ASPIA

Australian
Salary Packaging
Industry Association
ABN 61 169 826 724

Jonathan Coppel

Presiding Commissioner

And

Paul Lindwall

Commissioner

Productivity Commission

Canberra ACT 2601

11 October 2019

Dear Sirs

REMOTE AREA TAX CONCESSIONS AND PAYMENTS - PRODUCTIVITY COMMISSION DRAFT REPORT

RESPONSE TO INVITATION TO COMMENT - AUSTRALIAN SALARY PACKAGING INDUSTRY ASSOCIATION (ASPIA)

ASPIA is an industry body representing eleven outsourced salary packaging and novated leasing providers across Australia. Many of our members administer salary packaging of remote area benefits on behalf of employer clients located in remote areas. We appreciate the opportunity to provide input to the Productivity Commission's review of the remote area tax concessions and payments framework. Provided below are some general comments based on our experience, which we trust will be helpful in relation to this review, as well as our specific responses to Information Requests 2 – 6 inclusive.

General Comments

The National Automotive Leasing and Salary Packaging Association (NALSPA) is another industry body representing five outsourced salary packaging and novated leasing providers. ASPIA is largely in agreement with the content of NALSPA's original submission to the Productivity Commission in relation to remote area tax concessions.

The salary packaging industry plays a central part in connecting remote area employers and their employees with the remote area tax concessions. Salary packaging businesses have developed systems, processes and technology that efficiently and effectively deliver the value of legislative concessions to eligible employees while maintaining a high standard of compliance for employers.

In doing so, we consider these providers play an important role in supporting the remote communities in which their clients operate. In particular, in our experience, through the use of salary packaging remote area benefits:

- Employers in remote areas are better supported where they are forced to provide accommodation to employees due to a lack of suitable accommodation in the area;
- Employers in remote areas are better able to attract and retain quality staff with the requisite skills needed;
- More people are encouraged to settle permanently in the area, which develops a stronger sense of community in the remote location; and
- Communities are enhanced by having less 'transient' people moving through and therefore less of the problems this can create.

In the experience of ASPIA members, the remote area FBT concessions are a central component of the remuneration offering made by remote area employers in order to attract and retain high performing staff with the right skills. However, take up of these benefits is frustrated by the inherent complexity, inconsistent legislative operation, and resulting lack of understanding of the concessions.

In our view, **it is therefore important to retain or expand the concessions** and to both **simplify their operation** and adjust the legislative instruments in order provide for a **more equitable outcome that aligns with national objectives for the development of regional Australia**.

Information Request 2

The Commission invites feedback on its estimates of the utilisation of the FBT concessions. Are the Commission's assumptions plausible? If not, what alternative assumptions should apply? Are there other data that could assist in gauging the use of FBT concessions?

In relation to the utilisation of the concessions, we suggest it is relevant to note that salary packaging administrators can play an important role in ensuring efficient and effective application of policy intent. ASPIA is focused on supporting its members in the provision of the effective application of salary packaging between employers and employees through salary packaging providers.

Salary packaging administrators provide a critical link in connecting remote area employers and employees with what are essentially employee assistance programs. They can facilitate complex programs in a simple way that improves overall productivity.

Salary packaging administrators can also ensure that regulatory compliance and governance is maintained for the accurate and abiding provision of such concessions as it was intended.

Information Request 3

Should the revised remote area concessions be considered 'reportable' or 'excluded' benefits? Are there additional compliance burdens from allocating these benefits to individual employees that justify excluding them? Are there any other factors that should be considered in implementing these changes?

As a general rule, we consider salary packaged benefits should be reportable on payment summaries, and other benefits provided by an employer to its employees should not be reportable. However, as part of a concession with particular policy intent, it also makes sense to remove the reporting requirement for the particular benefits.

Therefore, ASPIA does not recommend that the remote area concessions should become reportable benefits as it could adversely impact employers and employees in areas of Australia that rely significantly on the allowances and concessions available to them.

Accommodation concessions

We do not agree with the proposal to revert the exemption for employer provided accommodation to a 50% concession, since take up of this benefit is predominantly in situations where employers have to provide housing due to a lack of suitable housing otherwise available in the area. Specific common examples in this regard are health care professionals and where employees are required to live on farms or similar properties.

In other cases, employers require support to attract and retain appropriate talent, and in these cases we consider a 50% concession applied to accommodation benefits, other than employer provided accommodation, to be suitable. However, for simplicity, we suggest aligning the manner in which such a concession is applied across benefits such as rent and mortgage interest.

If even further simplicity and parity across the benefits is desired, the 100% concession should instead be extended to all accommodation provided under the different arrangements.

Customary in the industry requirement

ASPIA is in agreement with the proposal to remove the requirement for benefits to be 'customary in the industry' in order to qualify for concessional FBT treatment. This is due to the unreasonable burden we consider this places on certain employers compared to others, the subjective and therefore inconsistent application of the legislative test, as well as a lack of parity between employers in different industries.

Definition of remote area

We also agree with the proposal to remove the provision that effectively extends the definition of 'remote area' for certain employers, as this creates a lot of confusion. We also consider that the definition of a remote area should be widened (in order to support more employers and communities in rural areas) and simplified for all employers.

Information Request 4

The Commission invites further information on the compliance burdens that could arise from this change in the FBT treatment of employer-provided housing, and on what could be done to reduce these burdens while addressing equity concerns.

The participation of the salary packaging industry in the provision of remote area benefits to employers and employees significantly relieves the compliance burdens of the existing concessions and as stated above. The systems, technology, processes and compliance regimes developed by the industry, and the facilitation role these play in connecting employers and employees with the legislated benefit concessions, should not be overlooked in considering the capacity of the Australian marketplace to manage benefit compliance and policy adherence.

The Productivity Commission's priority in reducing the compliance burden of the remote area concessions should therefore be to ensure eligibility and operation of the FBT concessions is clear, objective and based on equitable principles. Complex compliance can be managed by increasingly sophisticated tax technology tools, however complex employee outcomes that are unclear and applied inconsistently are far more damaging to the effectiveness of the concession program.

We propose a number of measures to address compliance concerns with both the existing rules and the proposed changes, as follows:

- Simplify the definition of 'remote area' (see below)
- Make the concessions consistent – eg. 50% of taxable value or 50% of recipient's expenditure, but not a mixture of the two
- Simplify and make consistent the conditions attached to the various concession categories

Information Request 5

How often should the FBT remote area boundaries be updated? Should the FBT remote area boundaries be decoupled from the ZTO boundaries? If so, how? Can the other eligibility rules for remote area concessions be improved sufficiently to make geographical boundaries redundant?

Due to the positive benefits for remote communities, we consider the concept of a remote area and associated tax concessions should be retained.

We consider alignment with the Zone Tax Offset boundaries is a 'nice to have', but not essential. In our view, simplicity should be the key.

We do consider that the remote area boundaries should be updated regularly and agree with NALSPA's recommendation as to:

> *"… include updating the remote area parameters to be reflective of current population figures and thresholds. In light of this view, it would be expected that the remote area boundaries be updated as regularly as possible, based on the ABS data and other sources of information available to the Government at the time of revision".*

If practical, using post codes to define remote areas would be a simple methodology to apply. Further, a map on the ATO website clearly showing the boundaries would be really useful.

Therefore, if the remote area parameters were updated, there would be no need for any reduction to the FBT remote area concessions.

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Information Request 6

What impacts would the proposed changes to FBT remote area concessions (particularly for housing) have on the provision of key public services, such as health services, in remote areas?

If the right changes are made (as per above), our view is that it would assist employers in these areas to provide better services to the community and would encourage more people to settle in remote areas, therefore enhancing the sense of community and remove the problems created by having a transient population. In particular:

- Simplifying and/or expanding the remote area concessions will help key public service employers attract talent from urban centers into regional and remote areas - a national policy priority.
- Increased transition of urban employees to regional Australia will improve the knowledge, capacity and resources of those employers/services, while also contributing to the overall health and economy of those locations.
- Improved remote area concessions will make it easier for the salary packaging industry to partner with employers to develop effective remuneration packages that incorporate clear and equitable remote area assistance.

Thank you again for the opportunity to express our views. Should you require any further information from our members or wish to discuss any aspect of our submission, please contact me

Yours sincerely

Antony Sabato

Chairman

ASPIA (Australian Salary Packaging Industry Association)