food relief charities allowed, a tax rebate or credit received on donated goods and services was reported as sufficient to influence a change in this decision-making. The ability to allocate excess stock to food relief as an alternative to other secondary channels was an exciting prospect to many food businesses engaged, given potential financial returns but more importantly, efficiency gains in simplifying a business's supply chain. Overall, stakeholders all expressed undeniable excitement for the potential of the NFDTI to enable a behavioural shift to drive meaningful change in reducing food waste in Australia.

The retailer use case

Large Australian retailers engaged were excited by the prospect of the key role they will have to play in championing the implementation and promotion of the NFDTI given their strong existing engagement with the food relief sector. Many retailers and wholesalers with vertically-integrated supply chains will be able to leverage Enterprise Resource Planning (ERP) and other platforms to more closely report on food waste in order to engage with the NFDTI, mitigating risk of any abuse of the scheme.

All large retailers consulted evidently enforce robust existing annual food relief programs. These retailers reported their strong motivations to leverage the NFDTI lay not in the financial benefits but rather in the ability to gather momentum at an industry level in reducing food waste and food insecurity in Australian communities.

Retailers also offer a valuable pathway to encourage suppliers to engage with food relief through their exposure to actors across the supply chain. Stakeholders flagged that when non-specification products are rejected from stores, warehouses or distribution centres, floor operators have the opportunity to communicate the NFDTI to suppliers to encourage donation. Further, in instances where a transport operator is deemed liable for non-specification product and is therefore responsible for disposing of goods, floor operators can promote the NFDTI as a viable pathway. In doing so, retailers can help create behavioural change and build food donation habits across the supply chain. Retailers engaged were passionate about the role they have to play in this broader extension of the NFDTI, and prepared to own the responsibility to ensure successful implementation.



The Food Service use case

Stakeholders in the food service sector presented a number of unique use case scenarios for the NFDTI. Despite varying levels of existing engagement with the food relief sector, the significant volumes of surplus food commonly generated by many food service businesses make the sector of strategic interest for the tax incentive.

Excess food is often generated through food service due to fluctuations in consumer demand and a misalignment between demand and supply, with frequent cases of over-ordering. This situation has been exacerbated in recent years due to the COVID-19 pandemic, where in the case of hospitality, events have been often unexpectedly cancelled and as a result, large volumes of prepared food must be thrown away. The majority of food service providers consulted reported that they do not currently have systems in place to donate some or any portion of this waste. One stakeholder reported instances where last minute event cancellations due to COVID-19 have resulted in food for over 85 people being thrown away, with limited current pathways to donate. These limitations are due largely to barriers around lack of capacity, resources, knowledge or access to food donation channels.

One stakeholder from a hotel business noted that the industry itself wants to do more in the food relief space, however competing priorities in sustainability are a consistent challenge. The industry is well-intentioned to donate food, however, lack of awareness or tools to act on this ambition at scale.

Evidently there is substantial capacity for food service providers to expand food donation policies, and all providers consulted indicated a strong interest in using the NFDTI to do so. Several food service businesses demonstrated an exemplary use case for the NFDTI, which was the potential to transition from limited to no current engagement with food relief to the donation of substantial product volumes which currently go to waste. Stakeholders indicated the key enablers of this transition were the incentive of a tax credit as well as the general awareness and knowledge building of available food donation pathways that will coincide with the NFDTI's implementation.

Catering businesses discussed one use case for the NFDTI where they could bring unused food from venues back to commercial kitchens and re-purpose it to food suitable for donation, in particular ready-made meal-kits. One catering business indicated the potential to apply this use case to excess food from around 30 different club venues, none of which currently engage in any form of food relief.

In this scenario the opportunity to create recipe cards and donate ingredients in packs was also discussed, given in food service, excess product often comes in the form of whole meals or full sets of ingredients intended to assemble a meal. This could help provide more well-rounded healthy meals for Australians in need. This form of donation would also support the food relief sector's fluctuating demand for different kinds of products, given the product variety food service venues are able to provide. Overall appetite for the incentive.

The majority of businesses interviewed indicated with confidence that they would use the proposed tax incentive if implemented, and were passionate about the game-changing nature of the NFDTI to reduce food waste in Australia. A clear desire to gain something back, even if a small amount, as a return for what is already being done, was consistently expressed.

However, there was a clear distinction between businesses who indicated they would claim the tax incentive on their existing donation volumes compared to those who indicated they would increase current donation levels if the NFDTI were put in place.

Stakeholders' responses regarding future potential to engage with the tax incentive typically sat across three approaches:

“ Yes – I would use it and I would increase my current donation volumes

As an ideal response, this view was expressed in some cases by businesses who met three key criteria: A mature existing food relief policy, ambition to increase donations based on financial and social returns, and the resource capacity to act on that ambition.

In other cases this response was heard from businesses who do not already donate large volumes to food relief, or who currently 'sell' food to food relief at reduced rates. The promise of a tax rebate or credit to cover the additional service costs required to donate food, particularly transport, storage and additional labour resources, invoked appetite to use the scheme for more cost-effective donation outcomes.

Further, many businesses who responded with this approach expressed the large amount of funding currently allocated to running charity food donation programs, particularly due to high labour costs. Specifically, some businesses explained that labour costs on the weekend make running the programs economically unviable. In this case, the NFDTI would allow a business case for donating food regardless of capacity, cost or seasonal constraints given it would help cover both logistics and resources required.

The promise of a tax offset or credit for service costs would also widen the eligibility of food supply chain participants to engage in food relief, given this would provide an incentive for businesses who do not ever 'own' the goods, but are solely donating their services to support the donation. This includes specifically transport providers, as well as manufacturers and processors who often donate production overheads without taking direct ownership of goods.

“ Yes, I would use it, however I would not likely change my current donation volumes

This response was typically heard from larger businesses, particularly in the manufacturing and processing sector, who already have robust existing donation policies and do not feel a need to increase their donations. These were usually businesses who currently donate significant volumes in line with Corporate Social Responsibility policies and general cultural benevolence, as opposed to as an opportunistic approach to clear stock.

Many businesses also indicated they typically do not have the capacity nor access to inputs to increase their donation volumes beyond their existing approach. However, that is not to say that businesses in this category would not increase their donations to capitalise on the tax incentive when circumstances allowed, or in one-off situations where stock needs to be cleared.

“ No, I would not use it as I either do not produce enough waste or I do not want to shift from my existing approach to food waste

Businesses who indicated they would not likely leverage the tax incentive were those which either produced 'zero waste' or had one or multiple, more cost-effective alternatives for using excess or non-specification food. Where businesses had no engagement with food donation this 'alternative' was typically processing into alternative products such as powders, purees or other value-added products (off cuts, in the case of meat). This was reported to often help businesses recoup the losses incurred from waste stock as opposed to creating an alternative profit stream.

Finally, also included in this group were businesses who did not currently have the resources, access or capacity to donate to food relief and did not envision this situation would improve in the future.

The benefits offered by the NFDTI as expressed within these three overarching schools of thought cannot be understated. Even those stakeholders who did not envision they would leverage the NFDTI frequently or at all articulated the economic, environmental and social value a scheme like the NFDTI could generate, due to its application to businesses of any size and geography across any part of the food relief supply chain.

There was also a consistent theme especially amongst larger businesses that it is likely the earnings from the NFDTI would be allocated back into improving their existing food relief programs, for example enabling them to run programs seven days per week or meaningfully increase donation volumes.

Consultation revealed whole-of-sector endorsement for the ability of the NFDTI to reduce the cost of food waste to the environment as well as the economy, a finding that is core to the development of the recommendations of this report.

Behavioural and Operational Changes Required to Claim the NFDTI

Overall, the vast majority of businesses interviewed did not anticipate any major behavioural or operational change would be required of their business to claim the incentive, outside of more robust record keeping and careful monitoring of donation volumes and values. All stakeholders indicated they already have far-reaching oversight of their fluctuating costs and market value of goods, a key requirement to leverage the NFDTI.



Donation reporting and record keeping

The majority of stakeholders reported that they keep a record of the date and volume of donations and receive a receipt which contains the same information. All businesses engaged indicated that they engage in necessary processes to consistently track average production costs and market value, which they will be required to use together with the record and receipt of donation to calculate what they are eligible to claim.

These records would be the primary input required to claim the NFDTI, and stakeholders did not envision any issues in referring to these as required. Businesses which engage with small local charities on an ad-hoc basis do not always receive a receipt from such interactions, which would need to be addressed by the food relief sector to ensure businesses can appropriately substantiate claims for small scale donations.

In the case of large retailers, variance between warehouse and store floors in record-keeping of the cost and market value of stock was discussed. It was reported that in some cases, once stock is written off in store, the cost or market value of that stock is not recorded in detail. Stock in the warehouse, on the other hand, is often more closely tracked via existing ERP platforms, which are increasingly also being integrated in to store layouts.

It was acknowledged that in future, in order to claim the NFDTI, closer alignment in reporting habits between supply chain nodes would be necessary. This will enable a consistent, accurate calculation of the amount retailers are eligible to receive when claiming the NFDTI.

Transport providers or manufacturers who play an intermediary role in the food donation supply chain will elicit unique reporting and claiming requirements. This is because these stakeholders seldom take ownership of the goods they are transporting or processing, meaning they are only eligible to claim the NFDTI for service costs required to undertake the donation such as labour, fuel, production overheads or storage. This means that operational change may be required in the record keeping of these kinds of businesses to ensure they can delineate between service costs worn to support food relief donations and service costs worn as part of everyday operations.

This nuance also indicates the charitable food relief sector will need to increase the robustness of its receipting processes, as charities will also need to provide a receipt for the donation of services as well as goods. This consideration is explored in more detail in the Recommended areas for further exploration section.

Data quality

The level and accuracy of food waste and donation data held by businesses varied depending on their size, location in the supply chain and the sophistication of their data monitoring systems. The larger the business, the more sophisticated and streamlined their record keeping, ERP and production monitoring systems. Stakeholders from larger businesses were comfortable in their ability to determine the relative benefit they would receive from engaging with the tax incentive, alongside their ability to substantiate claims. For example, large manufacturers of shelf stable products typically pre-allocate volumes for food relief which is built into their production schedule. Underlying data is then captured as part of their day-to-day manufacturing processes which could be used to delineate between production costs for products allocated to food relief vs those allocated to primary customers.

For some retailers, a limited data trail which tracks food waste at the store level could inhibit use of the incentive. For example, accounting systems may be in place that categorise waste stock as a loss, making it difficult to depict the exact volume and value of food retrieved by charities once it has been allocated this categorisation. The data captured at retail distribution centres is often more robust, however the retailer may only be eligible to claim the overhead costs involved in storing or transporting rejected produce, whereas the suppliers of the goods themselves would still maintain ownership of that stock. This would add a further layer of complexity in delineating the proportion of costs various supply chain participants would be eligible to claim under the NFDTI in this scenario.

Many retailers are working to enhance their visibility over excess food production in-store as part of waste reduction targets and are implementing new systems and processes in attempt to capture more accurate data. While ensuring a business of significant scale has the systems in place to record surplus food volumes in the more complex scenarios noted above will need to be handled on a case-by-case basis, it can be hoped that as these systems continue to be strengthened across the food supply chain there will be limited need for intervention.

Claiming the incentive

Stakeholders indicated a desire to claim the NFDTI via an existing tax process, as opposed to a new, additional mechanism.

Responses for the preferred mechanism through which the NFDTI could be claimed were overwhelmingly through the annual income tax return or through a monthly or quarterly Business Activity Statement (BAS). This choice reflected desire for familiar, straightforward and consistent reporting processes, which align with existing accounting practices and frequency of donations.

Typically, businesses which make consistent monthly or quarterly donations indicated a preference to claim the NFDTI through the BAS. Smaller businesses, in particular those potentially eligible for the refundable tax offset, also indicated a preference to claim the NFDTI through the BAS which they lodge on a quarterly basis to create a more consistent cash flow through the business.

The majority of stakeholders however suggested the use of an annual claim through a business's corporate income tax return would be the appropriate mechanism for the NFDTI. This was typically the preferred option by stakeholders who donate on a more ad-hoc basis (typically donating excess and non-specification food), with fluctuations in both volume and value, given the ability to aggregate donations and claim once per year through the annual tax return.

CASE STUDY

NFDTI in Food Donation Collaborative Supply Programs

Understanding the role of the NFDTI within complex food relief supply chain scenarios was a key objective of implementation analysis. Under Foodbank’s ‘Collaborative Supply Program’ and similar systems in place for food relief charities, there are many players involved in the production, transport and distribution of food donations, and therefore more than one business eligible to claim the tax incentive.

For example, Foodbank Australia procures and scales necessary inputs, such as grains, by aggregating individual donations from wide-ranging sources such as family farms. These donations are transferred to Foodbank’s National Grower Register (NGR) number, aggregated and sold digitally by a grain trader on behalf of Foodbank. Foodbank receives the profits of the sale, to then buy stocks of grain to be manufactured into staple products such as bread, pasta or cereals.

While the intermediary manufacturer does not take ownership of the goods, this participant donates necessary labour resources, production overhead, packaging and labelling to turn the products into final donations fit for human consumption. Business involved in this program include growers, traders, bulk handlers, millers, packaging companies, manufacturers and transport providers.¹⁵



This scenario was discussed at length with manufacturers, processors, as well as transport providers to understand whether they would be eager to scale their role in the food relief supply chain and claim a tax incentive for value added services provided to food relief charities even when they are not immediately donating goods themselves.

Stakeholders were informed based on the design of the proposed NFDTI that as long as they maintained a paper trail recording the volume and/or value of the ingredients, services or end-products they are donating within this chain, and verification of a direct link to a food relief charity via a receipt, they should be eligible to claim the NFDTI for the costs they incurred.

In this kind of scenario, the NFDTI may encourage multiple players to assist in manufacturing staple products and allow for the expansion of collaborative programs to create an even wider range of sources from which key inputs in demand by the food relief sector can be procured.

This was identified as an important use case for the NFDTI to be considered in implementation, particularly in the promotion and communication of the scheme to ensure businesses are aware of this kind of scenario.

¹⁵ Foodbank Australia, 2022, Grain Industry Collaboration

Key Areas for Further Consideration

Extension of the NFDTI to pet food and other non-food categories

The proposed NFDTI as designed is currently limited to food fit for human consumption which is provided to charities providing for people in need (i.e. registered charities designated as Public Benevolent Institutions ('PBI's) for tax purposes).

Pet Food

Consultation with business stakeholders and the food relief sector revealed that pet food is significantly in demand for donation, especially in times of emergency, and that pets play a critical role for the mental health of individuals in vulnerable communities. Numerous stakeholders also queried whether the incentive applies to pet food, with large food manufacturers typically having strong, pre-existing approaches to pet food donation with a range of charities.

Extending the incentive to pet food may help to reduce the waste of food that may not be considered fit for human consumption, however may be suitable for animals. The extension of the NFDTI to include pet food would require consideration including potentially broadening the scope of charities eligible to receive and verify donations (i.e. registered animal welfare charities which may not be PBIs). As discussed in Recommendations, consideration should be given to including the donation of pet food in the NFDTI for example, for pets in food insecure households.

Non-food categories

Consultation with business stakeholders also revealed that the provision of non-food items to people in need is also a key aspect of their donations, particularly in response to emergency appeals such as recent bushfires and flood events. On an ongoing basis, people in necessitous circumstances require items such as toiletries, hygiene, cleaning and laundry products, clothing, kitchenware, furniture, electrical and white goods. Many of these items are also a significant contributor to waste when disposed of in landfill sites.

Extending a tax incentive to such goods and services to transport these goods where they are needed by eligible charities providing for people in need in Australia would give rise to benefits from a humanitarian, environmental and economic viewpoint. Consideration should be given to the extension of the NFDTI to non-food items such as pet food and essential items donated via registered food relief charities for food insecure households.



The benevolent nature of food donations

It was found that the motivation to increase food donations sits largely in benevolent, cultural principles rather than a desire to improve bottom line. Many of the larger businesses interviewed highlighted that they typically donate as part of an existing Corporate Social Responsibility (CSR) or Environmental, Social and Governance (ESG) policy, and have food waste reduction targets in place.

Making the food relief sector more competitive compared to other avenues for repurposing or selling stock may depend on the relative financial return the NFDTI will provide, however, a major increase in food donation volumes outside of business-as-usual will likely occur more due to a cultural shift as opposed to financial motivations.

Large businesses indicated they often lack the capacity to increase food donation volumes given existing supply chain restrictions and the cost of funding existing food relief programs. However, the NFDTI could be reinvested by businesses to expand or streamline their existing food relief programs. The NFDTI would serve as a 'bonus' to what is considered as business-as-usual activity.

Similarly, smaller businesses voiced the importance of 'feel-good' and community aspects of donating food as opposed to financial returns.

Will the NFDTI lead to more food waste?

A key risk of the NFDTI previously flagged is its potential to increase food donations beyond the food relief sector's capacity. The question as to whether the promise of a tax credit or rebate could lead businesses to produce more waste in order to claim was discussed at length. This reasoning is derived largely from the traditional notion that the provision of an incentive acts as a mechanism to drive a certain behaviour, as opposed to reducing it.

Fortunately, a number of findings provided counter arguments to this risk. It was found that the amount a business is eligible to claim under the NFDTI was typically not substantial enough from an economic perspective to motivate a significant or unsustainable increase in additional food donations. While reporting processes discussed were relatively straightforward, businesses also insisted they would not wish to increase the administrative burden of claiming the NFDTI any further than what would be needed to claim the incentive for existing donation levels. As expected, all businesses indicated that while they were highly enthusiastic about the prospect of the NFDTI, above all their priority is to maintain lean operations that minimise waste and maximise first tier production.

These findings validate the overall objective of the NFDTI to reduce food waste to landfill, not to increase food relief donation volumes.

Is it likely food would be produced at a loss in order to claim the NFDTI?

A consistent theme in stakeholder consultations was that participation in food relief programs comes at a real economic cost, and benevolence is required to participate.

The tax offset arising under the proposed NFDTI does not amount to a full reimbursement of costs and producing at a loss to potentially claim the NFDTI would not make economic sense.

As such, the quantum of the incentive would not be at a level that would be expected to give rise to any abuse of the NFDTI.

What minimum volume or value of donations will be required to make the incentive worthwhile?

All businesses engaged were asked whether there is a de minimis claim they would need to make in order for leveraging the NFDTI to be worthwhile.

Some stakeholders were able to estimate a rough dollar figure of a maximum claim, however, most indicated that they would claim the incentive regardless of the amount they would receive back, given they are already donating the food. This means that while Government may look to place a cap on the maximum claim amount for the NFDTI, this would not likely impact the motivation of businesses to leverage the scheme.

Therefore, generally it was considered there should be no de minimis claim where eligible.

Whilst it is considered that the scheme should not necessarily require the inclusion of a cap for maximum claims, where policy costings required a cap potentially in order to ensure equitable access to the scheme, a maximum net NFDTI cap could be considered (for example \$10 million per annum for each participant).

What types of organisations can donations of goods and services be made to in order to be eligible to claim the NFDTI?

The proposed NFDTI as designed would be limited to donations of food for human consumption or related services provided to charities providing for people in need. That is, it is limited to registered charities designated as PBIs and DGRs for tax purposes.

Such organisations require additional regulatory oversight, governance standards and reporting requirements with the Australian Charities and Not-for-Profits Commission (ACNC) and the ATO.

What is the impact of the proposed NFDTI on statutory levies?

The impact of the proposed NFDTI on existing statutory or industry levy payment requirements was raised in some conversations with stakeholders. This would require further consideration, taking into account the application of particular food industry-specific levies. However, it would be expected that given the food is being donated rather than sold, even if a tax credit or rebate is received in return, a reasonably arguable position is that such levies should not be applied to food provided to charities.

How will food for human consumption as well as related services eligible for the proposed NFDTI be defined?

Under the proposed design of the NFDTI only the donation of food which is for human consumption as well as related services would be eligible for the incentive.

It is suggested that the definition of 'food' as contained in the A New Tax System (Goods and Services Tax) Act 1999 (GST Act) could be leveraged as a useful starting point.

Food is defined in the GST Act to mean:¹⁶

- food for human consumption (whether or not requiring processing or treatment);
- ingredients for food for human consumption;
- beverages for human consumption (which includes water);
- ingredients for beverages for human consumption;
- goods to be mixed with or added to food for human consumption (including condiments, spices, seasonings, sweetening agents or flavourings);
- fats and oils marketed for culinary purposes;
- any combination of the above.

¹⁶ Refer subsection 38-4(1) GST Act

However, it is noted that food as defined in the GST Act does not include:

- live animals (other than crustaceans or molluscs);
- unprocessed cows milk;
- any grain, cereal or sugar cane that has not been subject to any process or treatment resulting in an alteration of its form, nature or condition, or
- plants under cultivation that can be consumed (without being subject to further process or treatment) as food for human consumption.

For the purposes of the proposed NFDTI, taking into account collaborative supply arrangements between primary producers and food relief charities, it is submitted the exclusions from the definition of food for GST purposes would not be required for the purposes of the NFDTI. That is, it is submitted the definition of food should include items such as unprocessed grains and live animals.

For GST purposes, in determining whether an item will be considered food for human consumption, the Commissioner applies a marketing test.¹⁷ Food does not include food that is marketed for animals (for example, pet food) as it is not considered to be food for human consumption. Further, the Commissioner considers food that is unfit for human consumption, for example rotten vegetables is not food for human consumption.¹⁸

It is recommended further consultation on the definitional aspects of food for human consumption as well as the related services is undertaken as part of the design of the proposed NFDTI.

Which types of entities can claim the proposed NFDTI?

It is anticipated that the NFDTI would be limited to corporate entities operating in Australia, that is companies and public trading trusts which are taxed as companies with a corporate trustee. Individuals, corporate limited partnerships, trusts and exempt entities would not be eligible to claim the NFDTI.

It is recommended further consultation on the final design and implementation is required in this regard.

Where goods or services are provided to a charity in exchange for payment at below cost, can the proposed NFDTI be claimed?

During stakeholder consultation, a question was raised as to whether the proposed NFDTI could be claimed in respect of goods and services provided in exchange for payment below cost. It was identified that charities do sometimes purchase goods or services for nominal consideration.

It was considered the NFDTI should still be available where goods or services are provided to an eligible charity in exchange for payment at below cost. The NFDTI should be applied in respect of the net amount given being cost reduced by the consideration provided.

¹⁷ Refer ATO GST Industry Issues Food Industry Partnership Ruling paragraph 4

¹⁸ Refer ATO GST Industry Issues Food Industry Partnership Ruling paragraph 21



04.

Recommendations

A National Food Donation Tax Incentive

Recommendations

In addition to addressing the considerations discussed in Stakeholder Consultation Findings, a number of overarching recommendations have been developed through an implementation analysis of the proposed NFDTI. These have been developed in response to the overwhelming passion and enthusiasm expressed by businesses engaged across the food supply chain for the NFDTI's potential to drive meaningful cultural, environmental, and economic change.

The recommendations below refer largely to finalising the design of the proposed tax reform and supporting its implementation, extension and adoption to unlock the vast benefit and opportunity the NFDTI represents. Enclosed below are the tangible actions both Government and the food relief sector should consider capitalising on whole-of-sector demand for this scheme, and make the NFDTI a reality.

Realising the NFDTI

01.

Before implementing the NFDTI in full, additional work needs to be undertaken with Treasury and the Australian Taxation Office (ATO) will need to agree on the final costing, scope parameters, definitional aspects, reporting processes, legislative amendments required and other general administrative supporting processes of the NFDTI.

02.

The NFDTI should be implemented under its original scope applying to food fit for human consumption, with consideration given to an extension to cover pet food and essential grocery items only donated via registered food relief charities for food insecure households.

03.

From a reporting perspective, it is recommended that the NFDTI be claimed as part of the annual income tax return process, in line with the majority of stakeholder feedback.

Implementing the NFDTI

04.

Once the design of the NFDTI is finalised, the tax reform may be implemented by the Federal Government, in consultation with the food relief sector and all relevant stakeholders.

05.

In implementing the tax incentive, Government should consider developing an easy-to-use self-assessment calculator tool to ensure the NFDTI is accessible to all supply chain players, particularly given common capacity challenges, and to avoid unintended exploitation of the scheme.

06.

To support the reporting and substantiation of claims verification of the NFDTI, food relief charities will need to expand their receipt allocation processes to cover all donations, regardless of volume or value, as well as the donation of services. Further, for some businesses, upgrades to existing systems may be required to identify food and services which are eligible for the NFDTI.

Promoting the NFDTI

07.

It is recommended that further work be undertaken to re-engage the participants in this study who were enthusiastic to support the NFDTI's implementation. Select stakeholders should be tasked with acting as 'champions' of the NFDTI, promoting the scheme to their supply chain networks to support capacity building and making stakeholders aware of new pathways available to donate food.

08.

Communication campaigns developed to underpin the NFDTI's implementation should be focused on articulating the NFDTI's key differentiating factors from current Australian tax policy. This includes its application to the donation of services, its offer of a cash incentive for eligible small businesses, its application to both food relief and food rescue, and its inclusion of all supply chain participants.

Realising the National Food Donation Tax Incentive

01. Before implementing the NFDTI in full, some additional work needs to be undertaken with Treasury and the ATO to agree on the final costing, scope parameters, definitional aspects, reporting processes, legislative amendments required and other general administrative supporting processes of the NFDTI.

02. The NFDTI should be implemented under its original scope applying to food fit for human consumption, with consideration given to an extension to cover pet food and essential grocery items only donated via registered food relief charities for food insecure households.

03. From a reporting perspective, it is recommended that the NFDTI be claimed as part of the annual income tax return process, in line with the majority of stakeholder feedback.

While this study should provide the ATO with the confidence that businesses are ready, willing and able to self-assess the relative amounts they will be eligible to claim under the NFDTI, additional quantitative analysis in modelling the exact cost to Government will provide greater clarity on the NFDTI’s impact on Treasury’s balance sheet over the forward estimates period.

Specifically, this additional piece of work should substantiate the recommended answers to the following questions, or propose alternative solutions, to build on and validate the initial views proposed for these queries in the Key Areas for Further Consideration section.

01.
Should the scope of the scheme be extended to include products such as pet food and other non-food goods which are also important to people in need?

Recommendation:

In the first instance, we recommend that the NFDTI scope be extended to include eligibility for donations of pet food made only to registered food relief charities, allocated to pets in food insecure households. We recommend that only essential non-food groceries such as laundry or toiletry products are included in the NFDTI, only donated via registered food relief charities.

02.
Should a cap be placed on the scheme which sets a maximum value that businesses are allowed to claim?

Recommendation:

Whilst the scheme should not necessarily require the inclusion of a cap for maximum claims, where policy costings required a cap, a potential initial net NFDTI cap of \$10 million per annum for participants could be introduced.

03.
Should the incentive be based on the cost or market value of goods or services?

Recommendation:

The NFDTI should be based on the cost of goods or services provided. This is principally to avoid any uncertainty that may arise in relation to determination of market value and generally it would be expected cost would be lower than market value in any event.

Implementing the National Food Donation Tax Incentive

Australia's food system is ready, willing and able to use this incentive. This work has demonstrated whole-of-sector support for the initiative, with businesses at all stages of the supply chain able to envision a scenario in which the NFDTI could be leveraged.

The relevant systems are in place to allow businesses to claim a top-up incentive to increase the cost effectiveness of donating, allowing businesses who may have previously found donating too much of a burden to be engaged in the food relief sector. As Environmental Social Responsibility strategies continue to rise on the corporate agenda, for smaller players as well, there is a compelling proposition for businesses to be more active and vocal in the food relief space.

04. For this reason, it is recommended with certainty that once the design of the NFDTI is finalised, that the reform be implemented by the Federal Government, in consultation with the food relief sector and all relevant industry stakeholders.

This is due not only to its alignment with the current food waste ecosystem, and the vast demand by the food relief sector for greater support, but also due to the additional economic, social and environmental benefits the NFDTI offers to generate.

Develop a Self-Assessment Calculator

05. In implementing the tax incentive, Government should consider developing an easy-to-use self-assessment calculator tool to ensure the NFDTI is accessible to all supply chain players, particularly given common capacity challenges, and to avoid unintended exploitation of the scheme.

Particularly by smaller players, the importance that the incentive takes an accessible, easy-to-use form/claiming process was consistently emphasised. It is therefore recommended that a self-assessment calculator be developed as part of the NFDTI's implementation where users can quickly determine the amount they are eligible based on the production costs or market value of their goods at a given time. The provision of this kind of tool to enable businesses to make quick decisions is critical, particularly when dealing with highly perishable products and time-poor supply chain participants.

For example, using this would support workers on a fast-paced wholesale market or distribution centre floor to quickly evaluate whether it would be more cost effective to write off non-specification stock, allocate it to processing pathways or donate it to food relief. This would help address a common barrier discussed that separate to costs, often times supply chain participants lack the time or resources to make an informed decision on how to best dispose of excess or imperfect stock not fit for primary customers.

This recommendation will be particularly relevant for transport providers, where in the case that they have been deemed liable for product damages they are responsible to own the cost of disposing goods. It was reported that too often in this scenario transporters do not have the means to make a rapid assessment of whether transporting goods to food relief is cost effective as opposed to writing them off, as well as whether donation is feasible within timing and shelf-life constraints.

Support the Food Relief Sector to Strengthen their Receipting Process

Virtually the only viable means by which the claims of businesses under the NFDTI can be verified are through receipts received for donations from registered food relief charities. While the implementation analysis confirmed that in the majority of cases, businesses do receive a receipt, there were reports that receipts are not always issued for ad-hoc donations made to smaller charities. Implementing the NFDTI will require food relief organisations of all sizes to guarantee the provision of a receipt.

06. To support the reporting and substantiation of claims verification of the NFDTI, food relief charities will need to expand their receipt allocation processes to cover all donations, regardless of volume or value, as well as the donation of services. Further, for business some upgrades to existing systems may be required to identify food and services which are eligible for the NFDTI.

This will likely require food relief organisations to assess their own receipting and data recording behaviour to ensure consistency, rigour, and operational effectiveness in the process.

Receipt allocation also needs to be extended to the donation of services, such as transport, storage, and logistics. This would ensure intermediary supply chain participants that take part in collaborative supply programs can be included in the scheme.

Investment may be required by some food relief charities in enhanced record keeping to substantiate donations. In this regard, larger food relief charities already utilise technologies that automate receipt processes for donations of food.

Further, although businesses generally have existing processes for the identification of trading stock, some upgrades to existing systems may be required to identify food and services which are eligible for the NFDTI.

Upon initial consultation with some food relief charities, this recommendation was accepted as a necessary measure which charities are willing to take on in order to implement the NFDTI.



Promoting the National Food Donation Tax Incentive

Timing the Implementation Promotion, and Awareness Building of the Incentive

The timing of the NFDTI's implementation, marketing and general awareness building will need to be considered to ensure buy-in and uptake is not hindered by seasonal pressures, capacity challenges or other influences. Stakeholders raised the importance of considering the priorities of producers and manufacturers during busy periods such as peak harvest, for example, as seasonal pressures could influence reception of a new tax reform and willingness to leverage the NFDTI.

07. It is recommended that further work be undertaken to re-engage those participants in this study who were enthusiastic to support the NFDTI's implementation. Select stakeholders should be tasked with acting as 'champions' of the NFDTI, promoting the scheme to their supply chain networks to support capacity building and make stakeholders aware of new pathways available to donate food.

There is also strong opportunity to promote the scheme by empowering key supply chain participants and intermediaries to communicate its benefits throughout their networks. For example, select red meat processors indicated that while they do not generate substantial waste volumes themselves, they are eager to support the reduction of unnecessary waste amongst their customers and suppliers. Empowering such supply chain participants who have far-reaching views of their supply chain networks to promote the use of the NFDTI will be an important means of gaining endorsement for the scheme.

08. Communication campaigns developed to underpin the NFDTI's implementation should be focused on articulating the NFDTI's key differentiating factors from current Australian tax policy. This includes its application to the donation of services, its offer of a cash incentive for eligible small businesses, its application to both food relief and food rescue, and its inclusion of all supply chain participants.

Promoting the NFDTI's Differentiating Factors

In communicating the NFDTI across Australia's food systems, emphasis of the scheme's key differentiators from current food waste tax policy will be important. In some cases, stakeholder consultation indicated a lack of understanding of how the NFDTI differs from what can currently be claimed for food donations. While this report seeks to clarify these differences, broader extension of the NFDTI should stress above all, the following differentiators:

1. The ability for recipients to claim a tax deduction for on costs associated with the provision of **services** to charitable food relief organisations.
2. The ability for recipients under \$20 million annual aggregated turnover to claim a **refundable cash payment** for the costs incurred in donating food or related services.
3. The ability for recipients with annual aggregated turnover of \$20 million and over to claim a non-refundable tax offset for the costs incurred in donating food or related services.
4. The scope of the scheme to **include** both **food relief** and **food rescue**, providing a viable pathway for stock that may have otherwise been written off and disposed of.
5. The **inclusion** of **all supply chain participants** in the scheme who play a role in food relief donations, from production through to final sale.

It is recommended that communication campaigns developed to underpin the NFDTI's implementation are focused on the articulation of these key points, which reflect how the proposed reform is different to the current state of Australian food waste tax policy.



05. Appendices

Appendix 1: Extended Areas for Consideration

Should the Threshold for Annual Aggregated Turnover be Adjusted?

While close to no businesses engaged disagreed with the \$20 million annual aggregated turnover threshold for refundable versus non-refundable NFDTI claims around which the scheme has been designed. The turnover limit that defines a small business may still need further consideration and modelling given there are varying small business turnover thresholds in other areas of the tax law.¹⁹

Most stakeholders engaged were confident their business would claim the NFDTI regardless of their turnover bracket, however increasing the annual aggregated limit, for example to \$50 million, may encourage greater participation from more mature 'small businesses' and support them with a refundable cash incentive.

More quantitative analysis may be needed to understand the median or average turnover of all Australian food businesses who may seek to leverage the NFDTI, and therefore how this will impact the direct cost of the scheme to government in both cash rebates and tax credits.

Are Different Reporting Mechanisms Needed for Different Sized Businesses?

The annual income tax return was indicated as the preferred reporting mechanism amongst the majority of stakeholders with a disclosure of the NFDTI claim. However, there was some support particularly from smaller businesses in claiming the proposed NFDTI through the BAS on a quarterly basis to facilitate earlier payment of cash refunds where eligible.

The potential for a more detailed reporting mechanism for claimants, for example, lodgement of an additional form containing a further breakdown of the cost of food or services donated could be considered. However, the administration costs of a 'more laborious' reporting mechanism with additional red tape could arguably limit the ability of some stakeholders to participate in the scheme.

Reporting mechanisms for charitable entities in receipt of goods and services subject to the NFDTI could also be explored particularly where the ATO required data matching of claims as part of the NFDTI implementation.

An area recommended for further exploration is whether different reporting obligations should be required depending on the relative size of a claim and the relative size of a business attempting to claim.

¹⁹ See for example section 328-110 of the ITAA 1997 (small business entity is defined as having aggregated turnover of less than \$10 million). Certain concessions define a small business entity as having aggregated turnover of less than \$50 million including the simplified trading stock rules (refer section 328-285 of the ITAA 1997), Pay-As-You-Go instalments concession immediate deduction for certain prepayment expenses (refer section 82KZM of the ITAA 1936), two year amendment period for small business (refer section 170 of the ITAA 1936), as well as GST concessions (under the A New Tax System (Goods and Services Tax) Act 1999) and Fringe Benefits Tax concessions (under the Fringe Benefits Tax Assessment Act 1986). The small business income tax offset applies an aggregated turnover threshold of \$5 million (refer Subdivision 328-F) and the small business capital gains tax concession applies a turnover threshold of \$2 million (refer Division 152 of the ITAA 1997).

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