



*Banksia Gardens  
Community Services*



20th August 2015

General Manager  
Law Design Practice  
The Treasury  
Langton Crescent  
PARKES ACT 2600

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Dear Sir,

Tax and Superannuation Laws Amendment (2015 Measures No. #) Bill 2015 ('Bill')

I write on behalf of the Board of Governance of Banksia Gardens Community Services, a leading provider of education, training and community engagement programs in the City of Hume. We are the largest neighbourhood house in the City of Hume, and one of the fastest-growing community service organisations in Melbourne's North. Every day we support the poorest and most vulnerable in our community, by providing programs, support and opportunities for families and children to transform their lives. Approximately 80,000 visitors come to our centre annually to participate in a diverse range of programs.

As a service provider in the Not for Profit Sector ('NFP Sector'), Banksia Gardens Community Services offers the benefits of its knowledge and experience at both a policy and practical level to contribute to the debate about the changes proposed in the Bill.

The key components of the changes proposed in the Bill are:

1. The limitation of the concessional treatment of Exempt Benefits<sup>1</sup> is to be 'capped' to a grossed up \$5,000 per annum. This equates to approximately \$2,330 per annum (but will depend on whether or not GST is included in the payment or not);
2. Exempt Benefits become Reportable Fringe Benefits in exactly the same way as 'Living Expenses<sup>2</sup>' are currently reported;
3. The cap of \$5,000 will apply from 1 April 2016 and will be based on payments made on or after that date; and

<sup>1</sup> Exempt Benefits is a reference to Meal Entertainment benefits and Entertainment Facility Leasing Expense benefits.

<sup>2</sup> Living Expenses is a reference to those benefits that are generally salary packaged as part of the grossed up threshold, including for example mortgage, credit card, rent and personal loan payments.

Salary packaging benefits are an expected and valued component of the remuneration arrangements offered to employees in the NFP Sector<sup>3</sup>. The Productivity Commission report on the NFP Sector ('Productivity Commission Report') released in 2010 found that for Not-for-Profits:

*"less than full cost of funding of many services has resulted in substantial wage gaps for Not for Profit staff".*

This finding is significant and offers the opportunity to be reminded about why salary packaging benefits are treated differently for the NFP Sector workforce.

The NFP Sector competes in the market for skilled labour with the government and private sectors. In addition, providers in the NFP Sector have a broader social purpose and agenda than private sector providers. That is, our service provision decisions are not based on commercial outcomes, but a broader social, community and welfare purpose...founded and focussed on the needs of the vulnerable and disadvantaged members of our community.

The NFP Sector is therefore both underfunded and unfunded in many situations and this has direct implications on our ability to recruit, retain and reward our people. Addressing this issue was the purpose of the introduction of the treatment of salary packaging benefits for the NFP Sector. The rationale for this treatment is unchanged.

Not only is the original rationale unchanged, the future need for the continuation of the current treatment of salary packaging benefits to the NFP Sector is clear. Various studies and modelling has identified a significant requirement to attract additional human resources to the NFP Sector, in particular to disability, community, welfare and aged care providers. Continuing availability of the current treatment of salary packaging benefits will go some way to addressing the remuneration gap between the NFP Sector and government and private sector employees.

The implications are not just financial as there is also a major social justice perspective. In addition to the remuneration gap, there is gender imbalance and many people work part time in the NFP Sector. This contributes to a wage construct which has a direct and negative impact on a range of already vulnerable people.

One of the further benefits of the current packaging arrangements is that the benefits are made available by the employer. This is central to an organisation's human resource strategies as it links the availability of the benefit for the employee to the employer. This in turn becomes a significant component in our employee benefit arrangements and a major tool in our retention strategies.

Much of the current debate in relation to the changes proposed in the Bill have focussed on:

1. The 'excessive' use of the benefit by high income earners;
2. The greater benefit available to high income earners; and
3. The nature of the benefit itself.

Introduction of a cap to Exempt Benefits will address item 1. above. However the proposed cap of a grossed up \$5,000 is too low. Participation by employees in salary packaging toward Exempt Benefits averages 30-35% in the disability, employment, aged, community and welfare sectors.

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<sup>3</sup> Productivity Commission, Contribution of the Not for Profit Sector, January 2010.

This has increased from approximately 10% five years ago. This information provides evidence that the availability of Exempt Benefits is highly valued by the NFP Sector, and that the benefit is not just accessed by high income earners. Currently the average amount salary packaged toward Exempt Benefits is in the order of \$5,500 per annum, and an increasing number of participants are earning \$45,000 to \$55,000 per annum.

From a salary packaging perspective it is true that those on higher incomes achieve greater \$ saving through salary packaging. This is often cited as a problem with the current system. What this observation fails to recognise is that whilst the \$ amount of saving is higher, when expressed as a percentage of the individual's take home pay the greater financial benefit actually crystallises to the low income individual.

For example:

<b>Salary</b>	<b>\$55,000</b>	<b>\$120,000</b>
Take home pay with salary packaging	\$51,847	\$93,599
Take home pay with no salary packaging	\$44,653	\$85,253
Increase in take home pay	\$7,194	\$8,346
% increase in take home pay	16.1%	9.8%


Often the current debate focuses on the nature of the Exempt Benefits....Meal Entertainment and Entertainment Facility Leasing Expenses (mainly utilised for holiday accommodation). The nature of the benefit does not diminish the rationale for the treatment of salary packaging benefits to the NFP Sector. Further the nature of the Exempt Benefit items is an important component in our recruitment, remuneration and retention strategies because they are lifestyle related. This contributes to our employees feeling special and valued, increasing their connection to us as their employer.

What has been absent from the current debate is the implication to employers as a consequence of the changes proposed in the Bill. We have noted earlier in this submission the original and continuing purpose of the treatment of salary packaging benefits to the NFP Sector. Capping of the Exempt Benefit items will diminish the financial benefit to the employee, in an environment where the employees' remuneration is already relatively lower than what is available in the government and private sectors. If Banksia Gardens was to 'reimburse' its staff for the loss of this benefit this would increase the challenges to the agency in delivering its services to the disadvantaged and vulnerable members of our community.

In addition, the Bill provides that Exempt Benefits will become reportable and this will be an additional negative impact on the lower paid as it will affect individuals obligation/entitlement to HELP debt repayments, child support arrangements and Family Tax Benefits. Any changes to the treatment of salary packaging benefits to the NFP Sector impact on the sectors ability to "combat social exclusion and enhance the economic, social, culture and environmental wellbeing of society<sup>4</sup>". The changes proposed in the Bill will have an impact in this way.

We strongly believe that any changes to salary packaging should take into account the unintended consequences within the Not-For-Profit sector, rather than be applied across the board and regardless of pay rates of those employees who would be affected.

Yours sincerely,

  
**CAROLE FABIAN**  
Chairperson

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<sup>4</sup> The Productivity Commission Research Report: Contribution of the Not for Profit Sector.