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Philanthropy & Exemptions Unit
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The Treasury
Langton Crescent
PARKES ACT 2600

Dear Sir/Madam,

I'm writing in regards to the proposed changes to the Living Away From Home Allowances. I have a number of concerns with the proposal in its current form ,which I will outline below, but to summarize these are:

- How the targeting of specific misuse will affect those who are not misusing LAFHA;
- Economic impact on foreign professionals;
- Proposal impact on attracting foreign professionals;
- Proposal impact on property market;
- Proposals impact on businesses;
- Immediate effects on feasibility of personal/family economy

I will also outline what I see as an option to LAFHA in order to create fair conditions between foreign nationals and Australians/permanent residents.

Specific targeting rather than one solution fits all

As I understand it, LAFHA was introduced in order to compensate people for relocation for work. While this was achieved, it is the Government's view that now employers also misuse it by paying large sums in LAFHA to people for which the allowance was not originally intended.

The consultation paper reads as if this was only intended for Australian citizens: "A particular concern is the growing use of the concession by employers (including through labour hire and contract management companies) to allow temporary resident workers coming to Australia to convert their taxable salary into a tax - free allowance. This provides them with an unfair advantage over local Australian workers".

However, the "Practical Guidelines" given on ATO's homepage says: "Examples of employees on appointments of finite duration who will generally be living away from their usual places of residence are foreign nationals employed in Australia (expatriate employees) and Australian residents stationed in foreign countries for a time (for example, export consultants, diplomats and immigration officials). In the case of expatriate employees having to reside in Australia for the term of their employment, each year we publish a tax determination outlining what we consider a reasonable food component." Thus, the Practical Guidelines does provide guidance for treatment of foreign professionals under the current LAFHA legislation.

While I may agree that highly paid executives shouldn't be eligible for a large portion of their income to be tax-free as they are obviously not in need to tax deductions to sustain a living, the impact on the "normal" temporary residents may be much greater. The currently proposed change the allowance into a income tax deduction will definitely come to terms with some of these problems as the responsibility is transferred from the employer to the employee and making it harder to tax-evaders to hide behind their corporation.

Economic impact on foreign professionals

One issue I think has been overseen when claiming that an "unfair advantage is given to foreign nationals" is that these people actually have to pay for expenses otherwise covered by tax. To give an example, consider an ordinary family of two adults and two children. Most countries not being covered by a mutual recognition agreement of health care, it will cost a foreign family several thousands of dollars annually to be covered under private insurance. An Australian family will be covered under Medicare through paid tax, a benefit not given to foreign nationals despite that these will have an identical tax rate (discounting LAFHA).

Another issue is that a foreign family will have to cover costs for putting their children in school, which does not apply to permanent residents or Australian citizens. This cost is expected to be approximately \$4,500 per child annually. The economical strain on a foreign family will therefore be proportional to the number of children they have, larger families having increasingly difficulties sustaining a living.

Many times foreign nationals are also relocated temporarily due to one adult member of a family receive a job offer in Australia. However, this does not necessarily mean that the partner will be able to find work while in Australia. This could be related to a number of reasons, which I will not go into detail about. Hence, not only will such family need to pay for health care and schooling, but may also need to do this from a family economy based on a single income compared to living in their home country where they had two.

It is easy to come to the conclusion that LAFHA is providing a chance for foreign nationals to actually sustain a viable living in Australia. Removing LAFHA will therefore have serious implications on such an assessment where one out of two options will be required in a future without LAFHA:

- Foreign nationals will deem that living in Australia is not financially viable; or
- Australian companies will need to increase their salaries to foreign professionals in order to attract these.

The first option will result in a further skills shortage in Australia while the second option will undoubtedly increase the financial strain on companies.

Proposal impact on attracting foreign professionals

There is an overall skill shortage in Australia which over the next year is expected to increase^[1,2]. In one of the referenced reports, the Department of Transport and Regional Services concluded that one reason for skills shortages was due to “In occupations where there are poor conditions or wages, the problem may not be in the supply of labour, but rather in the willingness of labour to take up positions. Governments as employers, particularly in the areas of health and education, need to take a leading role to establish appropriate conditions.”^[2] Removing LAFHA will only further increase the gap in conditions between foreign and Australian nationals. Australia needs foreign professionals but doesn’t want to pay for it? All I am asking for is some decency in the conditions. Only removing LAFHA will not achieve this and what may initially seem like a gain in lost tax will undoubtedly end in skills shortages, professionals leaving Australia and financial strain on Australian firms – all outcomes that are not in line with the intent and should be of concern.

Of particular interest to the Government should any impacts on the Australian “tax gold mine” – the mining industry. It is widely known that there is already a huge skills shortage in the mining industry^[3]. It is also well known that the mining industry seeks to recruit professionals from abroad as the industry does not seem to appeal to the general Australian workforce. Removing LAFHA will definitely be a shot in the Government’s own foot in this case. The increased yield of tax from the Minerals Resource Rent Tax will be lost in generated revenue from the lack of skills and professionals willing to live and work in such conditions.

Proposal impact on property market

LAFHA in its current state makes rental properties a more viable option for foreign professionals who are not willing to invest in property as their presence in Australia is temporary. Removing LAFHA will have a cascading effect on this market by both decreasing the number of people seeking rental properties (as the expected number of foreign professionals will decrease) and making rental properties less viable for those who already rent and therefore decrease the willingness to pay for a certain standard of living.

Owners, which are expected to be permanent residents or Australian citizens, will therefore face increasing difficulty to rent out these properties as their target clients will have less net income to spend across their living costs.

Expressions of concern can be found in [4].

Proposals impact on businesses

LAFHA reducing the gross income may be a loss in tax to the government, however it also reduces the superannuation costs for an employer. Such effects

¹ <http://www.news.com.au/business/worklife/australia-facing-skills-shortage-clarius-report/story-e6frfm9r-1225825300958>

² <http://www.bitre.gov.au/publications/19/Files/wp68.pdf>

³ <http://www.miningtechnologyaustralia.com.au/skills-shortage>

⁴ <http://www.somersoft.com/forums/showthread.php?t=76362>

in conjunction with the already described difficulties will either increasing pay for foreign professionals or increased difficulty of attracting these will have a significant impact on Australian businesses^[5].

Fair working conditions

I am in no way trying to make a statement that keeping LAFHA is the only way to deal with this. It is my hope that my concerns should point to the obvious that there isn't a leveled playing field today. In fact, it is extremely difficult for anyone to make a statement about foreign nationals being benefited by LAFHA to the extent that this is unfair to Australian professionals/permanent residents.

An option to LAFHA is to allow temporary residents, which are contributing with tax to the same degree as everyone else (discounting LAFHA), to gain access to the health care and schooling system and thus being treated like everyone else. This would effectively mitigate some of the largest costs incurred to foreign professionals seeking temporary residence in Australia and make relocation and living more feasible.

Immediate effects on feasibility of personal/family economy

Should the Government decide to abolish the LAFHA, despite the consequences it is associated with, some concern should be given to those who will be immediately affected and that doesn't have a choice to mitigate these changes effectively. I'm referring to professionals that have already signed on for transfers to Australia, which have now found out that what was a feasible living with LAFHA, will now become unfeasible. Internet forums have been flooded with temporary residents that now are worried about the wellbeing of their family, which they fear not being able to support after the abolition of LAFHA. Many times these people/families have signed on for several years with Australia based companies and also rental leases, two major issues related to the freedom of leaving Australia due to the proposed changes. It is not fair to induce such financial strain on these occupants and such effects should be mitigated.

With hope that my concerns will shed some new light on these issues.

Yours sincerely,

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⁵ <http://mumbrella.com.au/agencies-face-exodus-of-british-staff-and-bigger-super-bills-following-axing-of-tax-perk-67028>