



A Good Beginning
for Every Child

Not-for-Profit Sector Tax Concession Working Group – Discussion Paper

Good Beginnings Australia Comments

Submission: December 2012



Not-for-Profit Sector Tax Concession Working Group

*Fairer, simpler and more effective tax concessions for
the not-for-profit sector*

Discussion Paper

DISCUSSION QUESTIONS

Income Tax Exemption and Refundable Franking Credits

1. What criteria should be used to determine whether an entity is entitled to an income tax exemption?
2. Are the current categories of income tax exempt entity appropriate? If not, what entities should cease to be exempt or what additional entities should be exempt?
3. Should additional special conditions apply to income tax exemptions? For example, should the public benefit test be extended to entities other than charities, or should exemption for some types of NFP be subject to different conditions than at present?
4. Does the tax system create particular impediments for large or complex NFP's?
5. Should other types of NFP's also be able to claim a refund of franking credits?
6. Should the ability of tax exempt charities and DGR's to receive refunds of franking credits be limited?
7. Should the ATO endorsement framework be extended to include NFP entities other than charities seeking tax exemptions?
8. Should the income tax exemptions for State, Territory and local government bodies be simplified and consolidated into the ITAA 1997? Which entities should be included?
9. Should the threshold for income tax exemptions for taxable NFP clubs, associations and societies be increased? What would a suitable level be for an updated threshold?
10. Please outline any other suggestions you have to improve the fairness, simplicity and effectiveness of the income tax exemption regime, having regard to the terms of reference?

Deductible Gift Recipients

11. Should all charities be DGR's? Should some entities that are charities (for example, those for the advancement of religion, charitable child care services, and primary and secondary education) be excluded?
12. Based on your response to Q11, should charities endorsed as DGR's be allowed to use DGR's funds to provide religious services, charitable child care services, and primary and secondary education?
13. Would DGR endorsement at the entity level with restrictions based on activity address the behavioural distortions in Australia's DGR framework? Could unintended consequences follow from this approach?

14. IF DGR status is extended to all endorsed charities, should this reform be implemented in stages (for example, over a period of years) in line with the PC's recommendations, or should it be implemented in some other way?
15. Would a fixed tax offset deliver fairer outcomes? Would a fixed tax offset be more complex than the current system? Would a fixed tax offset be as effective as the current system in terms of recognising giving?
16. Would having a two tiered tax offset encourage giving by higher income earners?
17. What other strategies would encourage giving to DGR's especially by high income earners?
18. Should testamentary giving be encouraged through tax concessions and what mechanisms could be considered to address simplicity, integrity and effectiveness issues?
19. Would a clearing house linked to the CAN Register be beneficial for the sector and public?
20. Are there any barriers which could prohibit the wider adoption of workplace giving programs in Australia? Is there anything the Working Group could recommend to help increase workplace giving in Australia?
21. Do valuation requirements and cost restrict the donation of property? What could be done to improve the requirements?
22. Is there a need to review and simplify the integrity rules?
23. Are there additional barriers relevant to increasing charitable giving by corporations and corporate foundations? Is there anything the Working Group could recommend to help increase charitable giving by corporations and corporate foundations?
24. Are the public fund requirements, currently administered by the ATO, either inadequate or unnecessarily onerous?
25. Are there any possible unintended consequences from eliminating the public fund requirements for entities that have been registered by the ACNC?
26. Should the threshold for deductible gifts be increased from \$2 to \$25 (or to some other amount)?
27. Outline any other suggestions you have to improve the fairness, simplicity and effectiveness of the DGR regime, having regards to the terms of reference.

Fringe Benefit Tax Concessions

28. Assuming that the current two tiered concessions structure remains (See Part B), what criteria should determine an entity's eligibility to provide exempt benefits to its employees?
29. Also assuming that the current two tiered concessions structure remains (see Part B), what criteria should determine an entity's eligibility to provide rebateable benefits to its employees? Should this be restricted to charities? Should it be extended to all NFP entities? Are there any entities currently entitled to the concessions that should not be eligible?
30. Should there be a two tiered approach in relation to eligibility? For example, should all tax exempt entities be eligible for the rebate, but a more limited group be eligible for the exemption?
31. Should salary sacrificed meal entertainment and entertainment facility leasing benefits be brought within the existing caps on FBT concessions?
32. Should the caps for FBT concessions be increased if meal entertainment and entertainment facility leasing benefits are brought within the caps? Should there be a separate cap for meal entertainment and entertainment facility leasing benefits? If so, what would be an appropriate amount for such a cap?

33. Are there any types of meal entertainment or entertainment facility leasing benefits that should remain exempt/rebateable if these items are otherwise subject to the relevant caps?
34. Should there be a requirement on eligible employees to deny FBT concessions to employees that have claimed a concession from another employer? Would this impose an unacceptable compliance burden on those employers? Are there other ways of restricting access to multiple caps?
35. Should the rate for FBT rebates be re-aligned with the FBT tax rate? Is there any reason for not aligning the rates?
36. Should the limitation on tax exempt bodies in the minor benefits exemption be removed? Is there any reasons why the limitation should not be removed?
37. Is the provision of FBT concessions to current eligible entities appropriate? Should the concessions be available to more NFP entities?
38. Should FBT concessions (that is, the exemption and rebate) be phased out?
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41. Should FBT concessions be limited to non-remuneration benefits?
42. IF FBT concessions are to be phased out, or if concessions were to be limited to non-remuneration benefits, which entity types should be eligible to receive support to replace these concessions?

Goods and Services Tax Concessions

43. Does the existing fundraising concession create uncertainty, or additional compliance burdens, for NFP entities that wish to engage in fundraising activities that fall outside of the scope of the concession?
44. Would a principles-based definition of the types of fundraising activities that are input taxed reduce the compliance burden for entities that engage in fundraising?
45. Should current CG concessions continue to apply for eligible NFP entities?
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48. If an opt-in arrangement is favoured, would the preference be to treat the supplies as taxable or input taxed? Why?
49. Is there an alternative way of reducing the compliance burden associated with apportionment for supplies made for nominal consideration?

Mutuality, Clubs and Societies

50. Should the gaming, catering, entertainment and hospitality activities of NFP clubs and societies be subject to a concessional rate of tax, for income greater than a relatively high threshold, instead of being exempt?
51. What would be a suitable threshold and rate of tax if such activities were to be subject to tax?
52. Should the mutuality principle be extended to all NFP member-based organisations?
53. Should the mutuality principle be legislated to provide that all income from dealings between entities and their members is assessable?
54. Should a balancing adjustment be allowed for mutual clubs and societies to allow for mutual gains or mutual losses?
55. Is existing law adequate to address concerns about exploitation of the mutuality principle for tax evasion? Should a specific anti-avoidance rule be introduced to allow more effective action to be taken to address such concerns?

Next steps

56. Are there any areas in which greater streamlining of concessions could be achieved?
57. Do you have any ideas for reform of NFP sector tax concessions with the terms of reference that have not been considered in this discussion paper?

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GOOD BEGINNINGS AUSTRALIA COMMENTS

Context

Good Beginnings is a national small/medium size charity that provides early intervention and parenting support programs across every State and Territory in Australia. The feedback that has been provided stems from a fundamental support of the Not-For-Profit (NFP) Sector reform and reduction in red tape. It is widely recognised that there are and will be stages to the implementation of reform and Good Beginnings is most willing to play a part in progressing the small/medium organization engagement in implementation. In particular Good Beginnings can provide a unique view due to its national positioning and understanding of the challenges at each State and Territory level.

As is consistent with regulation in many areas across Australia, the impost of varying regulations at a state level is felt most keenly by small to medium organisations that don't have the capacity of larger ones to absorb varying standards. Good Beginnings considers that these responses propose a level of regulation that can provide the public with confidence in the operation of a charity, while not imposing unnecessary 'red tape' on the smaller organisations that can least afford it. This 'red tape' takes resources away from the key outcomes that the charity is working towards.

This response provides feedback on the Not-for-Profit Sector Tax Concession discussion paper in the context of a small-medium size organisation with a national footprint. It should be noted that comments are made from the perspective of the lived experience of such an organisation without detailed expertise in tax and other law. For this reason Good Beginnings also supports any submission from the Community Council for Australia which has consulted extensively on this issue.

For the purpose of transparency and context of the feedback made, Good Beginnings Australia Ltd is a Public Benevolent Institution with access to GST and FBT concessions, is income tax exempt and is endorsed as a Deductible Gift Recipient (DGR).

Discussion Question Feedback

Income Tax Exemption and Refundable Franking Credits

Consultation question:

1. What criteria should be used to determine whether an entity is entitled to an income tax exemption?
2. Are the current categories of income tax exempt entity appropriate? If not, what entities should cease to be exempt or what additional entities should be exempt?
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7. Should the ATO endorsement framework be extended to include NFP entities other than charities seeking tax exemptions?
8. Should the income tax exemptions for State, Territory and local government bodies be simplified and consolidated into the ITAA 1997? Which entities should be included?
9. Should the threshold for income tax exemptions for taxable NFP clubs, associations and societies be increased? What would a suitable level be for an updated threshold?
10. Please outline any other suggestions you have to improve the fairness, simplicity and effectiveness of the income tax exemption regime, having regard to the terms of reference?

For small organisations, seeking to navigate through the myriad of requirements under varying legislation is difficult, time consuming and at times no doubt results in inadvertent errors. For this reason Good Beginnings would advocate a simplified approach that provides clear guidance on the tax exempt status. A test of public benefit may be the best approach to such simplification, with all exemptions administered by the Australian Charities and Not-for-Profit Commission (ACNC). This provides a 'one-stop-shop' location for checking, assessment and information. A separate body to the Australian Tax Office also avoids creating perceptions of unfairness with the tax collector also determining the outcome.

Good Beginnings is of the view that all income tax exempt bodies should be endorsed, and proposes one way to minimize the additional compliance requirements would be to align recognition with membership of a peak body. For example, the local Football club does not need to seek individual exemption provided that they meet the membership requirements of the State/National Association, and that Association has been granted an exemption recognition status.

Deductible Gift Recipients

Consultation questions

11. Should all charities be DGR's? Should some entities that are charities (for example, those for the advancement of religion, charitable child care services, and primary and secondary education) be excluded?
12. Based on your response to Q11, should charities endorsed as DGR's be allowed to use DGR's funds to provide religious services, charitable child care services, and primary and secondary education?
13. Would DGR endorsement at the entity level with restrictions based on activity address the behavioural distortions in Australia's DGR framework? Could unintended consequences follow from this approach?
14. IF DGR status is extended to all endorsed charities, should this reform be implemented in stages (for example, over a period of years) in line with the PC's recommendations, or should it be implemented in some other way?

It would seem simplest to apply a public benefit test for both income tax exemption and DGR status; however it is acknowledged that this approach may end up excluding existing charities, depending on the specifics of the public benefit test.

Good Beginnings would exercise some caution in providing DGR status to providers of services such as primary / secondary education and child care services where a substantial private benefit is obtained. Similarly clubs with members' only benefits should not have access to DGR status. In both these circumstances Good Beginnings is of the view that DGR status is unlikely to substantially change public contributions.

Operating in socio-economically disadvantaged areas Good Beginnings endorses the principles of equal access to education for all. It is Good Beginnings' experience that donations to education providers in these areas tend to be lower, leaving already disadvantaged areas with access to fewer resources. The proposed Gonski review model whereby a leadership fund is established may address this issue if the DGR benefit is attached to the leadership fund only and not to individual schools. Caution should be exercised that the fund distribute resources based on a formula that considers the need for long term support as many activities cannot succeed with short term project based funding. Good Beginnings has been working in Claymore in Sydney's south west, (one of the 10 lowest SEIFA areas in Australia) for three years (philanthropic funding) and is only now becoming accepted by the community because there is confidence that services are 'here to stay'.

15. Would a fixed tax offset deliver fairer outcomes? Would a fixed tax offset be more complex than the current system? Would a fixed tax offset be as effective as the current system in terms of recognising giving?
16. Would having a two tiered tax offset encourage giving by higher income earners?
17. What other strategies would encourage giving to DGR's especially by high income earners?
18. Should testamentary giving be encouraged through tax concessions and what mechanisms could be considered to address simplicity, integrity and effectiveness issues?

The design of any tax concession structure should encourage giving at all levels of income, not just high income earners. It is Good Beginnings view that growth in giving could be simply encouraged by promoting workplace giving. Making workplace giving available to all workers is a way to achieve a tax effective, efficient system that encourages giving from all workers. One of Good Beginnings biggest supporters (Collins Foods Group – KFC and Sizzler brands) employs mainly young, lower paid staff. Using their catch line of 'a dollar is enough and 50c will do' they have engaged many of their staff, giving over \$1m to Good Beginnings and 4 other charities in the past few years. In many instances there is no tax benefit for the employee as they don't earn enough to pay tax. This demonstration of the collective impact of many contributors should be encouraged through provision of easy measures to do so.

19. Would a clearing house linked to the CAN Register be beneficial for the sector and public?
20. Are there any barriers which could prohibit the wider adoption of workplace giving programs in Australia? Is there anything the Working Group could recommend to help increase workplace giving in Australia?

As indicated above, Good Beginnings' strongly supports the concept of workplace giving. A clearing house may be one solution, but consideration should be given to whether existing platforms exist, as public funds may be better diverted elsewhere than on establishing a new platform.

Many charities have invested in innovative, easy to use websites and payment gateways. Any clearing house that has a public gateway needs to be user friendly and intuitive. This role may be better fulfilled by an IT specialist organisation.

21. Do valuation requirements and cost restrict the donation of property? What could be done to improve the requirements?
22. Is there a need to review and simplify the integrity rules?
23. Are there additional barriers relevant to increasing charitable giving by corporations and corporate foundations? Is there anything the Working Group could recommend to help increase charitable giving by corporations and corporate foundations?
24. Are the public fund requirements, currently administered by the ATO, either inadequate or unnecessarily onerous?
25. Are there any possible unintended consequences from eliminating the public fund requirements for entities that have been registered by the ACNC?

Good Beginnings does not have sufficient experience with donations of property or public fund requirements to comment fairly on these issues. It is anticipated that this would be the case for many small charities.

26. Should the threshold for deductible gifts be increased from \$2 to \$25 (or to some other amount)?
27. Outline any other suggestions you have to improve the fairness, simplicity and effectiveness of the DGR regime, having regards to the terms of reference.

The ATO would have a better indication of the revenue implications of raising the threshold for deductible gifts; however on the face of it this appears to be an approach that would increase efficiencies without reducing giving, provided that workplace giving arrangements allow for a deduction on the total amount in one year (as is currently the case).

The gain needs to be considered in the context of the apparent risks, and their flow through impacts:

- Whilst average donation amounts are greater in some areas, increasing the threshold has the potential to impact peer-to-peer fundraising and does not send a great message to the community about support for giving, particularly when the rationale for change is not clearly articulated.
- Any change has the potential to cause confusion as public awareness around tax deductibility rules is not high. The threshold is currently so low it barely requires explanation, in other words.

If a change is made, with appropriate communication managed according to the risks above, Good Beginnings' view is \$20 is a better threshold, as this is often the minimum donation received.

Fringe Benefits Tax Concessions

28. Assuming that the current two tiered concessions structure remains (See Part B), what criteria should determine an entity's eligibility to provide exempt benefits to its employees?
29. Also assuming that the current two tiered concessions structure remains (see Part B), what criteria should determine an entity's eligibility to provide rebateable benefits to its employees? Should this be restricted to charities? Should it be extended to all NFP entities? Are there any entities currently entitled to the concessions that should not be eligible?
30. Should there be a two tiered approach in relation to eligibility? For example, should all tax exempt entities be eligible for the rebate, but a more limited group be eligible for the exemption?

In an environment with low award conditions and government funding often locked into award conditions Good Beginnings is well aware of the impact of low pay in the sector. Like many not-for-profit entities Good Beginnings seeks to leverage the benefits offered by FBT concessions in order to provide a greater level of overall benefit to staff. Good Beginnings is aware of, and does not condone, some of the reported behaviours related to FBT tax concessions such as those highlighted in the Productivity Commission report.

Currently 44% of Good Beginnings' workforce takes advantage of the salary sacrifice concessions and only 8% use the meal card (100% of staff are offered the benefit). Those who don't use the benefit report that it is of no value to them.

Fringe Tax Benefit concessions favour those working more than three days per week, due to the existing \$18,000 tax free threshold. Along with the impacts on other family benefits and HECS debt repayments the concessions are of no value to those staff and therefore have no impact on attraction OR retention. For Good Beginnings the concessions has limited value for a large proportion of a part time workforce and therefore no potential to encourage workforce participation. Given the government's stated agenda to increase workforce participation it seems logical that benefits should encourage participation from groups such as single parents, part time workers and new workforce entrants. Good Beginnings encourages workforce participation through offering supported work environments (staff coaching and mentoring as well as formal training), flexible work and a focus on outcomes that provides workers with a high degree of job control.

Good Beginnings observation would be that while FBT concessions can be helpful in attracting individuals to the sector, they are not an effective retention tool and any argument to retain these concessions on those grounds are missing key points.

In Good Beginnings view, based on feedback from its own workforce through formal and informal surveys, flexible work practices and employment security are a much higher priority for employee retention than FBT concessions.

- 33% of Good Beginnings staff disagreed that the Pay and benefits are fair for the work that they perform. This is consistent with general public surveys about pay for work in the community services sector, and Good Beginnings applauds recent

government action to respond to these concerns by raising funding to reflect the recent SACS Award changes.

- Good Beginnings has by practice always paid above award (as do many community services agencies) and achieves this by effective management of other costs of service delivery. However government (and some philanthropy) funding practices have made this extremely difficult to do. For example, in recent allocations of increased funding for the SACS Award changes an assumption was made on the average proportion of total expenses spent on wages by all organisations rather than application by each individual organisation.
- Work insecurity related to uncertain funding contracts and short notice on change of contracts is a common source of turnover where employees seek alternate roles to guarantee their future income. For example, Good Beginnings has four substantial contracts with a Commonwealth department that expire on 31 December 2012 and at the time of writing this submission – less than three weeks from the end of the contract - had not received notice as to whether the funding would be renewed. No fringe benefit concessions are effective in addressing this insecurity and resulting turnover, yet long term contracts with 6 months notice of change would.

Having made the comments above, Good Beginnings would advocate for a simplified system that provides the same level of benefit to all eligible entities, rather than a tiered structure.

Alternate spending that would be of greater benefit if FBT concession support was removed might include:

- Additional support for staff participating in training (e.g. funding for supervision positions which are critical to support new workforce entrants by providing a reinforcing structure for formal training);
- Access to traineeships at a national level (currently these tend to be state based, and as a national organization this adds complexity in understanding and accessing support).

31. Should salary sacrificed meal entertainment and entertainment facility leasing benefits be brought within the existing caps on FBT concessions?
32. Should the caps for FBT concessions be increased if meal entertainment and entertainment facility leasing benefits are brought within the caps? Should there be a separate cap for meal entertainment and entertainment facility leasing benefits? If so, what would be an appropriate amount for such a cap?
33. Are there any types of meal entertainment or entertainment facility leasing benefits that should remain exempt/rebateable if these items are otherwise subject to the relevant caps?

In Good Beginnings experience the employees who most frequently take advantage of the meal and entertainment benefits are those on higher incomes who are more likely to have frequent meal and entertainment expenses. This makes this benefit a much greater advantage for those on higher incomes.

In Good Beginnings view there would be no substantial disadvantage to the organisation if the meal and entertainment benefits were brought within the existing caps or dispensed with entirely.

34. Should there be a requirement on eligible employees to deny FBT concessions to employees that have claimed a concession from another employer? Would this impose an unacceptable compliance burden on those employers? Are there other ways of restricting access to multiple caps?
35. Should the rate for FBT rebates be re-aligned with the FBT tax rate? Is there any reason for not aligning the rates?
36. Should the limitation on tax exempt bodies in the minor benefits exemption be removed? Is there any reasons why the limitation should not be removed?

It would seem logical to apply a similar approach to that used for personal income tax for individuals with multiple jobs, where their total income is the determinant of tax paid. Similarly, the FBT benefit could be provided across multiple employers and declared in the individual's tax return. If their total benefit was more than the cap the relevant tax could be collected by the ATO as part of the tax return process. In terms of simplifying benefits across sectors it would be ideal to remove the minor benefit exemption.

Good Beginnings acknowledges this may increase the total benefits claimed, and that there may need to be an adjustment to the level of benefit available. Subject to appropriate Treasury modelling this would seem a reasonable approach provided the principles of equity and fairness across all income levels are applied.

37. Is the provision of FBT concessions to current eligible entities appropriate? Should the concessions be available to more NFP entities?
38. Should FBT concessions (that is, the exemption and rebate) be phased out?
39. Should FBT concessions be replaced with direct support of entities that benefit from the application of these concessions?
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42. IF FBT concessions are to be phased out, or if concessions were to be limited to non-remuneration benefits, which entity types should be eligible to receive support to replace these concessions?

Good Beginnings would reiterate its earlier statements that Fringe Benefits Tax concessions are not a major driver of employee retention. For this reason, and in consideration of the guiding principles for this review of maximising the social good, fairness and simplicity, Good Beginnings would advocate for government resources to address issues of contract stability and employment flexibility that are more likely to benefit all workers.

One area where Good Beginnings is challenged is treating the garaging of work vehicles as a fringe benefit. Good Beginnings operates in a number of socioeconomically disadvantaged areas, often based in schools. For this reason it is often impossible to store vehicles at the workplace and protect them from vandalism. Good Beginnings has had three instances of vandalised vehicles in one school this year. Staff are reticent to take vehicles home because of the FBT treatment and potential impact on their own family payments, yet allowing staff to do this is often a more cost effective approach for Good Beginnings (paying running costs) than paying for garaging that is scarcely available. Good Beginnings would advocate for consideration of these issues, particularly for small not-for-profits in the overall design.

Goods and Services Tax Concessions

43. Does the existing fundraising concession create uncertainty, or additional compliance burdens, for NFP entities that wish to engage in fundraising activities that fall outside of the scope of the concession?
44. Would a principles-based definition of the types of fundraising activities that are input taxed reduce the compliance burden for entities that engage in fundraising?
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48. If an opt-in arrangement is favoured, would the preference be to treat the supplies as taxable or input taxed? Why?
49. Is there an alternative way of reducing the compliance burden associated with apportionment for supplies made for nominal consideration?

Good Beginnings does not advocate for any change in this area.

Mutuality, Clubs and Societies

50. Should the gaming, catering, entertainment and hospitality activities of NFP clubs and societies be subject to a concessional rate of tax, for income greater than a relatively high threshold, instead of being exempt?
51. What would be a suitable threshold and rate of tax if such activities were to be subject to tax?
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55. Is existing law adequate to address concerns about exploitation of the mutuality principle for tax evasion? Should a specific anti-avoidance rule be introduced to allow more effective action to be taken to address such concerns?

Good Beginnings has insufficient experience in this area to contribute comment.

Next steps

56. Are there any areas in which greater streamlining of concessions could be achieved?
57. Do you have any ideas for reform of NFP sector tax concessions with the terms of reference that have not been considered in this discussion paper?

The focus of the discussion paper has been on specific reform of tax concessions, with the terms of reference clearly stating that any changes need to be revenue neutral.

It may be worthwhile to consider what other support might be able to be provided across government, where any savings in tax concessions could be applied to other forms of government support. In this paper Good Beginnings has raised a number of issues within the Commonwealth Government's control that would be of greater benefit than adjusting tax concessions or could be funded by reduced tax concessions. These include:

- Ensuring timely (6 months) lead time on funding contracts to ensure job security for employees;
- Contributing to supporting developing staff and those entering or re-entering the workforce through assisting in the employment of additional on-the-job supervision;
- Ensuring employment awards remain comparable with other sectors such as the 2012 changes to the SACS Award.

Good Beginnings thanks the working party for its contribution on these issues and encourages the consideration of the contribution of the many small organisations to this sector.



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