

Submission to the Federal Treasurer

Fringe Benefits Tax:

Fitness Benefits

**The Treasurer
c/o Budget Policy Division
Department of the Treasury
Langton Crescent
PARKES ACT 2600
AUSTRALIA**

March 2015

**Deloitte and Participants
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1 Executive summary

1.1 An FBT exemption for fitness benefits

Fitness Australia, Deloitte Australia and the other participants (Deloitte Participants)¹ are pleased to provide this submission to the Treasury in relation to the expansion of the fringe benefits tax (FBT) exemption for fitness benefits. Our submission recommends that all fitness benefits provided to an employee should be free from FBT, whether or not they are located on the company's business premises. We believe our recommendations will greatly benefit the Government by helping to address the national preventative health agenda and the health and economic challenges relating to obesity and physical inactivity in Australia today.

The Deloitte Participants submits that:

- The present exemption in the Fringe Benefits Tax Assessment Act 1986 applicable to fitness benefits is extremely restrictive. It exempts from FBT the provision for use of a recreational facility by an employer only if the recreational facilities are located on "business premises". As such, the current FBT exemption discriminates in favour of large employers over small to medium businesses.
- This limitation has had deterrent effect on employers considering providing fitness subsidies to employees.
- With the growing prevalence of obesity and the associated economic costs of an overweight nation, the government must take urgent action to increase the accessibility of fitness benefits and physical activity programs through workplaces.
- Regular exercise is integral for good health and the prevention and management of a range of chronic disease. Encouraging Australians to be more physically active by providing them with greater access to fitness benefits would improve the economy by reducing the direct costs of obesity, such as health care costs. Workplaces would benefit from decreased employee sick days and increased workplace productivity.
- The "business premises" limitation on the FBT exemption for recreational facilities should thus be removed. This would encourage workplaces to invest in external workplace fitness programs and gym memberships for their employees. This would in turn increase the level of physical activity amongst Australians.

The Deloitte Participants believe that such recommendations would deliver substantial economic, health and social benefits that would outweigh the foreseeable costs of the provision of this exemption.

¹ See Appendix A for more information on the Deloitte Participants

2 Our submission

The prevalence of obesity is rising dramatically in Australia and so too are the significant health, economic and social costs associated with obesity.² The magnitude of these health challenges requires much greater change than has been attempted to date. Tackling these issues is no longer something that individuals can do alone. It is imperative that the government take greater action to coordinate preventative health reform in order to significantly increase the nation's participation levels in physical activities. Fitness centres already play a significant role in helping create a fitter and healthier Australia. Many employers around the world, in countries such as the UK and Canada, provide fitness programs involving subsidised fitness memberships for their employees in order to maintain the health, happiness and productivity of employees.³ These programs have proven to be very successful, and have led to numerous flow-on benefits to the individual, employers as well as the nation's economy. However, Australian tax policy in this regard has proven to be a major disincentive for the increased provision of fitness benefits to Australian employees. In particular, the FBT exemption limited to on-site fitness centres has proven to be a costly barrier to the increased provision of fitness benefits and workplace wellbeing programs. We strongly submit that employers should not be liable to FBT when providing employees with fitness benefits. The following sections of this submission outline the case for reform of the current Fringe Benefits Tax exemption for fitness benefits and the reasons for change.

The participants to this submission are as follows:⁴

- **Fitness Australia:** The national fitness industry association, representing approximately 3,000 business members and over 26,000 registered exercise professionals across Australia.⁵
- **The Council of Small Business of Australia:** The peak body in Australia representing small businesses through industry based and geographic business organisations. Through its membership base it connects with around 150,000 small businesses.
- **The Australian Chamber of Commerce and Industry:** Australia's largest and most representative business association who speaks at a national and international level on behalf of the nation's peak State and Territory Chambers of Commerce and Industry and National Industry Associations from all sectors of the economy.
- **The Australian Council of Trade Unions:** The peak union body representing 46 affiliated unions and the interests of almost 2 million workers across Australia.
- **Baker IDI:** Australia's leading health and medical research institute dedicated to reducing ill health and mortality caused by the effects of cardiovascular disease and diabetes⁶.
- **Deloitte Australia:** The employment taxes team at Deloitte provides specialised fringe benefits tax compliance and consulting services to private, public and not-for-profit organisations and is part of the largest professional services firm in the world.⁷

² KPMG Econtech Report, Economic Modelling of the Impact of Obesity and Obesity Interventions, 26 March 2010

³ Essential Intelligence - Buck Surveys, *Working Well: A global survey of health promotion and workplace wellness strategies*, October 2008

⁴ See Appendix A for more information on the Deloitte Participants

⁵ Fitness Australia website, http://www.fitness.org.au/about_us.html, 12 February 2015

⁶ <http://www.bakeridi.edu.au/>

⁷ The Deloitte Australia website, <http://www.deloitte.com.au>, 12 February 2015

- **Other corporate organisations:** This includes organisations of various sizes and representing many different industries. A list of the other corporate participants is listed in Appendix A.

3 The current FBT position

We summarise below the current FBT treatment of fitness facilities provided to employees.

Subsection 47(2) of the *Fringe Benefits Tax Assessment Act 1986* (“FBTAA”) provides an exemption to employers from FBT where: -

- An employer provides a residual benefit to a current employee,
- A recreational facility is made available to the employee, and
- The recreational facility is located on the business premises of the employer or a company related to the employer.

Specifically the section states that:

Where:

(a) a residual benefit provided to a current employee in respect of his or her employment consists of:

- (i) the provision, or use, of a recreational facility; or*
- (ii) the care of children of the employee in a child care facility; and*

(b) the recreational facility or child care facility, as the case may be, is located on business premises of:

- (i) the employer;*
- (ii) if the employer is a company, of the employer or of a company that is related to the employer; or*
- (iii) the benefit is an exempt benefit.*

Recreational facility is defined in section 136(1) of the FBTAA to mean “*a facility for recreation, but does not include a facility for accommodation or a facility for drinking or dining*”. In addition, section 136(1) of the FBTAA provides that recreation includes:

- “(a) amusement;*
- (b) sport or similar leisure-time pursuits; and*
- (c) recreation or amusement provided on, or by means of, a vehicle, ship, vessel or aircraft”.*

Residual benefits arising from the “provision” or “use” of the recreational facility will satisfy the requirement in subsection 47(2) (a) (i) of the FBTAA.

The Australian Taxation Office (“ATO”) has confirmed that in-house gymnasiums located on the employer’s business premises that are for the exclusive use of employees would constitute recreational facilities for the purposes of the subsection 47(2) of the FBTAA exemption. The use of the gym by employees and the provision of staff to operate the in-house gymnasium will also qualify for the exemption in subsection 47(2) of the FBTAA.⁸

⁸ ATO Class Ruling CR 2011/41

Where memberships to gyms or fitness centres external to business premises are reimbursed to or paid by the employer on behalf of the employee, taxable expense payment fringe benefits will arise. Employers may also provide access or membership to these external fitness centres directly. In that case, a taxable residual fringe benefit would arise.

Essentially all of the health related benefits that are currently provided are taxable fringe benefits to the majority of employers. The only concessions available to employers under the current FBTAA are the on-site recreational facility exemption discussed above and the minor benefits exemption pursuant to section 58P of the FBTAA.

4 “*On business premises*”: a problematic limitation

The present exemption in the FBTAA in respect of fitness benefits is extremely restrictive. For the exemption to apply, the fitness facilities provided to employees must be located on the employer’s or a related company’s business premises. The explanatory memorandum to the FBTAA is silent as to why such a limitation exists in relation to recreational facilities.⁹ This places the employer in a very onerous position as it forces the company to either operate, or co-manage a recreational facility, on its business premises in order to apply the exemption pursuant to subsection 47 (2) of the FBTAA. Understandably, the number of employers who are able and willing to take on such a responsibility and cost is very limited. The problems created by this “*on business premises*” limitation are outlined below:

- **Set up and administration costs:** The exemption places a burden on employers to operate a fitness centre on their business premises in order to claim the FBT exemption. The cost of setting up such fitness facilities and hiring staff to manage the administration of the facilities is burdensome, and the FBT savings would usually not be sufficient to counter the costs associated with the provision of the fitness facilities on business premises. Some of these costs include:
 - Management time dedicated to project planning
 - Specialist input fees
 - Capital equipment
 - Promotion – marketing
 - External goods and services
 - Staff salaries
 - Bought in goods and services

In addition to this, comprehensive industry regulations and standards apply to the operation and management of fitness facilities. Even if the management of the fitness facilities is outsourced to a third party, companies face serious reputational and financial risks when contracting with such third parties.

- **Occupational health and safety risks:** Another limitation involves the occupational, health and safety risks associated with operating and managing an onsite fitness facility. The risk of accidents, injury and increased compensation claims are increased for employers as a result of the nature of physical activity conducted in a fitness facility.
- **Bias to large employers:** The exemption is biased towards large employers, as small to medium businesses usually do not have the financial or operational capacity to set up fitness facilities on the business premises. Not only is it cost prohibitive, but such employers do not generally have a sufficient workforce to sustain a fitness facility.
- **Bias to centralised employers:** The exemption also favours employers whose workforce is centralised in one location. Decentralised employers will be unable to satisfy the needs of a larger and more geographically disbursed workforce without incurring considerable investment. This is to the detriment of regional and rural Australians.

⁹ Explanatory Memorandum *Fringe Benefits Tax Assessment Act 1986*

- **Competitive disadvantage to small and decentralised employers:** As a result of these biases, small and decentralised employers suffer a significant competitive disadvantage when attracting talent to their organisations. Employee fitness benefits are one of many considerations potential candidates will use to differentiate between future employers. Large and centralised employers are in a better position to provide these benefits, and will thus appear to be a more attractive employer.
- **Bias to full-time 9 - 5 workers:** Part-time and casual employees are unlikely to be able to use onsite fitness facilities due to the variability of their working hours. Shift workers, by the very nature of their work, are unlikely to have the use of fitness facilities on business premises in non-core business hours (9am-5pm).
- **Uncomfortable location:** Many employees prefer to visit fitness facilities closer to home as it allows for greater flexibility with respect to weekend and after-hours exercise. Additionally, many employees prefer not exercising with co-workers, as they may not feel comfortable interacting with co-workers in such a setting.
- **Limitations of the minor benefits exemption:** Some may argue that employers could apply the minor benefits exemption pursuant to section 58P of the FBTAA to exempt the provision of external fitness centre memberships to employees. However, the minor benefits exemption can rarely be applied in relation to fitness centre memberships as such benefits are usually provided on a regular basis, and the cost often exceeds the amount of \$300 (GST inclusive) per year. Deloitte conducted a Fitness Benefits survey (Deloitte Survey) which was sent out nationally to businesses of varying sizes from small to large enterprises covering a range of industries across all Australian capital cities. Only 29.8% of the sample population of employers surveyed applied the minor and infrequent rule to exempt fitness benefits provided to employees.

Although the subsection 47(2) of the FBTAA exemption has been in place since 1986, these impediments have contributed to the very low uptake of onsite fitness facilities by businesses. For many employers, these cost and administration barriers are perceived to outweigh the benefits of providing employees access to fitness facilities. The results of the Deloitte Survey confirmed the limited popularity of onsite gyms, with only a very small percentage of the sample population of employers actually providing onsite fitness facilities to their employees. This is strong evidence of the limited success the exemption has had in aiding the uptake of workplace fitness programs in Australia.

This restrictive exemption is one of the regulatory hurdles that prevent greater exercise participation in the population. In the National Health and Hospital Reform Commission Report¹⁰, the government itself acknowledged the need for legislative changes to review regulatory barriers to employers providing more workplace health promotion programs and greater access to fitness related services, particularly in small to medium enterprises. If the government considers that preventative health measures are viable in a workplace setting, we recommend legislation be amended to ensure “no barriers” to the provision of such health measures from a taxation and regulatory perspective.¹¹

¹⁰ National Health and Hospitals Reform Commission, A Healthier Future For All Australia - Final Report, June 2009

¹¹ National Health and Hospitals Reform Commission, A Healthier Future For All Australia - Final Report, June 2009

5 Our proposed amendments

5.1 FBT Exemption for fitness benefits

The current FBT exemption for recreational facilities on business premises does not reflect the need to encourage workplaces to promote physical activity amongst its workforce. We therefore propose the following changes to the *Fringe Benefits Tax Assessment Act 1986*:

1. Add a new provision within *Division 13 Miscellaneous Exempt Benefits*:

Exempt Benefits – Fitness Benefits

Where:

(a) an expense payment, property or residual fringe benefit is provided in a year of tax to a current employee of an employer in respect of his or her employment; and,

(b) the benefit provided is in respect of fitness benefits;

the benefit is an exempt benefit in relation to the year of tax.

2. Add the following within section 136(1) of the FBTAA:

“*Fitness Benefits*” includes but is not limited to –

(a) Access to external fitness facilities;

(b) Access to on-site fitness facilities; or

(c) Other fitness services provided by “suitably qualified exercise professionals”

“*Suitably qualified exercise professionals*” includes, but is not limited to, personal trainers, fitness instructors, sports and recreational clubs and other exercise professionals registered under Fitness Australia or other recognised industry fitness body.

5.2 Alternate proposal – 50% reduction to the taxable value of fitness benefits

We strongly recommend that fitness centre membership costs should not be subject to FBT. However, we recognise the need for businesses, individuals and the Government to share the burden of the cost. Therefore, as an alternative to the unlimited exemption discussed at 5.1 above, the Government could consider limiting the amount of support it wants to provide to employees in respect of their fitness benefits.

To be aligned to the Government’s health promotion program as per the National Health and Hospital Reform Commission Report, we recommend, in this regard, that the taxable value of the fringe benefit could be reduced by 50%. This would mean that the Government would share equally with Australian employers in the cost of providing greater access to fitness benefits for all Australian workers.

We propose that the wording of the legislation be amended broadly in the same manner as discussed at 5.1 above. However, rather than including the concession at *Division 13 Miscellaneous Exempt Benefits*, it would be included at *Division 14 Reduction of Taxable Value of Miscellaneous Fringe Benefits*.

Also then, rather than stating that the benefit is an exempt benefit in relation to the year of tax, the wording “the benefit is an exempt benefit in relation to the year of tax” would be replaced with:

“the amount that, but for this subsection, would be the taxable value of the fringe benefit in relation to the year of tax shall be reduced by 50%”.

Our other suggested amendments to subsections 136(1) of the FBTAA as discussed at 5.1 would equally apply in this instance.

5.3 Alternate proposal – 50% reduction to the taxable value of fitness benefits up to a limit of \$1,000 per employee per year

As an alternative to the 50% reduction discussed above at section 5.2, the Government could consider further limiting the amount of support it wants to provide to employees and employers whereby, the taxable value of the fringe benefit could be reduced by 50% up to a limit of \$1,000 per employee per year.

We propose that the wording of the legislation be amended broadly in the same manner as discussed at 5.1 above. However, rather than including the concession at *Division 13 Miscellaneous Exempt Benefits*, it would be included at *Division 14 Reduction of Taxable Value of Miscellaneous Fringe Benefits*.

Similar to the above, rather than stating that the benefit is an exempt benefit in relation to the year of tax, the wording “the benefit is an exempt benefit in relation to the year of tax” would be replaced with:

“the amount that, but for this subsection, would be the taxable value of the fringe benefit in relation to the year of tax shall be reduced by 50%. However, the reduction would be no greater than \$1,000 per employee per year”.

Our other suggested amendments to subsection 136(1) of the FBTAA as discussed at 5.1 would equally apply in this instance.

5.4 Ensuring the quality and standards of fitness benefits provided

One of the deterrents associated with setting up fitness facilities on business premises, is the occupational, health and safety risks associated with operating and managing an onsite fitness facility. Due to the nature of the physical activity being conducted at these sites, the risks for accidents, injury and increased compensation claims is high. Companies can reduce this risk by providing employees with access to external fitness facilities that are wholly dedicated to providing a safe and secure environment to exercise in.

Fitness facilities operated and staffed by *Fitness Australia* members and registered professionals have the facilities, programs and advice of the highest standard. The current registration scheme administered by Fitness Australia could be used by the ATO in order to ensure that fitness benefits are being claimed for items that meet the highest standards of fitness services.

The aim of the Fitness Australia registration schemes is to safeguard the health and interests of people using fitness services. This registration scheme is largely based on the Australian government approved National Industry Training Package, a set of nationally endorsed standards and qualifications for recognising and assessing the skills of people in the fitness industry. Registered exercise professionals are those who have successfully attained the recognised qualifications, have registered with Fitness Australia and are generally employed or contracted by fitness businesses or are self-employed within the fitness industry. These registration schemes provide assurance and confidence to consumers, employers, government and health professionals that all registered exercise professionals and businesses adhere to industry standards, are committed to customer care, safety and wellbeing of their clients and strive to provide quality services.

Fitness Australia is taking these registration schemes a step further, by developing an industry wide quality assurance framework. This aims to enhance and improve the standards of professionalism, care, safety and service within the fitness industry. As part of this framework, in 2012, Fitness Australia introduced a Quality Awards program to assess and evaluate how each nominating business is performing in key areas such as customer service, programs, people, safety and business management. The next steps involve educating the industry about the Fitness Industry Quality Framework and implementing an accreditation process where businesses that meet the standards and criteria are assessed or evaluated by an external organisation. This new accreditation system could be used in conjunction with the registration system to ensure the high standard of fitness benefits provided. Fitness Australia would welcome the opportunity to partner with the Government to facilitate the implementation of employer subsidised fitness benefits within accredited fitness facilities across Australia.

5.5 Substantiating the exemption

In order for the proposed exemption to be effective in achieving improved fitness, health, obesity reduction, etc employers must ensure recipient employees actually use the fitness benefits on a regular basis. The American College of Sports Medicine has recommended that adults participate in at least 150 minutes a week of moderate – intensity physical activity to prevent significant weight gain and reduce associated chronic disease risk factors.¹² This is also supported by Australia's National Physical Activity Survey which provides that to be considered 'physically active', a total of at least 150 minutes (2.5 hours) of moderate activity needs to be completed over at least five separate sessions in a week¹³. Such levels of physical activity can be achieved by attending one hour sessions at the gym, personal trainer or fitness centre at least two to three times a week. We thus recommend that the exemption only be available where employees demonstrate usage of their fitness benefits in excess of two times a week (equivalent to 104 times a year). Here are three options for substantiating such levels of participation:

5.5.1 Logbook method

As the current tax system is a self assessment process, we recommend employees maintain a logbook for a continuous 12-week period in order to substantiate their fitness participation at least twice a week. Once the logbook has been adequately maintained, this logbook can be used to substantiate application for the remainder of the year.

5.5.2 Suitably qualified exercise professional report method

Although, it will be a self assessment system, the Government might consider the option to monitor the usage of these fitness benefits even further, through the membership access cards issued by fitness facilities and suitably qualified exercise professionals which require employees to log in each time they utilise the fitness benefits with the suitably qualified exercise professional.

Where the fitness benefits involve the attendance at fitness centres, a report can be generated by the fitness centres to substantiate the fitness benefit usage requirement during the tax year. Other documentation which substantiates the dates that the fitness benefits are provided by other suitably qualified exercise professionals that do not involve the attendance at a fitness centre can also be used to substantiate this concession.

¹² American College of Sports Medicine, 'Appropriate Physical Activity Intervention Strategies for Weight Loss and Prevention of Weight Regain for Adults' (February 2009) 1(2): p459 - 471

¹³ Medibank Private Limited, *The cost of physical inactivity. What is the lack of participation in physical activity costing Australia?* August 2007

5.5.3 Signed employee declaration

Alternatively, employers can request from the employees, before the lodgement of the FBT return, in a form approved by the Commissioner, a signed declaration stating that they have utilised their fitness benefits in excess of 104 times in a tax year.

5.6 Implementation of the substantiation requirement

In order to implement the substantiation requirements and to monitor these requirements discussed at section 5.5, we propose the following additional insertions into the *FBTAA* in *Division 13 Miscellaneous Exempt Benefits* in respect of “*Exempt Benefits – Fitness Benefits*” following on from the additional provisions proposed in section 5.1 above:

- (c) having regard to the frequency of the usage in respect of the fitness benefits provided to the employee, the employee utilised the fitness benefits in excess of 104 times in a tax year or the pro rata equivalent in a part year; and
- (d) the employee can satisfy one of the following requirements:
 - (i) where the employee gives to the employer, before the declaration date, a declaration, in a form approved by the Commissioner, declaring that the employee has utilised the fitness benefits in excess of 104 times in a tax year or the pro rata equivalent in a part year;
 - (ii) where a log book record or other form documentation is maintained by or on behalf of the “suitably *qualified exercise professionals*” for the tax year in relation to the fitness benefits which demonstrates that the employee has utilised the fitness benefits in excess of 104 times in a tax year or the pro rata equivalent in a part year;

6 The physical inactivity – a burden on Australian health

The new trends of physical inactivity and the prevalence of obesity in Australia, evidence the urgent and immediate need to invest in tax incentives that encourage increased exercise participation and greater access to fitness services.

6.1 Physical inactivity

Physical activity is the second most important factor in disease prevention in Australia. Quitting smoking is number one.¹⁴ Over recent years, total physical activity levels have declined significantly in Australia due to increased use of private cars for transport, a decrease in home chores and an increase in sedentary behaviour, especially screen time.¹⁵ Consequently, physical inactivity has become the fourth leading cause of death worldwide,¹⁶ accounting for about 6.6 % of the disease burden in Australia.¹⁷ There are a range of chronic diseases that are directly associated with physical inactivity and obesity. The key diseases include type 2 diabetes, cardiovascular disease, osteoarthritis and various types of cancer (such as colorectal, breast, uterine and kidney cancer)¹⁸. The World Health Organisation provides that physical inactivity causes two million deaths a year worldwide¹⁹

Regular physical activity reduces cardiovascular risk in its own right, reduces cardiovascular risk factors such as overweight and high blood pressure, and improves the levels of HDL (the ‘good’ cholesterol).²⁰ Regular exercise also helps protect against Type 2 diabetes and some forms of cancer, and strengthens the musculoskeletal system, helping to reduce the likelihood of osteoporosis.²¹ The Econtech report provides that a person can add 2.5 years to their total life expectancy age where they participate in moderate to vigorous levels of physical activity during their life²².

¹⁴ Wesley Corporate Health, Future@Work Health Report, 2006

¹⁵ R. Stanton, *Who will take responsibility for obesity in Australia?*, Public Health, Elsevier

¹⁶ Prof Dr Harold W Kohl, Cora Lynn Craig, Prof Estelle Victoria Lambert, Prof Shigeru Inoue, Jasem Ramadan Alkandari, Grit Leetongin, Sonja Kahlmeier, *The pandemic of physical inactivity: global action for public health*, The Lancet 201,2 Vol 380, No. 9838, pp 294-305

¹⁷ Stephen Begg, Theo Vos, Bridget Barker, Chris Stevenson, Lucy Stanley and Alan D Lopez, 2007, *The Burden of Disease and Injury in Australia 2003*, The Australian Institute of Health and Welfare

¹⁸ Fitness Australia, Submission to the National Health and Hospitals Reform Commission page 18

¹⁹ World Health Organisation (2002), *Risks to health-promoting healthy living*. World health report

²⁰ Australian Institute of Health and Welfare 2008, *Australia’s Health 2008*, Cat. No. AUS 99, Canberra

²¹ Australian Institute of Health and Welfare 2008b, *Health expenditure Australia 2006-07*, Cat. No. HWE 42, Canberra

²² Medibank Private Limited, *The cost of physical inactivity. What is the lack of participation in physical activity costing Australia?* August 2007

Due to the clear linkages between physical inactivity and obesity-related health problems, the promotion of exercise and active lifestyles are clearly an important primary intervention.²³ Numerous reports have recommended that policies which encourage employer subsidised gym memberships would be an effective measure that could be used as part of a multi-faceted and multi-level strategy to increase physical activity.²⁴

6.2 Obesity epidemic

While Australia's mortality rates for coronary heart disease, stroke, lung cancer and transport accidents have improved significantly in terms of our ranking with other Organisation for Economic Co-operation and Development (OECD) member countries, this is not the case for our rates of obesity.²⁵ As the statistics show, obesity has now become one of the greatest public health challenges confronting Australia²⁶:

- Approximately one in five Australians are obese
- In 2008 - 2009, it was estimated that approximately 7,200 deaths could be attributed to obesity
- In 2003 overweight and obesity was the third highest cause of disease, and was responsible for around 7.5 % of the total disease burden²⁷
- If weight gain continues at the current levels, 80% of all Australian adults and a third of all children will be overweight or obese by 2020²⁸
- Among all OECD countries, Australia has the fifth highest adult obesity rate.²⁹

There are strong links between excess body fat and the same health problems associated with physical inactivity.³⁰ Hence, as the prevalence of obesity continues to rise dramatically, so too does the associated health, economic and social costs.³¹ This national health problem now poses a greater challenge to national public health management than either tobacco or alcohol.³²

²³ Fitness Australia, Submission to the National Health and Hospitals Reform Commission page 12

²⁴ The Health & Productivity Institute of Australia, Best-Practice Guidelines Workplace Health in Australia, 2010

²⁵ National Preventative Health Taskforce, Technical Report 1: Australia - the healthiest country by 2020 (2008), Canberra page 15

²⁶ National Preventative Health Taskforce, Technical Paper 1: Obesity in Australia - a need for urgent action (2008), Canberra p1

²⁷ Stephen Begg, Theo Vos, Bridget Barker, Chris Stevenson, Lucy Stanley and Alan D Lopez, 2007, *The Burden of Disease and Injury in Australia 2003*, The Australian Institute of Health and Welfare

²⁸ Monash University website, <http://www.modi.monash.edu.au/obesity-facts-figures/obesity-in-australia/> visited on 5 October 2012

²⁹ Fitness Australia, Submission to the National Health and Hospitals Reform Commission page ii

³⁰ Fitness Australia, Submission to the National Health and Hospitals Reform Commission page ii

³¹ KPMG Econtech Report, Economic Modelling of the Impact of Obesity and Obesity Interventions, 26 March 2010

³² National Preventative Health Taskforce, Technical Report 1: Australia - the healthiest country by 2020 (2008), Canberra page 15

6.3 Our ageing population

The need to prevent obesity related disease is heightened by the growth in Australia's ageing population. The median age of the Australian population in 2013 was 37.3 years and the projected median age by 2050 is 45.2 years. As the Australian workforce ages and chronic disease increases, many employers incur increased costs of ill health in the absence of intervention. This will add to fiscal pressures, requiring substantial outlays for pensions and health related expenditures. Indeed, the Intergenerational Report 2015 has noted that demographic and other factors are projected to place significant pressure on government finances over the longer term and result in an unsustainable path for net debt towards the end of the projection period.³³ Australian Government health spending is projected to increase from 4.2 per cent of GDP in 2014-15 to 5.5 per cent of GDP in 2054-55. Encouraging greater physical activity in Australia's population through tax incentives would thus help ease the associated health costs that are projected to be incurred by governments, individuals and businesses. These pressures make the increased uptake of preventative health services provided through Australia's fitness facilities even more imperative.

³³ The Treasury, the 2015 Intergenerational Report

7 Why should the government get involved?

As demonstrated, Australia faces new health challenges in relation to physical inactivity and obesity. Australia's ageing population, the size of the current and projected obese and overweight population and its related economic costs has indicated the need for a more urgent and prompt response to the obesity epidemic.³⁴

Multiple social, economic, technological, environmental and political factors interact to influence trends in the obesity and overweight population. The fact that obesity related problems are multifactorial has often been used as an excuse for inaction on obesity. However, the majority of these factors are outside the control of individuals and families. It is thus no longer enough for Government to rely on the initiative of individuals and the private sector to combat this epidemic. Partnerships and cooperation across the public and private policy spheres are required, and must involve all aspects of national, state and local governments. In addition, cooperation in the non-government sectors, industries, businesses, private interests and local communities must occur across all sectors.³⁵ Governments in particular have a responsibility to coordinate preventative health reform, to make sure adequate supports are put in place to encourage businesses, individuals and the health system to make useful contributions towards the fight against obesity³⁶.

The McKinsey Quarterly, October 2010³⁷ discusses the importance of governments' role as governments have the authority to issue the policies and regulations to encourage positive healthy behavioural changes to combat the obesity pandemic. The staggering health and economic costs (discussed at section 8 below) illustrate that an adequate level of investment is required by government where the benefits or savings may not materialise for several years. In a research prepared in collaboration with the International Association for the Study of Obesity, McKinsey & Co found that there were over forty policy levers that governments have successfully implemented to encourage healthy eating and exercise which involves focusing on the following 6 key areas:

- Food production and standards
- Urban design and transportation
- Media
- Health systems
- Schools
- Employers.

In addition, the governments are in a better position to monitor the results of any policies or regulations implemented to remain alert for any unintended adverse consequences.

³⁴ National Preventative Health Taskforce, Discussion Paper: Australia - the healthiest country by 2020 (2008), Canberra p10

³⁵ Ibid. page 15

³⁶ Stephen Begg, Theo Vos, Bridget Barker, Chris Stevenson, Lucy Stanley and Alan D Lopez, The burden of disease and injury in Australia 2003, 2007 The Australian Institute of Health and Welfare page 16

³⁷ McKinsey & Co. "Why governments must lead the fight against obesity", McKinsey Quarterly, October 2010

Tax incentives that encourage healthy behaviours are not new to Australia. In the tobacco control arena, there is clear evidence of the efficacy of combining effective tax measures and social marketing campaigns. This combination represents perhaps one of the most successful approaches to disease prevention strategies.³⁸

This proposed FBT exemption in relation to fitness benefits would be an effective tax incentive that would play a powerful role in creating a health promoting work environment for all Australian workers. Ultimately, it would make it easier for employees and businesses to make healthier lifestyle choices.

In the submission to the Henry Tax Review 2008, the National Preventive Health Taskforce, a group established by the Minister for Health and Ageing, recognised subsidies for fitness-related products and services would encourage greater physical activity amongst employees³⁹.

³⁸ National Health and Hospitals Reform Commission, A Healthier Future For All Australia - Final Report, June 2009 page 122

³⁹ National Preventative Health Taskforce, Submission to the Henry Taxation Review, Australia's Future Tax System (October 2008)

8 The costs of physical inactivity and obesity

The cost of obesity is rapidly becoming an issue that employers and the Government can no longer afford to ignore.⁴⁰ The consequences of obesity are not restricted to negative health outcomes. In 2008 - 2009, the total direct and indirect cost of obesity was estimated by Econtech to be \$37.7 billion (or 3.1 % of GDP). This includes the direct and indirect financial costs and non-financial costs outlined below.⁴¹

Direct Costs	\$1.3 billion
Indirect Costs	\$6.4 billion
Burden of disease costs	\$30 billion
Total	\$37.7 billion

These statistics were taken from the 2010 Medibank report on “*Obesity in Australia: Financial impacts and cost benefits of intervention*”⁴².

8.1 The Direct Costs

Poor health drains public health budgets, through hospital and pharmaceutical costs.⁴³ The direct health care costs include ambulatory services, hospitalisation, prescription medication and some medically related consumables, such as blood glucose self-monitoring meters and strips. Direct non-health care costs included transport to hospital, supported accommodation and special food. The Australian Medical Association (Victoria) claims that at least \$10 million is required immediately to buy specialist equipment, including beds, wheelchairs, operating tables, hoists, gowns, toilet seats and surgical gear, to treat, diagnose and transport obese patients.⁴⁴ The direct costs of \$1.3 billion in the table above are associated with these health system costs relating to four main obesity related medical conditions – cardiovascular disease, type 2 diabetes, osteoarthritis and some specific forms of cancer.⁴⁵ These costs are not just incurred by the Government, but also individuals who may have to pay for the cost of treatment directly. However, there are other reports which suggest much larger figures. One Sydney University study attempted to estimate the costs of overweight and obesity in Australia. This study found that direct health care costs associated with overweight and obesity totalled to \$21 billion a year. This is dramatically higher than Econtech’s estimates.⁴⁶

⁴⁰ PriceWaterhouseCoopers, Building the case for Wellness, 2008 Health Work Wellbeing page 15

⁴¹ KPMG Econtech Report, Economic Modelling of the Impact of Obesity and Obesity Interventions, 26 March 2010 page 1

⁴² Ibid.

⁴³ The National Preventative Health Taskforce, Submission to the Henry Taxation Review 2009 page 3

⁴⁴ Marianne Betts, “Hospitals to bear weight of obesity”, Herald Sun, 17 January 2011

⁴⁵ KPMG Econtech Report, Economic Modelling of the Impact of Obesity and Obesity Interventions, 26 March 2010

⁴⁶ Stephen Colagiuri, Crystal M Y Lee, Ruth Colagiuri, Dianna Magliano, Jonathan E Shaw, Paul Z Zimmet and Ian D Caterson, *The cost of overweight and obesity in Australia*, Medical Journal of Australia 2010; 192(5):260-264

In addition to this, the University of Sydney study revealed that those who are overweight require an average of \$2,110 in health care and \$3,737 in subsidies annually, based on information collected in 2005. Such expenditure underlines the potential for preventative health measure, such as tax incentives to increase fitness participation, to reduce the direct burden of avoidable illness.

In an Econtech report commissioned by Medibank Limited⁴⁷, it was revealed that the Australian healthcare system could save \$1.5 billion a year if more Australians were physically active for just 30 minutes a day.

The following represent the direct costs attributable to the seven medical conditions resulting from physical inactivity in Australia in 2006/2007:

Coronary heart disease (CHD)	\$372 million
Stroke	\$162 million
Type 2 diabetes	\$211 million
Breast cancer	\$42 million
Colon cancer	\$61 million
Depression	\$177 million
Falls	\$469 million
Total	\$1.5 billion

The direct health costs of sports injuries and the cost of participating in fitness related activities was approximated in the Econtech report at \$831.4 million. This is evidence that the cost of physical inactivity in Australia far outweighs the cost of healthcare for sports injuries.

8.2 The Indirect Costs

The indirect costs are associated with the productivity losses that occur due to obesity and ill health. This was measured in terms of the impact of being absent from work (absenteeism), being less productive at work than a healthy person (presenteeism), and loss of productivity due to premature mortality caused by obesity. Other costs include carer costs - this comprises the value of community care services provided primarily by informal carers.⁴⁸

The significant government expenditure on health and the indirect costs of obesity represents the potential cost savings that would occur and the reduction of the prevalence of obesity in Australians if there was greater emphasis on preventative measures.⁴⁹ The National Health and Hospitals Reform Commission and The National Preventative Health Taskforce have already declared preventative measures as an essential and complementary part of our national health system, and of our overall national infrastructure.⁵⁰

⁴⁷ Medibank Private Limited, *The cost of physical inactivity. What is the lack of participation in physical activity costing Australia?* August 2007

⁴⁸ Access Economics 2006, *The Economic Costs of Obesity*, Report for Diabetes Australia, Canberra page ii

⁴⁹ Fitness Australia, Submission to the National Health and Hospitals Reform Commission page 27

⁵⁰ National Preventative Health Taskforce, Technical Report 1: Australia - the healthiest country by 2020 (2008), Canberra page 8

9 The role of fitness centres in health promotion

Fitness centres promote more active lifestyles by providing the necessary facilities, equipment and expertise to achieve greater levels of fitness. In 2009 it was found that approximately 1.732 million Australians use fitness centre services, of which 77% are regular participants.⁵¹ The centres provide services that are not readily replicated by other forms of exercise. For example, they typically provide exercise services that offer protection from weather and extreme climates, allow individual participation, flexible hours (including night and early morning) and a safe, supportive and instructional environment. Indeed, given the costs of fitness centre membership or participation, it can be concluded that customers have expressed a clear preference for the types of services provided by fitness centres well above those provided by alternative (often much cheaper) forms of exercise. In this regard, a substantial segment of fitness centre customers would, in the absence of those centres, be expected to reduce their exercise levels below that necessary to provide health benefits.⁵²

As such, the impact of the fitness industry extends far beyond its direct contribution to the economy. It plays a key role in the improvement of health and fitness of Australians. Recent literature has suggested that fitness centre memberships are associated with increased health responsibility and broader health promoting behaviours. For example, studies have shown that fitness centre members may constitute a large part of the population who are sufficiently active to achieve optimal health.⁵³ Further, membership in a sports and recreation club has been found to increase the likelihood of achieving the recommended level of activity by 2.5 times.⁵⁴

⁵¹ Fitness Australia, Submission to the National Health and Hospitals Reform Commission page 16

⁵² Ibid. page 17

⁵³ Ready A E, Naimark B J, Tate R and Borseskie S L 2005, 'Fitness Centre Membership is Related to Healthy Behaviours', *Journal of Sports Medicine and Physical Fitness*, Vol 45, No. 2, pp. 199-207.

⁵⁴ Giles-Corti B and Donovan R J 2002, 'The relative influence of individual, social and physical environment determinants of physical activity', *Social Science & Medicine*, Vol 54, No 12, pp.1793-812.

10 How the new exemption would encourage the uptake of physical activity

10.1 Improving affordability

The FBT exemption for fitness benefits would greatly improve the affordability and access to physical activity programs.⁵⁵ From the results of the Deloitte Survey, a substantial 91.8% of the sample population of employers surveyed would be willing to provide gym memberships, sports training and personal training sessions to employees should greater FBT exemptions for such benefits be provided. This is because the decreased tax burden would encourage employers to subsidise corporate fitness benefits even further for employees and thus remove an initial barrier to participation in physical activity for employees.⁵⁶

Consumers typically respond to a price decline for a given product or service by purchasing more of that product or service. Currently, there are many individuals who find that the cost of fitness memberships and weight programs is a luxury that is beyond what they can afford.⁵⁷ Standard membership fees to fitness centres are likely to increase each year as operating costs for clubs continue to rise. As found in the 2010 Australian Fitness Industry Survey, 80% of 420 fitness centres surveyed intend to increase their joining fees, while 67.5% of fitness centres intend to increase their monthly direct debit fees.⁵⁸ With the continued increase in fitness centre fees, it is clear that employer subsidised fitness memberships would make it easier to participate in physical activity and help make active choices a cheaper and easier alternative for individuals, families and businesses.⁵⁹

10.2 More uptake by small businesses

In addition, the expansion of the fitness benefits exemption would lead to greater provision of fitness benefits by employers of small to medium enterprises as well as employers with large disbursed workforces. As discussed in previous sections, the current exemption is impractical in its operation for these types of businesses. As on-site fitness facilities are simply not an option for these businesses, employees will be provided with greater access to fitness benefits as a result of the proposed exemption.

In addition, the small to medium enterprises can work with fitness centres, personal trainers, fitness instructors, sports clubs and other exercise professionals registered under Fitness Australia or other recognised industry fitness bodies to tailor make individual corporate fitness programs based on employees' interests which can be incorporated during a working day. Besides promoting healthy and productive lifestyle, subsidised fitness benefits can allow small to medium enterprises to retain staff and increase work morale.

⁵⁵ House of Representatives Standing Committee on Health and Ageing, *Weighing it up - Obesity in Australia*, 2009 The Parliament of the Commonwealth of Australia, May 2009 page 73

⁵⁶ City Fitness Health Club, Submission to the Treasury, no. 130

⁵⁷ House of Representatives Standing Committee on Health and Ageing, *Weighing it up - Obesity in Australia*, 2009 The Parliament of the Commonwealth of Australia, May 2009 page 24

⁵⁸ Australian Fitness Industry Survey

⁵⁹ National Preventative Health Taskforce, Technical Paper 1: *Obesity in Australia - a need for urgent action* (2008), Canberra page 100

10.3 Institutionalising fitness in the workplace routine

According to the Australian Bureau of Statistics, a full-time employee will on average work 41.1 hours in a week whilst a part-time employee will work 17.1 hours a week.⁶⁰ Time appears to be the biggest barrier between Australians and regular physical activity participation, with more than a quarter people surveyed for the Zurich Heart Health Index saying that there were not enough hours in the day to get them exercising more.⁶¹ Weaving fitness activity within the workplace routine would ensure fitness is not another cumbersome demand on employees' time. Providing subsidised fitness benefits and institutionalising fitness as an integral part of the workplace routine will be a strong incentive for time poor employees to engage in greater levels of physical activity.

⁶⁰ Australian Bureau of Statistics, *6105.0 Australian Labour Market Statistics (April 2012)*

⁶¹ Zurich Heart Foundation Heart Health Index, September 2010

11 The impact of the new concessions on government revenue

The current FBT exemption for on-site recreational facilities has not been well used by employers.⁶² As a result, we believe there would be minimal loss of FBT revenue through the implementation of this new exemption as the Government does not presently generate significant amounts of revenue from the taxation of fitness benefits. From the results of the Deloitte Survey, 50.9% of the sample population of employers surveyed, provided gym/fitness/ health benefits to employees and out of these employers only 14.4% actually provided reimbursed or paid for an employee's external fitness memberships on behalf of the employees.⁶³ Thus, expanding the FBT exemption to external fitness facilities would thus not significantly decrease FBT revenue. These costs could easily be recouped by the flow on benefits in reduced health care costs, increased workplace productivity and growth in the fitness industry. As a result of the growth in the fitness industry, the Government would also receive greater personal income tax revenue. In addition, the new concessions could bring the black market revenue (personal trainers and other personal exercise trainers who potentially currently receive cash in hand for their services) into the tax net. The proposed exemption would encourage such trainers to obtain registration with Fitness Australia and declare all their income, in order to enable employers to claim the fitness benefits exemption.

Other benefits that would be expected to result from the new exemption are discussed in section 12 below.

11.1 Estimated cost of the new FBT concession

	Full exemption of fitness benefits	50% reduction to the taxable value	50% reduction to the taxable value capped at \$1,000 per employee per annum
Loss of FBT revenue attributed to fitness benefits currently being provided	\$0	\$0	\$0
Estimated cost of the provision of the FBT concession ⁶⁴	\$144,000,000	\$72,000,000	\$72,000,000

This cost will be far outweighed by the savings and benefits discussed in sections 8 and 12. For example the health care savings alone, estimated to be in the order of \$204.8 million⁶⁵, would eliminate this expense to government.

⁶² Deloitte Touche Tohmatsu Survey 2010 – 10 October 2010

⁶³ Deloitte Touche Tohmatsu Survey 2010 – 10 October 2010

⁶⁴ The cost is estimated on the tax effect (at an assumed average tax rate of 30%) of the provision of gym memberships (currently estimated as \$768 per person per year) by 50% of employers. We have further assumed that 62.5% of current gym membership owners (estimated by Fitness Australia to be 2 million) are workforce participants (the Australian Bureau of Statistics estimated in January 2011 that 62.5% of the total population is employed in a full time or part time capacity). Therefore the estimates are based on 30% x 50% x (62.5% x 2m) x \$768.

⁶⁵ Ibid.

12 The benefits of the new FBT concessions

A greater emphasis on preventative health care and an increased level of fitness participation in Australia could yield a considerable range of economic and social benefits which would radiate out to the rest of the economy. This includes better community health, reduced health care costs, enhanced workforce productivity and increased workforce participation. These benefits mean that the increased provision of fitness benefits to employees by an employer could potentially be cost-neutral for the employer and the Government.

12.1 Improved health outcomes

The main outcome that is hoped to be achieved from the implementation of our proposed FBT exemption on fitness benefits is the overall improvement of health in the Australian population.⁶⁶ The link between better health outcomes is made through the potential for fitness benefits to reduce the incidence of specific diseases.⁶⁷ An increased level of fitness participation in the Australian population could thus lead to a decrease in not only the incidences of obesity and overweight, but also the many associated diseases and health conditions. As already stated, some of these conditions include type 2 diabetes, cardiovascular disease, osteoarthritis and various types of cancer⁶⁸.

Not only does better community health provide a range of economic benefits, it also provides Australians with the opportunities and freedom to lead a more active, healthy and productive lifestyle.

12.2 Avoided health care costs

A decrease in the prevalence of obesity related health would significantly decrease the demands on Australia's health system in future years.⁶⁹ This is because a certain amount of chronic diseases associated with obesity can be avoided through modifiable risk factors such as increasing levels of physical activity. A reduction in the use of medical and rehabilitative services would lead to significant savings in future public health service expenditure. Access Economics has modelled the avoided health care costs that would result from an increase in fitness centre participation. In the economic modelling study conducted by Access Economics⁷⁰, it was found that an increase in fitness centre participation from 7% to 10% of the adult population (an increase of just 3%) would potentially deliver health care savings in the order of \$204.8 million. The 7,516 cases of chronic disease averted in 2011 due to fitness memberships brought about savings of around \$77 million to the Australian economy⁷¹. As discussed at section 11, the increased fitness centre participation and consequent health care

⁶⁶ The National Preventative Health Taskforce, Submission to the Henry Taxation Review 2009 page 3

⁶⁷ Fitness Australia, Submission to the National Health and Hospitals Reform Commission page 20

⁶⁸ Fitness Australia, Submission to the National Health and Hospitals Reform Commission page 18

⁶⁹ Australian Institute of Health and Welfare 2008, Australia's Health 2008, Cat. No. AUS 99, Canberra

⁷⁰ Ibid.

⁷¹ Deloitte Access Economics 2012. The Australian Fitness Industry 2012, Report for Fitness Australia, Canberra

savings which would follow if employers were able to provide these benefits to their employees without incurring FBT, would far outweigh the estimated costs of the proposed FBT concessions. The largest component of this saving arises from the avoided costs of cardiovascular disease.⁷²

12.3 Reduced absenteeism

In this context, absenteeism refers to the cost of lost productivity when employees do not work as a result of illness or some other condition. Studies of overweight and obese employees have shown that obese employees take more sick leave than non-obese employees and are twice as likely to have high levels of absenteeism.⁷³ For example, one company has reported sick leave to run at 3.1% to 3.4% per year, which represents an average of 8 days a year for each fulltime worker. When applied to the average salary, the estimated cost of sick leave each year is \$1.28 million. If the increased uptake of fitness benefits results in each person taking two hours less sick leave a year or alternatively one in every four people taking one less sick day a year, the savings to the aforementioned company would be \$50,000. This figure also excludes savings that would potentially have been made by a drop in the staff turnover rate, if that occurred.⁷⁴

12.4 Economic productivity

Obesity can have a negative impact on worker productivity through presenteeism. This refers to the worker phenomenon of being less productive at work than a healthy person.⁷⁵ Presenteeism imposes a significant economic burden to businesses and to the Australian economy as a whole. In 2005, it was estimated that the direct costs of presenteeism to Australian employers was 1.9% of GDP – equivalent to \$17.6 billion of real GDP. The direct costs of presenteeism filters through the economy, causing changes to capital investment and other impacts to upstream and downstream industries. This is due to the general reduction in the level of exports, imports and investment resulting from decreased worker productivity.⁷⁶ A recent trial by The Body-Brain Performance Institute in conjunction with Swinburne University's Brian Sciences Institute found a direct link between physical fitness and work participation. The results of the trial showed that employees who walk 10,000 steps a day and work out three times a week in the gym can give their employer an extra \$2,500 worth of productivity a year.⁷⁷ Investments in interventions that improve functioning for individuals with health conditions would thus have considerable impacts in terms of productivity improvements and on macroeconomic aggregates.⁷⁸ Therefore, reductions in the prevalence and incidence of overweight and obesity could realise savings not only to the health system but also to overall workplace productivity and a reduction in social costs.⁷⁹

⁷² Australian Institute of Health and Welfare 2008, Australia's Health 2008, Cat. No. AUS 99, Canberra ⁷³ House of Representatives Standing Committee on Health and Ageing, Weighing it up - Obesity in Australia, 2009 The Parliament of the Commonwealth of Australia, May 2009 p27

⁷³ House of Representatives Standing Committee on Health and Ageing, Weighing it up - Obesity in Australia, 2009 The Parliament of the Commonwealth of Australia, May 2009 p27

⁷⁴ Emma Bailey, Staff gym membership subsidy costs DHB \$22,000, 22 September 2009, The Timaru Herald

⁷⁵ KPMG Econtech Report, Economic Modelling of the Impact of Obesity and Obesity Interventions, 26 March 2010

⁷⁶ Econtech Report, Economic Modelling of the Cost of Presenteeism in Australia, 2007 Medibank Private page i

⁷⁷ Burke, *10,000 steps plus trips to the gym, it'll make you and the boss happy*, The Sydney Morning Herald, 15 September 2011

⁷⁸ Ibid.

⁷⁹ National Preventative Health Taskforce, Discussion Paper: Australia - the healthiest country by 2020 (2008), Canberra p11

12.5 Workplace participation

The national reform agenda of the Council of Australian Governments identified the crucial importance of better health to workplace participation. People with chronic illness are less likely to participate in the workforce. Each year, approximately one in four employees leaves the workforce as a result of ill health and injury.⁸⁰ Failing to retain employees result in other significant cost burdens to the employer. This includes costs of:

- Overtime payments
- Temporary recruitment
- Recruitment costs
- Legal claims
- Insurance premiums
- Overtime payments
- Management time

Companies that promote fitness participation would in the long term enjoy better rates of employee retention.⁸¹ The Access Economics Report in 2008 estimated that the labour force participation would increase by 662 full time employees through the potential use of fitness centres by employees. The largest contributions to this benefit arise from reducing the incidence of type 2 diabetes and cardiovascular disease which both have significant numbers of disease sufferers in the working age population.⁸²

12.6 Supporting the fitness industry

An increase in fitness participation would lead to greater economic activity generated by the fitness industry. Australia's fitness centres contributed a total of \$872.9 million to the Australian economy in 2007 -08.⁸³ This comprises a direct value added contribution of \$486.5 million, with \$374.2 million being paid in wages and \$112.3 million returned to capital owners as operational profits.⁸⁴ Additionally, the industry's total employment contribution in 2007 – 2008 was estimated to be 17,081 on a full time equivalent basis.

In the study by Access Economics, a 10% increase in fitness centre participation would potentially lead to 2,609 extra full time employees in the workforce.⁸⁵ These new employment opportunities would result in even greater personal income tax revenue to the government. The estimated workforce benefits could also increase GDP by approximately \$82.0 million in real terms⁸⁶ In addition to this, health care savings in the order of \$204.8 million could be realised.

⁸⁰ The National Preventative Health Taskforce, Submission to the Henry Taxation Review 2009 p3

⁸¹ World Health Organization, Healthy workplaces: a model for action. For employers, workers, policy-makers and practitioners, 2010

⁸² Fitness Australia, Submission to the National Health and Hospitals Reform Commission page 20

⁸³ Fitness Australia, Submission to the National Health and Hospitals Reform Commission page i

⁸⁴ Ibid.

⁸⁵ Ibid.

⁸⁶ Ibid. page iii

12.7 Removal of bias towards small or rural based employers

As discussed at section 4, the current exemption in the FBTAA in respect of fitness benefits disadvantages small or rural based employers due to the large amount of infrastructure and finance required to set up a fitness facility on business premises.

Small or rural based employers will benefit from the new FBT concessions as it would remove these biases and ensure that these small or rural based employers can also offer fitness benefits and remain competitive in the labour market.

13 International experience

Although there is currently no equivalent Fringe Benefits Tax legislation in other countries (except for New Zealand), several other countries have already legislated tax incentives and implemented other fiscal measures, to promote access to fitness.⁸⁷ In the absence of any legislated tax incentives, the Fringe Benefits Tax legislation in Australia is a major disincentive to achieving the goal of promotion and encouragement of exercise participation amongst employees.

13.1 Canada

In particular, in Canada, the Nova Scotia provincial government introduced “Living healthy tax credit” which has shown promising success by helping with the costs of registering children and youth in eligible sport or recreational activities that offer health benefits. This credit, based on a maximum annual spending of \$150 per child when introduced, was raised to a maximum of \$500 in January 2006. It is estimated that the Living healthy tax credit initiative costs the Nova Scotia government \$2.2 million annually. The Canadian federal government then introduced a similar economic incentive in 2006 with the Children’s Fitness Tax Credit.⁸⁸

As a result of the success of the provincial Living healthy tax credit in Nova Scotia, the Canadian Federal government has implemented the Children’s fitness tax credit which allows parents to claim a non-refundable tax credit up to a limit of \$1,000 in respect of enrolment fees in eligible programs of physical activity. It is estimated that the Children’s fitness tax credit will cost the federal government \$145 million annually.⁸⁹ Research conducted has shown that the health care cost savings from such a credit would significantly outweigh the net personal tax losses incurred by the federal and provincial governments over time.⁹⁰

13.2 The UK

The United Kingdom is also currently piloting several initiatives that link economic incentives with physical activity. Their “Change4Life initiative”, which commenced in January 2009, has been praised as a great model to consider here in Australia.⁹¹ This program involves a multi-pronged approach to encourage behaviour change within the entire population, with strategies including an advertising campaign, website, resources and partnership opportunities where healthy messages and the Change4Life brand are promoted to encourage people to eat well, move more and live longer. The pilot program also involves government subsidised gym memberships where people go to the gym regularly over a 12-month period.⁹² These memberships have been funded since April 2009 and have been targeted towards 16 – 22 year olds. The pilot looked at the effect that a financial incentive has in recruiting, retaining and affecting behavioural change in young people who are at risk of inactive lifestyles.

⁸⁷ Fifty-seventh World Health Assembly, Global strategy on diet, physical activity and health, 2005 World Health Organisation

⁸⁸ National Preventative Health Taskforce, Technical Paper 1: Obesity in Australia - a need for urgent action (2008), Canberra

⁸⁹ National Preventative Health Taskforce, Technical Paper 1: Obesity in Australia - a need for urgent action (2008), Canberra

⁹⁰ The Centre for Spatial Economics, Economic Benefits of an Adult Fitness Tax Credit, 2007 Fitness Industry Council of Canada

⁹¹ Ibid.

⁹² National Preventative Health Taskforce, Technical Paper 1: Obesity in Australia - a need for urgent action (2008), Canberra page 101

14 Conclusion

Obesity is now a problem too large for Government to ignore. As the rates of obesity continue to increase, so too do the incidences of associated obesity related illnesses and disease. These health problems add to the strain on the Australian health budget. Consequently, obesity is estimated to cost the Australian economy \$21 billion annually.⁹³ These costs not only arise from the direct health care costs, but also the productivity losses, decreases in workplace participation and other indirect costs of obesity. As stated, one study has estimated that the Government already spends \$4,153 per overweight person annually, to cover other subsidies such as mobility and sickness allowances each year. These high burdens provide a clear financial incentive for the Government to invest in policies which encourage physical activity and thus reduce the incidence of obesity in the Australian population.

As such, we recommend an expansion to the current Fringe Benefits Tax exemption regarding fitness benefits provided to employees. Currently, employers can only claim an FBT exemption for access to fitness facilities that are provided on the employer's business premises. The costs and impracticalities of managing a fitness facility on site have meant that the majority of employers do not claim the exemption. The significant tax burden of providing fitness benefits has also discouraged employers from investing in the provision of such benefits. We thus strongly recommend the Government to consider amending the Fringe Benefits Tax Assessment Act 1986 to include an exemption specifically for the provision of fitness benefits on and off the employer's business premises. Such an exemption would provide a huge incentive for more employers to provide fitness benefits to their employees. In turn, this would increase the affordability and accessibility of fitness benefits for employees and thus lead to greater fitness participation levels across Australia.

Promoting and encouraging exercise participation should be one of the key components of any primary health care plan. Our recommendations to expand the current FBT exemption for fitness benefits have been prepared in consideration of preventative strategies for lowering Australia's obesity rate amongst employees and to help create a fitter, healthier Australia. Although, the proposed tax exemption will reduce the FBT collected by the Commonwealth Government initially, our proposed changes will ultimately result in the following benefits:

- A fitter and healthier Australian population
- A reduction in direct health care costs associated with obesity
- A level playing field for small and medium sized businesses throughout Australia in providing fitness benefits
- A reduction in the cost of subsidies provided to overweight and obese individuals
- Increased personal income taxes recovered as a result of improved rates of absenteeism and presenteeism
- Increased income taxes from new employment opportunities generated by the growth in the fitness industry
- Increased workplace participation, economic productivity and GDP.

We trust the content in this submission is sufficient for your purposes. We would be happy to elaborate on any aspect of this submission should you require any further detail.

⁹³ Stephen Colagiuri, Crystal M Y Lee, Ruth Colagiuri, Dianna Magliano, Jonathan E Shaw, Paul Z Zimmet and Ian D Caterson, The cost of overweight and obesity in Australia, Medical Journal of Australia 2010; 192(5):260-264

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16 Appendix A: The Participants

16.1 Fitness Australia

Fitness Australia is the national fitness industry association working for a fitter and healthier Australia. It is a not-for-profit incorporated association whose mission is to raise standards within the industry and to support, promote and represent the interests of the fitness industry. Its membership comprises approximately 3,000 business members and over 26,000 registered fitness professionals across Australia. Business members include fitness centre owners and managers, from small to medium sized business and personal training studios through to large, multinational businesses and franchises. Registered exercise professionals are those who have successfully attained the recognised qualifications, have registered with Fitness Australia and are generally employed or contracted by fitness businesses or are self-employed within the fitness industry.

Fitness Australia is currently running a campaign, #FITnotFBT to help all business owners support their workers to get fit and healthy. For more information and to support Fitness Australia's campaign #FITnotFBT: Get our tax system into shape, visit www.FITnotFBT.org.au

16.2 The Council of Small Business of Australia

The Council of Small Business of Australia (COSBOA) is the peak body in Australia representing small businesses through industry based and geographic business organisations. Its membership ranges from large national professional associations like the Pharmacy Guild of Australia and the National Institute of Accountants, through to State based groups including the Furnishing Industry Association of Australia (VIC/Tas) and the Tasmanian Small Business Council. Through its membership base it connects with around 150,000 small businesses.

16.3 The Australian Chamber of Commerce and Industry

The Australian Chamber of Commerce and Industry (ACCI) is Australia's largest and most representative business association who speaks at a national and international level on behalf of the nation's peak State and Territory Chambers of Commerce and Industry and National Industry Associations from all sectors of the economy.

16.4 The Australian Council of Trade Unions

The Australian Council of Trade Unions (ACTU) is the peak union body representing 46 affiliated unions and the interests of almost 2 million workers across Australia.

16.5 Baker IDI

Baker IDI Heart and Diabetes Institute is an independent, internationally renowned medical research facility. Their work extends from the laboratory to wide-scale community studies with a focus on diagnosis, prevention and treatment of diabetes and cardiovascular disease. Baker IDI's mission is to reduce death and disability from cardiovascular disease, diabetes and related disorders

16.6 Deloitte Australia

Deloitte Australia is a member firm of Deloitte Touche Tohmatsu Limited, the largest professional services organization in the world. As one of Australia's leading professional services firms, Deloitte Australia provides audit, tax, consulting, and financial advisory services to public and private companies through approximately 6,000 people and over 570 partners across the country. This submission has been prepared by the Deloitte Employment Taxes group - a national team with expertise and experience in State and Federal employment taxes and levies. The Employment Taxes group provide advice on the legislative requirements of Fringe Benefits Tax, Payroll tax, WorkCover, Superannuation guarantee and Pay-As-You-Go withholding.

16.5 Other corporate participants

- ALH Group Ltd
- CitiPower Pty and Powercor Ltd
- Flight Centre Limited
- John Swire & Sons Pty Ltd
- King & Wood Mallesons
- Lander & Rogers Lawyers
- Powercor Australia Ltd
- Qantas Airways Limited
- Virgin Australia