Re:think Tax Discussion Paper

Supplementary Submission

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Executive Summary

NALSPA is lodging this supplementary submission to highlight concerns it holds regarding suggestions made by a number of other submissions in response to the *Re-think Tax Discussion Paper* (the Discussion Paper).

NALSPA's specific concern is with those submissions urging reform to the fringe benefits tax (FBT) system in the following manner:

- The **FBT rate should be set at the recipient employee's marginal tax rate** because the current rate of FBT is inequitable.
- **Benefit taxation should be applied as an employee obligation**, rather than an employer obligation, to increase compliance and reduce complexity.

NALSPA's experience with the packaging of fringe benefits gives rise to our strong belief that **the above reforms are unlikely to deliver any substantial improvements to Australia's benefit taxation outcomes**. The primary reasons for this are as follows:

- The increase in legislative complexity required to apply marginal FBT rates to employee benefits is significantly disproportionate to the inequity sought to be addressed, which rarely occurs in practice due to widespread use of recipients' contributions to reduce taxable values and the fact that FBT is an income tax deduction.

- Benefit taxation at the employee level won't increase levels of compliance with FBT law, increase fairness or reduce complexity – in fact the opposite outcomes would be far more likely because:

    - Rules for the valuation of benefits in employee hands would likely be more complex than those applicable under the current system.
    - Employees would incur new compliance administration obligations while employer requirements would remain relatively unchanged.
    - Taxation of non-cash benefits in employee hands has a historical record or being ineffective and non-compliant.
    - Benefit taxation at the employee level will exacerbate bracket creep.
    - It is very likely that the cost of the NFP benefit concessions would substantially increase, potentially requiring a reduction in the per-head value of these exemptions

Reform of the FBT system is nonetheless a worthwhile endeavour and in this regard NALSPA endorses the following proposals as deserving of further consideration:

- Employer-provided entertainment benefits are worthy of considering for exemption from FBT and rendered non-tax deductible unless provided under a salary sacrifice (or similar) arrangement. Whilst further analysis is required, this reform measure could potentially significantly reduce employer compliance obligations without substantially impacting overall tax revenue.
- Making it easier for employers to manage small employment-related day-to-day benefits through substantial simplification of the minor benefits exemption.

Introduction

"[The current FBT system] has served us well for nearly three decades, and is well entrenched in most business' ongoing financial and compliance processes."

***Time for a Re:think on Tax Reform*, CPA Australia, June 2015**

Subsequent to lodging its original submission NALSPA noted that several other submissions raised important issues relating to the FBT system - issues that merit open, informed and practical discussion.

In this supplementary submission NALSPA draws upon its extensive experience in both navigating and managing FBT compliance processes, in order to provide additional input to those views to ensure policymakers have access to balanced and fully-informed viewpoints.

In particular, we wish to provide our perspective in relation to the following two issues that have been raised by selected submissions:

1. The application of FBT at the highest personal marginal income tax rate is inequitable when applied to benefits provided to employees who are taxed at a lower rate; and
2. It would be more efficient for benefit taxation to be applied as an employee, rather than employer, obligation.

It is NALSPA's primary contention that these concerns are not validated by the experiences of our members - Australian businesses that facilitate the provision of billions of dollars in fringe benefits to hundreds of thousands of Australian employees every year. This submission sets out some of the relevant insights and observations arising from our members' experience, with the aim of ensuring all aspects of this issue are fully considered.

NALSPA agrees that certain opportunities do exist to enhance fairness of outcome within the FBT system and to simplify the rules and reduce costs of compliance where feasible, and we share some of these opportunities in this supplementary submission. However, NALSPA urges policymakers to ensure that decisions in this area are informed by a complete and practical understanding of the Australian employee benefit industry.

The myth of the inequity of the FBT rate

As mentioned, several submissions responding to the Discussion Paper made suggestions regarding the rate of FBT. Those suggestions were based on a broad perception that the FBT rate is inequitable in instances where a taxable fringe benefit is provided to an employee deriving a taxable income less than the threshold for the top marginal rate of 47% income tax.

Motivated by such concerns, the relevant submissions suggested various major and substantive reforms to the policy and legislative framework underpinning the entire FBT system, namely:

- The rate of FBT should be different as between "remuneration" benefits (i.e. benefits that are provided as a part reward for services and thus can be attributable to specific individual employees) and "non-remuneration benefits" (i.e. all other fringe benefits). The rate applicable to a remuneration benefit should be the marginal rate of income tax of the particular employee. The rate applicable to a non-remuneration benefit should equate to the company income tax rate. This is the so-called "New Zealand Model".

- The FBT system should be abolished and replaced by an income tax system of taxing benefits in the hands of employees, via PAYG.

- All FBT liabilities should be transferred to employees and thus taxed at their respective marginal rates of income tax, via PAYG.

- FBT liability should be split between employees and employers. Employees should be taxed on "remuneration" benefits at their respective marginal rates of income tax, via PAYG. Employers should remain liable to FBT on "non-remuneration" benefits. A variation of this suggestion involves a carve-out for exemption those non-remuneration benefits that are "work-related" benefits (i.e. benefits that are provided to employees in the course of performing their employment duties).

As an initial comment, the sheer scale of what each of the above suggestions represents in terms of changes to tax law and policy, and the resulting administrative impacts, appears totally disproportionate to that of the perceived inequity sought to be addressed. This alone is of sufficient concern to NALSPA to highlight as a major risk to the basic tenets of the current tax reform process – fairness, equity and simplicity.

But at a practical level the perception that the rate of FBT is inequitable is deficient. There are several reasons for this conclusion.

Firstly, the reality being overlooked is that the net effective rate of FBT is lower than the top marginal individual rate of income tax, and this is because the payment of FBT is a deduction for income tax purposes at the same rate as cash salary or wages paid in lieu of fringe benefits. For a corporate employer this means the net effective rate of FBT is 32.9%. This approximates the marginal rate of income tax for employees earning between $37,001 and $80,000 per annum.

The perception of the FBT rate being inequitable also does not take into account the point aptly made by CPA Australia in its submission in response to the Discussion Paper – that it is often overlooked that the FBT rate is deliberate. It is meant to act as an incentive to provide cash as salary rather than non-cash benefits, and this applies especially to low-income employees.

The perception that the rate of FBT is inequitable also does not take into account that, in respect of remuneration benefits in particular, there is already a commonly-used mechanism to utilise an employee's marginal rate of tax in the calculation of FBT payable by the employer – the recipient's contribution.

Under long-standing terms of the FBT legislation, the recipient of a fringe benefit (e.g. the employee) can make an after-tax payment as a contribution to reduce the taxable value of the benefit – to zero if desired – with the consequence that the employer's FBT liability at the top marginal rate is similarly reduced. The recipient's payment thus results in compensatory salary taxable at the employee's marginal rate.

It is for this reason that, according to NALSPA member data, the vast majority of motor vehicle novated lease salary packaged benefits are provided via contributions from the respective recipients.

A concern that the rate of FBT is inequitable requires an assumption that employers will *always* incur FBT liabilities at the highest taxable values possible – that employees *never* make any contributions in respect of the benefits provided to them.

That is an invalid assumption and does not reflect commonplace salary packaging arrangements. Nor does it reflect the fact that many employers providing fringe benefits are either "rebatable employers" and thus paying a concessional rate of FBT or are able to provide employees with fringe benefits without incurring any liability to FBT (subject to capped limits).

Accordingly, NALSPA believes that the various suggested remedies for the "inequity" of the FBT rate are unnecessary for a large range of employers and employees.

Finally, and importantly, NALSPA submits that consideration needs to be given to the adverse consequences that would likely arise as a result of implementing the suggested remedies. NALSPA outlines those consequences in the following discussions of each particular suggested reform.

The "New Zealand Model"

As noted above, the New Zealand Model involves employers retaining FBT liability in respect of remuneration benefits but calculable at the marginal rate applicable to each relevant employee. If a benefit is a non-remuneration benefit, the rate of FBT would equate to the company tax rate.

As has also been discussed, the "inequity" of the rate of FBT is revealed to be a misperception when the impact of recipient contributions are taken into account. The following two tables, prepared by PwC on behalf of NALPSA, demonstrate the point and provide a comparison with the Australian tax outcomes arising from the New Zealand Model in respect of the remuneration benefit of a salary-packaged motor vehicle.

Table One: Example of a motor vehicle benefit to an employee earning $50,000

	Australian FBT No salary packaging	Australian FBT Salary packaging FBT method	Australian FBT Salary packaging ECM	Australian FBT Equivalent NZ Alternate Rate	Australian FBT Equivalent NZ Single Rate (with ECM)
Salary	**$50,000**	**$50,000**	**$50,000**	**$50,000**	**$50,000**
Lease/running costs	$0	-$15,000	-$9,000	-$15,000	-$9,000
Fringe benefits tax	$0	-$5,866	$0	-$3,705	$0
Input tax credits	$0	$1,364	$1,364	$1,364	$1,364
GST on employee contributions	$0	$0	-$545	$0	-$545
Net Salary	**$50,000**	**$30,497**	**$41,273**	**$32,659**	**$41,273**
Tax and Medicare Levy	-$8,797	-$2,946	-$5,786	-$3,400	-$5,786
Net Cash Salary	**$41,203**	**$27,551**	**$35,487**	**$29,259**	**$35,487**
Lease and running costs	-$15,000	$0	$0	$0	$0
Employee contributions	$0	$0	-$6,000	$0	-$6,000
Net benefit salary	**$26,203**	**$27,551**	**$29,487**	**$29,259**	**$29,487**
Net benefit		**$1,348**	**$3,283**	**$3,056**	**$3,283**

Note: "ECM" refers to Employee Contribution Method. Cost of vehicle assumed as $30,000.

Table One demonstrates that an employee earning an income at the marginal rate of 34.5% (including the Medicare levy) is ostensibly no better off under the New Zealand Model than they currently are under the existing Australian system using recipient contributions to reduce the taxable value.

Table Two: Example of a motor vehicle benefit to an employee earning $100,000

	Australian FBT No salary packaging	Australian FBT Salary packaging FBT method	Australian FBT Salary packaging ECM	Australian FBT Equivalent NZ Alternate Rate	Australian FBT Equivalent NZ Single Rate (with ECM)
Salary	**$100,000**	**$100,000**	**$100,000**	**$100,000**	**$100,000**
Lease/running costs	$0	-$15,000	-$9,000	-$15,000	-$9,000
Fringe benefits tax	$0	-$5,866	$0	-$4,381	$0
Input tax credits	$0	$1,364	$1,364	$1,364	$1,364
GST on employee contributions	$0	$0	-$545	$0	-$545
Net Salary	**$100,000**	**$80,498**	**$91,819**	**$81,983**	**$91,819**
Tax and Medicare Levy	-$26,947	-$19,341	-$23,756	-$19,920	-$23,756
Net Cash Salary	**$73,053**	**$61,157**	**$68,063**	**$62,063**	**$68,063**
Lease and running costs	-$15,000	$0	$0	$0	$0
Employee contributions	$0	$0	-$6,000	$0	-$6,000
Net benefit salary	**$58,053**	**$61,157**	**$62,063**	**$62,063**	**$62,063**
Net benefit		**$3,104**	**$4,010**	**$4,010**	**$4,010**

Note: "ECM" refers to Employee Contribution Method. Cost of vehicle assumed as $30,000.

Table Two demonstrates that an employee earning an income at the marginal rate of 39% (including the Medicare levy) is also no better off under the New Zealand Model than they currently are under the existing Australian system using recipient contributions to reduce the taxable value.

The New Zealand Model is not simple

Aside from the inability of the suggested New Zealand Model to address any perceived inequity of the Australian rate of FBT, it is also not a simple system in practice. This is due to the fact that the "default" rate of FBT in New Zealand is not the marginal rate applying to each relevant employee but is instead 49.25%.

For New Zealand employers with a combined annual PAYE and superannuation contribution tax liability of more than $500,000, quarterly FBT returns are required to be prepared and lodged together with FBT payments (compared to quarterly instalment payments and only one return required of Australian employers). Payments of FBT in New Zealand at relevant employees' marginal

rates (known as the full alternate rate) is only possible in the 4th quarter, but only if the employer has elected to pay FBT in any one of the first three quarters at either the standard rate of 49.25% or the alternate rate of 43%.

The actual payment of FBT in the 4th quarter is a reconciliation between the FBT already paid at the 49.25% or 43% rates and the combined FBT payable for "attributed benefits" (at employees' marginal rates) and "non-attributable benefits" (taxable at 42.86%).

The relevant form required by the New Zealand Inland Revenue Department (IRD) to be completed by employers in the 4th quarter who have elected to apply the full alternate rate requires 11 columns of figures to be inserted in respect of each eligible employee. It is little wonder then that the IRD actively warns employers contemplating paying FBT at a rate lower than the standard rate of 49.25% of the extra administrative and compliance obligations required.

The New Zealand Model encompasses such complexity merely to preserve the integrity of the New Zealand tax system. NALSPA believes it would be naive to suggest that Australia could simply adopt the principle of paying FBT at employees' marginal rates without similar complex integrity measures being put into place. This is not the stated aim of the current tax reform process. As illustrated above, NALSPA does not consider there to be a need to consider the New Zealand Model for adoption by Australia.

Abolish FBT and tax employees on fringe benefits, via PAYG

H&R Block suggested abolishing the FBT system because it would "reduce complexity, make [the system] more transparent, and prevent revenue leakage through failure to participate in the system." Taxpayers Australia also made the same suggestion.

It is not clear to NALSPA how the notion of abolishing the FBT system and instead taxing employees would produce those results. Rather, NALSPA believes that such a fundamental change would potentially have the following adverse outcomes:

- ***Complexity within the income tax system would be substantially increased***

The operation of a significant portion of the current FBT system depends on the status of the employer. As only one example, one of two different gross-up factors needs to be applied to the taxable value of benefits, and which one is applicable depends on whether or not the employer is entitled to GST input tax credits on those benefits. If the FBT system was abolished, GST gross-up factors would still need to be applied to the taxable value of benefits before the correct marginal rate of income tax can be ascertained. This means that employees of one employer will pay more tax than employees of another employer in respect of the same benefits.

It also means that the current FBT legislative rules prescribing the calculation of taxable values will need to be transferred to the income tax legislation, along with all other existing FBT rules applying to various types of employers.

The preservation of and transfer to the income tax system of the aspects of the FBT system reliant on the status of employers, in conjunction with employee liability via PAYG, will thus be a complex legislative task.

- ***Compliance with PAYG withholding obligations would increase in complexity***

Under the current PAYG withholding rules the correct amount of income tax to withhold is simply a function of the amount of salary or wages which give rise to those obligations. To assist in calculating PAYG amounts the ATO publishes withholding schedules.

This would change if PAYG withholding obligations were expanded to include fringe benefits. Prescriptive valuation rules would also be required to be inserted into the PAYG system to enable employers to calculate the cash value of fringe benefits. Further, it may be difficult for employers to ensure there are sufficient funds from existing salary or wages to cover the necessary PAYG withholding amounts from the artificial gross-up.

This reinforces the view expressed by PwC in its submission in response to the Discussion Paper that transferring FBT liability to employees would be "just the current FBT system under a different facade", a view which was echoed by Ernst & Young in its submission. It is easy to see how such a system would be far more complicated and administratively tedious than the existing FBT system.

- ***Inherent inequities will arise***

The entire framework of the FBT system was constructed around the concept of **employer liability**. This was the deliberate methodology adopted by the Keating Government when it introduced FBT in 1986 because the longstanding principle of employees paying income tax on non-cash benefits (under s 26(e) of the *Income Tax Assessment Act 1936*) was largely **ineffective** in practice.

As such, the FBT system ensures that tax is paid in respect of benefits regardless of whether or not those benefits are allocable to specific individual employees, either future, current or past (as remuneration benefits), or not so allocable (non-remuneration benefits).

A suggestion to abolish the FBT system and instead impose income tax on individual employees via PAYG inherently represents inequity because the burden of tax on non-allocable benefits would be unfairly imposed on employees on an arbitrary basis. That is, employees would rightly object to being taxed on benefits they were not specifically provided with (as part of their remuneration).

The scope of this particular inequity would not be narrow. As was also noted in its submission, it is PwC's experience that the majority of benefits giving rise to FBT are non-remuneration benefits, i.e. not salary-packaged benefits.

- ***Bracket creep would be enhanced, not mitigated***

Any shifting of tax liability from employers (FBT) to employees (income tax) would exacerbate the current issue in the Australian tax system of bracket creep.

Given the average employee earns only $3,000 less than the threshold for the second highest tax bracket of 37%, it is not inconceivable that transferring FBT liability to employees would see many workers pushed into a higher tax bracket as a direct result of becoming assessable on fringe benefits. That would partially defeat the perceived remedy this particular "reform" measure would be intended to deliver.

In its submission in response in response to the Discussion Paper, Ernst & Young cogently demonstrated that Australia already relies too heavily on personal income tax as a proportion of the total tax revenue raised by the Federal Government. The suggestion that the FBT system be

reformed and replaced by increasing the PAYG collections from employees would further entrench that unbalanced reliance.

Transfer all FBT liabilities to employees, via PAYG

Rather than abolishing the existing FBT system, several submissions (ACCI and NSW Business Chamber) suggested that all FBT liabilities be paid by employees at their personal marginal rate, via PAYG, as a means of addressing the perceived issue of inequity of the rate of FBT. In ACCI's view, this would result in the burden of FBT payments and compliance being removed from employers.

NALSPA does not agree that transferring FBT liability to employees would remove employers' compliance burden.

Employers would still be obliged to create and maintain records to identify, categorise, and value all fringe benefits, and would have their existing PAYG withholding obligations made more onerous than is currently the case.

In addition, the taxable value of fringe benefits would need to be specifically included in the assessable income of relevant employees but, unlike salary or wages, this amount would not be determined until after the end of the FBT year. This would necessitate PAYG withholding of FBT liability on an "estimate" basis, with post-year end adjustments potentially necessary. The Henry Review referred to this on-going timing issue as requiring "some level of smoothing".

In terms of the burden of FBT payments if FBT liability was transferred to employees, ACCI is obviously correct in concluding it would be removed from employers.

However, the cost of such a beneficial outcome for employers would be that the status of many, if not all, workplace agreements would be put into question. It is difficult to envisage employees being favourable to the notion that a financial burden currently met by employers can be shifted to them outside the terms of those agreements.

This point was made by several other submissions, most notably those of Ernst & Young and CPA Australia. It was also recognised by the Henry Review, which acknowledged that transferring FBT liability to employees "would require the renegotiation of remuneration packages".

Apart from those difficulties, the same inherent inequities involved with abolishing FBT and the same issue with bracket creep (as discussed above) will arise if the FBT system is retained but liability to the tax is transferred to employees.

Finally, as NALSPA noted in its original submission in response to the Discussion Paper, Treasury previously gave its view to the Australian Senate that applying FBT as an employer tax, relative to applying it to the individual, is "a far simpler taxation system".

Split FBT liabilities between employers and employees

Several submissions made in response to the Discussion Paper recognised the inherent inequity arising from any suggestion involving shifting FBT liability from employers to employees. Still motivated by the perceived inequity of the rate of FBT, these submissions also suggested a hybrid remedy, whereby FBT liability would be transferred to employees but only in respect of **remuneration benefits**.

Other types of benefits, it was suggested, should be variously treated as follows:

- Employers should remain subject to FBT in respect of all other taxable fringe benefits.
- "Work-related" benefits should be exempt from FBT altogether.

Apart from the points NALSPA has made above that in its view the scale of what this group of suggestions represents is disproportionate to the perceived problem sought to be remedied, and that the "inequity" of the FBT rate does not, in practice, exist, the concern of NALSPA is that splitting FBT liability in the manner being suggested is fraught with complexity. This complexity would be legislatively created and then administratively experienced on an on-going basis.

Splitting liability between employers and employees would introduce another complete layer of 'taxpayers' under the FBT system, and is unlikely to result in improvements to the burden of compliance on employers. Instead, it will increase the burden of employers and the ATO in administering those layers because the potential audit population would be significantly increased.

Splitting liability will also introduce the need to create rules of distinction between those layers, thereby adding to the complexity of the FBT system. This will particularly be the case if there is a need to define "work-related benefits" as well as "remuneration benefits".

NFPs and FBT

As NALSPA discussed in its original submission in response to the Discussion Paper, the statutory framework of FBT concessions for Not-For-Profits (NFPs) is stable and its operation is certain, and there are no areas of contention or concern with the ATO's administration or policies. Existing NFP FBT concessions have efficiency characteristics not present in alternative funding models considered by previous reviews.

The notion that tax concessions available to NFPs may be impeding competitive neutrality in the marketplace is in our view misplaced. NALSPA notes that the submissions of The Smith Family, Vision 2020 Australia, Uniting Care Australia, the Australian Red Cross Society, Communicare, Community Employers WA, Good Beginnings Australia, World Vision Australia, St John Ambulance Australia, National Disability Services, the Leukaemia Foundation of Australia, and the joint submission of Diabetes Australia, the National Heart Foundation of Australia, Kidney Health Australia and the National Stroke Foundation all disputed the notion raised by Question 48 in the Discussion Paper that FBT concessions available to NFPs were creating competitive neutrality concerns. As Communicare stated in its submission:

> "The supposition of a competitive advantage gained by [NFPs] over the for-profit sector sidesteps the reality that the two sectors generally do not compete with each other for government funding or in service delivery or provide equivalent job roles; they have a different mission and purpose. This is not a matter of a level playing field, but different playing fields. A postulation of competitive advantage in this context is ill-conceived."

FBT concessions operate in a manner that redresses inherent competitive bias in favour of For-Profits. This was noted by NALSPA in its original submission and also in a number of the above-mentioned submissions.

FBT concessions are a vital remunerative tool used by the NFP sector to help attract and retain staff in addressing wage parity issues. Existing FBT concessions are embedded into remuneration

arrangements, through employment contracts, policies, and industrial instrument agreement negotiations. These facts were reinforced in a large number of submissions and by NALSPA with commissioned research.

Beyond the proposed cap on meal entertainment and entertainment facility leasing benefits announced in the 2015 Federal Budget, it remains NALSPA's firm view that no further changes to the FBT system as it applies to NFPs are warranted or necessary.

In NALSPA's view the NFP sector is clearly experiencing review fatigue and any alternatives to the current policy regime would in all likelihood represent a material cut in remuneration for employees causing significant industrial unrest, a reduction in community services performed by NFPs and/or a major and untenable cost impost to Government.

Simplifying the FBT system

NALSPA believes that the overriding principle of benefit taxation should be that if an employee (with their employer's approval) wishes to salary sacrifice a benefit it should remain within the scope of the existing FBT system, with the clear understanding that attendant compliance obligations are involved in that informed decision.

NALSPA notes the comments made by some submissions in response to the Discussion Paper about the costs of complying with the FBT system. In NALSPA's experience, these costs are not causing issues for members' clients over and above more broader tax compliance obligations. As we noted in our original submission, for example, 91% of Not-For-Profits felt that the administrative effort associated with managing salary packaging enabled by FBT concessions is at worst at an acceptable level and mostly routine and simple, or almost entirely automated with very little effort required.

In any quantification of compliance costs associated with the FBT system, it also needs to be recognised that comparisons with the relative amount of tax revenue actually raised from FBT are not perhaps the ideal benchmark, and this is simply due to the fact that a bulk of FBT compliance costs is directly associated with ensuring concessions or exemptions (which ultimately contribute to lower tax revenue) are being correctly applied.

NALSPA is also cognisant of the fact that, as noted by PwC in its submission, the FBT system "is a robust tax collection framework" which is evidenced by the ATO's low level of audit activity (and low level of disputation) compared with other taxes, and "it serves an important role in preserving integrity in the taxation of remuneration, specifically non-cash benefits."

That said, as a further matter of principle, NALSPA supports initiatives seeking ways of simplifying the FBT system. Unfortunately, as has been noted, many of the suggestions involve greater complexity, not less, and no demonstrable net benefits.

Non-remuneration entertainment benefits

It has been put to NALSPA that removing all non-remuneration entertainment benefits (i.e. non-salary packaged benefits) from the FBT net and rendering their costs non-deductible for income tax purposes would be a significant means of simplifying FBT and reducing its compliance cost, with a relatively low impact on FBT revenue.

NALSPA agrees that such a reform measure may potentially deliver net compliance cost gains over and above any related tax revenue loss, and thus believes that such a reform measure is worthy of

further consideration by the Government. In particular, the ancillary rendering of such benefits as non-tax deductible would conceivably serve as a suitable integrity measure.

Any development of this measure would need to incorporate a clear delineation between salary-packaged benefit and non-salary packaged benefits, so as to apply with certainty only to the latter. Appropriate transitional measures would also need to be carefully considered, both from a practical point of view and in light of the need to retain integrity.

Aligning the FBT year with the income tax year

It has been suggested by CAANZ and H&R Block that aligning the FBT year with the income tax year would reduce compliance costs.

NALSPA does not support this idea, for several reasons:

- No evidence has been put forward that an alignment of the FBT year with the income tax year would result in a reduction in compliance costs for employers.

- Conversely, it is probable that greater demands would be placed on businesses to generate FBT reports immediately following the year end. For example, the calculation of Reportable Fringe Benefits Amounts would be required in a much shorter time frame simply to be able to be included in relevant employees' Payment Summaries now covering the same period of employment/benefit.

- FBT was introduced with a different year end than 30 June for the specific purpose of allowing employers and tax accountants to stagger their compliance workloads. This purpose still holds true.

Other simplification measures

NALSPA supports the notion that the focus of the Government's efforts in simplifying FBT should be directed towards non-remuneration benefits, specifically the compliance obligations arising in respect of incidental benefits that arise as a function of an employee performing their employment duties rather than as a reward, such as car parking and similar benefits.

In this regard we note and support the ongoing work of the ATO in creating more safe harbours for employers in the FBT system, for example the current proposal to provide better guidance on the acceptable level of infrequent/minor use of benefits.