



19 June 2008

Committee Secretary
Senate Standing Committee on Finance and
Public Administration
Parliament House
Canberra ACT 2600

Dear Committee Secretary

Re: Inquiry into the Families, Housing, Community Services and Indigenous Affairs and Other Legislation Amendment (2008 Budget and Other Measures) Bill 2008

ACOSS welcomes the opportunity to make this submission.

ACOSS supports tax and social security policies that take account of people's ability to pay or need for income support in a fair and consistent way. On this basis, we broadly support the Government's Budget measures to broaden the definitions of income used in the income tests for various programs. These measures would help ensure that people who are relatively well off cannot benefit from income tested Government programs such as social security payments and the Superannuation Co-contribution by using various accounting devices to minimise their incomes. For example, the inclusion of salary sacrifice for superannuation in the income test for the Superannuation Co-contribution would help prevent mature age high income-earners from 'churning' their wages through superannuation to substantially reduce their effective tax rates.

As well as improving the fairness of the programs concerned, these measures would save the Government money that could be devoted to improving services for low and middle income people.

The Bill currently before the Senate includes technical changes to a previous measure legislated in 2006 which was part of a complex package of child support changes.

This submission relates to an already legislated measure included in those child support changes – namely the use of gross rather than net income as the basis for taking account of the value of fringe benefits in the Family Tax Benefit income test. ACOSS is concerned about the effect of this legislation on a subset of community services (namely Public Benevolent Institutions) and their employees, but it should not be confused with the Budget measures.

There are approximately 50,000 people employed in approximately 10,000 Public Benevolent Institutions. These services range from aged care and disability services to community legal centres, Indigenous community organisations and refuges. They struggle to provide vital support to the most disadvantaged people in Australia with inadequate levels of funding that fail to keep pace with basic costs. As a result, wage levels are low for most employees and services have great difficulty attracting staff in the present labour market. This problem will worsen over the next few decades because a large proportion of the workforce are close to retirement age.

Australian Council of Social Service
Locked Bag 4777, Strawberry Hills, NSW, 2012
Ph (02) 9310 6200 Fax (02) 9310 4822
info@acoss.org.au www.acoss.org.au



One way in which the Commonwealth Government assists these organisations to recruit and retain staff is by exempting Public Benevolent Institutions from Fringe Benefits Tax for fringe benefits worth up to \$30,000 (when grossed up). There are better ways to address the workforce problems in the community sector, but these have not been implemented.

The ideal solution to the above problems would be to fund services adequately so that wages could be improved, and to change the indexation formula for Government funding programs so that it keeps pace with the cost structure of the services. This would ensure that all organisations providing essential community services benefit regardless of their tax status, and avoid the transaction costs and inequities involved in salary packaging. There are also serious anomalies in the tax treatment of charities that were identified by the previous Government's Charity Definitions Inquiry, whose recommendations, unfortunately, were not implemented. This means that many organisations which should in principle qualify for Public Benevolent Institution status are excluded.

In the absence of comprehensive policy solutions along these lines, many community organisations and their employees continue to rely on salary packaging to provide essential services for disadvantaged and vulnerable Australians.

Legislation passed in 2006 as part of a complex package of child support changes altered the income test for Family Tax Benefits so that reportable fringe benefits, which were already taken into account on a net basis (without grossing up) were grossed up instead. The effect of this change is to substantially reduce entitlements to many employees to Family Tax Benefits, because the process of grossing up increases the value of the fringe benefits as measured in the income test. This will reduce disposable incomes for many families, especially those in the income range from around \$40,000 to \$80,000 where the primary income test for Family Tax Benefit applies. Given the level of wages paid in many community services and the nature of the income test for Family Tax Benefit, most of those affected are likely to be on modest rather than high incomes.

As a result of this change in the income test for Family Tax Benefit, some employees will leave employment in community services to pursue better paid employment elsewhere, exacerbating the workforce problems noted above. Community organisations will need to offer higher wages to new applicants for positions to compensate for the reduced value of salary packaging for many employees with families. For these reasons, services to disadvantaged people will be adversely affected by the change.

However, the 2006 legislation that will reduce the Family Tax Benefits of community service employees is different from the Government's Budget measures. The value of fringe benefits is already taken into account in the income test for Family Tax Benefit and various other income support payments. The 2006 legislation merely changed the formula by which this was achieved in relation to Family Tax Benefit and Child Support payments, by grossing up the value of the fringe benefits.

In contrast, the 2008 Budget measures apply reportable fringe benefits to the income tests for various Government programs for the first time from 1 July 2009. It is our



understanding that this test will be the net value of reportable fringe benefits, which is consistent with the income test that currently applies to Family Tax Benefit (up until 1 July 2008).

We therefore welcome the Government's decision to review the treatment of reportable fringe benefits in the Family Tax Benefit income test and broadly support the Budget measures.

We also look forward to the Government taking a more comprehensive approach to supporting community sector organisations.

Yours sincerely

A handwritten signature in black ink that reads "Gregor Macfie". The signature is written in a cursive, slightly slanted style.

Gregor Macfie
Acting CEO