



## Submission to Australia's Future Tax System Review

NDS welcomes this opportunity to provide input into the review of Australia's Future Tax System and is pleased to note that "in improving the way the tax-transfer system operates, a key focus will likely be to secure expanded opportunities for those who remain disadvantaged".<sup>1</sup> People with disability remain one of the most disadvantaged groups in Australian society. Finding ways to alleviate this disadvantage—through increasing the level of the Disability Support Pension, by reducing disincentives to work, and by strengthening the sustainability of the disability services which provide support—are overdue.

This submission reflects two concerns of NDS:

***Lack of workforce capacity to meet the demand for disability services:*** Recruiting and retaining staff is a key concern for NDS's member organisations, which are challenged by both a labour shortage and limited funding to meet market level remuneration. Restoring the real value of the Fringe Benefits Tax exemption would improve the ability of disability service providers to attract and retain staff now and into the future.

***The low employment rate of people with disability:*** While the general workforce participation rate has risen over the past two decades (to over 80%), the workforce participation rate of people with disability has remained static (at around 53%).<sup>2</sup> The employment rate of people with disability similarly trails that of the general workforce. Reviewing the Disability Support Pension (DSP) taper rate and access to concessions and entitlements as a means of encouraging people to enter employment is warranted. Also important is ameliorating the risk of accepting employment; if employment ceases, regaining the DSP should be a simple process.

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<sup>1</sup> Attorney-General's Department 2008, *Architecture of Australia's tax and transfer system*, Commonwealth of Australia, Canberra, p. xii.

<sup>2</sup> AIHW, *Australia's Welfare 2007*, pp 197-198.

## Specific issues

### 1. Raise the Fringe Benefits Tax exemption cap

Not-for-profit disability service providers across Australia are experiencing increasingly severe workforce shortages, exacerbated by wage levels which are limited by inadequate government funding. These shortages have intensified under recent tight market conditions and the inability of the sector to pay comparable wages.

Many disability service providers are endorsed as Fringe Benefits Tax (FBT) exempt employers and use the allowable fringe benefits arrangements to offer salary packaging to help attract and retain staff. The introduction, in 2001, of the Fringe Benefits Tax exemption cap (set at a grossed-up value of \$30,000 per employee) enabled eligible employers to effectively increase the value of employees' salaries and assisted in the recruitment and retention of staff.

The value of this benefit has, however, been eroded over recent years. Since 2001, the Fringe Benefits Tax exemption cap has not been increased from \$30,000 grossed-up value per employee despite undertakings by the Treasurer at the time to review this cap regularly in light of changes in average wage levels. No increase has been made to this figure to allow for inflation, despite average weekly ordinary time earnings increasing markedly over these years.

NDS was pleased to see this important issue discussed in Federal Parliament in June, with a proposal by the Australian Greens to lift the FBT exemption cap to \$40,000. While the amendment was defeated, both the Government and the Opposition indicated support for its intent. This review of the tax system provides the ideal opportunity to re-visit this issue. Unless the sector can increase the real value of the salary packages paid, workforce shortages will threaten both the viability of the sector and the quality of the services it provides.

### ***Recommendations***

That the Fringe Benefits Tax exemption cap for eligible organisations be increased to at least \$40,000.

That indexation to regularly adjust the Fringe Benefits Tax exemption cap is introduced.

## 2. Calculation of entitlement for Family Assistance benefits

A budget measure announced earlier this year proposed changes to the approach used to calculate entitlement to Family Assistance benefits. The impact of the proposal—to move to using the gross value of reportable fringe benefits rather than the net value—would have had serious implications on the family assistance payments available to many employees of not-for-profit community service organisations. The following example demonstrates the potential impact:

If an employee of an FBT exempt employer earning \$34,000 per annum currently elects to take \$15,000 pa as an FBT exempt fringe benefit, it leaves a taxable salary of \$19,000 per annum. This arrangement provides a net salary and benefits package equivalent to that normally delivered from a gross salary of approximately \$37,000. If the gross value of reportable fringe benefits was used to calculate family assistance, this figure would be approximately \$47,000, a significant overstatement of the real value of the fringe benefit to the employee. The reduction in Family Assistance benefits that would result would be unfair.

Fortunately legislation was passed which prevented the introduction of this measure, which would have adversely affected the income of lower-wage employees and ultimately the capacity of disability service providers to recruit and retain staff.

NDS would like reassurance that the calculation of entitlement for Family Assistance payments—using the net value of reportable fringe benefit—will be retained for organisations that are FBT exempt.

### ***Recommendation***

That the method of calculation of entitlement for Family Assistance payments and other Government benefits will continue to use the net value of reportable fringe benefit tax.

## 3. Reducing disincentives to work for people with disability

Between 1988 and 2003 (the time of the last ABS Survey of Disability, Ageing and Carers) the workforce participation rates of people with disability sat well below those of people without disability (about 30 percentage points lower for males and 22–25 percentage points lower for females). Participation rates for people with severe or profound disability were even lower and, of particular concern, declined between 1998 and 2003. For women with severe or profound disability, this decline occurred during a period of significant increase in the general female workforce participation rate.<sup>3</sup> The

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<sup>3</sup> AIHW, Disability in Australia: trends in prevalence, education, employment and community living, Bulletin 61, 2008, p. 22.

employment rate of people with disability similarly trails that of the general workforce. In addition, their vocational education and training (VET) participation rate is low and career pathways are lacking.

This bleak employment picture contributes to the growing income gap between households containing a person with disability and other Australian households.<sup>4</sup>

Only one in ten Australians in receipt of the Disability Support Pension (DSP) has any income from paid employment, a low proportion by OECD standards. Australia experiences the same paradox as other OECD countries: although people's overall average health status is improving, more people are leaving the workforce and relying on health-related income support.<sup>5</sup>

A major barrier to employment for people with disability is the loss of security of being able to receive the DSP if their employment ceases. NDS supports an OECD recommendation that people with disability who cease to be employed should be able to easily move back onto the DSP (relaxing further the current benefit suspension rules of two years).<sup>6</sup> This would provide a 'safety net' which would mitigate fears about future financial security.

Related to this issue are the taper rates for DSP and access to a range of concessions and entitlements. Under current arrangements, a single person on the DSP loses 40 per cent of the income they earn over \$138 per fortnight. In addition, they face the loss of benefits such as:

- travel concessions;
- housing and rental assistance;
- concessions on rates and other local and state payments;
- reduced rates for telephone and other utilities, including energy payments;
- mortgage relief; and
- pensioner discounts on social participation opportunities.<sup>7</sup>

To encourage people to take up employment opportunities, consideration should be given to allowing people with disability retain some access to concessions and entitlements for a period of time beyond current limitations. This is particularly important in light of the fact that many people with disability have higher costs of living (such as the costs of medication, aids and equipment, support services and transport) purely as a result of their disability. Research by the Social Policy Research Centre in 2006 attempted to improve the understanding of the link between the presence of disability and poverty by using data from the 1998–99 Household Expenditure Survey. It found:

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<sup>4</sup> OECD, *Sickness Disability and Work: Breaking the Barriers*, volume 2, 2007, page 12.

<sup>5</sup> OECD, *Ibid*, page 11.

<sup>6</sup> OECD, *Ibid*, p. 23.

<sup>7</sup> Human Rights and Equal Opportunity Commission 2005, *Workability: People with disability in the open workplace*, *Interim Report of the National Inquiry into employment and disability*, HREOC, Canberra.

...the costs of disability represent a substantial percentage of disposable income, and thus poverty rates are much higher where there is a disability present. Estimates based on the impact of the severity of the restriction associated with the disability are also derived and make a similarly large difference to conventional poverty estimates...The size of the impact of disability on the risk of poverty and actual hardship suggests that action is required to ensure that people with disability no longer have to confront a greatly increased risk of poverty in addition to many other challenges.<sup>8</sup>

This research confirmed the knowledge of many that disability frequently increases the costs of living.<sup>9</sup> Indeed, the Senate Community Affairs References Committee in the report into the *Inquiry into Poverty and Financial Hardship* noted that disability was a close companion of poverty, resulting from a combination of two factors: the increased cost of living and the reduced incomes of those with disability.

### **Recommendations**

That the benefit suspension rules (currently two years) are relaxed for people with disability who enter the workforce.

That the taper rates for the Disability Support Pension are lowered.

That greater access be allowed to concessions and entitlements for people with disability who enter the workforce.

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### **About National Disability Services**

**National Disability Services** is the peak industry body for non-government disability services. Its purpose is to promote and advance services for people with disability. Its Australia-wide membership includes 630 not-for-profit organisations, which support people with all forms of disability. Its members collectively provide the full range of disability services—from accommodation support, respite and therapy to community access and employment. NDS provides information and networking opportunities to its members and policy advice to State, Territory and Federal governments.

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<sup>8</sup> Saunders, Peter 2006, *The costs of disability and the incidence of poverty*, Social Policy Research Centre, Sydney, abstract.

<sup>9</sup> See attached list, Selected References: Cost of disability