Australian International Development Network

Protecting Australian charitable giving through discretionary trusts and DGR reform: AIDN's response to Treasury's proposed discretionary trust reforms.

30 July 2026

About AIDN

AIDN's primary purpose is to advocate for more and better international giving and investing from Australians. We encourage collaboration, highlight the good and urgent work being done in the sector, and foster an environment for the exploration of what "more" and "better" giving means today. We do this through coordinating, encouraging and facilitating initiatives between the private sector, corporate, government, philanthropists and investors ultimately leading to greater international engagement from Australia.

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Executive Summary

On 12 May 2026, the Australian Federal Budget 2026-27 was released. This included a proposed minimum rate of tax on capital gains to 30 per cent and a minimum 30 per cent tax on distributions from discretionary trusts.

In July 2026, the Australian Government and Treasury commenced a consultation process on the implementation of the proposed minimum tax on discretionary trusts, including how to handle distributions to charities.

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In line with Philanthropy Australia, in this policy submission, AIDN raises concerns in relation to the impact of proposed changes to the taxation of discretionary trusts on Australian philanthropy. While we agree with the Government's objective for fairer taxation, we recommend:

- Distributions from discretionary trusts to registered charities be exempt from the proposed minimum tax;
- Alternatively, tax credits attached to charitable distributions be refundable;
- The Government also uses this consultation as an opportunity to progress broader DGR reform consistent with the 2025 Productivity Commission's recommendations.

These reforms would be in line with the Australian Government's own objective to double philanthropic giving by 2030.

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Policy Submission

The 2026–27 Federal Budget proposed a minimum 30 per cent tax on distributions from discretionary trusts. The Treasury is now consulting on the implementation of these reforms, including how distributions to charities should be treated.

The Treasurer’s media release announcing the consultation process provided background on the purpose of the minimum tax: “These reforms are all about making the tax system fairer by better aligning the tax rate on trust income with tax rates paid by workers, and will help fund income tax cuts for workers... Discretionary trusts allow some people to plan their tax affairs in ways that aren’t available to most Australians”.

AIDN supports the Government's objective of improving the fairness of Australia's taxation system. However, AIDN also wishes to highlight that discretionary trusts are often used to provide vital support to registered charities for the benefit of the community, including the international community.

Income from the assets within a discretionary trust must be distributed out every year to beneficiaries, otherwise the income remaining is subject to the highest marginal tax rate. These proposed reforms would mean that a 30 per cent tax would be levied on the income from assets held by the trust, before it is distributed out to beneficiaries. Without some form of deduction or exemption, the proposed reforms would in effect impose a 30 per cent tax on distributions to charities, including those with Deductible Gift Recipient (DGR) status. This would reduce Australian charitable giving through discretionary trusts and impact the flow of funds for urgent and vital causes in the community, including international causes.

Although tax offsets will be provided to beneficiaries to reflect the tax paid, income-exempt beneficiaries, such as registered charities, would not be able to use these offsets as they do not have income tax liability. Moreover, the offsets are currently proposed to be non-refundable. Whether an individual donates to a charity with DGR status or a discretionary trust makes a distribution – both should benefit from a deduction (provided a donation or distribution meets the requirement for being a gift).

This issue could be avoided by providing minimum distribution rate income tax exemptions for all distributions to registered charities. Alternatively, it could be specified that the tax offsets attached to any distribution to such entities are refundable.

For the many Australian charities which do not have DGR status, the Government may also wish to consider allowing discretionary trusts to make tax deductible distributions to non-DGR charities and other not-for-profit organisations, up to an annual cap (for example of $2000, $4000 or some other amount per year). Many Australian charities do not have DGR status due to the ongoing complexity and onerous nature of the system, as will be further discussed below.

DGR Reform

The current consultation also highlights a broader structural issue within Australia's charitable taxation framework. In line with Philanthropy Australia, we believe that these proposed changes once again highlight the need for wider and urgent reform to Australia's Deductible Gift Recipient (DGR) system. We remain concerned that the Australian Government is not prioritising comprehensive reform of the DGR system.

As outlined in AIDN's 2025 Giving Funds policy submission and 2026 Giving Funds Policy Reform Response, AIDN will continue to support the 2025 Productivity Commission's centrepiece recommendation that the DGR system needs to be reformed (Philanthropy Australia 2025). There is a need to simplify, streamline and reform the process for charities to be granted DGR status. At present, it is onerous and complex, particularly for smaller charities with less governance and administrative capacity. Implementing DGR system reform, in line with what was recommended by the Productivity Commission, would expand the scope of the DGR system and also simplify its operation, cut red tape and make more charities eligible for tax deductible donations.

Conclusion

The Australian Government has a stated objective to double giving by 2030. While we appreciate that significant taxation is a challenging undertaking, we believe that these proposed changes to discretionary trusts will have an unintended detrimental impact on the flow of financial support for Australian charities.

In the context of global aid cuts, climate change, increasing poverty, instability and inequality, AIDN believes we must safeguard the role that discretionary trusts can play in fostering “more” and “better” giving from Australians to both domestic and international causes. Exempting distributions to registered charities or making associated tax offsets refundable could both achieve this objective and allow the Government to pursue its broader taxation objectives. At the same time, this consultation provides an important opportunity to progress overdue DGR reform and strengthen the foundations of Australia’s philanthropic ecosystem.

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