

TO: The Hon Wayne Swann MP – Treasurer, The Hon David Bradbury MP – Assistant Treasurer

I am writing to urge you to give overseas temporary residents, in particular families living in NSW, a fair go regarding the Fringe Benefits Tax (FBT) \ Living Away from Home Allowance (LAFHA) reform.

Fairness is a big theme in the 2012 – 2013 Budget statement you issued this week; I hope there is time for the Treasury to consider transitional arrangements for overseas temporary residents due to lose LAFHA on 1st July 2012.

It is clear, from reading the reform consultation paper, that LAFHA has evolved into a benefit for overseas temporary residents, beyond the scope of its original intention. However, in recent years LAFHA has been presented to foreign workers as an entitlement and an enticement to bring their skills to Australia.

The temporary residents I know are not over-paid executives trying to rot the Australian tax system. They are average people wanting to earn a living and experience a new lifestyle.

On paper it isn't fair that temporary residents pay less tax. However, if you're living in NSW, what is given with one hand is taken by the other.

- Overseas temporary residents are not eligible for Medicare and generally pay higher annual fees than Australian citizens or permanent residents for private health insurance.
- Overseas temporary residents in NSW do not get free public schooling. Government school tuition fees in NSW are \$4,500 per year per child for Primary School and \$5,500 per year per child for High School.

Temporary residents in NSW are rarely better off than Australian citizens and permanent residents.

To analyse the financial reality of receiving and losing LAFHA, I have looked at example taxation and essential cost of living figures for a family of four living in NSW. I have assumed that through their LAFHA arrangement, a temporary resident family receives 30% of their annual salary tax free.

By analysing these figures I am paying particular attention to financial equality (fairness) between overseas temporary residents and Australian citizens and permanent residents.

According to online resources \$90,000 – \$110,000 represents the average annual salaries of individuals working in several common industry sectors (IT, Healthcare, and HR\Recruitment) in NSW.

The difference between the take home pay received by temporary residents, and citizens and permanent residents, depends on the annual income. I have found that a temporary resident earning \$110,000 does have more in their pocket after tax than a citizen or permanent resident. However, on the other salaries we analysed the additional take home pay that temporary residents receive, thanks to LAFHA, is so minimal that describing temporary residents as having an unfair advantage over citizens and permanent residents is incorrect. In fact, once schooling and healthcare costs have been covered temporary residents have less disposable income than citizens and permanent residents.

According to "MyCareer Salary Centre" the average annual salary in NSW for Human Resources, Healthcare and Financial Services Industries is \$83,000 - \$90,000.

	Australian citizen \ permanent resident	Australian temporary resident receiving LAFHA	Notes
Annual salary	\$90,000	\$90,000	
Taxable salary	\$90,000	\$63,000	
Tax deducted	\$21,250	\$18,530	
Medicare Levy	\$1,350	\$0	
Total Take Home	\$67,400	\$71,470	
Difference before schooling and healthcare.		\$4,070	After tax temporary resident is \$4,070 better off.
NSW School fees for temporary residents:		\$9,000	
Higher health insurance premium for temporary residents:		\$1,000	
Total additional costs for temporary residents:		\$10,000	
Difference after schooling and healthcare.		\$5,930	After school fees and higher health insurance costs temporary residents have \$5,930 less in their pocket than citizens and permanent residents.
A temporary resident family living in NSW has \$5,930 additional out of pocket expenses per year compared to Australian citizens and permanent residents.			

Many overseas workers genuinely come to Australia temporarily, for a two to four year period.

For relocating individuals, employers don't necessarily pay for travel and shipping costs. Employers definitely don't help with the cost of all the little things we need to buy when setting up home here.

LAFHA isn't intended to compensate for the additional expenses temporary residents encounter when relocating to Australia, or indeed NSW; but the reality is that most temporary resident budgets don't work without it.

Overseas workers living in Australia temporarily do not want special treatment, they want a fair go.

The exposure draft relating to the FBT reform, released last year, required submissions by February 2012. A large number of overseas temporary residents submitted their comments and outlined their concerns regarding the abrupt removal of LAFHA for those already fulfilling employment contracts in Australia.

Once submissions had closed a statement from the Treasury said that "the Government is currently considering issues that have been raised in submissions. ...one of the issues for consultation is transitional arrangements that should be put in place."

Recent comments from the Treasury suggest that transitional arrangements are not being considered for temporary residents, despite the fact that they were surely the largest group to raise issues relating to the reform.

In a recent telephone conversation I had with the Treasury, your representative explained that employers and employees have known about the reform since November 2011 and therefore had adequate time to plan for the loss of LAFHA on 1st July. This statement does not reflect the experience or expectations of temporary residents living in Australia.

Because the Treasury stated that “one of the issues for consultation is transitional arrangements that should be put in place”, most employers and employees have done nothing to prepare for the reform. They have anxiously awaited further guidance from the Treasury. How can they and why would they act when the expectation set by the Treasury was that transitional arrangements may be put in place?

The fact that transitional arrangements might not be considered for overseas temporary residents is devastating news for me.

Without LAFHA I may not be able to afford to live in Australia.

It is disappointing that the Treasury has left overseas workers in a state of limbo for so long. It is disheartening that the Treasury would consider leaving overseas workers living and working (and paying tax) in Australia in financial ruin by implementing a reform without transitional measures.

Either the Treasury needs to put measures in place to ensure that employers compensate employees for the loss of LAFHA, or the arrangements of existing LAFHA recipients need to be honoured – abruptly removing the benefit is unfair.

I understand international tax professionals are exploring the legalities of implementing the reform and hope there is time for the Treasury see sense on the removal of LAFHA for people already living and working in Australia. In the meantime, the aim of this letter is to provide an insight into the reality of losing LAFHA, for me, on an average salary, living and working in NSW.

Your sincerely,
Sam Ebrahim