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Driving Business Success for Consulting Firms in the Built and Natural Environment

6 July 2012

Mr Stephen Boyd

Committee Secretary
 Standing Committee on Economics
 PO Box 6021
 Parliament House
 Canberra ACT 2600

Dear Mr Boyd,

Re: Tax Laws Amendment (2012 Measures No. 4) Bill 2012, Schedule 1

Consult Australia appreciates this opportunity to provide comments on Tax Laws Amendment (2012 Measures No. 4) Bill 2012. This letter examines the unintended consequences of proposed reforms to tax arrangements for the living away from home allowance (LAFHA) paid by employers to employees on food and accommodation benefits contained in Schedule 1 of the Bill.

About Consult Australia

Consult Australia is the association for professional services firms within the built and natural environment. We represent member firms' business interests at a commercial, community, industry and government level through collaboration, education, support and advocacy.

We represent over 250 companies that employ more than 61,000 people in Australia. Consult Australia member firms' services include, but are not limited to: design; architecture; technology; engineering; surveying; legal; and management solutions. This allows us to provide a collective, holistic and highly informed voice for industry.

Consult Australia is a member of the Australian National Engineering Taskforce (ANET), Australian Chamber of Commerce and Industry (ACCI), the Australian Construction Industry Forum (ACIF), National Engineering Registration Board (NERB) and the Australian Services Roundtable (ASR).

Significance of temporary skilled migrants to our industry

Consulting firms in the built and natural environment are essential to the valuable resources sector and for bringing Government infrastructure plans to fruition. It includes some 48,600 firms employing about 240,000 people and generating revenues of around \$41 billion a year.

A major challenge to their success and that of the projects they deliver is the chronic scarcity of the engineers and related professionals needed to get the job done. The industry therefore has a strong reliance on the services of temporary skilled migrants.

This reliance is illustrated by the experiences of Consult Australia member firms. Some report that they are forced to recruit about 15 per cent of their workforces from overseas. One large member firm with over 4,000 employees reports that over eight per cent of its workforce, for example, is employed with a visa subclass 457.



Unintended consequences of the proposed reforms

The LAFHA benefits have existed since 1945 and the Australian Tax Office has provided clear guidance material to explain how temporary skilled migrants can receive the LAFHA benefit. This has made Australia an attractive destination for skilled migrants.

The financial impact of the proposed reforms on individuals is significant. For example, under the proposed reforms an engineer earning \$85,000 per year is likely to lose about \$12,000 annually.

The proposed reforms to LAFHA will therefore inhibit employers' abilities to recruit new skilled migrants and cause many existing workers to leave Australia. Those who remain are already demanding that employers 'fill the gap' left by the removal of LAFHA benefits.

For industry, the sudden implementation of the LAFHA reforms will have the following unintended consequences that will result in project delivery delays:

- Highly skilled professionals who leave Australia because of the reforms create vacancies that are hard to fill, thus harming companies' abilities to deliver projects on time. The Consult Australia 2011 Skills Survey shows that 50 per cent of senior roles take between seven and 11 months to fill.
- The cost of 'filling the gap' left by the rapid changes to LAFHA benefits will drive up employment costs. One member firm has estimated that the cost to them will be \$4.8m. This is money that cannot be spent on training, for example, or the cost will flow on to clients that very often include government.
- Widespread wage inflation will occur because the level of wages sufficient to attract the skilled migrants will increase markedly.

Timing of the reforms

Consult Australia welcomed the Government announcement on 28 July 2012 that the implementation of its proposed reforms will not commence until 1 October 2012—a delay of three months. The main impact of the reform is, however, the reduction of individuals' take-home pay and the three-month delay will not be sufficient to prevent the flow-on effects on industry described above.

The individuals affected have made long-term financial commitments based on the existence of pay and taxation provisions that existed at the time of their temporary migration to Australia. It is unreasonable to expect these individuals or businesses to immediately absorb the effect of this significant tax reform.

Consult Australia members understand the long-term need for reform to LAFHA, but requiring those already receiving the tax benefit to comply immediately will hurt individuals, industry and Australia's competitiveness in the international war for talent.

Proposed amendment to the exposure draft bill

Consult Australia strongly recommends that the Bill be amended to expand transitional provisions to include temporary and foreign residents.

Doing this will provide employers with sufficient time to manage employee expectations, amend workforce development and recruitment plans, and enable existing employees who receive LAFHA to properly prepare for the reform.

To achieve this outcome, Consult Australia believes that the following changes should be made to Schedule 1 of the Bill:

- Delete section 30(1)(a), and
- Delete section 30(2) in its entirety.

Conclusion

Thank you for the opportunity to provide comments to the House Standing Committee on Economics inquiry of Tax Laws Amendment (2012 Measures No. 4) Bill 2012.

If the Committee holds public hearings for this issue, Consult Australia would welcome an opportunity to attend and provide further evidence in support of this submission.

If you wish to discuss this submission further, please contact Jonathan Russell, Senior Policy Advisor for the skills portfolio, on (02) 9922 4711 or at j.russell@consultaustalia.com.au.

Yours sincerely,

Megan Motto
Chief Executive