

Additional Comments by the Australian Greens

Senator Rachel Siewert

These additional comments specifically address Fringe Benefits Tax and Public Benevolent Institutions (PBIs), charities and other relevant not-for-profit organisations.

The Australian Greens note that the main issue of concern to us when this Bill was referred to Committee related to changes that altered the income test for Family Tax Benefits so that fringe benefits were grossed up, where they had previously been calculated on a net basis.

Subsequent to this referral the Minister for Family Services, Jenny Macklin announced that the Government would reverse the changes to the income definition for Family Tax Benefit A and B and the Child Care Benefit. The Australian Greens welcome the announcement by the Government.

The unintended consequences of these changes would have been to effectively reduce the disposable income of many families of community sector employees, especially those in the \$40,000 to \$80,000 income range where the primary income test for Family Tax Benefit is applied.

This change would have impacts on the ability of a wide range of community service organisations to attract and retain suitably qualified and motivated staff, their ability to deliver services efficiently to their disadvantaged clients, and the ongoing viability of the wider community sector.

The value of the community sector to the Australian economy is conservatively estimated to be in the order of \$50 billion per year – consisting of \$20 billion in expenditure¹ (of which approximately 62 per cent is public funds and 38 per cent donations and other income) and at least another estimated \$30 billion in unpaid voluntary work.

It is important to note that wages and conditions within the community sector are substantially below those offered in both the public and private sectors. This implies that, if there were a decision by government to attempt to provide these services by other means, the cost of delivering the same level of services (which are currently purchased by government for an estimated \$12 billion) would be substantially more than \$50 billion.

1 Australian Institute of Health and Welfare, *Australia's Welfare 2007*

The community sector cannot compete with public sector employment or private enterprise on wages and conditions, and this gap continues to widen alarmingly. The community sector has increasingly relied on employees voluntarily forgoing the possibility of higher wages elsewhere for the opportunity to 'do some good' and 'make a difference'. However, with rising cost of living and other financial pressures there are limitations on the degree of sacrifice employees are able to sustain and still meet their family commitments.

The recent ACOSS Community Sector Survey (June 2008) found that 68 per cent of respondent agencies had experienced difficulty in attracting staff in the past year, and 43 per cent of respondents named staffing as one of the three most important issues facing their services. A significant proportion of respondents expressed concern about wage levels and indicated that they had trouble attracting and retaining staff.

The committee inquiry received submissions and heard evidence from a number of service provision organisations within the sector, including Catholic Social Services, Salvation Army and Uniting Care, that fringe benefits were crucial in their ability to attract and retain senior and middle management staff.

Skilled occupations that require appropriately qualified staff, such as psychologists, social workers and accountants are reportedly becoming increasingly difficult to fill as skill shortages in these areas continue to bite and the salary gap with the public and private sectors continues to widen.

The Australian Greens agree with the wider principle put forward in the submission from the Australian Council of Social Services that our tax and social security systems need to be both fair and consistent in the way in which they confer benefits and attribute costs. We also note that relying on tax exemptions to remedy the poor remuneration offered by the community sector is a poor substitute for a properly costed and resourced welfare system.

On this basis we welcome the proposed Henry review of Australia's tax system and hope that it will provide fair and consistent remedy to the existing inequities of our tax system and of the wider issue of sustainable funding for the community sector.

However, in the meantime we believe that it is imperative to deal with the current sector viability crisis brought into focus by potential changes to the assessment of fringe benefit tax. One of these is the ongoing reduction in real terms of the cap on tax-free fringe benefits.

Indexation of Fringe Benefit Tax exemptions

During the course of the Committee hearings, representatives of the community sector raised a number of other issues relating to the funding and ongoing viability of the sector with the Committee, including the need to raise the current tax-free ceiling on fringe benefits for public benevolent institutions, charities, not-for-profit hospitals and other relevant not-for-profit organisations.

The capped exemption on fringe benefits tax for public benevolent institutions has played a pivotal role in the capacity of organisations to offer more attractive pay and conditions to their staff. It has allowed those organisation that qualify as PBIs or rebatable non-profit employers² (or those who qualify for a lesser capped exemption as public or not-for-profit hospitals or ambulance services³) to effectively offer higher salaries than they otherwise would have been able to, while at the same time reducing the cost to the purchasers of those services (be they governments, philanthropic donations or fee-for-service clients).

The Committee heard that the current tax-free ceiling of \$30,000 is not indexed and has not been increased since it was first introduced in 2000.

Our calculations indicate if the current ceiling had been indexed to the Consumer Price Index (CPI) it would now be \$38,557.84, and if indexed to Average Weekly Ordinary Time Earnings (AWOTE) it would now be \$43,043.15. Given the importance of this benefit to the ability of charitable organisations to attract and retain staff and deliver services, we believe the ceiling should be immediately lifted to \$40,000 and indexation introduced into the legislation.

A proposed new tax-free ceiling of \$40,000 is in between the two different measures for indexing. We believe that this is a fair figure given the current cap public benevolent institutions, has not moved in 8 years.

As far as public or not-for-profit hospitals or ambulance services are concerned, they currently have a different fringe benefits tax-free ceiling of \$17,000, which also isn't indexed and hasn't changed in eight years.

Our calculations indicate if the current ceiling had been indexed to CPI it would now be \$21,849.05 and if indexed to AWOTE it would now be \$24,391.12. Given the importance of this benefit to the ability of not-for-profit hospitals to attract and retain staff and deliver services, we believe the ceiling should be immediately lifted to \$23,000 and indexation introduced into the legislation.

Once the issue of reducing the gap created by the lack of indexing for the fringe benefits tax-free threshold has been addressed, this still leaves open the issue of indexation going forward.

The Australian Greens support indexation to Average Weekly Ordinary Time Earnings (AWOTE). This is because the issue at hand is a benefit directly related to employment and wages, and hence AWOTE is the appropriate indexation reference.

Given the value of the sector to the Government as discussed above, particularly in the provision of much needed services at a cost far cheaper than Government could either

2 As described under Section 65 J of the Fringe Benefits Tax Assessment Act.

3 As described under Section 57A subsection 4 of the Fringe Benefits Tax Assessment Act.

provide or source them, we do not believe the extra cost of this measure is a great impost onto Government nor provides any reason to reject it.

The capped exemption from Fringe Benefits Tax for public benevolent institutions 'cost' the government \$250 million in forgone taxes in 2005–06.⁴ Even with an increase in this figure with raising the cap to \$40,000, this is still a small amount compared to the value the community sector contribute as discussed above.

While the Australian Greens are pleased that the Majority Report raises the issue of the cap, we are disappointed that the Report recommends that the issue be addressed at a later date and not as part of this Bill. This issue is a matter of urgency for the sector, the Greens believe it should be addressed now as a matter of urgency.

To this end the Australian Greens will be moving amendments to increase the cap on exempted level of fringe benefits tax for these two groups.

Recommendation 1

That the ceiling on tax-free fringe benefits is increased from \$30,000 to \$40,000 for Public Benevolent Institutions, charities and other relevant non-for-profit organisations and from \$17,000 to \$23,000 for not-for-profit and public hospitals and public ambulance services.

Recommendation 2

That the ceiling on tax-free fringe benefits for Public Benevolent Institutions, charities and other relevant non-for-profit organisations and not-for-profit and public hospitals and public ambulance services is indexed annually to Average Weekly Ordinary Time Earnings (AWOTE).

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4 ...out of a total tax expenditure for welfare services of \$25.74 billion. 2008-09 Budget Paper No.2.