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Indirect, Philanthropy and Resource Tax Division
The Treasury
Langton Crescent
PARKES ACT 2600

SYC Adelaide Office
Level 6, East Wing
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T 08 82126062

VIA ELECTRONIC SUBMISSION

Dear Sir,

SUBMISSION IN RESPONSE TO NFP SECTOR TAX CONCESSION WORKING GROUP DISCUSSION PAPER

Thank you for the opportunity to provide a response to the Not-for-profit sector tax concession working group discussion paper. The paper canvasses a range of issues and whilst SYC is a registered deductible gift recipient, this response focuses on the fringe benefits tax concession elements of the discussion paper, highlighting key points from SYC's perspective for consideration by the working group.

About SYC

SYC is a community organisation centered on employment, training and youth services. With a core purpose to positively affect the lives of young people in Australia, each year SYC helps more than 40,000 people of all ages in the areas of Home, Wellbeing, Learning and Working.

SYC has three divisions:

- *HYPA*, standing for Helping Young People Achieve, provides a wide range of support to young people to find and harness their talent for a positive future. It has supported many thousands of young people since its inception in September 1958, helping them to access and maintain safe and appropriate accommodation, to reconnect with family, school, employment and the community.
- *Job Prospects* is a leading Job Services Australia (JSA) and Disability Support Services – Employment Support Service (DES-ESS) provider that works with jobseekers to gain and sustain employment and with employers to recruit and maintain their workforce. Job Prospects provides services to more than 31,000 people of all ages each year, plus offers specialist services in disability, homelessness and youth.
- *Training Prospects* is a Registered Training Organisation delivering flexible training solutions focused on the needs of employers, the labour market and more than 5,000 students (including 1,400 apprentices and trainees) in over 70 qualifications across business, plumbing, engineering, furnishing, electrical and construction.



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Workforce salary packaging – a snapshot of employee preferences and opinions

SYC employs 450 people across Victoria and South Australia. The vast majority of employees – some 78 per cent – take advantage of tax concessions associated with salary packaging, up to a \$30,000 grossed-up taxable value cap per employee.

More than half of those employees who elect to salary package do so to a pre-paid Visa card that can be used to pay for any purchase where Visa is accepted. A further 23 per cent salary sacrifice directly to a regular mortgage payment.

The proportion of employees who take advantage of meal / entertainment or venue packaging options is significantly lower (at 13 and 23 per cent respectively).

Based on employee feedback gained through the annual SYC Employee Survey and employee exit interviews, there is strong evidence in SYC's experience that salary packaging is a key benefit that is valued by employees and is important to their decision to work for this organisation.

SYC has a practice of structuring remuneration at the lower quartile of accepted remuneration bands for roles in the sectors it operates in. As such, the opportunity to salary package is particularly important as a recruitment and retention tool when competing for talent.

Retention of current concession with cap limit

SYC strongly advocates the retention of the current concession as applied in the \$30,000 grossed-up taxable value cap per employee. A majority of SYC employees earn less than \$48,000 per annum and the salary packaging benefit provides a material increase in take-home pay that is particularly valued by this cohort.

It is SYC's view that removal of this benefit would make the already difficult challenge of attracting and retaining high quality employees – particularly in client-facing roles – more significant.

SYC does not bear a high administration burden through the provision of salary packaging, having opted to outsource this task to a third-party provider. Employees who choose to salary package then pay a small administration charge depending on the nature of the packaging options they choose to take-up. SYC employees have indicated this impost is not considered unreasonable and the high proportion of employees who elect to salary package would seem to evidence this to be the case.





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Possible changes to FBT concessions

SYC suggests that the working group consider two areas of concession for amendment, given they are likely unintended consequences of the current regulatory framework.

The first relates to salary packaging of a motor vehicle - particularly, that if a car allocated to an employee is made available to a site as a 'pool vehicle' at least one day per week and appropriate logbook records are maintained, that this vehicle to the employee is considered to be FBT exempt. This loophole would seem to be inconsistent with the spirit of the FBT concessions for not-for-profit organisations. SYC does not take advantage of this loophole in its own operations - instead charging employees a fee for personal use of a role-related vehicle.

Secondly, SYC notes the Tax Concession Working Group's indication that bringing the meal entertainment and venue hire benefits within the \$30,000 grossed-up taxable value cap per employee would generate an additional \$100 million per year. It is the view of SYC that whilst this benefit is taken up by some employees, it is valued less by employees as compared to the capped FBT concession benefit. With relatively low uptake within the workforce of this organisation (less than a quarter of employees) for the meal entertainment and venue hire benefits, SYC would support the transferring of this benefit to be brought under the grossed-up cap rather than retained as a benefit over and above the cap.

Competitive advantages provided to certain NFPs as against taxable competitors

SYC acknowledges that at face value, the current FBT concessions could deliver advantages as compared to taxable competitors. However this view is an input oriented perspective and SYC urges the working group to consider this issue from an outcomes and impact oriented perspective.

In other words, what do not-for-profits do with the advantage that the current concessions provide? For SYC, it better enables this organisation to pay at a lower gross rate than for-profit entities, thereby enabling any surplus generated to be directed to the provision of services to the more than 40,000 clients SYC supports each year.

For profit organisations have a choice to direct surpluses to retained earnings or shareholder distributions; for effective not-for-profit organisations, surpluses will always be directed to extending the reach and impact of service provision.

Replacing current FBT concessions with a government grant similar to the FBT concessions value

SYC is reluctant to support the phasing out of the FBT concessions and replacing them with either alternative government support (such as direct grants) or with an alternative tax-based mechanism such as a refundable or direct tax offset or a capped tax-free allowance.





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To do so would limit the appeal of salary packing for many employees, as the effect of packaging would be less obvious in its benefit, less transparent in its application (ie. not realised with each PAYG pay cycle) and potentially become a deterrent to some employees who experience adverse cashflow more acutely depending on their salary level and personal circumstances. Put simply, upfront packaging is an important remuneration mechanism for low wage earners working for not-for-profit organisations.

For further information

For further information regarding this submission, please contact Michael Clark, Executive General Manager – Corporate Communications on (08) 8231-6676 or email to mclark@syc.net.au

Yours sincerely

Ruth Gillies
Executive General Manager – People & Culture

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Service to Youth Council Incorporated
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