



everyone's family

**Submission on the
*Exposure Draft: Tax and Superannuation
Laws Amendment (2015 Measures No 4)
Bill 2015: Limiting FBT concessions on
salary packaged entertainment benefits***

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Introduction

The Smith Family is cognisant of the need for tax reform in Australia, in order to ensure longer-term Budget sustainability for all governments and so that adequate resources are available for the range of necessary functions, infrastructure and services required now and into the future. While acknowledging the need for such reform, The Smith Family is also mindful of some of the complexities and challenges inherent in this.

This short submission outlines the likely impact on our clients, staff and organisation, of the proposed changes to Fringe Benefit Tax (FBT) concessions. In light of this impact it recommends modest but important changes to what is proposed.

Recommendation 1

That the new single cap for salary sacrificed meal entertainment and entertainment facility leasing benefits be \$5,000 pre-grossed up, rather than the proposed grossed up cap.

Recommendation 2

That current Fringe Benefit Tax concession arrangements which allow staff to package benefits with a grossed up taxable value of \$30,000 be retained.

Recommendation 3

That current reporting requirements relating to Fringe Benefit Tax concession arrangements be retained and not expanded to include meal and accommodation benefits.

The Smith Family

Our mission

Central to understanding the impact of the proposed changes on The Smith Family is understanding its organisational mission and way of operating. The Smith Family's mission is to create opportunities for young Australians in need by providing long-term support for their education. We are a national charity with Deductible Gift Recipient status and have provided support to children, young people and families for over 90 years.

The Smith Family is Australia's largest education-oriented charity and delivers programs in 94 communities across all states and territories. In 2013 we supported over 134,000 disadvantaged children, young people and their families. This included over 15,500 from Aboriginal and Torres Strait Islander backgrounds.

Our largest program, *Learning for Life*, includes providing a long-term educational scholarship for disadvantaged children and young people. In line with our mission, we are working to improve three key longer-term outcomes for the young people we support, namely: school attendance, school completion and engagement in employment, education or training post-school. Improving the educational outcomes of disadvantaged children and young people is the most cost effective way of breaking the cycle of long-term disadvantage and welfare dependency. Our mission and work is therefore clearly of benefit not only to the young people and families we support, but also to the Australian community as a whole and governments at all levels.

Given that there are over 600,000 children and young people living in a jobless household, there is significant unmet need for our programs and we have an aspiration to support more disadvantaged children to improve their educational outcomes.

Our way of operating

Our extensive cross-sectoral partnerships are key to our ability to efficiently deliver programs at scale across Australia. These partnerships include 137 corporates, 73 Trusts and Foundations, 25 universities and numerous non-government organisations. We also have partnerships with over 500 schools. These partnerships are complemented by close to 8,000 volunteers who support our work.

Our finances

Our annual net revenue in the 2013-14 financial year was approximately \$81 million. This was a 7% increase on 2012-13. It also enabled a 20% increase in the number of children, young people, parents/carers and community professionals that we supported in 2013-14.

The sources of our 2013-14 revenue were:

- \$47 million from donations, corporate support and bequests: \$33.3 million of this was from individuals through public contributions; \$10.3 million from corporate partners, universities and trusts and foundations; and \$3.4 million from bequests.
- \$26.1 million from government.

- \$3.3 million surplus from our recycling operation and other commercial activities. These activities make a significant contribution to offsetting our administrative costs.
- \$1.1 million net contribution from the VIEW (Voice, Interests and Education of Women) Clubs
- \$3.4 million from investments and other income.

In 2013-14, 83 cents in every dollar donated was spent on The Smith Family's community programs. We have modest reserves accumulated over a number of years, which are subsequently invested in initiatives which build organisational capability and ensure we are compliant with legislative and compliance requirements. They are also used to reduce organisational risk.

In summary, we are a mission-focused organisation and our purpose is of significant public benefit. We raise significant funds from non-government sources and are both a highly effective and efficient organisation, which is significantly contributing to the wellbeing of thousands of disadvantaged children and young people, as well as the nation as a whole. Proposed changes to tax concession arrangements should take into account their impact on such organisations, given the contribution these organisations are making.

Our staff

The Smith Family employs 488 Full Time Equivalent (FTE) staff across its community programs and recycling enterprise. Three hundred and eighty four FTE staff are employed in our community programs and 104 FTE in the recycling enterprise. The table below identifies the modest annual base salary of significant proportions of The Smith Family staff, across the two parts of the organisation.

Table 1

Community programs	
Average hours per fortnight	68.2
Average annual base salary (FTE)	\$58,012
Recycling operations	
Average hours per fortnight	65.28
Average annual base salary (FTE)	\$43,029

Current and proposed changes to FBT concessions

The vast majority of The Smith Family staff avail themselves of the current Fringe Benefit Tax concessions arrangements, which allow them to package benefits with a grossed up taxable value of \$30,000. This concession, introduced around 15 years ago, and which has not been indexed since that time, is **critical** to our capacity to employ appropriately trained and skilled staff in the general market

place. In our community programs for example, potential sectors for recruitment include government and education, both of which remunerate significantly above the salary levels identified in Table 1. A community program staff member on an annual salary of \$58,012 who chooses to use the Fringe Benefits Tax concession receives additional disposable income of \$5,285, while the recycling staff member on \$43,029 receives an additional \$4,153 in disposable income.

The Smith Family uses this concession to enable market based recruitment at a lower cost to the organisation. It does not necessarily result in remuneration parity for our employees with sectors such as government and education, but it serves to reduce the difference between them. Without this concession we would not be able to attract and retain, the number and quality of staff required to achieve our mission of improving the educational outcomes of disadvantaged children and young people. Without this concession we would not be able to support the numbers of disadvantaged children and young people we currently do. This concession is also critical for our capacity to support more young people in the future.

The Smith Family welcomes the fact that the current FBT arrangements will continue.

Recommendation

That current Fringe Benefit Tax concession arrangements which allow staff to package benefits with a grossed up taxable value of \$30,000 be retained.

In addition to the above benefit, in November 2014, after careful consideration, The Smith Family made the not-for-profit meal accommodation and venue hire benefits available to staff. As part of that consideration, The Smith Family voluntarily chose to cap the benefit at \$25,000. The meal benefit is capped at \$10,000. The organisation saw this as a principled way of enhancing staff remuneration.

Currently 131 employees utilise the meal entertainment benefit and 70 employees have accessed the accommodation and venue hire benefit. This suggests that these benefits are welcomed by a significant proportion of staff (over a quarter), even though a relatively short period of time has elapsed since the benefit was introduced within The Smith Family. It also suggests that within The Smith Family **it is not just staff on higher salaries who utilise this benefit**, as suggested in the Explanatory Materials.

The proposed changes to the meal and accommodation benefits outlined in the Exposure Draft and Explanatory Materials, would see a grossed up cap of \$5,000 applying in combination across both benefits. It would also result in this becoming part of an employee's reportable fringe benefits total.

As a result of the benefit becoming reportable, there may be an impact on some of our employees' level of access to other government benefits and it may also increase the amount of any applicable Higher Education Loan Program (HELP) debt that is repayable each year. This is within the context of the modest salaries earned by staff, as outlined in Table 1.

The complexity of Australian tax arrangements for individuals, including the relationship with a range of other payments and benefits, such as HELP and Family Tax Benefits, is likely to create significant uncertainty for many of our staff. The proposed changes are likely to result in staff feeling the need to seek independent taxation advice, in order to both understand the implications of the changes and to determine their best course of action. This will involve additional costs and a level of red tape which is not currently required.

The change to reporting arrangements will also create an additional administrative and compliance burden on The Smith Family. This is in the context of the Government's significant efforts to reduce red tape across all areas of activity.

Recommendation

That current reporting requirements relating to Fringe Benefit Tax concession arrangements be retained and not expanded to include meal and accommodation benefits.

While from a legislative perspective these may seem 'small changes' as described in the Explanatory Materials (p. 18), The Smith Family sees them as significant. Given the proportion of our staff who avail themselves of these benefits and the significant reduction from what can currently be accessed within the limits of our policy and what is proposed, these changes will have a considerable financial impact on a significant proportion of our staff.

In combination, these changes may contribute to some staff members reviewing their employment with The Smith Family, as well as making it more difficult to recruit new staff from other sectors. Recruiting high quality staff is critical if The Smith Family is to achieve its mission to improve the educational outcomes of disadvantaged children and young people.

The Smith Family is not in a financial position to consider 'compensating' for these changes to staff's total remuneration package, without negatively impacting on the number of children and young people we support each year and/or the quality of that support. The quality of our programs is heavily influenced by the quality and number of staff we are able to employ. We do not want to be in the invidious position of having to choose between maintaining the quality of our programs, *or* reducing the number of children and young people we support. Either of these options is very unpalatable, given the current demand and unmet need for our programs. The proposed change of limiting the grossed up value of all entertainment benefits to \$5,000 makes this a possibility.

The Smith Family sees these changes as unnecessarily harsh, given the current modest remuneration of staff within our sector and the principled way in which we have implemented these benefits to date.

Recommendation

We therefore strongly urge a modest but important modification to the proposed changes, namely that the new single cap for salary sacrificed meal entertainment and entertainment facility leasing benefits be \$5,000 pre-grossed up, rather than the proposed grossed up cap.

This recommendation is in line with the stated policy intent of the Commonwealth Government, namely to 'improve the integrity of the tax system by introducing a limit on the use of these benefits'. http://www.budget.gov.au/2015-16/content/bp2/html/bp2_revenue-07.htm

It will also raise additional revenue for the Commonwealth, although less than the \$295 million over the forward estimates period (2015/16 to 2018/19) indicated in the 2015-16 Budget papers. http://www.budget.gov.au/2015-16/content/bp2/html/bp2_revenue-07.htm

Importantly, it will lessen the severity of the impact of the proposed changes on the capacity of organisations such as The Smith Family to both recruit the high quality staff needed to achieve its mission and continue to support large numbers of disadvantaged young people

Conclusion

FBT concessions are critical to enabling The Smith Family to recruit and retain the quality of staff required to fulfil its mission. It also provides 'savings' to the organisation which are then used to contribute to achieving the social good of improving the educational outcomes of disadvantaged children.

The Smith Family has recently introduced the meal and accommodation benefits in a principled way and this has been welcomed by staff as a means of complementing modest annual salaries. Proposed changes to these arrangements would negatively impact on some staff and increase compliance arrangements.

The recommended modification to these proposed changes is in line with the Government's policy intent while simultaneously reducing some of the negative impacts on organisations like The Smith Family, its staff and importantly, the disadvantaged children, young people and families it supports.