

RESPONSE TO PROPOSED LEGISLATION TO
LIMIT FRINGE BENEFIT CONCESSIONS ON
SALARY PACKAGED ENTERTAINMENT
BENEFITS - AUGUST 2015

Submission from Haven Home Safe

1. Background

Haven; Home, Safe is Australia's only integrated affordable rental housing and homelessness services provider.

A not-for-profit company based in Bendigo, we were established in 1978 and have been operating in our current form since 1994. Haven is an Income Tax Exempt Charity, Deductible Gift Recipient and Public Benevolent Institution (PBI's).

Haven operates as a common intake for all homelessness and related issues and then we stream people through the organisation by trying to link a suitable tenure and appropriate support programs to their specific problems.

Built upon a mission of providing shelter and support to people who are homeless or in housing crisis, the people who are most at risk in the community, Haven continually fulfils its mission with a relentless attitude that can be attributed to a values-based culture, collaboration and engagement with local communities.

We offer a variety of housing types from short-term emergency accommodation through to transitional and long-term affordable rental housing. We also provide intake and assessment service for people who are homeless or in housing crisis as well as providing a range of specialist support services.

Since 1994 we have contributed more than \$1 billion to the Victorian economy, operating across the state, mostly in regional areas.

Haven employs more than 140 staff, has a \$30 million operating budget and operates across the Victorian DHHS North Division which extended from Preston in outer metropolitan Melbourne in the south through to Mildura in Victoria's North West. Our head office is in Bendigo in Central Victoria

Haven has built more than 1000 new homes over the last 10 years, worth over \$250 million.

Well managed and effectively delivered support services complement our track record of successfully managing our affordable rental housing portfolio.

Haven is also a founding member of Powerhousing Australia Ltd, a peer network and business cooperative of high capacity, entrepreneurial, affordable housing not-for-profit member organisations.

We now have the capacity and capability to handle every aspect of affordable housing development, including project financing, community outreach and planning, construction management, property maintenance and asset management.

2. Executive Summary

Haven Home safe delivers valued services to those in most need in our community utilising limited income streams from government grants and discounted affordable rents from our tenants. We operate at very low operating margins and utilise salary packaging concessions to attract and retain staff, in particular from the private sector. These employees have specialist skill sets increasingly required as the sophistication and complexity of our organisation grows. The concessions enable us to offer below market salary rates and save the organisation resources which can be deployed for direct service delivery.

The proposed capping of Meal Entertainment and Entertainment Facility Leasing (MEEFL) at \$5000 grossed up is excessively low. Whilst we agree that some capping is not unreasonable, a cap of \$15,000 grossed up is recommended.

If the cap were to be reduced to \$5000 as proposed, it would financially disadvantage most of our employees and increase the operating costs of our organisation.

Further, it is recommended that the general FBT cap for PBI's be increased from the current level of \$30,000 to \$43,000 and then indexed each year thereafter. The \$30,000 limit has not changed since first introduced in 2001. Without some change and indexation, this cap will become increasingly meaningless and irrelevant to our employees and our sector.

3. Detailed Commentary

Positive social and economic benefits

The Not for Profit (NFP) Sector and organisations such as Haven Home Safe deliver significant social and economic benefits to the communities in which we operate across Australia. The social benefits include improvements to the well being of Australians experiencing homelessness and housing affordability problems.

The economic benefits are also significant. In 2010 the Productivity Commission released the report "Contributions of the NFP Sector. The report found that "Australia has 600,000 not-for-profit organisations which contributed \$43 billion to Australia's GDP, growing at an annual rate of 7.7 per cent since 2000. If you count the contribution of 4.6 million volunteers, with an imputed value of \$15 billion, this would make it a similar contribution to the retail industry." The total expenditure in Australia on GDP during the same period was \$1,046B (5204.0 - Australian System of National Accounts, 2006-07). As a percentage, the value of NFP sector is therefore about 5.5% of GDP.

The current value of tax concessions provided to the NFP Sector is approximately \$4b, which is less than 4% of the value of tax concessions provided to the economy as a whole. Taking into account the significant social benefits contributed by the NFP Sector along with its

relative economic size there is no case to reduce the level of tax concessions provided and a case can be made to increase such concessions.

Competitive neutrality

Competitive neutrality between the NFP Sector and the “for profit” sector is often an argument raised by supporters of the position to reduce tax concessions provided to it. On certain activities the level of tax concessions provided should be assessed by considering what each type of entity charges for the services or products they “deliver/sell” into the market place. If these differ then there is no need to try and bring in competitive neutrality with respect to tax concessions received by NFP. In these instances, if the tax concessions were reduced the NFP’s costs will rise, but their revenue will remain unchanged because they do not charge at the market rate.

Fringe benefit concessions are valuable for attracting staff and staff retention

Fringe benefit concessions are critical to the ongoing viability and effectiveness of the NFP sector and organisations such as Haven Home Safe. They assist to bridge the remuneration gap that exists between the profit and NFP sector. These concessions are particularly valuable for Haven Home Safe and other social housing providers at present on account of the significant growth that our organisation has experienced over the last five years and expects to have over coming years (arising from actual or proposed reforms within State Housing Authorities).

This growth will mean that affordable housing providers will need to recruit new staff, many with with technical and specialised skills from the private sector. FBT concessions will assist with this recruitment. The financial operating margins in the provision of social housing services are very slim and FBT Concessions help to reduce employment costs.

The Equal Remuneration Case decision as handed down by the Fair Work Commission in 2012 granted ongoing pay increase to many support level and client facing staff and goes a long way to redress then remuneration imbalance between the not-for-profit and other sectors. However, only about 50% of the Haven Home safe workforce is covered by this decision, with the remainder having specialist skills usually found in the private sector. Salary packaging benefits have been an important staff recruitment and retention tool to attract such staff as we transform and build Haven Home Safe into an efficient and effective service provider for the homeless and those in housing crisis.

Current utilisation of Meal Entertainment and Entertainment Facility Leasing (MEEFL) salary packaging at Haven Home Safe

A criticism commonly cited about MEEFL concessions is that they are used excessively by only a small number of staff on high incomes. At Haven Home Safe this is not the case.

This concession is widely used at Haven Home Safe and at moderate levels (estimated to be around 10% of average salary levels).

During the 2013/14 FBT year, MEEFL benefits were utilised by 62% of staff and the average value (not grossed up) of such benefits was \$6,700 approximately. In the 2014/15 FBT year utilisation had risen to 76% and the average value (not grossed up) of such benefits was \$5,300 approximately.

Assuming a marginal tax rate of 34.5% (including Medicare Levy), and assuming MEEFL of say \$6000 per person, current arrangements deliver an annual benefit of around \$1800 per annum per employee. This is a significant (but not excessive) and valued concession for our employees.

At this level a cap on MEEFL benefits of say \$13,000 grossed up, would mean that the average employee packaging at HHS average level would be no worse off.

A new limit of \$15,000 per employee per annum grossed up is therefore proposed.

The case for increasing salary packaging limits generally.

As a Public Benevolent Institution, Haven Home Safe is able to utilise the \$30,000 fringe benefits exemption cap to enhance the remuneration to its employees without an increase to our operating costs. This is a very valuable and well utilised concession at Haven Home Safe.

The problem is however that this cap has not been increased since first introduced 14 years ago in 2001. As a proportion of average salary of Haven Home Safe employees, the value of the cap concession has reduced significantly. If this is not changed it will over time become increasingly meaningless for employees.

Many other income limits utilised by government have been indexed over time and with the proposed capping of MEEFL benefits, there is no justification for leaving this unchanged.

The CPI Index at June 2012 was 107.5. At June 2001 the CPI Index was 74.5. The increase over this time is 44.3%. If the cap was indexed by the CPI it would now be $\$30,000 \times 107.5 / 74.5 = \$43,289$

An increase in the cap to \$43,000 is therefore proposed.