

SUBMISSION ON CONSULTATION PAPER - FRINGE BENEFITS TAX (FBT) REFORM - LIVING- AWAY-FROM-HOME BENEFITS

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Thank you for the opportunity to provide comments and submissions in respect of Treasury's Consultation Paper - Fringe Benefits Tax (FBT) Reform – Living-Away-From-Home Benefits. Extend Technologies believes that the proposed changes to the Living Away from Home Allowance (LAFHA) will significantly impact on our ability to attract overseas candidates for roles we are unable to fill locally. The proposed reform does not recognise the additional living costs experienced by those on a 457 visa or the impact to business if such allowances attract FBT.

The general principles of ensuring that the allowance is not abused is agreed, however, we would seek that any decision made would still provide a viable way of attracting employees to our shores that does not make the cost unsustainable for companies and/or individuals.

As is stated in the summary of the consultation paper, the principle behind LAFHA is to compensate for additional expenses incurred and any disadvantages suffered because the employee is required to live away from their usual place of residence in order to perform their employment duties. The overall aim of LAFHA is to aid labour mobility.

If LAFHA is eliminated it will result in many who would have considered relocating to Australia no longer wanting to come as their real standards of living will be less than their home country. If this is the case this will significantly impact Australia's ability to attract the much needed talent that is required for the ongoing growth of our economy.

1 BACKGROUND ON EXTEND TECHNOLOGIES

Extend Technologies is a leading provider of SAP solutions and services for large and medium organisations in the public and private sectors. We enable our customers to solve their complex business challenges through innovative, value-adding and proven deployments of SAP and complementary solutions. As part of the NTT DATA Group we leverage our global strength and capability while delivering localised service and flexibility.

Revenue from our business is through selling our consultant's time to our customers who then design and implement IT solutions and systems for our customers to better manage their business. If we do not have the staff we cannot sell the time. Therefore our business survival and growth is dependent on sourcing suitable candidates and employing them within our business.

Extend need to ensure that we are able to attract the best talent. The Australian job market for SAP specialists is extremely tight and the pool of candidates is very limited. Our initial search for staff always commences in the local market. Once these options are exhausted we look internationally to source candidates. We generally need our consultants to start as soon as possible, so to go through a visa application process is never an ideal option, however it often becomes our only alternative.

This being the case, we need to make the proposition to the candidate attractive enough that they will relocate countries to work for us.

In 2011, 25% of Extend's new hires were sponsored on 457 visas.

Of these new hires 64% were from the UK, 22% from Europe, 7% from the US and 7% from India.

In addition, 60% of these roles were newly created roles.

In 2012 we are expecting the same level of new job growth within our company. Based on our experience, we do not expect that we will be able to fill all roles locally and will still need to hire from overseas. Of the new starters we have already made offers to and will be commencing by April of this year, 63% of those starting with us are 457 visa candidates. The majority of these candidates have been sourced from the UK and Europe.

In particular, there are a number of new hires that have quite specific skill sets that are extremely rare in Australia and we are looking forward to the opportunity of knowledge transfer and sharing with the local staff.

Of those that we do hire from overseas the majority of the candidates we have approached directly and invited them to consider Extend. In this industry segment very few candidates actually initiate the engagement process.

Under the proposal it is recommending to remove the LAFHA benefit and companies will either need to pay this in salary attracting the regular rate of taxation or the company pays FBT on the allowance.

This may be a reasonable proposal if the individual is then entitled to the same benefits and services that other Australian taxpayers have access to (eg. Medicare or government funded paid parental leave). However, they currently do not and there is no suggestion of this being changed. Additionally there are often benefits left behind in the home country that are not available here. The net outcome is that the individual on the 457 visa is financially disadvantaged by the move.

2 CONSEQUENCES OF PROPOSED REFORMS

2.1 Additional costs incurred by 457 visa holders

Currently for those on 457 visa's there are additional costs compared to a permanent resident including:

- Additional costs to enrol children in school through the Temporary Residents Program Administration Fee and Education Fee (although this is not consistent across all of Australia, for the major cities this is an issue)
- No access to Medicare
- Higher cost of health insurance (mandatory visa requirement)

When Extend sponsors an individual on a 457 visa there is an obligation to demonstrate that they are employed on equivalent terms and conditions of employment of our current employees and that we are providing no less favourable terms. Under the proposed changes, the government is now recommending a modification that will provide conditions that result in less favourable conditions to our skilled migrant workforce, compared to permanent residents, whilst still expecting them to contribute the same level of tax.

The proposed change should not be made in isolation to the considerations above. Under the proposal it results in the 457 visa individuals paying more for health and education services, it also still denies them access to other services available to other Australian tax payers.

Additionally, many on 457 visas are still required to lodge tax returns in their home country. If the allowance is paid as salary this then increases their income tax requirement from their original country of residence.

2.1.1 Less favourable conditions than home country

Many of our consultants that are hired are leaving countries where they have more benefits that they are able to access under their home governments. The lack of these benefits in Australia increase their cost of living.

For example, those from the UK and Europe receive benefits at home that are not available here:

- Child payments from the government
- Prescriptions free for children under 18 (this can be a significant cost in Australia for children with issues such as asthma)
- Free dental care
- Free medical care under NHS
- Free optical
- Childcare benefits, rebates and grants
- Government paid maternity leave
- Free childcare

Additionally, the percentage of the weekly salary that is required for accommodation and food in Australia is often higher than the home country which again makes Australia a less desirable location for relocation.

LAFHA provides a way in which employees can be provided a payment that takes into account all additional expenses that may be incurred. This enables a benefit that the company can afford.

The result of these proposed changes will be a difficulty of Australian employers to attract suitably qualified staff to Australia where they have not been able to fill the role with a locally sourced candidate.

Although outside of this discussion, it is important to note that for those relocating there are also additional costs to the company and the individual in moving here, setting up home, buying cars and then returning home at the end of the visa. The overall cost of living (although depending on the original country) is also often higher in all aspects of life (eg. cars, food, clothing, prescription medication). Families also leave behind their support network that may include additional childcare services (ie. grandparents) that then increase the costs when moving to Australia. Adding all these costs together it is hard to provide a convincing case on why someone should pursue their career in Australia.

2.2 Impact to business

Under the current proposal, if the allowance is still provided it will attract FBT. As a medium sized business we rely on LAFHA to be able to attract overseas talent. Adding FBT to this allowance increases the cost to the company where it may be unsustainable for the company to continue to recruit overseas. Additionally, funds that must be paid as FBT will then require to be reallocated from other areas of the business, resulting in that same money not reinvested into the business for growth or deducted from training budgets etc.

If hiring from overseas no longer becomes viable due to the cost being prohibitive it will be to the detriment of the company and will stall business growth and in turn, the Australian economy.

3 CONCLUSION

Extend Technologies submit that there is a need to find a solution where businesses can maintain sustainable costs in terms of salaries and benefits paid to individuals on 457s.

The draft proposal does not recognise that these changes will result in many on the 457 visa being financially disadvantaged by a decision to move to Australia. The LAFHA benefit provides a simple way of calculating this, although it obviously does need to be monitored and audited.

The removal of LAFHA creates either a greater financial burden on the company through FBT or by the need to increase salary payments to 457 candidates to accommodate the additional tax that the individual needs to pay. The need to recruit offshore is not a preference but a requirement of many companies due to the lack of talent locally.

These proposed reforms will adversely affect our business as it will become either not attractive to source candidates overseas, or financially prohibitive for the company to make these hires. Without the people we are unable to sell services. This will significantly impact on our ability to grow our business and contribute to the economy.

Where there are identified skill gaps in Australia we also suffer on the opportunity to attract the expertise that is able to transfer knowledge and skills to the local market providing more long term capability and development of the current Australian talent pool.

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