Submission 15

Sydney, July 10th 2012

To: Members of the Standing Committee on Economics

Subject: Tax Laws Amendment (2012 Measures No.4) Bill 2012, Schedule 1-Reform of living away from home allowance and benefit rules, Part 3-Application and transitional provisions

Dear Committee members,

I am writing you to share my concerns about withholding transitional provisions for temporary residents without a property in Australia that they are living away from home from (i.e., virtually all temporary residents currently under the so-called LAFHA contract) under the Fringe Benefits Tax 'Living Away From Home Allowance'.

The proposed reform is naïve in that it does not take into account that (a)there are temporary residents who will leave when given no transitional provisions, (b) the group of incoming temporary workers will decrease because Australia will be less attractive for financial reasons, and (c) the calculated 'gain' in tax revenue for the Treasury will be a direct reflection of decrease of money spent in the Australian economy. That is, temporary residents will have to cut back on rent, shopping and leisure spending to make up for the loss in net income, which will be felt by the local economy.

The sound on several social media groups on Facebook and LinkedIn show that there are temporary residents that are planning to leave (or have already left) Australia because of the proposed changes to the LAFHA regulations. This is for financial reasons, but also emotional (feeling discriminated against and undervalued).

What this means is, to put it simple: **fewer residents = less tax.** The same goes for incoming temporary residents. Australia will be less attractive financially because one pays full tax but receives no services that the taxes pay for. These need to be bought (i.e., health care, tuition fees, social security) and these costs are in addition to significant relocation costs. This is simply not worth it when one will only remain in Australia for a maximum of 4 years or less (current limit for LAFHA).

The third point can be illustrated with a simple example. *If* I should chose to stay in Australia after LAFHA is abolished without transitional provisions, my financial picture changes to the following:

- With LAFHA: Australian Treasury receives $A in taxes and the Australian economy $B (rent, shopping, insurance, recreation, etc.)
- Without LAFHA: Australian Treasury receives $A+C in taxes and the Australian economy $B-C.

That is, local **business will suffer because it will receive less income from temporary residents**.

Another point of concern here is that abolishing the LAFHA will **significantly increase costs for employers** who will have to pay a percentage of super over a larger amount than before.

Take all this into account and see that looks like it is the temporary residents and their employers who will take the bullet in the short term, but **the real impact will be felt tremendously by local business, Australian economy (less revenue and lack of skilled workers) and in the end, the Australian citizens and permanent residents themselves.**

So what to do? **Provide *all* current LAFHA holders with the same transitional provisions** (i.e., LAFHA contracts prior to May 8th 2012 stay in place for two more years), not just permanent residents. This will ensure that current residents will not leave the country after October causing an immediate financial loss for Australia and immediate downplay on local business by less spending. If Australia wishes to keep on attracting overseas workers to fill skills lacking in Australia, improve policing of the regulations (e.g., maximum salary to claim, etc.) to avoid 'rorting the system' but **do not abolish LAFHA in its current form**. It is there for a reason.

Kind regards,

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