



Danila Dilba

Health Service

Submission to Australia's Future Tax System

Background

Danila Dilba Health Biluru Butji Binnilutlum Health Service Aboriginal Corporation is an Aboriginal Medical Service (AMS) that provides primary health care services to the Indigenous population of the Greater Darwin Area. The recruitment and retention of suitably qualified employees is an ongoing issue for Danila Dilba and other AMS's throughout the Northern Territory. As a Government funded entity, financial resources are limited and Danila Dilba has great difficulty in matching industry standard salary offered to the medical and administrative professionals we so desperately need to recruit.

In order to assist organisations such as ours, the Federal Government enacted legislation that allowed public benevolent institutions (PBI) to offer employees salary sacrifice arrangements which exempted the employer from paying fringe benefits tax. Initially, there was no maximum on the monetary value of non-cash benefits PBI's could offer their employees. However, due to a small number of organisations abusing the system by offering employees 100% of their salary as non cash benefits the legislation was amended.

On 1 April 2000, at the commencement of the 2000/01 fringe benefits tax year, the legislation concerning Fringe Benefits Tax changed significantly for the not-for-profit public benevolent sector. A \$30,000 cap was placed on the grossed-up amount of fringe benefits given by a PBI employer to one of its employees before fringe benefits tax would be payable. In effect, this meant a PBI employee could salary sacrifice to non-cash benefits worth a net maximum of \$15,450 if no GST was included in the cost of the benefit and \$14,040 if the benefit contained GST. Due to a reduction in the top marginal rate of tax in the 2006/07 financial year, the two maximum amounts are now \$16,050 and \$14,540 respectfully.

The offering of salary sacrifice arrangements gave not-for-profit PBIs the opportunity to increase the take home salary for employees at no or little additional cost to the organisation. Those PBI employees, who took up the option to salary sacrifice, obtained a benefit from savings in Pay As You Go (PAYG) taxation due to a reduction in their taxable salary. In the 2001/02 financial year, PAYG savings ranged from \$2,380 for a

PBI employee earning \$20,000 per annum to a maximum of \$7,261 for an employee earning \$80,000 or above.

Problems with the current system

Since the 2001/02 financial year there have been a number of personal tax cuts which have reduced the overall tax savings obtained by PBI employees who participate in salary sacrifice arrangements with their employer. In the 2008/09 financial year the salary sacrifice PAYG savings will be \$2,099 for an employee earning \$20,000 per annum up to a maximum of \$6,420 for an employee earning \$100,000 or above. If there are PAYG tax cuts in future years, the overall PAYG savings to PBI employees will be eroded even further. See Table One below for a detailed review of PBI employee PAYG taxation savings for various salary levels from 2001/02 to 2008/09.

In percentage terms, the reduction in PAYG tax savings for most PBI employees has been between 12% and 33% over the seven years from 2001/02 to 2008/09. As such, it is evident that the majority of PBI employees who salary sacrifice have gained only a minor, if any, benefit from the personal tax cuts given to all Australian workers. This has only increased the inequity between salaries earned by PBI employees and those undertaking similar work in the private or Government sectors.

Additionally, the grossed-up \$30,000 cap that was placed on the value of fringe benefits before FBT would be incurred, has not changed. As such, the value of the cap has been eroded by inflation, which has increased by over 10% in real terms since April 1 2000.

Recommended Reforms

In order to enhance the attractiveness of working within the not-for-profit PBI sector the following measures should be considered for Australia's future tax system.

1. Increase the grossed-up exemption cap to a minimum of \$40,000. This would allow employees to salary sacrifice a net amount of \$21,399 or \$19,373 if the non-cash benefits included GST.
2. Index the grossed-up exemption cap to the Consumer Price Index.
3. Increase the grossed-up exemption cap by the average value of any PAYG taxation cuts given to Australian employees, ensuring that the true value of any tax cuts are received by PBI workers.

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Table One

Decreasing value of tax savings made by a PBI employee in a salary sacrifice arrangement								
Annual Salary	Financial Year							
	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
\$ 20,000	2,379.83	2,379.83	2,379.83	2,379.83	2,099.85	2,099.85	2,099.85	2,099.85
\$ 25,000	3,276.37	3,276.37	3,068.37	3,068.37	2,827.35	2,407.50	2,407.50	2,407.50
\$ 30,000	3,926.37	3,926.37	3,718.37	3,718.37	3,577.35	3,157.35	2,407.50	2,407.50
\$ 35,000	4,576.37	4,576.37	4,368.37	4,368.37	4,327.35	3,907.35	3,157.35	2,557.35
\$ 40,000	4,635.00	4,635.00	4,635.00	4,635.00	4,635.00	4,657.35	3,907.35	3,307.35
\$ 45,000	4,635.00	4,635.00	4,635.00	4,635.00	4,635.00	4,815.00	4,657.35	4,057.35
\$ 50,000	4,635.00	4,635.00	4,635.00	4,635.00	4,635.00	4,815.00	4,815.00	4,807.35
\$ 55,000	5,234.88	5,234.88	4,994.88	4,635.00	4,635.00	4,815.00	4,815.00	4,815.00
\$ 60,000	5,834.88	5,834.88	5,594.88	4,874.88	4,635.00	4,815.00	4,815.00	4,815.00
\$ 65,000	6,684.83	6,684.83	6,319.83	5,474.88	4,874.88	4,815.00	4,815.00	4,815.00
\$ 70,000	6,988.95	6,988.95	6,863.95	6,074.88	5,474.88	4,815.00	4,815.00	4,815.00
\$ 75,000	7,238.95	7,238.95	7,113.95	6,738.95	6,074.88	4,815.00	4,815.00	4,815.00
\$ 80,000	7,261.50	7,261.50	7,261.50	6,988.95	6,489.00	5,314.90	5,314.90	4,815.00
\$ 85,000	7,261.50	7,261.50	7,261.50	7,238.95	6,489.00	5,814.90	5,814.90	5,314.90
\$ 90,000	7,261.50	7,261.50	7,261.50	7,261.50	6,489.00	6,314.90	6,314.90	5,814.90
\$ 95,000	7,261.50	7,261.50	7,261.50	7,261.50	6,489.00	6,420.00	6,420.00	6,314.90
\$ 100,000	7,261.50	7,261.50	7,261.50	7,261.50	6,739.42	6,420.00	6,420.00	6,420.00
\$ 105,000	7,261.50	7,261.50	7,261.50	7,261.50	6,989.42	6,420.00	6,420.00	6,420.00
\$ 110,000	7,261.50	7,261.50	7,261.50	7,261.50	7,239.42	6,420.00	6,420.00	6,420.00
\$115,000 and above	7,261.50	7,261.50	7,261.50	7,261.50	7,261.50	6,420.00	6,420.00	6,420.00

Notes to Table:

- Table represents the difference between the PAYG tax a PBI employee would pay when in a salary sacrifice arrangement with an employer compared with the PAYG tax an employee would pay who did not salary sacrifice
- PAYG taxation rates used in calculations have been obtained from Australian Taxation Office website
- Tax savings are based on the assumption that the employee has salary sacrificed the maximum allowable over the fringe benefits tax year for benefits that do not incur GST. i.e. \$15,450 up to and including 2005/06 and then \$16,050 from the 2006/07 FBT year.