



COMMUNITY WAIKATO

"Supporting strong communities"

Hei tautoko kia tuu pakari ai ngaa haapori

Recognising salary trade-offs as income
C/- Deputy Commissioner
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Thank you for the opportunity to make a submission on the proposal that Fringe Benefit Tax should be applied to cash and non-cash benefits as part of salary packages for people employed by charities.

Background

Community Waikato is about supporting strong communities. Community Waikato does that by working one-to-one with community organisations (charities) to support their capacity to provide the best possible services. We work with them on governance, management, HR, financial structures, funding, applications, accountability, legal structures, constitutions, compliance. We offer training to back this up and we provide scholarships to enable people to take up the opportunity to participate in training and to work towards higher qualifications. This in turn brings knowledge and skills to the organisations and results in better services.

We facilitate and support networks because we believe networks provide the opportunity for sharing information, ideas and experience, form relationships, seek advice and support from peers.

We support collaborative projects many of which come from networks identifying a common issue and working together on a solution. These range from local to regional to national but all are designed to benefit people in the Waikato.

We provide information relevant to the sector and to help people in their work and their thinking and we gather information to advocate on behalf of the sector. This includes surveys – State of the Sector 2010 and 2011 that we use to inform the community, report to funders and advocate to government.

We are Tindall Foundation regional fund managers which give us a further insight into the work and the needs of organisations that adds to our overall knowledge and overview of the sector.

Following a meeting of community organisations on this subject we make the following points.

Changes to the legislation

Costs

The proposal to change the legislation as it affects fringe benefit tax will have major cost and compliance implications for community based charities and it will impact remuneration packages.

Organisations in the sector are not able to pay competitive salaries or provide excellent working conditions because they are reliant on government contracts which rarely provide the full cost of the services to be provided, philanthropic grants and donations, bequests, membership and fundraising activities. This, despite the fact they are providing essential services that are in increasing demand.

The proposed additional burden of FBT will adversely impact this situation. Many charities are reliant on donations from the public and from charitable trusts and foundations which are currently under pressure due to the global financial crisis. Many have cut funding to reflect poor return on investments or they have used capital to ensure services can still be provided. Other charities are funded through government contracts. In neither situation is there any certainty or indeed likelihood that those sources of funding will increase to counter the effects of the proposed FBT changes.

Larger organisations may have a social enterprise or may be considering how they might diversify their sources of income but this will rarely cover all costs and is an option only for those organisations that are robust enough to be able to expend the time, money and resources required to diversify or to develop a social enterprise. There is currently little financial or other support for these activities.

The community based charitable sector is already going to be affected by the increased contribution requirement to Kiwi Saver by their organisations next year.

The sector is operating within a challenging funding environment and it needs to be acknowledged that the exemptions on salary sacrifices are a source of indirect support for charitable services. It will affect the sustainability of organisations already under pressure.

We ask that consideration be given to how this would affect those organisations that hold government contracts. Is the government going to increase the contract amount to counteract the increased costs of the proposed changes? If not, what will the flow-on affect be to society when organisations cannot provide services? That becomes a cost to government, the agencies within government and to society.

Vehicles

The majority of community based social service and health services use vehicles to access their clients in a region that is large, rural & remote. This service delivery means workers are frequently asked or expected to leave early in the morning or return later. Most organisations work outside the normal 8.30am to 5.30pm day. It is safer and more practical for staff to leave from home and return directly home when completing their work day. This is a benefit to the organisation and ultimately of benefit to the communities served by these social and health services charitable organisations.

Many organisations do not have the facilities or budget to house vehicles overnight therefore many staff take them home and park the vehicles to ensure the safety of the vehicle. Some larger community organisations have the resources to house vehicles however most organisations are unable to securely house cars overnight or at weekends.

Other benefits

Like vehicles, cell phones are an integral part of the job in providing access for clients and safety for workers who are out in the community. They are also an essential communication tool for their work. Benefits such as childcare, health insurance and other benefits are ways of ensuring staff are able to work and ensuring their health & wellbeing despite the generally low wages paid in the sector.

Vouchers

It is important to differentiate between Fringe Benefit Tax and voucher schemes such as Maxxia. The voucher schemes are new and allow salary reduction in exchange for vouchers or pre-loaded cards. These voucher schemes provide a tax benefit to individuals as opposed to a benefit to an organisation.

Administration

If the proposed changes were to go ahead and charities needed to capture and administer salary sacrifice benefits, this would entail considerable professional development for staff who would undertake the administration. In addition there would be the time involved in instigating the new processes, working with them, valuing all taxable benefits to staff and then reporting them to the Inland Revenue Department and employees of the charitable organisation. This would have an impact on already heavy workloads. Many organisations have staff filling multiple roles and extra administration would result in less time to provide services to clients and management of the organisation.

The sector is never going to be cash rich and has always had to find other ways to value and retain its workers and we have had to think laterally around how we can compensate for the low wages and high levels of part time work. The sector provides services as a low cost option for government and that we do this work for community benefit not a profit making vehicle.

Recommendation

Do not introduce further costs and compliance issues for charities in New Zealand, especially at a time when many are struggling to manage within their resources while continuing to provide essential services in the areas of social services, health, education, disability, environment and community development.

We believe there are bigger fish to fry. How much additional revenue will these changes affecting the community sector bring in to government coffers? We submit that any gains from our sector will be wiped out because of the additional staff IRD will need to employ to process all the new paperwork.

Therefore we recommend that the government supports the work of the sector by at least continuing the status quo.

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