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The Treasury
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Inclusion Melbourne is a PBI that has been supporting people with intellectual disability to live included lives in their local community for more than 60 years. At Inclusion Melbourne, we work to enable people who come to us for assistance, to achieve and maintain a valued quality of life. We achieve this by supporting people to create their own lifestyle, based on their needs and desires. In other words, we offer fully personalised support. Our vision at Inclusion Melbourne is to provide people with the opportunity to live in an inclusive community environment – where everyone has the same opportunities to participate in community life and to take their place in society as respected citizens.

I write to raise our concern regarding the recently released exposure draft of the Tax and Superannuation Laws Amendment (2015 Measures No.4) Bill 2015. This bill will limit Fringe Benefit Tax (FBT) concessions on salary packaged entertainment benefits to \$5,000 (grossed up).

Inclusion Melbourne does not support such a low cap on the exempt benefits for Meal Entertainment and Venue Hire.

In March 2010, the union movement applied to Fair Work Australia for an Equal Remuneration Order (ERO) seeking wage increases for workers in the Social And Community Services sector. After detailed examination of comparable roles between the government and community sectors, Fair Work Australia handed down a preliminary decision on 16 May 2011 finding that gender had been partly responsible for creating the pay gap between workers in the SACS sector and workers in comparable public sector employment. On 1 February 2012 in a majority ruling the Full Bench of FWA found in favour of the applicants and awarded wage increases for SACS workers covered by the Social, Community, Home Care and Disability Services Industry Award ranging from 19 to 41 per cent. The decision was an important step toward achieving equal pay for workers in the sector and will strengthen the workforce by helping organisations to attract and retain skilled staff. This is important as the 2015 ABS Industry Employment Projection report notes that “the sector is expected to experience 18.7% growth over the next 5 years”

Irrespective of the Equal Remuneration Order, we are already seeing the government and community sector pay rates continue to diverge for the same roles as the current Victorian Government has continued the practice of the previous State Government by indexing its unit costs at 2%, placing financial pressure on disability services being challenged to meet the demands of NDIS transition while continuing to deliver quality services to people with disability. The 2% figure sits poorly with the Treasury estimate of a CPI for 2015/16 of 2.75%, and the recent National Wage Case decision of 2.5%, and is also below the wage increases being provided to government employees.

In relation to the NDIS, the Victorian Department of Health and Human Services pays \$42.58 per hour of one-to-one support for personal care and community support while the NDIS is only paying \$39.52, as it seeks to achieve and step-down to what it terms the ‘efficient price’ of \$36.70 by July 2016. This is a 14% reduction in funding per hour that all Victorian disability support providers will need to adapt to, thus negating the ability to provide wages growth beyond those mandated by the equal remuneration order. Therefore, the ability to attract and retain staff is highly dependent on the ability of the charitable sector to be able to offer meaningful Fringe Benefit Tax (FBT) concessions.

Currently, the media have portrayed FBT exemptions as a rort by high earning professionals, however the proposed cuts will harm working families. The present debate considers the exemption only in relation to an individual, yet for staff at Inclusion Melbourne, and across the charitable sector, this is a

benefit that extends across the family – such as being able to enjoy a meal out, or a 10-day family holiday that would otherwise be out of reach of a family with working parents earning at or below average wages.

It is for these reasons that Inclusion Melbourne does not support such a low cap on the exempt benefits for Meal Entertainment and Venue Hire.

Inclusion Melbourne recommends that the Government:

1. Retain the FBT concessions to help NFP disability organisations attract an effective workforce

Demographic trends and service sector reforms such as the NDIS will increase the demand for workers in the disability, aged-care and health sectors which all draw on similar worker catchments. This pressure combined with the relatively low pay rates for workers in the disability NFP sector contributes to significant retention and recruitment challenges. It is not possible at current funding levels, for example, to pay managers salaries that are competitive with the private sector or government disability sector.

The FBT exemptions/rebates that facilitate salary packaging, reduce the disincentives around low pay rates by increasing the ‘take home’ benefit of remuneration. NFP disability providers are clear that these employee tax concessions have been crucial in the attraction and retention of their staff and any reduction would add to the increasing workforce pressures and related wage negotiations.

These tax concessions do not give NFP disability organisations a competitive advantage over other organisations. Tax concessions do enable NFP disability organisations to fairly compete within increasingly open human service markets.

In 2010 the Productivity Commission investigated the effect on competitive neutrality of various NFP tax benefits. They found that on balance income tax exemptions are not significantly distortionary as NFPs have an incentive to maximise the returns on their commercial activities that they then invest in their community purpose. Inclusion Melbourne urges the Treasury to make use of the 2010 Productivity Commission research in considering this draft legislation as the conditions it was informed by have not changed significantly. Inclusion Melbourne argues that developments that are occurring in the wider policy environment make NFP disability sector tax concessions even more important for future competitive human service markets. This is true for the NDIS and is evident in the detailed analysis presented in the recent Harper competition policy review.

2. Retain the value of the exempt benefits for Meal Entertainment and Venue Hire and reduce compliance costs by raising the FBT exemption cap

Inclusion Melbourne does not oppose a cap, but believes the announced cap of \$5,000 grossed up is too low and that the benefit would be more efficiently provided as an increase to the FBT exemption cap. The administration required to manage the exempt benefit of \$5,000 grossed up, against the actual financial benefit received by an employee, is now disproportionate and may mean that organisations no longer provide this benefit. If this occurs, it will further erode staff take-home pay.

To retain the value of the benefit, prevent its misuse and reduce administration and compliance costs, NDS recommends that the value of the Meal Entertainment Allowance should be added to the current FBT exemption \$30,000 cap, increasing it to around \$40,000 grossed up value per employee.

3. Further, Inclusion Melbourne believes that this bill could include clauses that index the FBT concessions to help NFP disability organisations address increasing pressure to attract an effective workforce

The cap on FBT must be regularly adjusted with inflation. The real value of the \$30k limit (grossed up nominal value per employee) continues to erode, despite a commitment at the time of its introduction in 2001 to provide regular adjustment. We suggest that initially, any savings from the new cap on exempt benefits for Meal Entertainment and Venue Hire be reinvested in the sector through raising the FBT cap, and this should be followed by yearly indexation.

4. Finally, Inclusion Melbourne suggest that the legislation amend the calculation of Fee-Help repayments on the salary and not the grossed up amount that includes FBT gains

Currently the Australian Tax Office factors in the grossed up amount a salary (including an added take home benefit from FBT) to determine HECS repayment amounts. For example, if your salary is \$66,000 per year but you gain \$16000 FBT you have to make a payment on \$80,000. This can partially defeat the purpose of offering FBT exemptions and attracting trained workers to the NFP disability sector.

Kind regards,

Daniel Leighton
Chief Executive Officer



Inclusion Melbourne provides support so people with a disability live fulfilling lives in their local community.

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