

Tax White Paper Task Force
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Dear Tax White Paper Taskforce

On behalf of SGCH (St George Community Housing Limited) I am pleased to contribute to the Tax Discussion Paper.

SGCH is a not-for-profit organisation that provides social services to some of the most vulnerable and disadvantaged members of our community. SGCH is one of Australia's largest community housing providers, housing more than 8,000 residents on low to moderate incomes in over 4,000 properties. As a Public Benevolent Institution we receive income tax exemptions, GST and Fringe Benefit Tax (FBT) concessions and are endorsed as a tax deductible gift recipient. SGCH's submission mainly relates to the FBT concession issues raised in the discussion paper. However, given SGCH's work in the frontline of the affordable housing crisis, we will also make comment on negative gearing and capital gains tax.

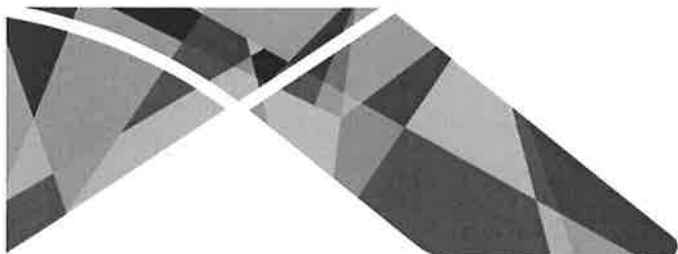
Discussion question 74: Are the current tax arrangements for the NFP sector appropriate? If not why not?

The tax arrangements for NFPs such as SGCH are appropriate. The underlying rationale for SGCH's tax concessions is the recognition that it undertakes activities which the community believes are worthwhile and which provide a social and public benefit. SGCH, like other NFPs, supports and provides services for the vulnerable and the needy and are fundamentally different to commercial organisations in that the imperative is not the pursuit of profit for the benefit of the individual.

The tax concessions that apply to NFPs such as SGCH are still relevant in today's economic environment. In fact the role of NFPs is more important today than ever before, at a time when an affluent country such as ours is unable to resolve the

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persistent issues of intergenerational poverty. A recent report released by the Committee for Economic Development of Australia (CEDA) found that despite over 20 years of economic growth, between one to 1.5 million Australians live in entrenched disadvantage. If we are to address entrenched disadvantage and provide opportunities for participation, the starting point to assist people out of poverty is the provision of a safe and secure home, and this is where not-for-profit providers like SGCH play a crucial role.

At SGCH, we provide housing to people on low to moderate incomes. With housing in short supply and governments increasingly unable to meet the demand, the need for social and affordable housing has never been greater. In NSW there are over 59,000 people on the social housing waiting list and the wait time for social housing in most parts of Sydney is 10 years. Data from the 2011 census shows that there are 2.6 million NSW households experiencing housing stress. Anglicare's 2015 Rental Affordability Snapshot found that of the 13,235 rental properties advertised in the Greater Sydney region, only 958 – just seven per cent of properties - were affordable for people living on a minimum wage. A staggeringly low 60 properties (that is half a per cent) were affordable for households on income support. While Sydney is the country's most expensive housing market with median house prices approaching \$1 million, the unmet need for social and affordable housing is in fact a national problem as the growth in house prices has outpaced the growth in incomes. As noted in the recently released Senate Committee report "Out of reach? Australia's housing affordability challenge", in 2001 the average home price in Australia was 4.7 times the average income. By 2011 this had increased to 7.3 times.

As a Public Benevolent Institution, tax concessions enable SGCH to maximise the resources directed towards housing and support services for our tenants and urban renewal projects. If the tax concessions were to be removed, there is no doubt that SGCH would need to reduce the services provided to tenants and scale back our community regeneration programs.

Discussion question 48: To what extent do the tax arrangements for the NFP sector raise the particular concerns about competitive advantage compared to the tax arrangements for the for-profit organisations?

The discussion paper singles out FBT concessions as providing NFPs an advantage in hiring staff arguing that by "utilising salary sacrificing arrangements, the cost of

labour for NFPs is reduced” and this “lower cost could be used by the NFP to offer employees a higher salary, providing them with an advantage in hiring and retaining staff”. We argue that this contention is not substantiated. There is no evidence presented to demonstrate that NFPs are offering salaries that are higher than the commensurate salaries in the private sector. Nor is there evidence to show that the salary levels in the NFP sector are contributing to a shortage of labour in the private sector.

Without the FBT concessions NFPs would not be able to offer salary levels that approximate the private sector and therefore would not be able to attract or retain staff. As an illustration, the salary range for an accounts receivable clerk in small to medium companies is \$50,000 - \$68,000. SGCH's salary for an accounts receivable clerk is \$58,000 which is \$10,000 less than that offered by a medium size company. FBT concessions bring the total benefits up to \$61,500 – which is still lower than the top end of the salary range for this position in small to medium sized companies.

Without the FBT concessions, SGCH would not be able to attract and maintain staff and this will ultimately have an impact on the services we provide. Given that approximately 90 per cent of SGCH employees utilise the FBT concessions, removing or limiting this concession will have a significant impact on our workforce.

The Tax Discussion Paper targets the hospital sector in particular “This concessional treatment is particularly problematic where the NFP competes with for-profit providers, in particular in the hospital sector”. Profit providers of private rental services are not impacted by the operations of SGCH: SGCH's income is a factor of the tenant's income whereas a for-profit agent's income is a percentage of the rent charged. Private rents are significantly higher than the rents charged by SGCH. Consequently SGCH does not have any competitive advantage over for-profit rental operators.

In relation to the meal and entertainment facility benefits, the Government has since announced capping of this benefit to \$2,550 per FBT year. While the need to provide a better targeted benefit and address the scheme's exposure to fraud is supported, the \$2,550 cap is a drastic cut for our employees, reducing the benefit to just \$50 a week. In combination with the erosion of the value of the FBT benefit cap - given that the FBT cap has not been indexed since 2000 – this is a significant cut in benefits for our employees.

Discussion questions 49 & 50: What, if any, administrative arrangements could be simplified that would result in similar outcomes, but with reduced compliance costs? What, if any, changes could be made to the current tax arrangement for the NFP sector that could enable the sector to deliver benefits to the Australian community more efficiently or effectively?

The system of current tax concessions that applies to the NFP sector is complicated and reflects a sector which encompasses organisations of varying sizes, providing a broad range of services, with a broad range of purposes. Some NFP organisations are associations and clubs which exist for the mutual benefit of their members. Some organisations are religious and other NFP organisations provide social services to people who are struggling in our community. The Tax discussion paper provides an opportunity for the community to have a conversation on whether the definition of NFP remains relevant and whether they reflect the community's priority in terms of the social and public good provided.

The impact of negative gearing and capital gains tax discount on housing affordability

It is disappointing that while the opening preamble of the Tax Discussion Paper states; "the Government will be considering every worthwhile idea", the Government has pre-emptively ruled out any changes to negative gearing. With the RBA continuing to express concerns about rising property prices and first home buyers being increasingly locked out of the housing market, it is time for a candid discussion about the contribution of tax treatments, such as negative gearing and capital gains tax discounts, to the housing affordability problem.

In a submission to the recent Senate Inquiry into Housing Affordability in Australia, Saul Eslake, Chief Economist, Bank of America Merrill Lynch, concluded that negative gearing does not contribute to the supply of housing as 92% of all borrowing by residential property investors over the past decade has been for the purchase of established dwellings. There is also growing agreement that these tax treatments are fuelling speculative behaviour which is contributing to inflating housing costs.

While there is debate over the contribution of negative gearing and capital gains tax discount to the lack of affordable housing, we would encourage the Government to commission a comprehensive analysis of the two issues. While negative gearing and capital gains tax discount may have served a particular purpose for a particular time, the growing concerns over the impact in terms of both the significant amount of tax revenue foregone and the distortion of the housing market needs to be examined in detail.

Conclusion

Tax concessions for the NFP sector have developed over time in recognition that the sector operates on slim margins and any surpluses are reinvested into services and programs that are of a social and economic benefit to the community. NFPs like SGCH exist due to market failure, providing services to people who can't access services in the mainstream market. We operate in a space that has been vacated by Government and the private sector. This is especially the case in social and affordable housing. If tax concessions are removed or reduced, operational costs increased and services withdrawn, who will fill the resulting gap?

Again, thank you for the opportunity to make a submission and we are hopeful that the Government continues to support the role of NFPs such as SGCH.

Yours sincerely



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A/Chief Executive Officer

