



*everyone's family*

# Re think tax: Discussion paper Submission

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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 by Australia, now and into the future. This includes sufficient investment in human capital development, which is key to Australia's economic and social wellbeing. 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 focuses on chapter 7 of the *Rethink tax* discussion paper, which deals with the not-for-profit sector. It will outline how current arrangements impact on our organisation. While there are also potentially many implications of tax reform for the low income and disadvantaged families who The Smith Family supports, we will leave such analysis and commentary to others.

## The Smith Family

### Our mission

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 children and young people. The scholarship can begin in the first year of school and continue right through school and tertiary education. Our students attend disadvantaged schools in disadvantaged communities and analysis shows that as a group, they are more disadvantaged than their peers in the same school. Data clearly shows we are targeting children, young people and families who, if not supported, are likely to have poor educational outcomes.

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

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.

### **Our way of operating**

Key to efficiently delivering our programs at scale across Australia, are our extensive cross-sectoral partnerships. These include 137 corporate partners, 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 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 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, ensure we are compliant with legislative and compliance requirements and are 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. Current and potential taxation arrangements should take into account their impact on such organisations given the contribution they 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

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

### Current taxation arrangements that impact on The Smith Family staff

Under current Fringe Benefits Tax concessions available to not-for-profits, Smith Family staff are able to package benefits with a grossed up taxable value of \$30,000. The vast majority of staff avail themselves of this opportunity.

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 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 importantly 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.

In addition to the above benefit, in November 2014, after careful consideration, The Smith Family made the not-for-profit meal entertainment and accommodation and venue hire benefits available to staff. As part of that consideration, The Smith Family voluntarily chose to cap the meal benefit at \$10,000 and the accommodation and venue hire benefit at \$25,000. 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. Twenty three team members package between \$5,000 and \$10,000 for the meal benefit and to date, the average claim per person over the seven month period for the accommodation benefit has been \$2,930. This suggests that these benefits are welcomed by many staff, even though a relatively short period of time has elapsed since the benefit was introduced within The Smith Family.

The Smith Family notes that the 2015-16 Federal Budget has indicated that from 1 April 2016, arrangements relating to the meal and accommodation benefits will significantly change, with a grossed up cap of \$5,000 applying in combination across both benefits. This will have a considerable financial impact on some of our staff who currently avail themselves of these benefits within the policy limits imposed by The Smith Family.

The Federal Budget change will also see this benefit becoming reportable on individual staff members' Employment Payment Summaries. As a result, this may impact on some 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. 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.

There will also be an additional administrative and compliance burden imposed on The Smith Family, given that the benefits will now need to be reported on. 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.

### **Other current arrangements that impact on our organisation**

The other current major tax arrangements that impact on the operation of The Smith Family are payroll tax exemptions and DGR arrangements. The former provides a significant saving to The Smith Family and we could not support the number of children and young people that we do without this exemption.

As an organisation that raises millions of dollars each year from non-government sources, DGR arrangements are critical to our capacity to secure these funds and in turn utilise them to improve the educational outcomes of disadvantaged children and young people. DGR status is a key contributor to the Government's understandable desire to increase philanthropy at all levels of Australian society.

### **Conclusion**

This submission has focussed on a small number of current and proposed taxation arrangements which impact on the operation of a mission-focused, effective national charity whose work is of significant public benefit to Australia. Current arrangements such as 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 from 1 April 2016 will negatively impact on some staff and increase compliance arrangements.

Payroll tax concessions and DGR arrangements are also critical for The Smith Family being able to achieve its mission.

There are significant numbers of additional disadvantaged children and young people who would benefit from the work of The Smith Family, and this in turn would be of public benefit to Australia as a whole. It is therefore in the national interest that tax reform seeks to **enhance** the capacity of organisations such as The Smith Family to deliver on their mission and contribute to the economic and social wellbeing of Australia.