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Senate Finance and Public Administration Committee  
Department of the Senate  
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Parliament House  
Canberra ACT 2600  
Australia

19 June 2008

**Senate inquiry into the Families, Housing, Community Services and Indigenous Affairs and Other Legislation Amendment (2008 Budget and Other Measures) Bill 2008**

In response to your call for submissions into the Families, Housing, Community Services and Indigenous Affairs and Other Legislation Amendment (2008 Budget and Other Measures) Bill 2008, UnitingCare Australia makes the following submission.

UnitingCare Australia is an agency of the National Assembly of the Uniting Church in Australia (UCA). The agency represents the Church's UnitingCare network of community services of which there are over 400 nationwide.

The UnitingCare network is one of the largest providers of community services in Australia providing services to 1.8 million Australians each year, employing 35,000 staff and 24,000 volunteers nationally. It provides services to children, young people and families, Indigenous Australians, people with disabilities, the poor and disadvantaged, people from culturally and linguistically diverse backgrounds, and older Australians in urban, rural and remote communities.

UnitingCare is founded on the Uniting Church's basic Christian values and principles, such as the importance of every human being, the need for integrity in public life, the proclamation of truth and justice, the rights for each citizen to participate in decision-making in the community, religious liberty and personal dignity, and a concern for the welfare of the whole human race.

UnitingCare Australia is committed to values based advocacy, speaking with and on behalf of those who are the most vulnerable and disadvantaged, for the common good.

UnitingCare Australia is concerned that this package of legislation has unintended consequences for employees of organisations such as ours. The current taxation arrangements allow us to offer our employees the opportunity to salary package and therefore increase the overall remuneration package available to them to undertake the essential work of our organisations.

The changes to the way income is calculated will potentially raise our employees' level of income assessment for family assistance and other similar payments. This could then result in a lower rate of income overall for the employees family. We are concerned about the negative impact this will have on already limited budgets and our ability to provide our staff with adequate and competitive wages and conditions.

Salary sacrificing is of great benefit to many employees of PBI organizations (not only our own) and effectively saves the Government money by stretching the value of wages. The current budget changes the rules from workers with families receiving Family Tax Benefit A, Family Tax Benefit B and /or Child Care Benefit by changing the income definition for these family assistance benefits to include the reportable fringe benefit total of an employee.

Previously only the taxable value of a fringe benefit was included. The change will significantly reduce the effective pay of low paid workers with families

Changes to the current salary package advantage will impact on our ability to not only attract but also to retain staff. As an example we understand that the legislation would have the following effect on a staff member earning \$35, 000 a year.

*A staff member earning \$35,000, and sacrifices \$16,050, leaving a taxable income of \$18,950. Tax payable is \$2,236, leaving a Total net income of **\$32,764** (\$18,950 less \$2,236 plus \$16,050). For the purpose of assessing Family Tax Benefit their income will be grossed up to \$48,950.*

*A person who earns a gross salary of \$48,950 (without any sacrificing) pays tax of \$10,088, leaving a Total net income of **\$38,872**. Their Family Tax Benefit will also be worked out on \$48,950.*

*Therefore people will receive the same Family Tax Benefit, even though there is a substantial discrepancy in their total net income.*

Attached at Appendix 1 and 2 are further examples of the financial effects of the proposed changes.

We ask that the legislation not be introduced until the government has had the opportunity to fully investigate its implications for the not for profit and non-government service provision sector.

We are concerned that making changes to the proposed legalisation without anything but a full review of its impact on the sector may result in further unintended consequences coming to light and may well have even larger implications for the community services sector especially in the relationship between State and Commonwealth based wage systems.

UnitingCare Australia does not support the current legislation package as it has a disproportionately adverse effect on low paid staff in our caring services.

We look forward to reading the findings and recommendations of the Finance and Public Administration Committee inquiry into this legislation.

Please contact Lin Hatfield Dodds, UnitingCare Australia National Director on 0408 402 222 to discuss this submission further.

Yours sincerely



Lin Hatfield Dodds  
National Director  
UnitingCare Australia



## Appendix 1

### CURRENT SALARY PACKAGING

An example of one of typical Care Workers is below:

	<b>Without Salary Packaging</b>	<b>With Salary Packaging</b>
Gross Annual Salary	\$38,000	\$38,000
Less Salary Packaging		\$16,050 (eg Mortgage payment)
<b>Disposable Income</b>	<b>30,680</b>	<b>\$35,278</b>
<b>Benefit</b>		<b>\$4,598</b>

### PROPOSED TAX CHANGES

Under the proposed taxation changes and treated of the Fringe Benefits Tax and Grossed up Value, it is understood the above (typical) employee will be treated as if they are earning \$54,000.

The effect of this means that an employee will attract (where applicable):

- Reduced Family Tax Benefits;
- Reduced Child Support Payments;
- Higher taxation.

This then ameliorates any small income-benefit the employee may have had in the aged- care/not-for-profit sector, removing the strongest marketing tool we have had to date in terms of salaries.

### SUMMARY

As stated above, UCH is in the invidious position of:

- Not being able to compete with market remuneration rates;
- Facing challenges of attracting replacement staff to care for an ageing population;
- Unable to expand its services, despite demand;
- Unable to attract increased inputs (salaries) under current funding model;
- Experiencing volatility/high turnover in staff which is predicted to be exacerbated if employee benefits are reduced, particularly in the present climate of rising family costs.

### CONCLUSION

UCH seek urgent reconsideration of the changes to treatment of Fringe Benefits Tax as it is firmly believed that it will severely damage UCH's ability to provide services at its current level.

Appendix 2

Wage Comparisons for Family Tax Benefit Purposes	Wage Comparisons for Family Tax Benefit Purposes	Wage Comparisons for Family Tax Benefit Purposes	Wage Comparisons for Family Tax Benefit Purposes	Wage Comparisons for Family Tax Benefit Purposes	Wage Comparisons for Family Tax Benefit Purposes	Wage Comparisons for Family Tax Benefit Purposes	Wage Comparisons for Family Tax Benefit Purposes	Wage Comparisons for Family Tax Benefit Purposes	Wage Comparisons for Family Tax Benefit Purposes
Annual Salary	35000			40000			45000		
	Without SS	With SS	Equivalent earnings	Without SS	With SS	Equivalent earnings	Without SS	With SS	Equivalent earnings
Gross	35000	20500	39316	40000	25500	45408	45000	30500	51292
Tax	5772	2548	7124	7332	3380	9048	8892	4368	10920
Nett	29228	17952	32192	32668	22120	36360	36108	26132	40372
Plus tax free benefit		14500			14500			14500	
Less fees		260			260			260	
Nett PAY	29228	32192	32192	32668	36360	36360	36108	40372	40372
Reportable FBA (grossed up at 1.8692)		27103.4			27103.4			27103.4	
Assessable Income	35000	47603.4	39316	40000	52603.4	45408	45000	57603.4	51292
Reduction if FBT if grossing up		21168.55			21168.55			21168.55	

based on tax rate of 31.5% Reportable FBA (grossed up at 1.4599)									
Assessable Income	35000	41668.55	39316	0	46668.55	45408	0	51668.55	51292
Explanation of Table	<p>A family on \$35000 with fringe benefits of \$145 has a take home pay equivalent to a family on \$39316 with no fringe benefits, but has an assessable income of \$47603.40, <b>\$8287</b> higher than the family on the same take home pay. With the proposed lower gross up factor, the assessable income would be <b>\$2352.55</b> higher</p> <p>A family on \$40000 with fringe benefits of \$14500, has a take home pay equivalent to a family on \$45408 with no fringe benefits, but has an assessable income of \$52603.40, <b>\$7195.40</b> higher than the family on the same take home pay. With the proposed lower gross up factor, the assessable income would be <b>\$1260.55</b> higher.</p> <p>A family on \$45000 with fringe benefits of \$14500, has a take home pay equivalent to a family on \$51292 with no fringe benefits, but has an assessable income of \$57603.40, <b>\$6311.40</b> higher than the family on the same take home pay. With the proposed lower gross up factor, the assessable income would be <b>\$376.55</b> higher</p>								