

24 August 2015

## **Submission into limiting fringe benefits tax concessions on salary packaged entertainment benefits**

### **Introduction**

Thank you for the opportunity to provide comment into the enquiry concerning limiting fringe benefits tax concessions on salary packaged entertainment benefits.

Diabetes Australia, along with its state-based member organisations, represent 1.7 million Australians living with all types of diabetes. Diabetes is the world's fastest growing chronic disease and Australia is no different. Every day, 280 Australians are diagnosed with the condition. Currently, there are approximately 1.7 million Australians living with diabetes<sup>1</sup>. This is set to double over the next two decades with 3.5 million people expected to live with the condition by 2033.<sup>2</sup>

Diabetes has significant personal and financial costs. Nationally, it is the leading cause of preventable blindness, limb amputation and kidney disease. The annual cost to Australia of type 2 diabetes is estimated at \$14.6 billion<sup>3</sup>. Forecasts indicate this will increase to \$30 billion by 2025. This includes the costs of healthcare, carers and Commonwealth Government subsidies. If we fail to act healthcare spending will skyrocket placing an unsustainable burden on Australia's health system.

Diabetes Australia, together with its state-based member organisations, are the nation's leading diabetes organisations with extensive expertise in diabetes education and care. We are the trusted source of support for millions of Australians seeking help in managing their diabetes. As not-for-profit health organisations, Diabetes Australia and its state-based member organisations cost-effectively deliver a range of essential services and programs to the Australian community. Together, we provide vital education and information services to more than 1.2 million Australians with diabetes. In one year alone, we'll deliver more than 3.4 million support and education interactions for people with diabetes via telephone, online mail and face-to-face education. We also support health professionals, develop policies and guidelines and strengthen and enhance the capacity of Australia's health system.

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<sup>1</sup> Colagiuri, S and Johnson, G. (2014) *Case for Action – Proposal to National Health and Medical Research Centre: A comprehensive type 2 diabetes prevention program*. Submitted by the NHMRC Research Translation Faculty Diabetes Mellitus Steering Group.

<sup>2</sup> Magliano, D. J., Peeters, A., Vos, T., Sicree, R., Shaw, J., Sindall, C., Haby, M., Begg, S. J. and Zimmet, P. Z. (2009), "Projecting the burden of diabetes in Australia – what is the size of the matter?" *Australian and New Zealand Journal of Public Health*, 33: 540–543.

<sup>3</sup> Lee C.M., Colagiuri, S, Magliano DJ, Cameron AJ, Shaw J, Zimmet P, Colagiuri S (2013), "The cost of diabetes in adults in Australia." *Diabetes Research and Clinical Practice*, 99 (3):385-90.

The current taxation system contains several moderate concessions that assist Diabetes Australia and its state-based member organisations in delivering these services and programs by helping attract and maintain high quality staff.

### **\$5,000 cap on Meal Entertainment and Entertainment Facility Leasing expenses (entertainment benefits)**

Diabetes Australia strongly opposes any reform that would negatively impact on its staff remuneration packages. In particular, we are concerned about the ramifications that the \$5,000 cap on meal entertainment and entertainment facility leasing expenses will have on our ability to attract and retain staff. These changes will reduce the take-home pay of our workforce including staff providing critical health and technical services.

The salary sacrificing arrangements are available to all staff but the reduction in take-home pay is likely to be felt most severely by low and middle income staff. In fact, a 2012 report found the maximum percentage increase (12 per cent) in disposable income from salary packaging benefits are for people earning between \$30,000 - \$60,000 per year<sup>4</sup>.

While many employees of Diabetes Australia choose to forgo the higher salaries they could earn in the private and public sectors to deliver essential services to disadvantaged people, a survey of not-for-profit organisations in 2012 found 95 per cent of employees still rated salary packaging as 'Very important' or 'Quite important' to their future employment in the sector.<sup>5</sup> We are concerned about the potential for the loss of a substantial number of specialised and skilled staff if the proposed changes proceed.

Attracting high quality staff with the skills and experience required to support people with diabetes is a constant challenge. The meal entertainment and entertainment facility leasing expenses assist us in securing highly qualified candidates as well as retaining current staff. Without these high quality staff our capacity to deliver services would be diminished and could lead to increased physical and emotional costs to the individual and increased economic costs to the health system. An inability to provide competitive remuneration packages would be the most costly implication of the introduction of the proposed changes.

Diabetes Australia supports a cap on salary sacrificed meal entertainment and entertainment facility leasing expenses, however we believe that \$10,000 per annum may be more appropriate. Further, if the Federal Government is introducing a cap then it would be appropriate to allow a longer transition (beyond 1 April 2016), which would assist organisations to work on other staff retention strategies. The proposed changes will see a considerable reduction in remuneration for many staff. Further, the current caps are the same as they were when introduced in 2000-01 and have not been indexed for inflation.

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<sup>4</sup> McMillan Shakespeare (2012) *The Not-for-profit (NFP Sector Tax Concession Working Group Discussion Paper: Fairer, simpler and more effective tax concessions for the Not-for-profit sector.*

<sup>5</sup> Ibid.

Finally, we believe the cap on meal entertainment and entertainment facility leasing expenses may have unintended consequences that are felt throughout the hospitality industry, given staff from not-for-profit organisations will have less disposable income to spend at restaurants, cafés and other venues.

As a Public Benevolent Institution, Diabetes Australia, is entitled to a fringe benefit tax exemption of up to \$30,000 per employee per fringe benefit year<sup>6</sup>. These exemptions are essential to enabling the organisation to provide competitive wages. We oppose any changes to the fringe benefits tax arrangements.

Fringe benefits tax concessions do not place not-for-profit organisations at a competitive advantage. Rather evidence suggests salary rates of not-for-profits are significantly below commercial equivalents. In fact, a 2010 Productivity Commission report found that not-for-profit workers were forgoing between \$10,000 to \$30,000 in wages when compared with positions in the private and public sector.

The current concessions enable Diabetes Australia to offer staff salaries that are, at least in terms of take-home pay, on par, or slightly lower than salaries available to private or public sector employees. Without this, we would struggle to recruit and retain highly skilled staff in a competitive market.

### **Diabetes Victoria – a case study**

Diabetes Victoria has a workforce of 142 people – comprising health professionals, technical specialists, customer service representatives and management. Approximately 60% of Diabetes Victoria's current employees access Meal Entertainment and Entertainment Facility Leasing expenses (entertainment benefits), through their salary packaging arrangements.

On average, Diabetes Victoria employees claim \$5,500 of these benefits per FBT year; equivalent to a grossed-up value of \$10,784 per FBT year. The proposal under consideration will halve the current take home benefit amount for these employees.

Diabetes Victoria staff salaries, depending on job category, are typically between 10 - 30% lower than those in the private and public sectors. The current uncapped benefits are most utilised by low and middle income staff to boost their take home income and assist them in meeting everyday costs of living. Such a reduction in take home income would, without question, force some employees to look outside of Diabetes Victoria for jobs that would enable them to maintain their family's financial well-being and avoid an erosion of their standard of living.

### **Conclusion**

It is clear that the removal of fringe benefit tax concessions would have severe consequences for not-for-profits like Diabetes Australia. We request the Federal Government reconsiders its current proposal. Diabetes Australia, and its state-based member organisations, support the introduction of a grossed-up cap of \$10,000 per

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<sup>6</sup> The limit for Fringe Benefit Tax Exemptions was raised to \$31,177 for the FBT years 1 April 2015 to 31 March 2017 as part of the Temporary Budget Repair Levy.

fringe benefit tax per year on Meal entertainment and entertainment facility leasing expenses (entertainment benefits). We also request the review of the implementation date to allow appropriate transitional arrangements to be put in place.

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