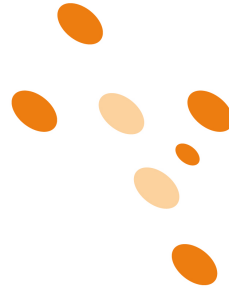




CATHOLIC HEALTH  
AUSTRALIA



Catholic Social Services  
**Australia**

**Submission to the Review of  
"Australia's Future Tax System" -  
(Henry Review)**

**5 May 2009**

**McMillan Shakespeare**

*Benefit From Our Experience*  
EST 1988

## 1. EXECUTIVE SUMMARY

This submission is made by Catholic Health Australia (**CHA**) and Catholic Social Services Australia (**CSSA**) with the technical assistance and support of McMillan Shakespeare Limited (**McMillan Shakespeare**).

This submission addresses issues only in relation to fringe benefits tax for Not-For-Profit Organisations. That is, not for profit charity social services and not for profit health services (**NFPO**).

The Review was requested to consider the fairness of the existing FBT regime for the NFP sector in the Consultation Paper<sup>1</sup> issued in August 2008:

*The Australian Government has asked the Review Panel to examine the complexity and fairness of existing FBT arrangements for the not-for-profit sector, and the treatment of fringe benefits in other parts of the tax-transfer system, and to make recommendations to improve equity and simplicity for the long term.*

Our submission specifically addresses the questions raised in the review's Consultation Paper<sup>2</sup> issued in December 2008:

- Q4.5 *Should people in different circumstances be taxed differently (for example, by age, occupation, location), and what might be the implications of such arrangements? Are tax offsets the best way to achieve differential taxation?*
- Q4.6 *How can fringe benefits tax be simplified while maintaining tax integrity? Would it be better to adopt the general OECD practice of taxing fringe benefits in the hands of employees, rather than employers?*
- Q7.1 *What is the appropriate tax treatment for NFP organisations, including compliance obligations?*
- Q7.2 *Given the impact of the tax concessions for NFP organisations on competition, compliance costs and equity, would alternative arrangements (such as the provision of direct funding) be a more efficient way of assisting these organisations to further their philanthropic and community-based activities?*

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<sup>1</sup> Architecture of Australia's tax and transfer system, August 2008 (page 25)

<sup>2</sup> Australia's future tax system Consultation paper December 2008

Historically, fringe benefits tax concessions for NFPO have greatly assisted employers to attract and retain staff. However, over the years since year 2000, the benefit derived by employees who elect to salary package has been progressively eroded. Inflation and wage adjustments have grown in excess of 30% and 35% respectively, whilst the FBT concession has remained unchanged (non indexed).

The sector very much values the FBT concession as a method of helping to retain and attract labour with improved remuneration offerings for its employees. The current FBT concessions have been used responsibly by employers.

We have examined and debated both internally and externally over many years the merits of retaining the FBT concessions versus other options such as general pay increases for all 1.2 million employees in the sector.

On balance, we argue in this submission a case to retain and index the current FBT concessions - keep the status quo. The NFPO sector is vital to the Australian economy and for the delivery of critically important social and health programs. For example, Catholic Health operates 21 public hospitals, 54 private hospitals and 550 aged care services throughout Australia, Catholic Social Services Australia has 66 member organisations assisting in the order of 1 million Australian each year.

The NFPO sector is confronted with the challenge of too few professionals (health and social welfare), creating critical skills shortages that adversely impact service delivery, whilst at the same time finding it very difficult to retain staff. Attracting and retaining labour is a critical issue that confronts all employers in this sector.

The broad NFPO sector employs approximately 1.2 million people. The working conditions and challenges in many of the institutions within the sector are at times unattractive to say the least.

The reality is, that to abolish FBT concessions and replace them with any of the options (rebates, grants, pay rises) we have canvassed in this submission, will increase the cost significantly for government. All employees will need to be included in any such arrangements and not just the 65% that have elected to participate today. We have estimated that the additional/extra cost of abolishing the current FBT concessions with grants, rebates, full wage parity or similar will be in excess of \$2.25 billion per annum. This cost will grow each year in line with inflation and or wages growth.

We argue, on balance, that the current FBT concessional arrangements should be retained. The FBT concession should be indexed each year.

(Catholic Health Australia has argued previously for the cap on FBT to be raised in the health setting. For more information please see the Catholic Health Australia pre-budget submission at <http://www.cha.org.au/site.php?id=1749>)

## 2. BACKGROUND (THE CURRENT OPERATING ENVIRONMENT OF THE NFPO SECTOR)

- 2.1 Salary packaging greatly assists government employers (public hospitals), charities and the not for profit employers to attract and retain staff in the face of better terms and conditions in the private sector and other sectors. It is highly valued by employees and is recognised as some compensation for working and contributing in this very important sector.
- 2.2 Public Benevolent Institutions (PBIs) (charity social services) and not for profit (including public hospitals) receive FBT concessions from the government. Approximately 1.2 million employees are entitled to access these concessions. The current estimated participation rate is about 65%.

Employer Type	Concession	Maximum Expenditure (payments NOT subject to GST e.g. mortgage payments)	Maximum Expenditure (payments subject to GST e.g. fuel expenditure)
PBI charity social services	\$30,000 of grossed up value exempt from FBT	\$16,050	\$14,530
Public Health and not for profit health	\$17,000 of grossed up value exempt from FBT	\$9,095	\$8,234

- 2.3 The PBI charity welfare and public not for profit health sectors (**NFPO**) have expressed the following views about the FBT concession that applies<sup>3</sup>:
- It is the major tool for attracting and retaining staff in this very difficult and challenging sector;
  - The concession limit should be indexed on an annual basis (has not changed since 2000);
  - Salary packaging is a method of supplementing remuneration who are extremely low paid but expected to be highly skilled; and
  - The funding by Government is not sufficient to pay all staff full market rates and salary packaging is used as a sensible; practical and efficient way of increasing overall reward (remuneration) compensation.
- 2.4 The use of the FBT exemption is a significant tool for NFPO to attract and retain staff. This sector is under extreme pressure and will continue to be under increasing pressure over the next ten years to twenty years because of the aging Australian population, skills shortages and changing demographics.
- 2.5 The concessions have not been changed since their introduction in year 2000 despite inflation increasing in excess of 30% and minimum wage increase of over 35%.

<sup>3</sup> Hansard for the Senate Standing Committee On Finance And Public Administration, Reference: Families, Housing, Community Affairs and Indigenous Affairs and other Legislation Amendment (2008 Budget and Other Measures) Bill 2008 on 20 June 2008

2.6 There are many misconceptions about salary packaging in NFPO. The facts are that<sup>4</sup>:

- The majority of employees who salary package are low and middle income earners, earning between \$30K-\$60K pa.
- 48% of participating employees in the PBI sector earn between \$20,000 to \$30, 000 per annum; and
- 80% of participating employees in the PBI sector earn less than \$50,000 per annum.

2.7 There are a number of factors that the require the government to increase support not-for-profit sector including<sup>5</sup>:

- The impact of the global financial crisis which has resulted in an increase in demand for services;
- The labour demands and skill shortages; and
- The substantial demographic changes expected over the next 10-20 years.

2.8 Four primary social service provider networks in Australia are :

- Anglicare Australia
- Catholic Social Services Australia
- Salvation Army
- UnitingCare Australia

2.9 In November 2008, the report on the effect of the global financial crisis commissioned by the primary social services providers (Anglicare Australia, Catholic Social Services Australia, Salvation Army and Uniting Care Australia) group and prepared by Access Economics was published. The Report<sup>6</sup> stated:

*The demand for social services is already rising and will rise substantially in the short-term. In many areas — examples include residential aged care, housing, homelessness and family relationship services — demand already outstrips the capacity of agencies to offer assistance. The services most immediately affected by deteriorating economic conditions are in employment, housing, financial and general counseling and emergency relief.*

*In addition to being the response of a genuinely civil society, high quality, social services are an integral part of a productive economy. Investment in such services is a benefit not just to those in such desperate need of services, but also reduces long term social costs and enhances the*

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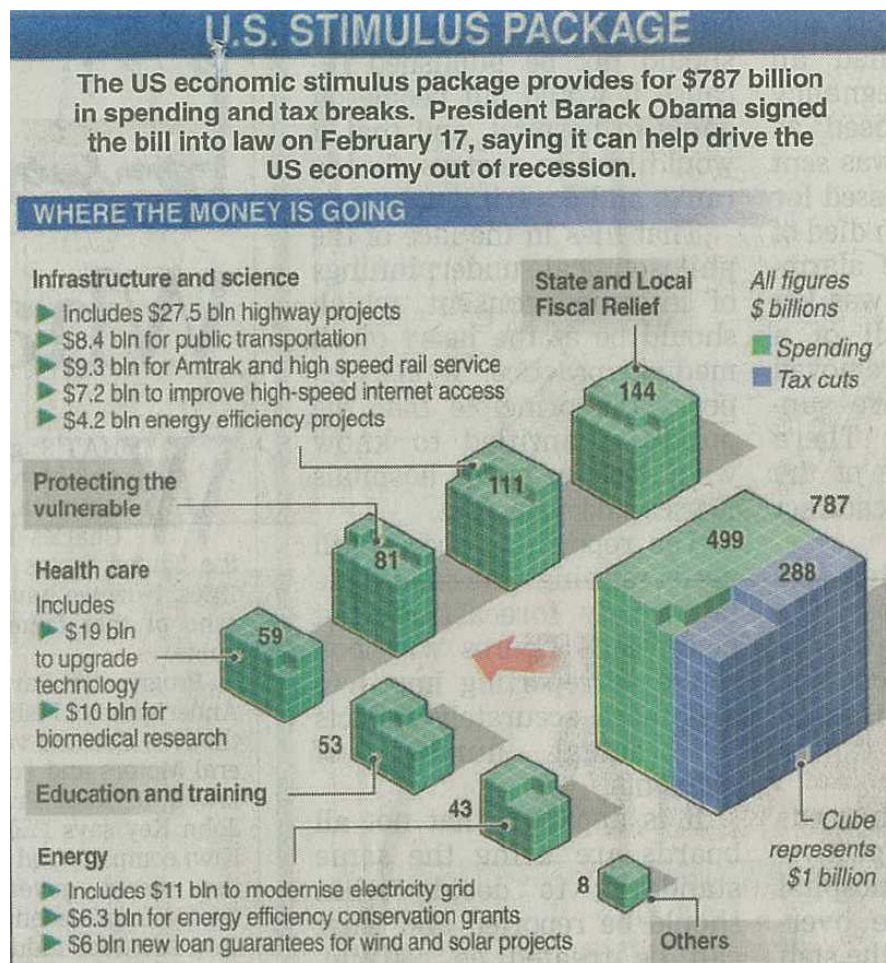
<sup>4</sup> Hansard for the Senate Standing Committee On Finance And Public Administration, Reference: Families, Housing, Community Affairs and Indigenous Affairs and other Legislation Amended (2008 Budget and Other Measures) Bill 2008 on 20 June 2008

<sup>5</sup> See Industry Skills Council report (ANTA) May 2005

<sup>6</sup> The impact of the global financial crisis on social services in Australia – Access Economics

overall productivity of the economy. Investment in social services and social infrastructure should therefore be considered as an essential part of further fiscal stimulus measures. Long term structure change and assistance by the NFPO Sector requires and investment into skills (people) and improving remuneration is a critical starting point.

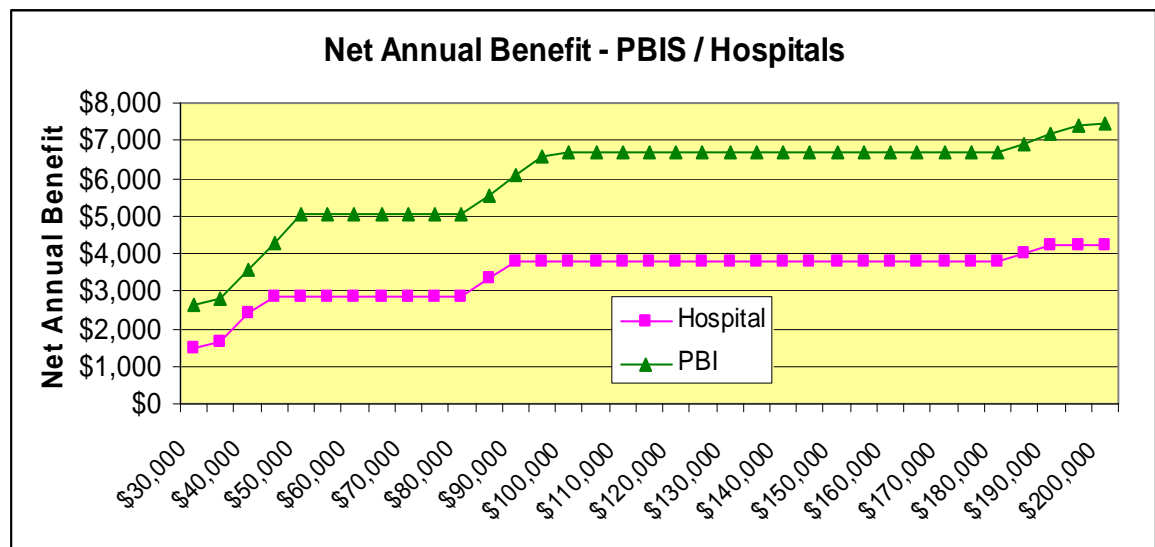
2.10 In the United States the economic stimulus package announced in February 2009 included spending of \$81 billion for protecting the vulnerable and almost \$30 billion for health care. That is almost 20% of the United States spending allocation in their stimulus package. In addition \$53 billion was allocated to education and training. To date there has been no comparable “package” or direct assistance anywhere near that recently announced by the United States.



2.11 The following table illustrates the maximum net benefit that any employee earning \$50,000 per annum can receive by salary packaging their mortgage payment up to the maximum allowable amount.

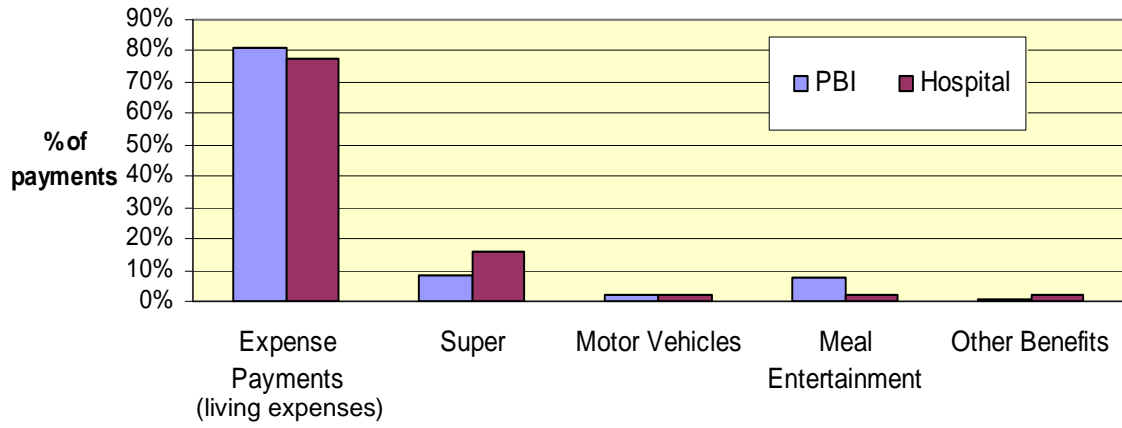
Item	Hospital		PBI	
	No Packaging	Packaging	No Packaging	Packaging
<b>Salary</b>	<b>\$50,000</b>	<b>\$50,000</b>	<b>\$50,000</b>	<b>\$50,000</b>
Mortgage Payments	\$0	-\$9,095	\$0	-\$16,050
Fringe Benefits Tax	\$0	\$0	\$0	\$0
<b>Net Salary</b>	<b>\$50,000</b>	<b>\$40,905</b>	<b>\$50,000</b>	<b>\$33,950</b>
Tax & Medicare	-\$9,750	-\$6,885	-\$9,750	-\$4,702
<b>Net Cash Salary</b>	<b>\$40,250</b>	<b>\$34,020</b>	<b>\$40,250</b>	<b>\$29,249</b>
Mortgage Payments	-\$9,095	\$0	-\$16,050	\$0
<b>Net Cash Salary</b>	<b>\$31,155</b>	<b>\$34,020</b>	<b>\$24,201</b>	<b>\$29,249</b>
<b>Net Benefit</b>		<b>\$2,865</b>		<b>\$5,048</b>

2.12 The chart below illustrates that the maximum annual benefit is dependent on the employee's annual salary.



2.13 Although there are other benefits that may be salary packaged for employees of NFPO, the overwhelming employees (80%) elect to salary package expense benefits. These expenses are

typically mortgage and rental payments, loan repayments credit card debts and every day living expenses. The types of fringe benefits salary packaged are illustrated in the chart below:

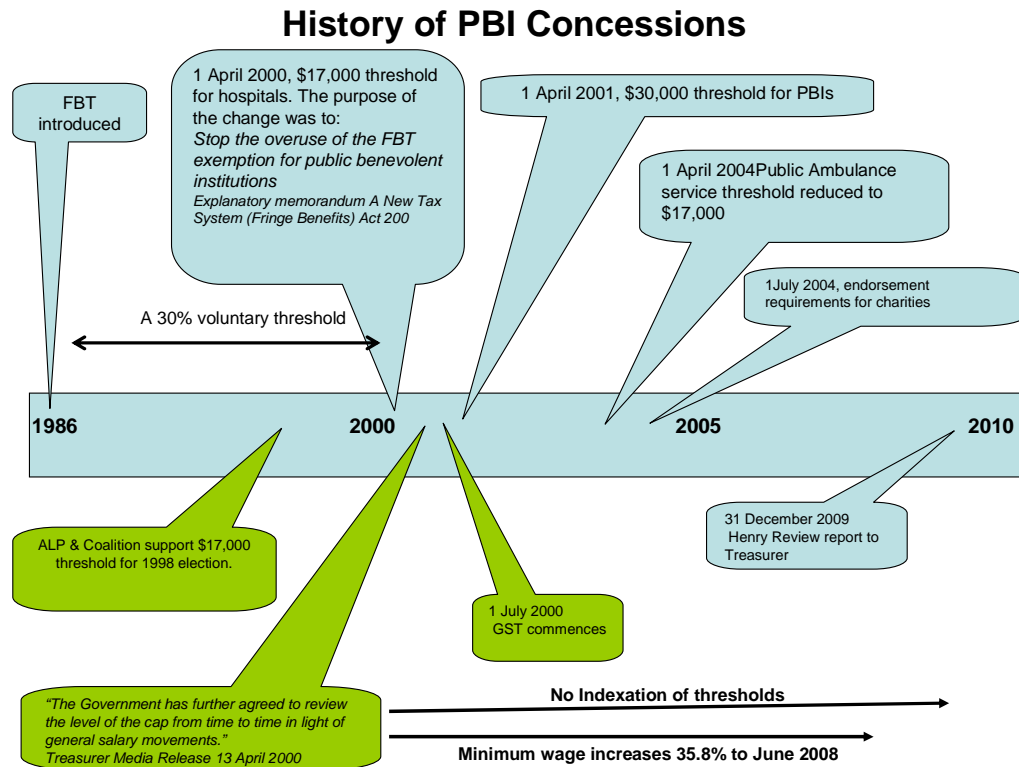




### 3. HISTORY AND BACKGROUND OF FBT CONCESSIONS FOR NFPO

3.1 Fringe Benefit Tax (FBT) was introduced in 1986 to enable non-cash benefits provided to employees by their employer to be taxed. The taxing of any benefits being derived from the provision of such motor vehicles to employees.

3.2 The following chart maps out the major changes to FBT for NFPO since the introduction of FBT in 1986:



3.3 From 1986 to the early 1990's salary packaging was generally only provided to executives as part of their remuneration package. Most employees did not receive access to salary packaging as part of their remuneration package.

3.4 During the early 1990's, as government funding decreased many industrial awards, agreements, collective agreements or similar were negotiated to include provisions for "flexible salary packaging". Many awards were varied and agreements made to "allow" for the first time 'award based' employees to participate in flexible salary packaging arrangements.

3.5 Prior to 2000 there was no limit on the amount that employees in NFPO could salary package and FBT was not applicable. However the responsible employers did impose self regulation and limited the amount that could be salary packaged to a maximum 30% of salary.

- 3.6 There was however a perception that the exemption was being misused and limits were imposed for NFPO.
- 3.7 The capping limits (FBT free threshold) for the Not-for-Profit Health sector and PBI sector have not changed since April 2000 and 2001 respectively.
- 3.8 The FBT capping limits were agreed to be reviewed from time to time by the government as stated by the Treasurer at the time <sup>7</sup>.

***“The Government has further agreed to review the level of the cap from time to time in the light of general salary movements.”***

- 3.9 Since the introduction of the FBT capping limit<sup>8</sup>:
- The CPI has increased by 30.3 % in the period June 2000 to June 2008; and
  - the Minimum Wage has been increased by 35.8%.
- 3.10 The Senate Standing Committee on Finance and Public Administration made the following recommendation in June 2008<sup>9</sup>:

***The committee recommends that the government consider the appropriate level of the cap on FBT-exempt benefits for NFP sector employees and whether the cap should be indexed to the CPI.***

We believe that there is an exceptionally strong and compelling case to increase and index the FBT capping limit for Public Benevolent Institutions to \$40,000 per annum.

(Catholic Health Australia has argued previously for the cap on FBT to be raised in the health setting. For more information please see the Catholic Health Australia pre-budget submission at <http://www.cha.org.au/site.php?id=1749>)

- 3.11 The following table illustrates the decrease in net annual benefit that has arisen due to the lack of indexation:

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<sup>7</sup> Media Release 022 of 2000 – Treasurer – P Costello - Fringe Benefits Tax: Charities and Non Profit Organisations  
<http://www.treasurer.gov.au/DisplayDocs.aspx?doc=pressreleases/2000/022.htm&pageID=&min=phc&Year=2000&Doc Type=0>

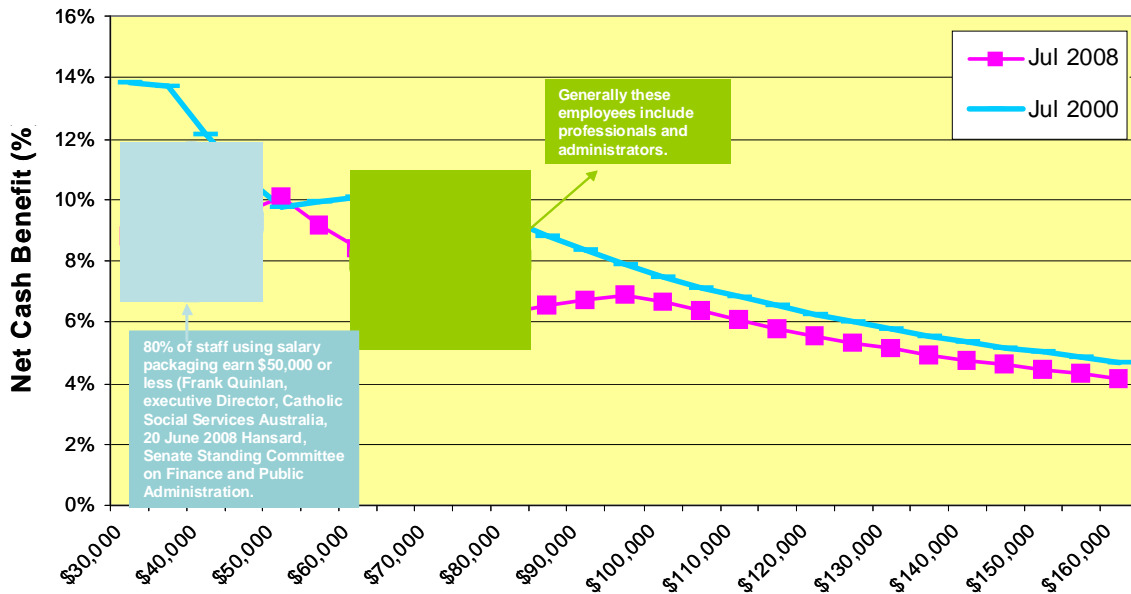
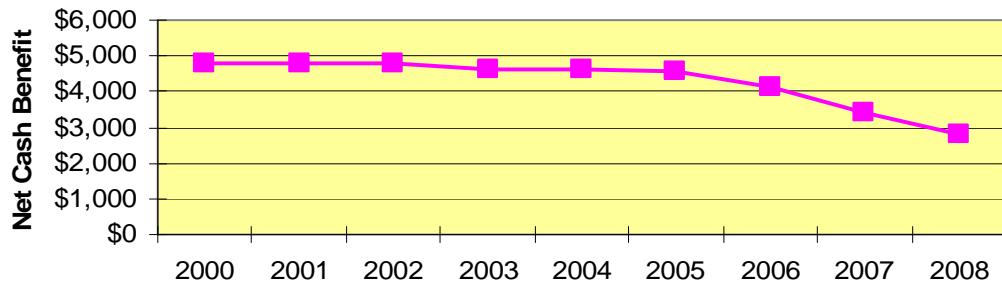
<sup>8</sup> ww

<sup>9</sup> Inquiry into the Families, Housing, Community Services and Indigenous Affairs and Other Legislation Amendment (2008 Budget and Other Measures) Bill 2008

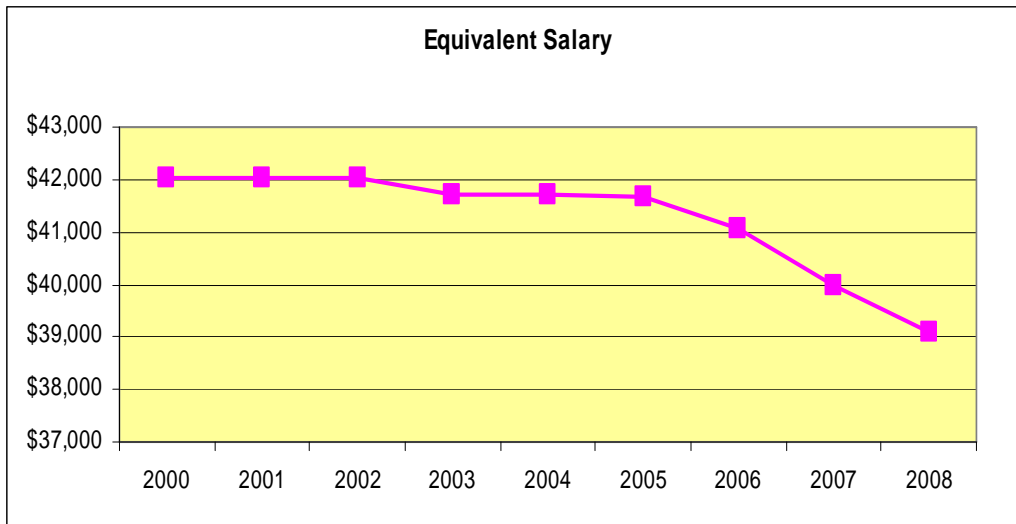
Item	Salary Packaging 2000	Salary Packaging 2001	Salary Packaging 2002	Salary Packaging 2003	Salary Packaging 2004	Salary Packaging 2005	Salary Packaging 2006	Salary Packaging 2007	Salary Packaging 2008
Salary	\$35,000	\$35,000	\$35,000	\$35,000	\$35,000	\$35,000	\$35,000	\$35,000	\$35,000
Salary Sacrifice	-\$15,450	-\$15,450	-\$15,450	-\$15,450	-\$15,450	-\$15,450	-\$16,050	-\$16,050	-\$16,050
Net Salary	\$19,550	\$19,550	\$19,550	\$19,550	\$19,550	\$19,550	\$18,950	\$18,950	\$18,950
Tax & Medicare	-\$2,597	-\$2,597	-\$2,597	-\$2,597	-\$2,597	-\$2,326	-\$2,227	-\$2,227	-\$2,227
Net Cash Salary	\$16,953	\$16,953	\$16,953	\$16,953	\$16,953	\$17,224	\$16,723	\$16,723	\$16,723
Net Annual Benefit	\$4,808	\$4,808	\$4,808	\$4,600	\$4,600	\$4,559	\$4,148	\$3,398	\$2,798
Net Annual Benefit (%)	13.7%	13.7%	13.7%	13.1%	13.1%	13.0%	11.9%	9.7%	8.0%

3.12 Since 2000 the net annual benefit for an employee with a salary of \$35,000 has decreased from 13.7% to 8.0% in 2008. That is the net annual benefit has decreased from \$4,808 per annum to \$2,798 per annum. This decrease is further illustrated in the chart below.

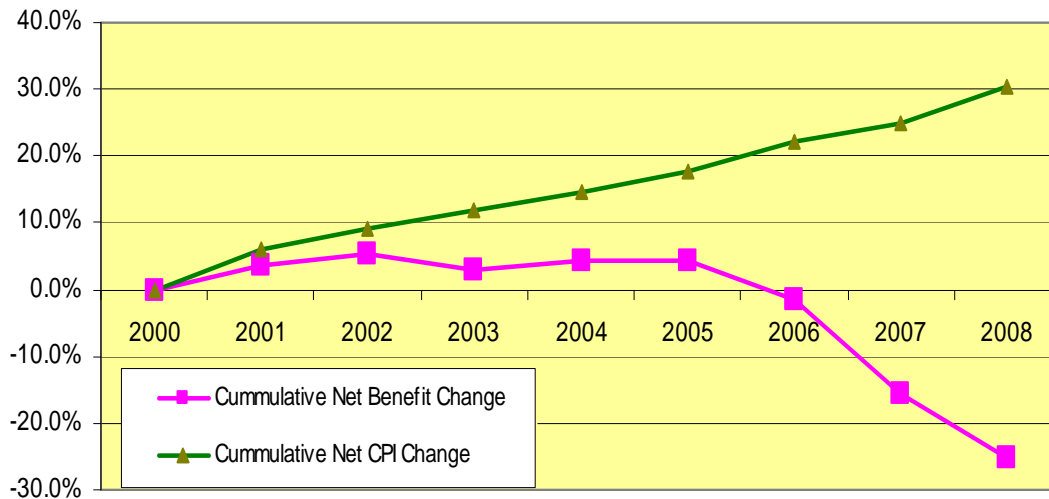
**Net Annual Benefit (\$)**



3.13 In 2000, this employee with a salary of \$35,000 who salary packaged the maximum amount would have through salary packaging received effectively a take-home salary of \$42,000 per annum. In 2008, a salary of \$35,000 has an equivalent value of about \$39,000.



3.14 Since 2000, the value of salary packaging has decreased by about 30% and the CPI has increased by 30%. Effectively employees in NFPO are almost 60% worse off because of the lack of indexation of the capping limits.



3.15 The NFPO sector is constantly battling to retain and attract staff. This is especially so in mission critical service delivery areas with a dependence on highly skilled staff. The constant erosion of the FBT concession (no indexation) effectively means that the value of the benefit is not as attractive as it once was. Therefore, employers are not able to “package-up” remuneration as attractively as they were able to, in order to compete favorably in the marketplace.

#### 4. OPTIONS FOR IMPROVING REMUNERATION LEVELS TO ASSIST ATTRACTING AND RETAINING STAFF

4.1 The Government in the provision of any program or funding that improves employee remuneration would have the following objectives:

- An efficient and effective delivery system;
- Fair and equitable access to the concession;
- Low cost to employers / employees;
- Minimum cost to government; and
- Easy to understand and comply with.

4.2 The following options are available in relation to NFP organisations improving employee remuneration:

- Replace the FBT concession with the tax free threshold equivalent or support substantial salary increases to the various awards and industrial agreements for NFPO employees and increase funding accordingly for all employees in PBIs and public hospitals (**PAYG model**).
- Remove the FBT concession and increase funding to PBIs / not for profit hospitals (**NFPO**). So that awards or similar can be adjusted in terms of wage and salary levels to market rates (**GRANTS model**);
- Remove the FBT concession and provide all employees with a tax rebate equivalent to the existing concession (**REBATE model**);
- Retain the status quo (**STATUS QUO**);

4.3 The following options in relation to fringe benefits are provided in more detail:

Option	Description	Comments
<b>PAYG Model</b>	Replace the existing FBT concession with a rise in the tax free threshold equivalent for employees in PBIs and public hospitals or support substantial salary increases to the various awards and industrial agreements for NFPO employees and increase funding accordingly.	<ul style="list-style-type: none"> <li>▪ All employees will now be provided with an additional tax free threshold or an increase of salary of either \$9,095 or (public health) \$16,050 (PBI). Substantial initial and ongoing cost to government.</li> <li>▪ Employers will have the burden of updating their payroll and administration systems long, lead times will be required.</li> <li>▪ Cost to government will greatly increase because now <b>all</b> employees will receive the concession or salary increases. This will be an ongoing cost to government and will require indexing or adjustment for wage increases.</li> <li>▪ There may be complex industrial relations issues. E.g. casuals would receive the same increase as full time employees – generally not practical or cost effective.</li> <li>▪ May cause wages pressure in other sectors. (Police, Education) private sector, private sector health.</li> <li>▪ <b><u>NOT RECOMMENDED.</u></b></li> </ul>
<b>Grants Model</b>	Replace the FBT concessions for PBIs and hospitals and increase their funding equivalent to the FBT concession in the form of yearly indexed grants so that employers can pay increased wages and salary to <b><u>ALL</u></b> employees.	<ul style="list-style-type: none"> <li>▪ The funding for PBIs and public hospitals will be increased and the employers will be required to pass on the additional funding to <b>all</b> employees as salary increases equivalent to the current FBT concessions for each employee.</li> <li>▪ May cause wages pressure in other sectors. (Police, Education) private sector, for profit private health.</li> <li>▪ Increased costs to employers e.g. additional superannuation and other on costs.</li> <li>▪ Employers are very skeptical of grants and generally don't favor grants as a reliable and efficient delivery mechanism.</li> <li>▪ Clearly an increase in funds (or a grant) from all sources could not be negotiated or achieved. (eg: Local government, trusts and foundations, charitable donors, etc)</li> </ul>

		<ul style="list-style-type: none"> <li>▪ The cost to administer grants is expensive.</li> <li>▪ Substantial increase in cost to Federal Government.</li> <li>▪ Substantial increase in costs to State Governments and all others funders (local government, trusts and foundations, charitable donors, etc)</li> <li>▪ <b><u>NOT RECOMMENDED.</u></b></li> </ul>
<b>Rebate Model</b>	Replace the FBT concession and provide all employees in PBIs and public hospitals with a tax rebate equivalent to the FBT concession.	<ul style="list-style-type: none"> <li>▪ <b><u>All</u></b> employees to receive a tax rebate equivalent to the current FBT concession.</li> <li>▪ Cost to government will be significant because salary increases will need to be provided to all employees not just those who are salary packaging.</li> <li>▪ Employees will not accept this model because of the delay in receiving the benefit of the rebate. (up to 12 months delay in rebate payments). If the rebate was paid quarterly there would be additional administration costs to Government in particular and for employees in the reconciliation of payments at the end of each tax year.</li> <li>▪ Inefficient and confusing to say the least.</li> <li>▪ <b><u>NOT RECOMMENDED.</u></b></li> </ul>
<b>Status Quo</b>	Retain the existing FBT concessions with enhancement (i.e. indexation).	<ul style="list-style-type: none"> <li>▪ The existing system of salary sacrifice provides an efficient low cost method (because the system already exists) for the provision of tax concessions for PBI and public hospital employees. (less than 1.5% of payments made). The existing concession is recognised by employers as an essential tool in attracting and retaining staff.</li> <li>▪ The systems and programs to administer the current FBT arrangements are well entrenched and work relatively efficiently.</li> <li>▪ The existing concession is important to employees in this sector.</li> <li>▪ There is a growing pressure by employers and employees to index the concessions to keep up with conditions in other sectors.</li> </ul>

**4.4 We have estimated that the costs of not retaining the status quo is in excess of \$2.2 billion dollars per annum above and beyond the current cost of FBT concessions for the NFPO sector.**

4.5 The Tax Expenditure Statement 2007<sup>10</sup> provided the following estimates of the costs of the existing FBT exemptions.

	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>
	<b>(\$m)</b>	<b>(\$m)</b>	<b>(\$m)</b>
Capped exemption for certain public and non-profit hospitals (Exemption from FBT up to \$17,000 of the grossed-up taxable value of fringe benefits per employee) - Chapter 6, Item D6 page 142 of TES)	260	270	280
Capped exemption for public benevolent institutions (excluding public hospitals) (Exemption from FBT up to \$30,000 of the grossed-up taxable value of fringe benefits per employee) - Chapter 6, Item D8 page 142	440	460	480
<b>Total</b>	<b>700</b>	<b>730</b>	<b>760</b>

4.6 Therefore the status quo has a significantly lower cost than any of the other options. The status quo is also preferred because of its efficiency and simplicity.

4.7 McMillan Shakespeare has also costed the following in relation to the status quo:

- Indexation of the existing limits;
- Alignment of the exiting limit for public and not-for-profit hospitals with the existing PBI limit.

PBI Limit	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>
Increase in costs (\$m)	93	382	425

Public / Not-for-Profit Hospitals	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>
Increase in costs (\$m)	93	382	425

With indexation of 4% per annum from April 2010 and April 2011

<sup>10</sup> Tax Expenditure Statement 2007 (<http://www.treasury.gov.au/contentitem.asp?NavId=035&ContentID=1333>)



Q4.5 *Should people in different circumstances be taxed differently (for example, by age, occupation, location), and what might be the implications of such arrangements? Are tax offsets the best way to achieve differential taxation?*

We believe that the existing regime for taxing fringe benefits differently for NFPO should be maintained i.e. there should be exemptions from FBT for NFPO.

NFPO organisations should continue to access FBT exemption which enables their employees to maximize the net benefit of their salary.

We believe that all employees in NFPO should be able to be provided with the benefit of the FBT exemption by their employer through salary packaging arrangements.

The original purpose of the FBT exemption remains, taxation support for organizations that provide services to the poor, sick and needy. This is a “special sector” that rightfully has special FBT exemptions.

The issue of which organizations meet the criteria for obtaining an exemption is a separate debate and should not be used as the justification for removing the existing exemption from all NFPO.

The FBT exemption enables NFPO to maximize their funding in the provision of services. It remains the most effective method of the government supporting this sector.

The removal of the existing concessions without significant additional funding by government would impact dramatically on the services provided to the community by the NFPO.

The maintenance of the FBT exemption for NFPO is, on balance, the best option. In terms of cost to government, efficiency and simplicity.

Q4.6 *How can fringe benefits tax be simplified while maintaining tax integrity? Would it be better to adopt the general OECD practice of taxing fringe benefits in the hands of employees, rather than employers?*

We do not believe that the OECD practice should be adopted for NFPO.

In terms of pure efficiencies and compliance, shifting the point of taxation from 69,000 employers who currently submit FBT returns, to circa 1 million employees, does not make practical sense. Everyday working Australians need less administration and taxation

burdens not more. Additionally, from an ATO perspective collection from employers is more efficient and is likely to have a higher level of compliance. Put simply, any attempt to change the current FBT arrangements is likely to make the ATO's collection efforts more complex, expensive and less effective.

The current arrangements are relatively simply, easy to administer and are generally well understood. The NFPO sector has been very actively engaged in FBT since the early 1990's.

A model that moves the liability for FBT from the employer to the employee will add significant costs to the provision of services by NFPO. New systems will need to be developed which will create both costs and confusion.

*Q7.1 What is the appropriate tax treatment for NFP organisations, including compliance obligations?*

This submission is clearly focused on this key question. We have demonstrated and argued that the current FBT arrangements are the most efficient, cost effective and best options for NFP organisations. Largely due to the impracticality of "unscrambling the egg".

From a compliance obligation point of view, the evidence suggests that there are extremely high levels of overall compliance with the current FBT concessions and requirements.

Most employers in the sector have been offering flexible salary packaging arrangements for more than 10 to 12 years. Industrial awards or similar were all charged back in the early to mid 1990's. The sector is very well catered for with many competent outsourcing administration companies delivering low cost services to our employers.

The current FBT arrangements are well understood by both employers and employees and are very much developed. Payroll systems or similar, including administration staff understand the compliance requirements of the current FBT arrangements. A massive burden, both in terms of costs, administration and industrial relations would prevail if the current arrangements were eliminated or changed in any substantive way.

Q7.2 *Given the impact of the tax concessions for NFP organisations on competition, compliance costs and equity, would alternative arrangements (such as the provision of direct funding) be a more efficient way of assisting these organisations to further their philanthropic and community-based activities?*

Our submission clearly sets out our key arguments and points for retaining the current FBT concessions - the status quo.

We have no confidence or trust that direct funding will be funded at the appropriate and adequate levels to adequately compensate for current benefits, particularly given the diversity of funding sources (commonwealth, state and local government, corporate philanthropy, private philanthropy and charitable donations) that contribute the wages of NFPOs, or that any immediate compensation gained would enjoy any longevity.

Short term funding cycles, changing economic circumstances and three year elections are key factors that inevitably erode the certainty of direct funding. Moreover, direct funding will conservatively cost the government an additional \$2.2 billion annually above and beyond the current cost of the FBT concessions provided for by the government.

## 5. RECOMMENDATIONS

5.1 We recommend the following to the Review:

- **Retain the FBT concessions for PBI and Public Hospital employers and their employees because:**
  - It is the most cost effective option for Government;
  - It is understood and valued by employers and employees;
  - It is the most practical;
  - There are systems and services already in place to administer the current FBT regime that maintain compliance and integrity;
  - It is very efficient for employees, employers and government.
  
- **Index the existing maximum amount from year 2000 and maintain the indexation each FBT year thereafter;**
  
- **Benefits should be grossed-up at the employee's marginal tax rate and not the highest marginal tax rate by Medicare levy.**

(Catholic Health Australia has argued previously for the cap on FBT to be raised in the health setting. For more information please see the Catholic Health Australia pre-budget submission at <http://www.cha.org.au/site.php?id=1749>)

## **6. MEETING WITH REVIEW PANEL**

The Catholic Health Australia, Catholic Social Services Australia and McMillan Shakespeare would welcome the opportunity to present to some or all of the members of the Review panel to add further detail to this submission and to provide further insight on the use of salary packaging for NFPO.

## **7. FURTHER INFORMATION**

For further information on this submission please contact either:

- Martin Lavery, Chief Executive Officer, Catholic Health Australia on (02) 6260-5980 or martinl@cha.org.au.
- Frank Quinlan, Executive Director, Catholic Social Services Australia on (02) 6285-1366 or frank.quinlan@catholicsocialservices.org.au.
- Anthony Podesta, Executive Director, McMillan Shakespeare Limited on 03 9635 0100 or anthony.podesta@mcms.com.au

## **8. ABOUT CATHOLIC HEALTH AUSTRALIA**

21 public hospitals, 54 private hospitals and 550 aged care services are operated by the Catholic Church around Australia. Catholic Health Australia is the member body representing each of these services.

Catholic Health Australia is the largest non-government provider grouping of health, community and aged care services in Australia, nationally representing Catholic health care sponsors, systems, facilities, and related organisations and services.

The sector comprises providers of the highest quality care in the network of services ranging from acute care to community based services. These services have been developed throughout the course of Australia's development in response to community needs. The services return the benefits derived from their businesses to their services and to the community; they do not operate for profit; they are church and charitable organisations. The sector plays a significant role in rural and regional Australia, demonstrating its commitment to the delivery of services where they are needed irrespective of whether any or minimal return on investment is derived.

The Catholic health ministry is broad, encompassing many aspects of human services. Services cover aged care, disability services, family services, paediatric, children and youth services,

mental health services, palliative care, alcohol and drug services, veterans' health, primary care, acute care, non acute care, step down transitional care, rehabilitation, diagnostics, preventative public health, medical and bioethics research institutes.

Services are provided in a number of settings, for example, residential, community care, in the home, the workplace, hospitals, medical clinics, hospices, correctional facilities, as well as for people who are homeless. In addition, services are provided in rural, provincial and metropolitan settings, in private facilities as well as on behalf of the public sector.

The sector plays a significant role in Australia's overall health care industry representing around 13 percent of the market and employing around 35,000 people.

## **9. ABOUT CATHOLIC SOCIAL SERVICES AUSTRALIA**

Catholic Social Services Australia is the Catholic Church's peak national body for social services in Australia and provides 66 member organisations provide social services to over a million Australians a year, delivering services in local communities in metropolitan, regional and remote Australia.

We work with Catholic organisations, governments, other churches and all people of good will, to develop social welfare policies, programs and other strategic responses that work towards the economic, social and spiritual well-being of the Australian community.

Catholic Social Services Australia is a commission of the Australian Catholic Bishops Conference, reporting to the Bishops through a Board of 9 persons appointed by the Conference.

## **10. ABOUT MCMILLAN SHAKESPEARE LIMITED**

McMillan Shakespeare Limited is a public listed company on the Australian Stock Exchange (ASX Code MMS). We provide remuneration services to approximately 1,000 employers throughout Australia, including administration services for salary packaging on behalf of employers to about 200,000 employees and novated motor vehicle leasing services for about 30,000 novated motor vehicle leases.

Our clients include federal and state government departments and agencies, statutory authorities, local government, Public Benevolent Institutions, public and not-for profit hospitals, independent schools and private sector companies.