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Tax White Paper Task Force
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Heart Foundation Submission: Tax White Paper

The Heart Foundation welcomes the opportunity to make a submission on the Government's *Re:Think Better Tax, Better Australia* discussion paper.

In addition to this submission, the Heart Foundation, Diabetes Australia, National Stroke Foundation and Kidney Health Australia, have made a separate joint submission on tax issues affecting charities.

In this submission the Heart Foundation wishes to raise seven specific recommendations directly related to achieving our mission of reducing premature death and suffering caused by heart disease and stroke.

Heart disease, stroke and vascular disease - collectively known as cardiovascular disease - has been identified as the most costly disease group in terms of direct health care expenditure, amounting to \$7.7bn, or 10.4% of total disease expenditure in 2008-09.¹

Together, the chronic disease groups - of which cardiovascular disease is a major component - account for 90% of all deaths and 85% of the total burden of disease.

It is both appropriate and effective to use tax measures and financial incentives to help reduce the social and economic impact of both acute and chronic disease.

This has been clearly demonstrated through taxation on tobacco, with tax increases playing a major part in reducing mortality and morbidity caused by tobacco smoking.

As the World Bank has pointed out, tax increases on tobacco products are the single most effective means available to governments to reduce death and disease caused by smoking.²

The Heart Foundation strongly encourages the Australian Government to use taxation and financial incentive as 'corrective' measures to improve the health of Australians and reduce preventable deaths and illness.

This will be increasingly important as the population ages and some risk factors become more prevalent.

¹ Australian Institute of Health and Welfare (2014), *Australia's Health 2014*

² World Bank (1999), *Curbing the Epidemic: Governments and the Economics of Tobacco Control*

About the Heart Foundation

The National Heart Foundation of Australia (Heart Foundation) saves lives and improves health through funding world-class cardiovascular research, guidelines for health professionals, informing the public and assisting people with cardiovascular disease. The organisation helps people with, and at risk of, cardiovascular disease by providing comprehensive information and guidance on how to minimise their risk.

Summary

The Heart Foundation recommends the Australian Government:

- Maintain current GST exemptions on food to promote healthy eating.
- Investigate tax options to increase the price of sugar-sweetened beverages, with the aim of changing purchasing habits and achieving healthier diets.
- Provide tax incentives to support a cycle-to-work scheme similar to that operating successfully in the UK and Ireland.
- Provide increased scope for tax deductibility for physical activity participation.
- Provide fringe benefits tax exemption for workplace packaging of sporting and health club members, bicycle purchases and public transport use.
- Continue to increase tobacco taxation levels after 2016 to a position where Australia is a world leader - as it is in a number of other areas of tobacco control policy, and ensure revenue is allocated to support tobacco control strategies including education campaigns.
- Change tobacco indexation from biannual to annual, to maximize the health benefits of price increases.
- Abolish duty-free tobacco sales.
- Support measures that help to reduce harmful consumption of alcohol.

GST on food; tax options for sugar-sweetened beverages

The Heart Foundation recommendations:

- Maintain current GST exemptions on food to promote healthy eating.
- Investigate tax options to increase the price of sugar-sweetened beverages, with the aim of changing purchasing habits and achieving healthier diets.

Food

In Australia, diet-related risk factors are the leading cause of disease burden and the Australian Health Survey 2011-13 demonstrates that Australian diets require urgent attention.

More than 30% of energy comes from unhealthy (discretionary) foods while less than 7% of people eat the recommended amount of vegetables. We need tax options that reduce this disconnect, not widen it.

Arguments in favour of changes to the current GST-exemptions for food centre on opportunities for revenue generation in broadening the GST base, and highlight inconsistencies and administrative anomalies in how the GST is applied (see pizza example, p138, Box 8.1 in *Re:Think* discussion paper).

The Heart Foundation recognises the complexities associated with Australia's tax system and does not oppose tax reform however, it is vital that changes to tax arrangements do not introduce additional barriers to healthy eating, with subsequent risks for health outcomes.

Recently undertaken healthy food basket surveys have highlighted that in some parts of Australia, for a family of four who are reliant on government payments, it can already take up to 41-44% of their payments to buy the groceries recommended to meet the Australian Dietary Guidelines for Healthy eating.^{3 4}

Applying the GST to fresh or core food **will** result in reduced consumption of core foods, such as fruit and vegetables, with negative implications for dietary quality of Australians.

The current GST arrangements in Australia exempt many core foods (such as fruit and vegetables) as identified in the Australian Dietary Guidelines, while many discretionary style foods (such as sugary drinks) carry the GST.⁵

The price differential achieved through existing GST arrangements could be considered as a tax on unhealthy foods, although it is recognised that the GST was not intended for this purpose, and some products which don't currently attract the GST are not core food.

Research into food and beverage taxes and subsidies consistently suggests that a tax or subsidy influences consumer behaviour (i.e. a tax reduces consumption and a subsidy increases it).

Modelling in Australia has demonstrated that a 10% GST on fruit and vegetables would result in an almost 5% reduction in fruit and vegetable consumption, potentially resulting in a cost of 100,000 healthy life-years and an additional 90,000 cases of heart disease, stroke and cancer.⁶

³ Murray S., Ahuja KDK., Auckland S., et al (2014) *The 2014 Tasmanian Healthy Food Access Basket (HFAB) Survey*. School of Health Sciences. University of Tasmania.

⁴ Pollard, CM, Savage, V., Landrigan, et al (2015) *Food Access and Cost Survey*, Department of Health, Perth, Western Australia

⁵ Current GST arrangement exempts many of the core foods identified by the Australian Dietary Guidelines, with some exceptions like cooking ingredients (sugar, flour), spreads for bread (such as honey, jam and peanut butter).

⁶ <https://www.mja.com.au/journal/2013/199/8/removing-gst-exemption-fresh-fruits-and-vegetables-could-cost-lives#2>

In view of the evidence, broadening of the GST base to some of these core foods could be considered a tax on 'healthy foods', as extending the GST has the potential to increase the price of core foods while non-core foods remain the same.

In the event that changes to the GST in relation to food are to be considered, the Heart Foundation strongly supports and recommends the following:

- Support dedicated consultation with nutrition and health groups (including non-government organisations and academia) to ensure that the full extent of both dietary and health impacts related to food price change is understood.
- GST exemptions should be structured to achieve a tax differential between core and discretionary foods, as defined by the Australian Dietary Guidelines, such that discretionary foods carry a higher tax burden.
- At a minimum, fruit and vegetables must remain exempt and sugary drinks remain taxable.

The Heart Foundation sees opportunity for reform to 'corrective' taxes that will have a long term benefit for the health of Australians.

Sugary drinks

While the Heart Foundation strongly opposes changes to the GST that will increase the price of healthy food, there is an opportunity to change behaviour and reduce excess sugar consumption by introducing a levy on sugar-sweetened beverages ('sugary drinks').

Currently, sugary drinks are identified as taxable foods under existing GST arrangements. It should be noted that the application of GST to sugary drinks in 2000 saw a reduction in tax on this food product, as the previous wholesales tax was levied at 20%. This effectively provided a reduction in price which could have acted as an incentive to increase purchases.

Sugary drinks are defined as "all non-alcoholic water based beverages with added sugar, including sugar-sweetened soft drinks, energy drinks, fruit drink, sports drinks and cordial. This term does not include milk-based products, 100% fruit juice or non-sugar sweetened beverages (ie, artificial, non-nutritive or intensely sweetened)".⁷

Evidence suggests that applying a 20% tax to sugar-sweetened beverages would reduce consumption by 24%.⁸

A recent report from the European Regional Office of the World Health Organisation (WHO) - *Using price policies to promote healthier diets* - sets out a case for using taxation as a means to promote healthier diets. It provides an overview of existing policies in place in Europe, concluding:

⁷ Cancer Council, Heart Foundation, Diabetes Australia Victoria – Consensus Statement Rethink Sugary Drink

⁸ <http://www.ncbi.nlm.nih.gov/pmc/articles/PMC3731509/>

*... when considered as a whole and in the light of net health and societal benefits, price policies still figure as an important tool in tackling unhealthy diets and NCDs [non-communicable, or chronic disease]. From the evidence, taxes on sugar-sweetened beverages and targeted subsidies on fruit and vegetables emerge as the policy options with the greatest potential to induce positive changes in consumption...*⁹

Some countries have already implemented taxes on sugar-sweetened beverages, including Hungary, France, several states in the US and most recently Mexico, where a 1 peso per litre (approximately 10%) tax on sugar-sweetened beverages is projected to decrease consumption by 10-12% and may have a substantial impact on reducing the prevalence of overweight and obesity in that country.¹⁰

The Heart Foundation has supported calls for investigation into taxation options to reduce sugary drink consumption through the *Rethink Sugary Drink* consensus statement and campaign.¹¹ This campaign aims to increase awareness on sugary drink consumption in Australia, and calls on Commonwealth, state and territory governments to support measures to reduce consumption.

The Heart Foundation calls upon the Australian Government to initiate a specific investigation to scope the benefits of introducing a tax on sugar sweetened beverages to return them to the tax level pre-GST.

Physical inactivity, alcohol and tobacco

Physical inactivity

- The Heart Foundation recommends the following measures to help ensure equitable access to physical activity opportunities.
 - Provide fringe benefits tax exemption for workplace packaging of sporting and health club members, bicycle purchases and public transport use.
 - Provide increased scope for tax deductibility for physical activity participation (such as club memberships, sporting equipment, exercise classes, bicycles and clothing) in a range of settings.¹²

Physical inactivity contributes to almost one-quarter of the burden of cardiovascular disease in Australia (24%).

More than a third (36%) of Australians aged 15 and over do very little or no exercise at all. Since 2001, the proportion and number of Australians doing very little or no exercise has continued to increase.¹³

⁹ <http://www.euro.who.int/en/publications/abstracts/using-price-policies-to-promote-healthier-diets-2015>

¹⁰ World Health Organization, *Reducing consumption of sugar-sweetened beverages to reduce the risk of unhealthy weight gain in adults* http://www.who.int/elena/bbc/ssbs_adult_weight/en/

¹¹ Rethink Sugary Drink www.rethinksugarydrink.org.au

¹² Towers Watson. Employee benefits: flexible benefits 2013. Research supplement. London: Centaur Media

¹³ Australian Bureau of Statistics, Australian health survey: physical activity, 2011-12

In turn, low levels of physical activity are a major contributing factor for a range of chronic diseases, including heart disease, type 2 diabetes and some cancers.

In Australia, physical inactivity is a major cause of morbidity and mortality, contributing to an estimated 14,000 deaths a year. While Australia is thought of as an active society, Australians struggle to find the time in their lives to participate in physical activity.

Importantly, participating in regular physical activity can reduce cardiovascular disease-related deaths by up to 35%. Large population studies have repeatedly shown that higher rates and intensity of physical activity are associated with greater risk reduction.

Prices influence behaviour and choices, particularly among people on lower incomes, pensioners and unemployed people.

Through financial incentives as well as disincentives we can promote healthier behaviours. In turn, adoption of healthier behaviours will generate savings for the country. The formulas for calculating the costs and benefits of many Australian transport, planning and health policy priorities do not accurately reflect the impact these choices have on communities, health and the environment.

Ride to Work scheme

- Provide tax incentives to support a cycle-to-work scheme similar to that operating successfully in the UK and Ireland

Active travel, including cycling, is an efficient means of incorporating physical activity into daily lives as part of the trips to and from the workplace.

The Heart Foundation and the Cycling Promotion Fund support the need for a national approach to get more Australians riding to work through an employer-provided incentive scheme.

We call for a tax incentive that allows employees to salary sacrifice the purchase of a commuting bicycle and safety equipment (for example, helmet, lights, reflective clothing) up to a reasonable set amount, with a suggestion of \$1,500 every three years.¹⁴

A similar scheme operates in both the UK and Ireland, where evaluations reveal the cycle-to-work programs to be popular, cheap and effective in driving changes to travel behaviour.

While the scheme has significant health benefits, it also has a range of co-benefits, including environmental, economic and congestion advantages.

The UK Cycle to Work Scheme

In the UK, the scheme allows an employee to salary sacrifice the purchase of a bicycle and safety equipment, such as a helmet and lights, up to a capped value without incurring a taxable benefit. The employer enters into an agreement to buy the bike, which the employee

¹⁴ Cycle to Work Alliance. Behavioural impact analysis. 2011 [cited July 2014]. London: Cycle to Work Alliance and Westminster advisers. Available from: <http://www.cycletoworkalliance.org.uk/images/BehaviouralImpactAnalysisFeb2011.pdf>

pays back through a fixed term salary sacrifice arrangement. The residual is fixed at 'fair market value' that can be paid out by the employee to acquire ownership.

The Cycle to Work scheme has led to increases in riding to work, business investment in complementary 'end-of-trip' cycling facilities (showers, change rooms, secure bike lockers), a reduction in greenhouse gas emissions, increased levels of physical activity and an increase in recognition of the value of 'active travel'.

Companies have been established to service the demand in the UK from both employers and employees to take advantage of the incentive and start riding to work.

The UK Cycle to Work scheme has been evaluated and shown to have had lasting impacts in the numbers of people riding to work and carbon emission reduction benefits. It was maintained by the incoming Conservative Coalition Government despite broad budget cuts in most other areas.

As of March 2015, up to 7% of the population cycle to work in the UK and over 38,000 employers and more than 500,000 employees are signed up to the Cycle scheme.

Evaluation undertaken by the Cycle to Work Alliance in 2011 examined the role the scheme plays in improving employee engagement, encouraging healthier lives and in helping the UK meet its CO² emissions reduction targets.¹⁵

Main findings from evaluation

More than 44,000 employees and 1,200 employers took part in the 2011 evaluation.

It found that 260,000 people have benefitted from the cycle to work scheme in the UK through the four Cycle to Work Alliance members and around 400,000 have benefitted overall.

The evaluation found that:

- 87% of participants noticed their health improving (increased fitness, weight loss, improved mental health, wellbeing and happiness).
- 84% of users rated the scheme as an important and easy way to keep fit.
- 97% of businesses think that the scheme is an important way to encourage a healthy workforce.
- 61% of people did not cycle to work before they signed up to the scheme.
- 70% classed themselves as either novice or occasional cyclists.
- 76% of participants stated they would not have bought their bicycle if it had not been offered through the cycle to work scheme.
- 73% of respondents declared that the savings they were offered through the scheme were the most important factor in their decision to take part.

¹⁵ See: <http://www.cycletoworkalliance.org.uk/images/BehaviourImpactAnalysisFeb2011.pdf>

- 98% of respondents said they would encourage other colleagues to take part in the cycle to work scheme.

The environmental benefits were also extensive with current users of the scheme saving 133,442 tonnes of CO² a year.

Legislative background

The scheme is underpinned by UK tax legislation: 'EIM21664 - Particular benefits: exemption for bicycles', see <http://www.hmrc.gov.uk/manuals/eimanual/eim21664.htm> and 'Cyclists - provision of certain benefits', see <http://www.hmrc.gov.uk/paye/exb/a-z/c/cyclists.htm>.

The UK Department for Transport page on the scheme is here:
<http://www.dft.gov.uk/pgr/sustainable/cycling/cycletoworkguidance/>.

Cost to revenue in Australia

It is suggested the cost of the scheme should be capped at \$1,500 per person every three years if adopted in Australia. The accessibility of the scheme and attraction for all income groups is evident with experience from the UK showing that lower band wage earners (gross earnings of less than £31,865) make up 73% of scheme participants.

In the UK, 55% of participants did not cycle to work prior to joining the scheme, and this represents a strong rationale for believing that the scheme could result in significant behaviour change in this country.

The direct revenue forgone is offset by an increased level of industry activity as new cyclists purchase bicycles and employers support the choices of their employees by investments in end of trip facilities in the workplace.

The current annual cost to the UK Government of the tax incentive is approximately £44m annually.

Evidence shows regular bike commuters in the scheme take, on average, one less day sick leave each year saving business £83m a year.¹⁶ The more employees that ride to work, the healthier the community and the more money that will be saved in associated health care costs.

Broad support - an opportunity for change

This proposal is low cost, popular, effective and simple. It is broadly supported by the national bicycle sector and national peak groups in the medical and chronic disease prevention sector.

Australian national opinion surveys indicate that there is significant unmet consumer demand to cycle more often and that commuting by bicycle is already increasing significantly in many of our capital cities.¹⁷

¹⁶ See: http://www.ctc.org.uk/sites/default/files/file_public/economy1frv.pdf

¹⁷ See:

http://www.cyclingpromotion.com.au/images/stories/MediaReleaseDocs/CyclingPromotionFund_Riding_a_Bike_for_Transport_Survey_Report_2011.pdf

More than 80%, or 5.5 million Australian workers between the ages of 25 to 54 support the implementation of a financial incentive to get more people to ride to work.¹⁸ The support by workers for the implementation of financial incentives was unanimous across all key demographic factors, including age, gender, income levels and educational attainment.

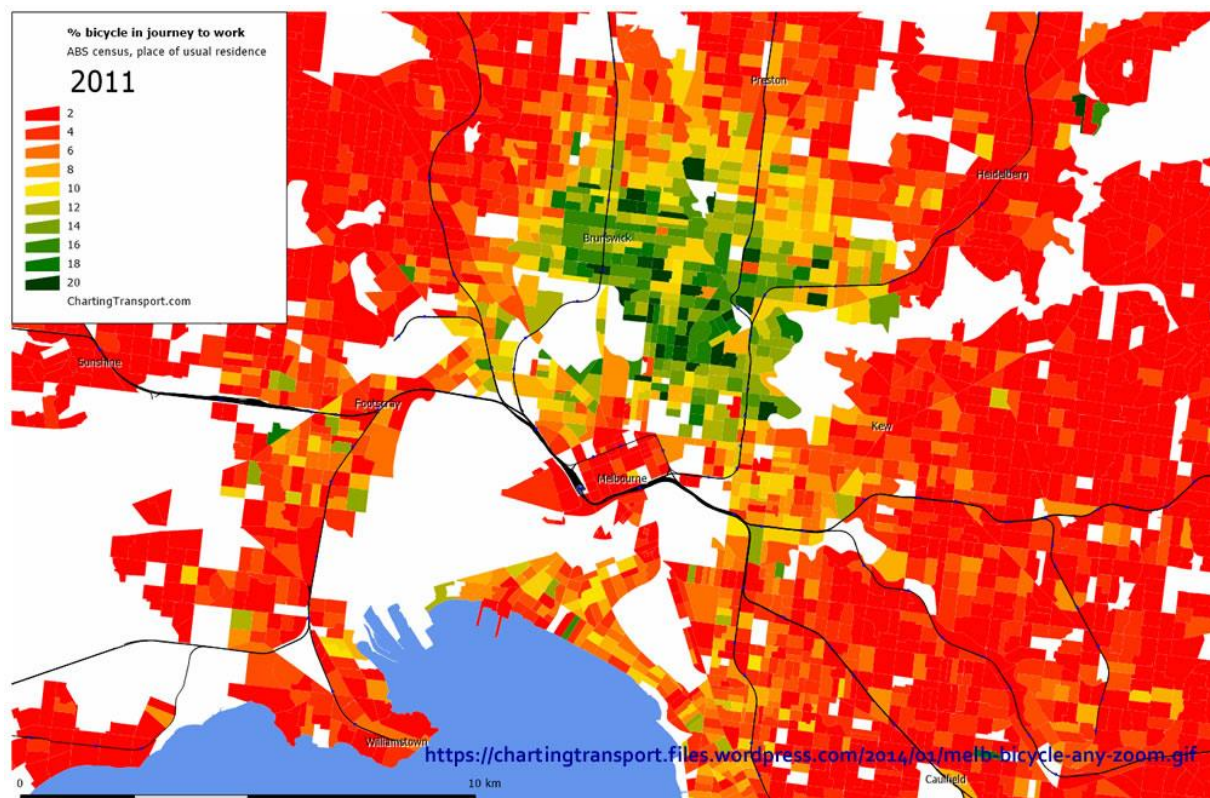
When asked whether they would like to cycle to work, more than one in three Australian workers aged 25 to 54, or 2.45 million said they would like to start riding to work. Workers who were more likely to report the desire to ride to work were males, between the ages of 25 to 34, and those who currently catch the train or bus to work.¹⁹

There are an estimated 750,000 workers who currently do not own a bike that would like to start to ride to work.²⁰

International experience indicates the scheme works equally well with large employers in urban or regional centres with 1-5,000+ employees to micro businesses in regional or rural areas with limited staff.

The opportunity to significantly increase the numbers of people riding to work can be seen in the change already under way in this country. Australian cycling mode share is above 20% in some inner city areas in Melbourne, Sydney and Brisbane.

Bicycle trips in Melbourne - 2011 Census journey to work data



Above: 2011 Census data showing bicycle % mode share of 20-30% in some areas.²¹

¹⁸ Cycling Promotion Fund/Heart Foundation, Financial incentives to ride to work survey 2014, <http://www.heartfoundation.org.au/active-living/active-travel/Pages/Cycling-surveys.aspx>

¹⁹ Cycling Promotion Fund/Heart Foundation, Financial incentives to ride to work survey 2014, <http://www.heartfoundation.org.au/active-living/active-travel/Pages/Cycling-surveys.aspx>

²⁰ Cycling Promotion Fund/Heart Foundation, Financial incentives to ride to work survey 2014, <http://www.heartfoundation.org.au/active-living/active-travel/Pages/Cycling-surveys.aspx>

This scheme alone is not the only answer to addressing low levels of physical activity but is one way of providing a modest incentive to change travel behaviours with multiple co-benefits across government, the community and the health system.

The Heart Foundation and the Cycling Promotion Fund recommend that the Australian Government adopts a similar scheme and include it in the Tax White Paper.

Tobacco

- Continue to increase tobacco taxation levels after 2016 to a position where Australia is a world leader - as it is in a number of other areas of tobacco control policy, and ensure revenue is allocated to support tobacco control strategies including education campaigns
- Change tobacco indexation from biannual to annual, to maximize the health benefits of price increases
- Abolish duty-free tobacco sales

Tobacco smoking is Australia's largest single cause of premature death and chronic disease. It claims the life of more than 15,000 Australians each year (including one fifth of all Aboriginal deaths) and imposes economic and social costs of \$31.5 billion a year. Tobacco is a product like no other. It is a killer with no safe level of consumption.

Tobacco smoking is a major risk factor for death from coronary heart disease (CHD) and stroke. All levels of cigarette smoking are associated with increased risk of coronary heart disease, even for people who smoke fewer than five cigarettes a day, and the risk of CHD increases with any increase in the number of cigarettes smoked per day. Smoking was responsible for 19% of the burden of coronary heart disease in 2010.²²

The Heart Foundation recognises the support by the Coalition for tobacco control measures such as cigarette plain packaging and the passing of landmark tax bills cementing 12.5% tax hikes every year for four years.

Increases in the prices of tobacco products are a highly effective way of encouraging smokers to quit, however smokers would tend not to notice very small frequent increases in prices.²³

Indexation based on changes in average weekly earnings rather than the consumer price index was put into effect in March 2014.^{24 25} In some years, this may result in slightly larger increases in duty each six months, however wages growth will vary year to year and is unlikely ever to result in large increases.

²¹ See: <https://chartingtransport.files.wordpress.com/2014/01/melb-bicycle-any-zoom.gif>

²² Nichols M et al, *Australian heart disease statistics 2014*, Heart Foundation, Deakin University Heart Disease Statistics Project

²³ Chaloupka F, Yurekli A, and Fong G. *Tobacco taxes as a tobacco control strategy*. Tob Control, 2012; 21(2):172-80

²⁴ *Excise Tariff Amendment (Tobacco) Act 2014*. 2014

²⁵ *Customs Tariff Amendment (Tobacco) Act 2014*. 2014

The Heart Foundation, along with Cancer Council Australia, recommend that the Australian Government, in the context of the Tax White Paper process, consider moving from biannual to annual indexation to make a greater impact.

Further to this, we support coinciding annual indexation with the New Year, a time at which many smokers attempt to quit. In addition, future increases in excise/customs duty could be also scheduled to occur at the same time as indexation. To maximize the effectiveness of the tax policies in improving public health, public education campaigns could be mobilised to draw smokers' attention to the scheduled increases in duty and to encourage smokers to quit ahead of the price increases.

We recommend that the Australian Government continue to increase tobacco taxation levels after 2016 to a position where Australia is a world leader - as it is in a number of other areas of tobacco control policy. Increases should be substantial enough to maximise public health benefit. Revenues should be allocated to complementary tobacco control strategies, such as education campaigns.

We were pleased with the Australian Government's move in 2012 to severely reduce the allowances of duty-free tobacco, however, we call on the Government to abolish all duty-free tobacco sales. Currently, an airline passenger can bring in to Australia 50 cigarettes or 50 grams of cigars or tobacco products duty-free.

Duty-free tobacco deprives the federal budget of an appropriate revenue source in tobacco duty and enables smokers to bulk-purchase products that cause death in two-thirds of users.

Alcohol

- The Heart Foundation supports taxation measures that help to reduce harms by excess alcohol consumption.

Consumption of large amounts of alcohol, both on a single occasion and habitually, can lead to disturbance of the heart rhythm, heart failure and heart attack, raised blood pressure, excessive weight gain and obesity.²⁶

Excessive alcohol consumption is a major risk factor for morbidity and mortality generally. In Australia, it has been estimated that harm from alcohol caused 3.8% of the burden of disease for males and 0.7% for females, ranking it sixth out of 14 major risk factors.²⁷

Alcohol is second only to tobacco as a preventable cause of drug-related death and hospitalisation.²⁸

Alcohol consumption accounted for 3.3% of the total burden of disease and injury in Australia in 2003 (4.9% in males and 1.6% in females).²⁹ This compares with a contribution of 7.8% for

²⁶ National Health and Medical Research Council (2009), *Australian guidelines to reduce health risks from drinking alcohol*

²⁷ Australian Institute of Health and Welfare (2007) *Burden of Disease Report*

²⁸ English et al 1995; Mathers et al 1999; Higgins et al 2000; Ridolfo & Stevenson 2001

²⁹ Begg S, Vos T, Barker B et al (2007) *The Burden of Disease and Injury in Australia 2003*. AIHW cat. no. PHE 82. Australian Institute of Health and Welfare, Canberra.

tobacco smoking, 7.5% for high body mass, 7.6% for hypertension and 6.6% for physical inactivity.³⁰

Measures that reduce harmful consumption of alcohol and alcohol-related health conditions such as cardiovascular disease would be greatly welcomed by the Heart Foundation.

Additionally, the Heart Foundation commends the submission made by the leading body on alcohol research and tax policy, the Foundation For Alcohol Research and Education (FARE).

Contact officer

In summary, the Heart Foundation welcomes the Australian Governments review of the tax system with the White Paper process.

We wish you well with your deliberations and would be keen to assist with any inquiries you may have. The Heart Foundation contact officer is Rohan Greenland, General Manager, Advocacy, (02) 6269 2632 or rohan.greenland@heartfoundation.org.au.

³⁰ Begg S, Vos T, Barker B et al (2007) *The Burden of Disease and Injury in Australia 2003*. AIHW cat. no. PHE 82. Australian Institute of Health and Welfare, Canberra.