



Australian Red Cross
BLOOD SERVICE

31 August 2015

General Manager
Law Design Practice
The Treasury
Langton Crescent
PARKES ACT 2600

By email to: taxlawdesign@treasury.gov.au

Dear Sir/Madam

Re: Submission to Exposure Draft Legislation on *Limiting Fringe Benefits Tax Concessions on Salary Packaging Entertainment Benefits*

The Australian Red Cross Blood Service (the Blood Service) welcomes the opportunity to provide input into the exposure draft legislation on *Limiting Fringe Benefits Tax Concessions on salary packaging entertainment benefits*.

Entertainment benefits are enjoyed by majority of staff

As a charity, the Fringe Benefits Tax (FBT) concessions assist the Blood Service to effectively attract and retain highly skilled staff. In the 2014/15 FBT year, 2,527 (over 70 percent) of our employees packaged entertainment benefits – meal and facility leasing benefits. Contrary to the findings of the Not-for-profit Sector Tax Concession Working Group’s finding that “(t)he benefit of this concession is also not evenly spread among NFP employees, tending to be more highly utilized by eligible employees on higher salaries”ⁱ, at the Blood Service, the average base salary of employees at the Blood Service is \$65,971.

FBT concessions including access to the entertainment benefit component is a key component of remuneration package provided to Blood Service employees. The proposed changes from 1 April 2016, subjecting each employee to a grossed-up cap of \$5,000 per FBT year for salary packaged entertainment benefits will have a direct impact on our staff’s income and take-home salary.

Loss in real wages to support consumption

Those employed in the charity sector, such as the Blood Service, have been able to access the benefits of salary packaging for over 15 years, these staff have come to expect salary packaging as part of their terms and conditions of employment. Proposed changes from 1 April 2016 will alter these terms and conditions, and the Blood Service is not in a position to compensate staff for the difference.

Entertainment benefit provides staff with greater disposable income which is directed back to the national economy, or the community, through the purchase of goods and services. We anticipate the introduction of the new limits will adversely impact local economies *with negative impacts on small businesses and increased local unemployment* as our staff adjust their personal lifestyles and reduce discretionary expenditure on the meal entertainment and facility leasing type benefits to the limits imposed by the cap. Over time, we expect increased wage demands from staff seeking compensation for the financial loss associated with the introduction of the cap, or the movement of skilled staff out of the sector.

Grossed up cap of \$5,000 too low

It is generally accepted that a cap on entertainment benefits is responsible tax reform; however a cap of \$5,000 (grossed-up taxable value) for both meal entertainment and facility

leasing benefit is too low. A grossed up taxable value of \$5,000 equates to actual expenditure between \$2,300 to \$2,550 per annum.

During the FBT year 2014/15, expenditure for the fringe benefits of meal entertainment and facility leasing at the Blood Service averaged \$6,634.36 per staff. This equates to a grossed up taxable value of \$12,517.71 (assuming type 2 benefit, where there is no entitlement to GST credits).

In the public domain it was argued that the introduction of the cap was reasonable, as staff in the charity sector would continue to have access to the entertainment benefit, albeit at a much lower level, whilst “the rest of the community are not able to access such concessions or claim a deduction for such expenses”ⁱⁱ. This argument ignores the fact that the average salary of staff at the Blood Service, and in the charity sector in general, is significantly below that of the average earnings of employees in other sectors of the economy.

In the financial year 2014/15, the average base salary of staff at the Blood Service was \$65,971. The ABS reported that, full-time adult average weekly total earnings in November 2014 was \$1,539.40ⁱⁱⁱ or \$80,049 pa. The proposed changes as articulated in the Exposure Draft legislation will further exacerbate the Blood Service’s competitive disadvantage in the labour market.

The Blood Service is seeking an amendment to increase the proposed \$5,000 cap to an amount that is more fair and equitable for our employees.

Entertainment Benefits will be reportable

Currently neither the meal entertainment nor facility leasing benefit are reportable as part of the employee’s annual payment summary. From the next FBT year, entertainment benefits will be included as reportable fringe benefits. We support the introduction of this initiative as it improves integrity of the tax system.

The Blood Service proposes that the implementation of limited fringe benefits tax concessions on salary packaging entertainment benefits should be introduced progressively. Phase one should comprise the inclusion of entertainment benefits in the payment summary. This would provide visibility, and allow government the opportunity to undertake robust analysis of the impact on those working in the nonprofit sector before introducing a grossed-up cap at an amount that is more fair and equitable for employees.

If you or your staff have any queries in relation to this submission, please direct these to Stephen Fitzpatrick, Manager Government Relations and Policy on 03 9386 1730.

Yours sincerely



JENNIFER WILLIAMS
Chief Executive

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http://www.treasury.gov.au/~media/Treasury/Consultations%20and%20Reviews/Consultations/2015/Salary%20packaged%20entertainment%20benefits/Key%20Documents/PDF/ED_FBT_entertainment_benefits.ashx. P.4

ⁱⁱ Not-for-profit Tax Concession Working Group, Fairer, Simpler and more Effective tax Concessions for the Not-for-Profit Sector: Final Report, May 2013.

ⁱⁱⁱ <http://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0>