

Evolve Housing Submission on Limiting Fringe Benefits Tax Concessions on Salary Packaged Entertainment Benefits

Background

Evolve Housings' vision is to be a major contributor to the relief of housing stress in Australia. Our purpose to develop and deliver effective housing and support solutions to our diverse communities through: Providing quality social and affordable housing services and solutions; Providing educational, social and resident engagement programs; Community regeneration.

We are a Global Mark accredited, Tier- 1 nationally registered CHP that owns and manages some 2500 properties in Australia. Resulting from a merger Evolve Housing was established in 2012 and is a not-for-profit company based in Parramatta, Income Tax Exempt Charity, Deductible Gift Recipient and Public Benevolent Institution (PBI's).

Evolve Housing employs more than 80 staff, has a \$41 million operating budget and operates across NSW and a JV in Tasmania.

We have a Journey Home strategy that aims and is changing the lives of one person at a time, through developing their capacity and confidence to make a contribution to their communities.

Executive Summary

Evolve Housing provides essential and valued services to those in most need in our community with serve restrictions on our income streams from discounted affordable rents and government grants that partially offset expenses. As a result we have very low operating margins and to date, the use of salary packaging concessions to attract and retain staff, has significantly improved the productivity and benefits for the company and its customers. These concessions have generated organisational savings, because salary rates are below private market, which have contributed to our capacity in sustaining our business model.

Evolve Housings' position is that there should be a cap introduced, however the proposed capping of Meal Entertainment and Entertainment Facility Leasing at \$5000 grossed up is excessive with an adverse financial impact on most employees and a significant increase in costs for our company.

Our recommendation is a \$20,000 nett cap.

We further recommend that the general FBT cap for PBI's be index annually with an immediate increased \$46,000. This has not changed since first introduced in 2001 and in today's terms represents an equivalent value of only \$19,000.

The Rationale

In June 2015 the Federal Treasury released a consultation paper on limiting fringe benefits tax concessions on salary packaged entertainment benefits which affect the Not for Profit sector.

The measure propose to introduce from 1 April 2016 a separate single grossed-up cap of \$5,000 for salary packaged meal entertainment and entertainment facility leasing expenses (entertainment benefits) for employees of public benevolent institutions.

The new taxation regime for salary packaging for the employees of the public benevolent institutions will have a significant impact on ability of Not for profit organisation to maintain current levels of productivity and attract new staff as well as retain many exiting senior and qualified people I the industry .

Below are some basic facts on the significance of the impact on Evolve Housing:

- **84% of employees use salary packaging** to compensate staff for the loss of salary packaging tax benefit for existing employees
- **40% of employees will be significantly disadvantaged** by the proposed cap
- **Average Meal and Entertainment** component of salary packaging is **net \$16,640**.
- **Direct impact** / cost to the organisation each employee is adversely impacted by at least \$6,600. From a company prospective (assuming an average wage of \$55,000 pa), this equates to **12% of the net wages, and therefore a significant cost in staff retention**.
- **Indirect costs** to the organisation will be significant in attempts to retain existing staff, attract new staff to the industry, and compete in the market place with commercial organisations that are able to pay significantly more for the staff. It is estimated that that initial and ongoing cost of wages will rise by an additional **12% to 25 % in order to sustain staff** level and expertise essential for the provision of community services.
- **Strategically** this will have a long term negative effect on productivity, capacity and capability and therefore challenges around long term development of not for profit industry by making access to a necessary talent preclusive based on cost. These is estimated to create **loses of efficiencies of 10% to 25% with in initial 3-5 years** with further **gap increases** in later years unless appropriate timely measures are put in place to mitigate this impact.

Potential measures to minimize the impact of the proposed changes to salary packaging on the Not for Profit sector:

- **Increasing proposed Meal and Entertainment benefit Cap to net \$20,000** to ensure there is relatively adequate levels of salary packaging to ensure a high level of staff retention and to avoid a sudden increase in costs to the business.

The Below table represents an approximate utilization rate of the Meal and Accommodating / Entertainment benefit by the employees. Demonstrating an intended use and modes of expenditure that a not for profit employee is likely to claim as salary packaging tool. It clearly demonstrates that the proposed freehold of net \$20,000 is not excessive and within spirit of the benefit. The intent is to allow not for profit employees to enjoy basic privileges of meals and basic holiday accommodating that they would be able to afford otherwise by choosing to work in the not for profit sector for the lower then commercial pay and on the award wages

	Year	Month	Week
Alternative capped amount	\$ 20,000	\$1,667	\$385
Lunch@ \$12pd	\$ 3,120	\$ 260	\$ 60
early start meal or late finish meal@\$25pd	\$ 6,500	\$ 542	\$ 125
Accommodation@\$250@14days-self-drive caravan park holiday 1	\$ 3,500		
Accommodation@\$250@14 day-self-paid travel, basic holiday rental 2	\$ 3,500		
Holidays catering/ meals away @ 120per day	\$ 3,360		
Total Average Allowance for Not for profit employee	\$ 19,980	\$ 1,665	\$384.23

- Ensuring that the Meal and Entertainment packaging is a reportable benefit will bring more transparency to the system and will safeguard appropriate use and treatment of benefit by government agencies and other institutions relying on the income testing and adjusted income estimations.
- **Indexation of the current \$30,000 grossed up threshold**, to reflect present value and keep value current annually in line with wage index and CPI indexation.

The introduction of the \$30,000 reportable **FBT freehold** in 2001 is equivalent to \$19,000 in current terms, assuming a 3% pa inflation rate. This effectively will translate in **up to date indexed amount of \$46,700**. Given that the parameters of utilizing this threshold are mostly Housing Costs the 3% indexation is modest and conservative as most of Australia metro cities saw a rise of 5% to 10% pa in housing costs.