

NALSPA

Submission to the Select Committee on the Cost of Living

MARCH 2024



4 April 2024

Senator The Hon Jane Hume
Chair
Select Committee on the Cost of Living
PO Box 6100
Parliament House
Canberra ACT 2600
costofliving.sen@aph.gov.au

Dear Senator Hume,

NALSPA's submission to the Select Committee on the Cost of Living

The National Automotive Leasing and Salary Packaging Association (NALSPA) welcomes the opportunity to make a submission to the Select Committee on the Cost of Living.

NALSPA members recognise the significant impact of the rising cost of living on employee households¹, presenting an opportunity to potentially address some of these cost-of-living pressures through the tax and transfer system, in particular through the Australian Government's existing fringe benefits tax (FBT) regime.

Background to NALSPA and salary packaging arrangements in Australia

NALSPA is the peak industry body for the salary packaging and novated lease sector in Australia. NALSPA represents members who provide salary packaging, workplace benefits and fleet related services to organisations and employees across Australia. These services are predominantly provided across the Not-for-Profit, Health, Government and Corporate sectors.

NALSPA members directly help around one million Australian employees, primarily in lower to middle income cohorts, to utilise their pre-tax salary to package a number of different employment-related benefits, with this number inflating in recent times as many more everyday working Australians look for meaningful ways to help combat their ever-increasing costs of living.

One of the employer-provided benefits that is embedded in remuneration practices is where an employee salary package's, under Australian taxation law, an exempt or concessionally taxed benefit. In these cases, the employee foregoes an amount of their pre-tax income in exchange for the exempt benefit, with a tax saving equivalent to their marginal tax rate, thereby producing a rise in disposable income for the employee.

To illustrate, a typical charity worker earning \$65,000 per annum, and salary packaging \$15,900 in rent costs and \$2,650 of meal costs per FBT year, could potentially save **\$6,400 a year**, equivalent to a 19.07% increase in their take-home pay².

¹ <https://www.abs.gov.au/media-centre/media-releases/annual-living-cost-increase-highest-employee-households>

² <https://cdn-api.markitdigital.com/apiman-gateway/ASX/asx-research/1.0/file/2924-02774780-2A1506073>

This packaging methodology (particularly prevalent and relied upon across the not-for-profit and health sectors) is, as a result of the associated tax savings, particularly valuable, if not essential, for many working Australians in managing their daily living costs and helping to avoid financial stress.

The role of salary packaging and the FBT regime in addressing cost of living pressures

Adding additional tailored measures to the FBT regime could help to address the rising cost of living in Australia.

For example, with reference to key recommendation three of this submission (detailed at Appendix C), to extend to frontline government workers the exemption currently available for Public Benevolent Institutions and hospitals, an average government employee, working in the education sector (ie. a teacher) and earning the average annual income of \$72,953³ and salary packaging (up to the exemption cap) an average \$23,920⁴ per annum of personal rental expense, the proposed exemption would provide an annual benefit of **\$5,486 in the form of increased disposable income**.

The FBT regime, through the salary packaging mechanism, is a valuable fiscal tool to government, as it has several distinct characteristics when compared to alternatives. These include:

- **That it's a targeted consumption tool:** Offers a precise instrument for policy makers to foster specific consumer behaviours, standing out from broader measures like income tax policy that may incur government costs without influencing consumer behaviour directly.
- **Benefits lower-medium income earners:** Predominantly aids those in the lower to middle income bracket, particularly in sectors like non-profit, healthcare, and emergency services, as per NALSPA's previous models.
- **Has widespread industry acceptance:** Regarded as essential 'Best Practice' for compensation, universally acknowledged across sectors, and widely implemented by Australian employers and government entities with sizable staff.
- **Is an efficient and manageable system:** Seamlessly integrated into compensation and payroll frameworks, allowing for a streamlined, controlled, and well-compliant benefit program that's markets are used to.
- **Has a direct positive impact upon remuneration:** Significantly enhances the worth of employee compensation, alleviating the pressures caused by the rising costs of living.

It is the experience of NALSPA members that commonly salary packaged fringe benefits are those that are exempt from FBT, or concessionally taxed. Using targeted exemptions and concessions as outlined in this paper, allows an opportunity to deliver, through salary packaging and the FBT regime, both short and longer-term targeted cost of living relief for Australian workers, and hence we provide our additional ideas for the consideration of the Committee.

Content of this submission

NALSPA members have identified **six key initiatives** which they believe are worthy of the Committees consideration to potentially help address cost of living pressures.

Specifically, we note that one of the stated Terms of Reference of the Inquiry is to examine ways to ease cost of living pressures through the **tax and transfer system**. As such this submission seeks to bring for the consideration of the Committee various initiatives which meet that criterion.

We note that each of these initiatives can be considered in isolation of one another, and whilst NALSPA does not place priority of one initiative over another, it is reasonable that greater

³ <https://www.abs.gov.au/statistics/labour/employment-and-unemployment/public-sector-employment-and-earnings/latest-release>

⁴ <https://www.abs.gov.au/statistics/detailed-methodology-information/information-papers/new-insights-rental-market>

consideration be placed by the Committee upon those initiatives where there are inherent economic and broader societal benefits.

For each of these key initiatives, this submission describes:

- the specific cost of living pressures the initiative seeks to address;
- how the FBT policy initiative will work from a legislative and practical perspective;
- any complexities associated with the implementation of the FBT policy initiative;
- any practical implications arising from the implementation of the initiative;
- the estimated financial benefit to an employee accessing the benefit to which the policy initiative applies;
- a high-level preliminary estimated extent of take-up and estimated cost to government; and
- potential macroeconomic, environmental and other benefits resulting from the specific FBT policy initiative.

Each initiative has been considered through the lens of the three pillars of tax policy: **equity, efficiency, and simplicity**.

This submission also identifies other recommendations for the consideration of the Select Committee, should it so desire.

Potential policy recommendations and their fiscal cost to Government

We are cognisant of the fiscal pressures upon Government, the need for efficacy in any policy measures to be considered and the need to ensure that such measures stay 'contained'. Given there are estimations involved with regard to precise take-up rates of the measures proposed in NALSPA's submission and the total fiscal impact, Government may wish to consider capping any proposed benefits to manage downside risk by limiting potential cost exposure. Capping is commonplace in various Government policies and there is precedent for it in the salary packaging industry.

A cap could be applied based on:

- income level: which allows for benefit discrimination between high earners and those on lower incomes;
- cost per person: this may be viewed as an equitable option as individuals are treated equally;
- scaling: Government could embed a factor into the level of exemption to enable the fine tuning of the cost to government as take up levels rise; or
- total scheme benefits: a fixed upper limit of exempting a specific benefit (household expenditure item) from FBT.

NALSPA's key recommendations

In summary, it is NALSPA's recommendation that the Select Committee consider one or more of the following policy recommendations to help ease cost of living pressures for working Australians:

1. Providing a specific FBT exemption for electric bikes (e-bikes)

A specific FBT exemption for the purchasing and leasing of e-bikes provided by way of expense payment, property or residual benefit, without express limitation on the private use by the employee of the e-bike. This initiative aims to reduce the cost of commuting for employees whilst encouraging the take-up of a low emissions form of transport. Further detail is provided at **Appendix A**.

2. Providing an FBT exemption or concession for the use of public transport

An exemption or capped reduction in the taxable value for public transport (bus, train, ferry, tram/light rail) provided by way of an expense payment or residual fringe benefit. This

initiative aims to reduce what can be a significant expenditure item for those employees currently using public transport, whilst encouraging others to shift to a lower form of emissions transport. Further detail is provided at **Appendix B**.

3. Extending the FBT exemption for Public Benevolent Institutions to other select employers

Recognising government employees in sectors such as teaching, healthcare, law enforcement, and fire and rescue experience lower average incomes than that of the average Australian worker, we recommend extending the scope of the FBT exemption currently available to Public Benevolent Institutions to cover employers of these essential government employees. Further detail is provided at **Appendix C**.

4. Indexing the caps for exempt and rebatable employers

To limit the erosion of the benefit of the FBT exemption applicable to Public Benevolent Institutions (PBIs), Health Promotion Charities (HPCs), hospitals and ambulance services, and the FBT rebate applicable broadly to income tax exempt not-for-profit entities, we recommend indexing the existing concessional caps against the Consumer Price Index (CPI). This could be similar to the indexation of the superannuation concessional contributions cap, where it only increases each time the indexation has increased by a set amount, say \$2,500.

We note that the existing FBT concessional caps for the employers nominated above have **not risen since their introduction back in 2000/2001**.

The non-indexation of the existing concessional caps is potentially a cost-of-living multiplier, as not only does inflation drive the actual cost up, once the employee has used up their cap, additional costs also increase by becoming post-tax rather than pre-tax. Further detail is provided at **Appendix D**.

5. Exempting from FBT the acquisition and installation costs of home electric vehicle charging infrastructure

This initiative is aimed at reducing the impact of the upfront cost of installing charging infrastructure associated with FBT-exempt ZLEVs. It also indirectly targets the daily running costs of otherwise operating an internal combustion engine powered car by removing a disincentive for an employee to transition to an FBT-exempt ZLEV with substantially lower daily running costs. Further detail is provided at **Appendix E**.

6. Provision of a specific FBT exemption for the acquisition and installation of solar panels and solar batteries

Provide an exemption for the purchase or leasing of solar panels and solar batteries provided by way of expense payment, property or residual benefit. This initiative is aimed at encouraging more consumers to install solar panels and batteries through a lower cost and shorter pay-back period, ultimately resulting in lower electricity bills. By encouraging greater generation and storage of energy from a renewable, this initiative also aligns with the federal government's carbon emissions reduction policy. Further detail is provided at **Appendix F**.

Other NALSPA recommendations for the consideration of the Committee:

7. Provide an FBT exemption or concession for electricity bills.
8. Extend the exemption for food or drink consumed on employer premises to salary packaged benefits.

9. Provide an FBT exemption or concession for select household expenditure.

Additional information on these “Other NALSPA recommendations” is provided at **Appendix G**.

We thank the Select Committee for the opportunity to make this submission. We trust that our insights and recommendations for solutions to help ease cost of living pressures through the tax and transfer system are useful to the deliberations of the Select Committee.

Should you require further information regarding the above, please do not hesitate to contact me.

Yours faithfully

A handwritten signature in black ink, appearing to be 'Rohan Martin', written over a horizontal line.

Rohan Martin
Chief Executive Officer

APPENDIX A

Initiative 1: FBT exemption for e-bikes

We recommend that consideration be given to the introduction of a FBT exemption for the private use of e-bikes provided by way of expense payment, property, or residual benefit.

E-bikes have grown significantly in popularity across the globe over the last decade, as a low-cost, equitable and clean method of transport. They also enable people of all abilities to cover significant distances in shorter, more efficient times compared with traditional pedal-only bikes. E-bikes are zero-emission and require much less battery power than electric vehicles, and less energy and resources to manufacture.

Of interest is that NALSPA members are seeing significantly heightened interest from employers across all sectors desiring to offer e-bikes and therefore lower-cost, lower-emissions transport options to their employees under a salary packaging arrangement. However, given the current limitations as outlined in 1.2.1 below, take-up of e-bikes via existing FBT policy remains very low, with our recommendations here seeking to provide remedy.

In Australia, the average annual cost of commuting to work by public transport for an employee is \$2,073 and the average annual cost to own and commute to work (assuming travelling to CBD) by car ranges between \$7,432 for those residing 5km from the CBD and \$14,639 for those residing 25km from the CBD⁵. During the March 2023 quarter alone, transport expenditure for a typical Australian household increased by nearly 7.4%, outpacing the 1.4% increase in the consumer price index for the same period, with transportation expenses increasing at a rate surpassing inflation⁶.

In addition to being a major cost of living expense to employees, commuting has an environmental cost. Traffic contributes more than 75 per cent of carbon monoxide emissions and most emissions of nitrogen oxides⁷. Australia emitted 465.2 billion kg CO₂ equivalent, of which emissions associated with transport accounted for 21.1%. In 2021, it was found that, on average, an employee emits 4.96 kg CO₂ commuting to work per day⁸.

Observations of NALSPA and its members suggests employees who currently salary package EVs are more likely to reside in outer suburbs of capital cities rather than those residing in more inner-city regions. It may be inferred that those residing in the inner-city instead opt to use or prefer public transport when commuting and see ownership of a car as potentially less important or less relevant for their daily commute to work. Importantly, these individuals would also incur expenditure using public transport for purposes other than commuting.

1.1 Cost of living pressures targeted.

This initiative is aimed at reducing not only the daily commuting costs experienced by employees, but also other private transportation costs. For individuals using a traditional car these include but are not limited to:

- Fuel
- Maintenance
- Repairs

⁵https://d3n8a8pro7vhmx.cloudfront.net/saveourservices/pages/1300/attachments/original/1472783878/Aust_Railway_Assoc_Commuter_costs_and_potential_savings_Public_transport_versus_car_commuting_in_Australia.pdf?1472783878#:~:text=To%20own%20and%20commute%20to,cost%20of%20%2411%2C031%20each%20year.

⁶ https://www.aaa.asn.au/wp-content/uploads/2023/02/230212_AAA_Affordability-Index-Q4-2022.pdf

⁷ https://www.bitre.gov.au/sites/default/files/wp_063.pdf

⁸ <https://www.csiro.au/en/research/environmental-impacts/climate-change/climate-change-qa/sources-of-co2>

- Parking

For those using public transport, these costs may include multiple fares for any combination of bus, train, light rail and ferry.

1.2 FBT policy implementation and administration.

1.2.1 Legislative framework of the FBT policy.

Currently, there is a limited ability under subs 47(6) of the *Fringe Benefits Tax Assessment Act 1986* to exempt the use of **e-bikes** provided by an employer (by way of a residual benefit, further explained at Appendix I), where the private use of the e-bike is **limited to travel between the employee's home and workplace**.

This limitation in private use in the experience of NALSPA members acts as a **significant disincentive to an employee** potentially salary packaging an e-bike and providing an alternative low emission, low-cost transport alternative. This existing exempting provision is not specific to just e-bikes and instead applies to any road-going motor vehicle that is not a car and the private use is limited to travel between the employee's home and work.

Furthermore, for this existing exemption to apply, the e-bike cannot be owned or directly leased by the employee. The use of the e-bike must be provided by the employer (which can include by way of novated lease).

NALSPA recommends a specific FBT exemption for e-bikes to be considered with no specific limitation on the private use by the employee of the e-bike. In our view this exemption, if implemented, would most appropriately apply to:

- expense payment benefits (where the employer reimburses the employee for the purchase or lease of an e-bike);
- property benefits (where the employer provides to the employee ownership of an e-bike); and
- residual benefits (where the employer provides to the employee the use of an e-bike that the employer owns or leases, including by way of novated lease).

Such an FBT exemption would operate in a manner similar to the EV exemption for qualifying electric vehicles under s 8A of the *Fringe Benefits Tax Assessment Act 1986*. Unlike the EV exemption however, **we recommend the e-bike exemption be treated like other exempt benefits**, and not be a reportable fringe benefit to be included in an employee's annual income statement (noting reportable fringe benefits can result in additional costs for employees, such as greater HECS repayments, potentially undermining any cost-of-living relief otherwise provided by the exemption).

1.2.2 Complexities and challenges associated with the initiative.

When provided through its own specific provision in the *Fringe Benefits Tax Assessment Act 1986*, rather than through the amendment of existing provisions, the proposed e-bike exemption should be relatively straightforward to enact, with little complexity.

The main complexity we do envisage will be clearly defining e-bikes for the purpose of the exemption. A variety of e-bikes are available for purchase in the market, including cruiser, commuter, mountain, and road e-bikes. Furthermore, there are three classes of e-bikes that determine how e-bikes should be used according to local e-bike laws⁹. Factors such as motor power and speed capability will potentially need to be considered in establishing the scope of the e-bike exemption.

To overcome this complexity, NALSPA suggests e-bikes be defined such that all e-bikes fall within the FBT exemption. This will ensure a variety of affordable and sustainable alternatives to traditional vehicles are within the scope of the e-bike definition. Including all types of e-bikes within the scope of

⁹ <https://eozzie.com.au/blogs/news/a-beginner-s-guide-to-electric-bike-laws-in-australia>

the proposed e-bike exemption will also reduce administrative and compliance burdens, for employers, employees and the Australian Taxation Office (ATO).

1.2.3 Practical implications associated with the initiative.

Given the straightforward nature of the proposed e-bike exemption and its relative similarity to the recently enacted exemption for cars that are eligible ZLEVs, it is envisaged the take-up of the exempt benefit by employees by salary packaging would be easily achieved. Many salary packaging providers, along with e-bike providers, already offer e-bike leasing and novated leasing. This means the systems are already in place to support the rapid take up of an exempt e-bike via salary packaging means.

With no express limitation on the private use of the e-bike for the proposed exemption to apply, record keeping and compliance monitoring requirements would be minimal, in our view. The use of the e-bike by the employee would not need to be monitored or recorded, with the main compliance burden being at the commencement of the provision of the benefit when ensuring the e-bike is eligible for the e-bike exemption.

From an FBT compliance perspective, once such an exemption is introduced, administrative burdens would be relatively minimal due to the nature of the proposed exemption, which effectively will allow the **entire cost of an e-bike purchase or lease to be exempt from FBT**, negating the need to perform detailed taxable value calculations or to monitor the nature of the use of the e-bike (as is required in order to apply the limited residual benefit exemption currently available).

1.3 Estimated financial benefits for employees accessing the benefits

For an employee earning the average annual income of a full-time adult worker of \$98,218¹⁰ and salary packaging a \$5,000 per annum three-year e-bike lease, the proposed e-bike exemption will provide an annual benefit of **\$1,725** in the form of increased disposable income. This is demonstrated in our calculations below, comparing the average employee salary packaging an FBT exempt e-bike lease to an average employee paying for an e-bike lease from their after-tax income.

E-bike not salary packaged vs e-bike salary packaged

| Calculation | Salary only (no packaging) | Salary + e-bike salary packaged |
|--|-------------------------------|------------------------------------|
| <i>Average annual income</i> | \$98,218 | \$98,218 |
| <i>less: salary packaged annual lease costs</i> | nil | \$5,000 |
| <i>Taxable income</i> | \$98,218 | \$93,218 |
| <i>less: income tax (2023-24 rates)</i> | \$22,388 | \$20,763 |
| <i>less: 2% Medicare</i> | \$1,964 | \$1,864 |
| <i>Income after tax and salary sacrifice amount</i> | \$73,866 | \$70,591 |
| <i>less: e-bike lease expense</i> | \$5,000 | nil |
| <i>Net disposable income after e-bike lease</i> | \$68,866 | \$70,591 |
| <i>Reportable fringe benefits amount</i> | nil | nil |

1.4 Take-up rate and cost estimates

1.4.1 Estimates of take-up based on industry experience and input.

In 2022, total e-bike sales in Australia were 193,061¹¹, representing 12% of total bike sales in that same period. Prior to the commencement of the FBT exemption for ZLEVs, 2% of total SUV/passenger car sales in Australia were battery and plug-in hybrid electric vehicles. In February

¹⁰ <https://www.abs.gov.au/statistics/labour/earnings-and-working-conditions/average-weekly-earnings-australia/latest-release>

¹¹ https://www.weride.org.au/wp-content/uploads/2023/11/The_Australian_Cycling_and_e-scooter_Economy_in_2022_WeRide_and_EY_2023_Report_Final_web.pdf

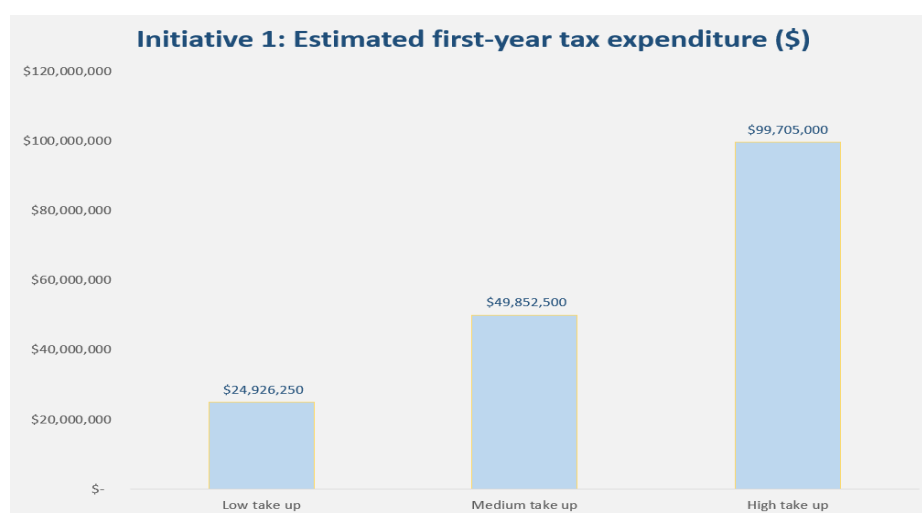
2024, this has increased to 14.4% of total SUV/passenger car sales in Australia. Assuming, given the already rapid growth in e-bike sales, a market-share increase of six percentage points (half that seen for EVs on the commencement of the concession) for e-bikes as a result of an e-bike exemption, this would see e-bike sales increase to 18% of total bike sales, to approximately 289,000 in the first year.

Due to the need to generate awareness over time of any legislative change and the ability for e-bikes in this case to be salary packaged, the number of employers who will allow salary packaging, the level of benefits available (which involves the level of spend on the item being sacrificed and also the level of salary of the individual) and consumer preferences, take-up rates may vary, particularly in the early stages of the introduction of the measure. However, based on previous modelling undertaken by NALSPA, we have assumed low, medium and high take-up rates as follows:

| | Rate | First year take-up (employees) |
|--------|------|--------------------------------|
| Low | 5% | 14,450 |
| Medium | 10% | 28,900 |
| High | 20% | 57,800 |

1.4.2 Estimated cost to the government.

Based on the estimated take-up rates described above and a cost of the exemption of **\$1,725 per employee**, the projected tax expenditure in the first year of the exemption is estimated to be as follows:



1.5 Macroeconomic, environmental and other impacts

In addition to providing cost of living relief for individuals that move from commuting via public transport to using e-bikes, this initiative aligns with the government's carbon reduction policy. This initiative will serve as a strategic fiscal measure providing individuals with affordable and environmentally sustainable modes of transportation, across diverse demographics. By mitigating financial obstacles, this initiative incentivises the use of no emission vehicles, which not only will increase accessibility but also alleviate congestion ultimately leading to diminishing carbon footprints and a transition towards sustainable practices in the short to medium term.

Beyond the short-term, this initiative would provide some a number of longer-term benefits. These include, but are not limited to:

- Improved public health due to further reduction in pollutant emissions from road traffic.
- Improved public health due to increase in physical activities leading to reductions in healthcare expenditure.

- Environmental benefits stemming from reduced emissions.
- The increase in demand for e-bikes as a result of this measure will further support the establishment of the e-bike market in Australia, driving employment and innovation.
- Consumer spending is a key driving force of the economy. The initiative aims to ease the cost of commuting and other private transport for employees, thereby adding to the level of available disposable income for such employees.

APPENDIX B

Initiative 2: FBT exemption or reduction for the use of public transport

Consider introduction of an FBT exemption or capped reduction in taxable value for the use by employees of public transport (including bus, train, ferry and tram/light rail) provided by way of expense payment or residual benefit.

In Australia, the average annual cost of commuting to work by public transport for an employee is \$2,073¹². In comparison, the average annual cost to own and commute to work (assuming travelling to CBD) by car ranges between \$7,432 for those residing 5km from the CBD and \$14,639 for those residing 25km from the CBD¹³.

In every Australian state and territory, cars continue to be the most popular mode of transport for employees commuting to work. Most recent census data released by the ABS suggests 53% (6,347,498 people) of the Australian workforce commute by car only. This data also suggests, just less than 5% (554,717 people) of the Australian workforce commute using forms of public transport, such as trains, bus, ferry and trams/light rail¹⁴.

In addition to being more affordable, public transport such as bus and rail, produces less emissions than using personal cars, with buses emitting 14 times less and rail emitting 19 times less emissions¹⁵.

2.1 Cost of living pressures targeted.

This initiative is aimed at reducing not only the daily commuting costs experienced by employees, but also other private transportation costs. As noted, the average annual cost of commuting to work by public transport for an employee is \$2,073.

2.2 FBT policy implementation and administration.

2.2.1 Legislative framework of the FBT policy

Currently, there is a limited ability under subs 47(1) of the *Fringe Benefits Tax Assessment Act 1986* to exempt the use of public transport provided (by way of a residual benefit), by an employer that carries on a public transport business, where the private use of the public transport is limited to travel between the employee's home and workplace. Furthermore, this exemption does not allow the public transport use to be salary packaged.

There is also a limited exemption available under subs 47(6) of the *Fringe Benefits Tax Assessment Act 1986* where an employer provides by way of residual benefit the use of a motor vehicle other than a car and the private travel is broadly limited to travel between the employee's home and work.

This exemption is able to be applied to travel **by bus** (but not rail or ferry) **and only for travel between an employee's home and place of work**. The Queensland Government, together with Translink, their public transit authority, in south-east Queensland, currently enable this benefit to any employee across any sector, domiciled locally, by way of salary packaging, providing the ability to salary package the cost of bus travel to and from work through the use of a bus travel benefit card.

¹² <https://www.statista.com/statistics/1311380/australia-weekly-public-transport-costs-per-household-capital-cities/>

¹³ https://d3n8a8pro7vhmx.cloudfront.net/saveourservices/pages/1300/attachments/original/1472783878/Aust_Railway_Assoc_Commuter_costs_and_potential_savings_Public_transport_versus_car_commuting_in_Australia.pdf?1472783878#:~:text=To%20own%20and%20commute%20to,ost%20of%20%2411%2C031%20each%20year.

¹⁴ <https://www.abs.gov.au/statistics/industry/tourism-and-transport/transport-census/latest-release>

¹⁵ https://www.climatecouncil.org.au/wp-content/uploads/2023/05/CC_MVSA0354-CC-Report-Road-to-Personal-Transport_V5-FA-Screen-Single.pdf

To date there has been rather limited take-up of the bus travel benefit in south-east Queensland, primarily given the restrictions which the current legislation applies, including that it only applies to bus travel and must be between **an employee's home and place of work**.

Should the Committee deem that helping employees reducing the cost of their commute via public transport has merit and would assist to help reduce their cost of living, NALSPA recommends adopting one of two options, both with no limitations on the type of employer and with no restriction on the private use. These are:

- a specific FBT exemption for use of public transport; or
- a capped reduction in taxable value of benefits relating to the use of public transport.

Option A: FBT exemption

Option A is a specific FBT exemption for use of public transport with no limitation on the private use by the employee of the public transport. The exemption would apply to:

- expense payment benefits (where the employer reimburses the employee for the use of public transport); and
- residual benefits (where the employer provides to the employee the use of public transport).

The exemption would be provided for the use of mass transit public transport (including bus, train, ferry, and tram/light rail).

Option B: capped reduction in taxable value

Section 62 of the *Fringe Benefits Tax Assessment Act 1986* allows a reduction in taxable value of up to \$1,000 per employee for in-house benefits provided to an employee and/or their associate in an FBT year, provided those in-house benefits are not salary packaged. In-house fringe benefits are those benefits the employer also provides to the public in the ordinary course of business.

Option B involves introducing a similar reduction in taxable value for expense payment or residual benefits relating to the use of mass transit public transport. The first \$1,000 (or any other amount deemed appropriate) of a residual and expense payment benefit relating to the use of public transport will be effectively exempt. This approach has the benefit of limiting the cost of the concession, whilst still providing to employees some relief from the cost of commuting.

2.2.2 Complexities and challenges associated with the initiative

When provided through its own specific provision in the *Fringe Benefits Tax Assessment Act 1986*, rather than through the amendment of existing provisions, the proposed public transport exemption (or capped reduction) should be relatively straightforward to enact, with little complexity. The main complexity will be clearly defining the scope of the public transport to which the exemption or cap relates, but this could simply be defined as transport by way of bus, train, ferry or tram/light rail that is available to the public on payment of a fare.

2.2.3 Practical implications associated with the initiative

Both options carry their own practical implications.

From an FBT compliance perspective, for both the exemption and capped reduction in taxable value, administrative burdens will be minimal. The main practical consideration will be employees providing to their employers evidence of public transport expenditure on which the employer can rely to apply the exemption or capped reduction. With potentially multiple trips per day for multiple employees, the evidentiary burden may become onerous for employers and employees alike.

This burden may be overcome through the use of a "transport expense card". This card would be similar to meal entertainment cards commonly used where employees salary package meal entertainment.

The “transport expense card” would be pre-loaded with the amount to be salary packaged by the employee and can be used to pay for public transport, in a manner similar to using a personal credit card to swipe on and off various modes of public transport. As already mentioned, there is a current arrangement in place within south-east Queensland’s public transport network, facilitated by Translink in south-east Queensland, through which an employee can salary package bus travel when travelling between home and work.

This exemption is accessed through a broader exemption for certain travel by road-going vehicle other than by a car. The recommend exemption would be an extension of this existing exemption (for which there are already systems in place), **but with specific application to all forms of mass transit public transport and with no limitation on private use.**

2.3 Estimated financial benefits for employees accessing the benefits

Comparing the costs for an employee earning the average annual income of \$98,218¹⁶ and already commuting to work by public transport to an average employee salary packaging the FBT exempt use of public transport, the proposed FBT exemption will provide an annual benefit of **\$690 in the form of increased disposable income**. This is demonstrated in our calculations below.

| Calculation | Salary only (commuting by public transport) | Salary + public transport salary packaged |
|--|---|---|
| <i>Average annual income</i> | \$98,218 | \$98,218 |
| <i>less: salary packaged public transport costs</i> | nil | \$2,000 |
| <i>Taxable income</i> | \$98,218 | \$96,218 |
| <i>less: income tax (2023-24 rates)</i> | \$22,388 | \$21,738 |
| <i>less: 2% Medicare</i> | \$1,964 | \$1,924 |
| <i>Income after tax and salary sacrifice amount</i> | \$73,866 | \$72,556 |
| <i>less: average commuting cost via public transport</i> | \$2,073** | \$73 |
| Net disposable income after commuting costs | \$71,793 | \$72,483 |
| <i>Reportable fringe benefits amount</i> | nil | nil |

**average annual cost of commuting to work by public transport for an employee is \$2,073.

2.4 Take-up rate and cost estimates

2.4.1 Estimates of take-up based on industry experience and input

ABS data suggest there are 554,717 employees who currently commute to work using public transport¹⁷ and nearly 6.4 million workers commuting by car.

Due to the need to generate awareness of any potential legislative change and salary packaging, the number of employers who will allow salary packaging, the level of benefits available (which involves the level of spend on the item being sacrificed and also the level of salary of the individual) and consumer preferences, take-up rates may vary, particularly in the early stages of the introduction of the measure. Based on previous modelling undertaken by NALSPA, we have assumed low, medium, and high take-up rates for those currently commuting by public transport to be as follows:

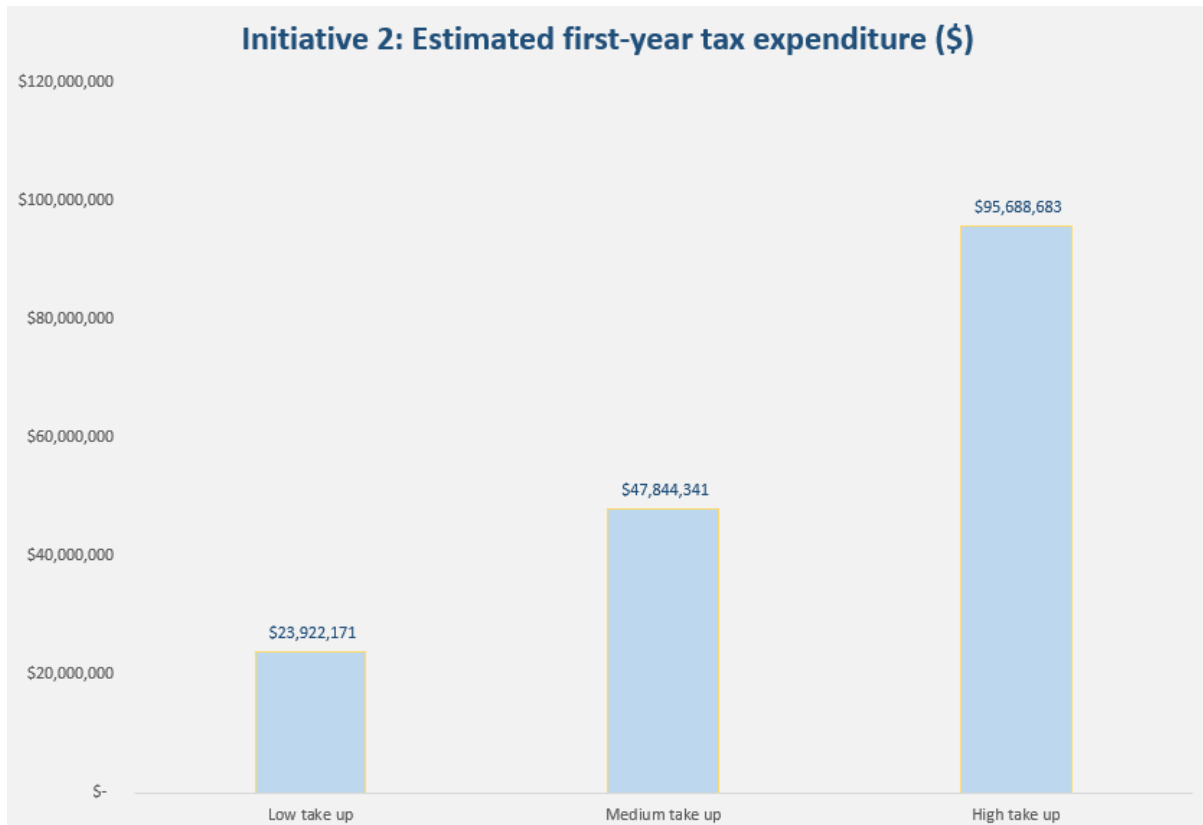
| | Rate | First year take-up |
|--------|-------|--------------------|
| Low | 6.25% | 34,700 |
| Medium | 12.5% | 69,400 |
| High | 25% | 138,800 |

¹⁶ <https://www.abs.gov.au/statistics/labour/earnings-and-working-conditions/average-weekly-earnings-australia/latest-release>

¹⁷ <https://www.abs.gov.au/statistics/industry/tourism-and-transport/transport-census/latest-release>

2.4.2 Estimated cost to the government

Based on the estimated take-up rates described above and a cost of the concession of \$690 per employee, the projected tax expenditure in the first year of the concession is estimated to be as follows:



2.5 Macroeconomic, environmental and other impacts.

In addition to providing cost of living relief for individuals that commute to work using public transport, by encouraging those that commute by car to instead commute by public transport, this initiative aligns with the government's carbon reduction policy. This initiative is expected to provide some other long-term benefits. These include, but are not limited to:

- Consumer spending is a key driving force of the economy. The initiative aims to ease the cost of commuting and other private transport for employees, thereby adding to disposable income for such employees.
- Encouraging more workers who are **working from home to travel to our larger cities**, back into their offices. Many cities and employers are seeking this and it helps to reinvigorate inner-city economies.
- Encouraging use of public transportation will further alleviate road congestion, thereby reducing travel times, resulting in productivity gains for employees, further supporting economic growth.

APPENDIX C

Initiative 3: Replicate or extend the s 57A PBI/HPC/Hospital/Ambulance exemption

Consider extending the existing exemption to cover all government employees in the teaching, healthcare, aged care, law enforcement and fire and rescue services.

The average annual income of public sector employees in teaching, law enforcement, fire and rescue, and aged care is substantially lower than the Australian average wage of \$98,218¹⁸, as follows:

| Occupation | Average annual salary |
|--------------------------|------------------------------|
| Teaching | \$72,953 ¹⁹ |
| Law enforcement | \$71,752 ²⁰ |
| Fire and rescue | \$70,265 ²¹ |
| Aged care support worker | \$64,220 ²² |

These salaries are also lower than those of private sector employees in similar roles, as demonstrated by the current national teacher shortage and the ability of private schools to pay salaries that outstrip those offered in the public system²³. These comparatively lower income earning workers are particularly exposed to pressures from the rising cost of living.

The existing exemption under s 57A of the *Fringe Benefits Tax Assessment Act 1986* that applies to public benevolent institutions, health promotion charities, hospitals and public ambulance services is in place to achieve the policy objective of enabling these entities to attract skilled workers through more attractive remuneration packages without additional costs of employment²⁴. It is a critical component of the remuneration practices of these sectors.

As can be seen from the average salaries above, the ability of public sector employers in the teaching, healthcare, aged care, law enforcement and fire and rescue services to offer more attractive remuneration packages will serve to increase the disposable income of their employees, helping to ease cost-of-living pressures faced by these critical workers.

3.1 Cost of living pressures targeted

This initiative aims at reducing cost of living pressures experienced by public sector employees in teaching, aged care, health care, law enforcement and fire and rescue services. The most common benefits salary packaged by employees of employers that currently enjoy exemption under s 57A of the *Fringe Benefits Tax Assessment Act 1986* include, but are not limited to:

- Living expenses
- Childcare fees
- Car parking

¹⁸ <https://www.abs.gov.au/statistics/labour/earnings-and-working-conditions/average-weekly-earnings-australia/latest-release>

¹⁹ <https://www.abs.gov.au/statistics/labour/employment-and-unemployment/public-sector-employment-and-earnings/latest-release>

²⁰ <https://au.talent.com/salary?job=police+officer#:~:text=The%20average%20police%20officer%20salary%20in%20Australia%20is%20%2471%2C752%20per,up%20to%20%2493%2C678%20per%20year.>

²¹ <https://au.talent.com/salary?job=firefighter>

²² <https://au.talent.com/salary?job=aged+care+support+worker#:~:text=How%20much%20does%20a%20Aged%20care%20support%20worker%20make%20in%20Australia%3F&text=The%20average%20aged%20care%20support%20worker%20salary%20in%20Australia%20is,up%20to%20%2481%2C561%20per%20year.>

²³ <https://www.abc.net.au/news/2023-02-05/public-schools-losing-teachers-to-private-education-jobs/101748966>

²⁴ https://treasury.gov.au/sites/default/files/2019-03/C2015-036_EM_FBT_entertainment_benefits.pdf

- Home mortgage and rent payments
- Utility bills
- Insurance costs
- Meal entertainment expenses.

3.2 FBT policy implementation and administration

3.2.1 Legislative framework of the FBT policy

Section 57A of the *Fringe Benefits Tax Assessment Act 1986* exempts fringe benefits provided by certain not-for-profit sector and public sector employers. The employers currently eligible for this concession are:

- registered public benevolent institutions endorsed under s 123C of the *Fringe Benefits Tax Assessment Act 1986*;
- government bodies employing hospital staff *Fringe Benefits Tax Assessment Act 1986* under s 136 of the *Fringe Benefits Tax Assessment Act 1986*;
- public hospitals;
- public ambulance services;
- non-profit hospitals; and
- registered health promotion charities endorsed under s 123D of the *Fringe Benefits Tax Assessment Act 1986*

Employers currently included in the scope of this exemption are not subject to FBT on certain non-reportable fringe benefits, with the amount of the exemption capped (on a per employee basis) on the remaining grossed-up taxable value of fringe benefits as follows:

- \$17,000 for an employee of a hospital or public ambulance service; and
- \$30,000 for an employee of a health promotion charity or a non-hospital PBI.

NALSPA recommends consideration be given to replicating or extending this exemption to exempt fringe benefits provided by an employer of an employee where the employer is a government body and the duties of the employment of the employee are exclusively performed in, or in connection with:

- teaching: such as, preschool to secondary school staff, higher education staff, vocational education and training staff and adult and community education staff
- healthcare
- aged care
- law enforcement
- fire and rescue

The proposed FBT exemption would operate in the same manner to the current FBT exemption available under s 57A of the *Fringe Benefits Tax Assessment Act 1986*. The exemption could be enacted either by amending s 57A to expand the scope of employers eligible for the exemption, or by introducing a separate provision specific to these public sector employers.

To ensure the exemption is targeted at intended employees, NALSPA recommends the provision be drafted to limit its scope to those employees that are “at the coal face” (such as the teachers, police officers, firefighters) rather than any employee in these sectors (such as an employee in a public administration role within a state department). We note that many of these employees were people who played critical roles during the height of the COVID-19 pandemic.

3.2.2 Complexities and challenges associated with the initiative

The manner in which the cap on the existing s 57A exemption is applied is through s 5B of the *Fringe Benefits Tax Assessment Act 1986*. In expanding the scope of employers, either through amendment

of the existing s 57A or through the introduction of a separate exempting provision, s 5B may also likely require amendment to ensure the intended operation of the expanded or replicated s 57A exemption. In the case a new exempting provision is enacted (rather than an amendment to s 57A), s 5B will need to be amended to reference and apply the appropriate exemption cap to, the new provision.

The other matter to be considered when drafting provisions to enact the proposed expanded exemption will be defining the scope of the employers and the employees thereof, to which the expanded scope of the exemption is to apply. This has proven to be a challenge with the existing s57A, with various tax rulings and determinations having to be issued by the Commissioner of Taxation to provide guidance on the interpretation of the provisions in determining the scope of employers and their employees that are eligible for the exemption²⁵.

3.2.3 Practical implications associated with the initiative

The current s 57A exemption carries with it some practical issues, including the requirement to calculate the taxable value of fringe benefits provided to assess if the associated monetary cap has been exceeded and to calculate employees' reportable fringe benefits.

These practical issues would be the same with an expanded scope. Notwithstanding these practical issues, given the broad accessing of the existing exemption by employees of eligible employers by way of salary packaging, salary packaging providers already have in place well-established processes to apply the exemption efficiently and accurately with minimal administrative burden or effort upon employers.

3.3 Estimated financial benefits for employees accessing the benefits

For an average government employee, working in the education sector and earning the average annual income of \$72,953²⁶ and salary packaging (up to the exemption cap) an average \$23,920²⁷ per annum of personal rental expense, the proposed exemption will provide an annual benefit of **\$5,486** in the form of increased disposable income.

This is demonstrated in our calculations below, comparing the average government employee working in the education sector and salary packaging their rent to an average government employee paying for their rent from their after-tax income.

| Calculation | Salary only (no packaging) | Salary + rent salary packaged |
|--|----------------------------|-------------------------------|
| <i>Average annual income of government employee working in education sector</i> | \$72,953 | \$72,953 |
| <i>Less salary packaged: average annual rent in Australia (up to threshold amount)</i> | nil | \$15,900 |
| <i>Taxable income</i> | \$72,953 | \$57,053 |
| <i>less: income tax (2023-24 rates)</i> | \$14,177 | \$9,009 |
| <i>less: 2% Medicare</i> | \$1,459 | \$1,141 |
| <i>Income after tax and salary sacrifice amount</i> | \$57,317 | \$46,903 |
| <i>less: rent paid from post-tax income</i> | \$23,920 | \$8,020 |
| Net disposable income after rent | \$33,397 | \$38,883 |
| <i>Reportable fringe benefits amount</i> | nil | nil |

²⁵ <https://www.ato.gov.au/law/view/print?DocID=TXD%2FTD201512%2FNAT%2FATO%2F00001&PiT=99991231235958>

²⁶ <https://www.abs.gov.au/statistics/labour/employment-and-unemployment/public-sector-employment-and-earnings/latest-release>

²⁷ <https://www.abs.gov.au/statistics/detailed-methodology-information/information-papers/new-insights-rental-market>

Further illustrated in our calculations below is a comparison between an average government teacher salary packaging (up to the cap available under the proposed extended exemption) and an average private school teacher with no salary packaging arrangement, both paying average annual rent of \$23,920. Where a public-school teacher salary packages the exempt benefit up to the cap, their net disposable income after rent would only be \$1,312 less than that of the private school teacher.

| Calculation | Government school teacher salary + rent salary packaged | Private school teacher salary only (no packaging) |
|--|---|---|
| <i>Average annual income</i> | \$72,953 | \$83,332 ²⁸ |
| <i>Less salary packaged: average annual rent in Australia (up to threshold amount)</i> | \$15,900 | nil |
| <i>Taxable income</i> | \$57,053 | \$83,332 |
| <i>less: income tax (2023-24 rates)</i> | \$9,009 | \$17,550 |
| <i>less: 2% Medicare</i> | \$1,141 | \$1,667 |
| <i>Income after tax and salary sacrifice amount</i> | \$46,903 | \$64,115 |
| <i>less: average annual rent in Australia</i> | \$8,020 | \$23,920 |
| Net disposable income after rent | \$38,883 | \$40,195 |
| <i>Reportable fringe benefits amount</i> | nil | nil |

Without the exemption, the public-school teacher's net disposable income after rent would be \$33,397, falling \$6,798 short of the private school teacher. This demonstrates the proposed initiative also serves to achieve an equity outcome. Albeit this is not its primary purpose.

3.4 Take-up rate and cost estimates

3.4.1 Estimates of take-up based on industry experience and input

Currently, the number of government employees working in the education and training sector is 737,500, health and social assistance is 615,400 and public administration and safety is 817,600²⁹. In 2022, there were 188,216 full time equivalent public-school teachers in Australia, this is 25% of total public sector employees in the education and training sector. Assuming the scope of any extended exemption would be limited to those employees "at the coal face" (such as teachers, uniformed officers) and extrapolating this proportion across the other sectors, the number of employees that would fall within the scope of the proposed exemption would potentially be as follows:

| Current government employees in sector | Estimated proportion of employees eligible for the exemption (%) | Estimated number of government employees salary packaging exempt benefits |
|--|--|---|
| Education and training | 25 | 184,375 |
| Health and social assistance | 25 | 153,850 |
| Public administration and safety | 25 | 204,400 |
| | | 542,625 |

Due to the need to generate awareness of any potential legislative change and salary packaging, the number of employers who will allow salary packaging, the level of benefits available (which involves the level of spend on the item being sacrificed and also the level of salary of the individual) and consumer preferences, take-up rates may vary, particularly in the early stages of the introduction of the measure. Based on NALSPA's experience, we have assumed low, medium and high take-up rates as follows:

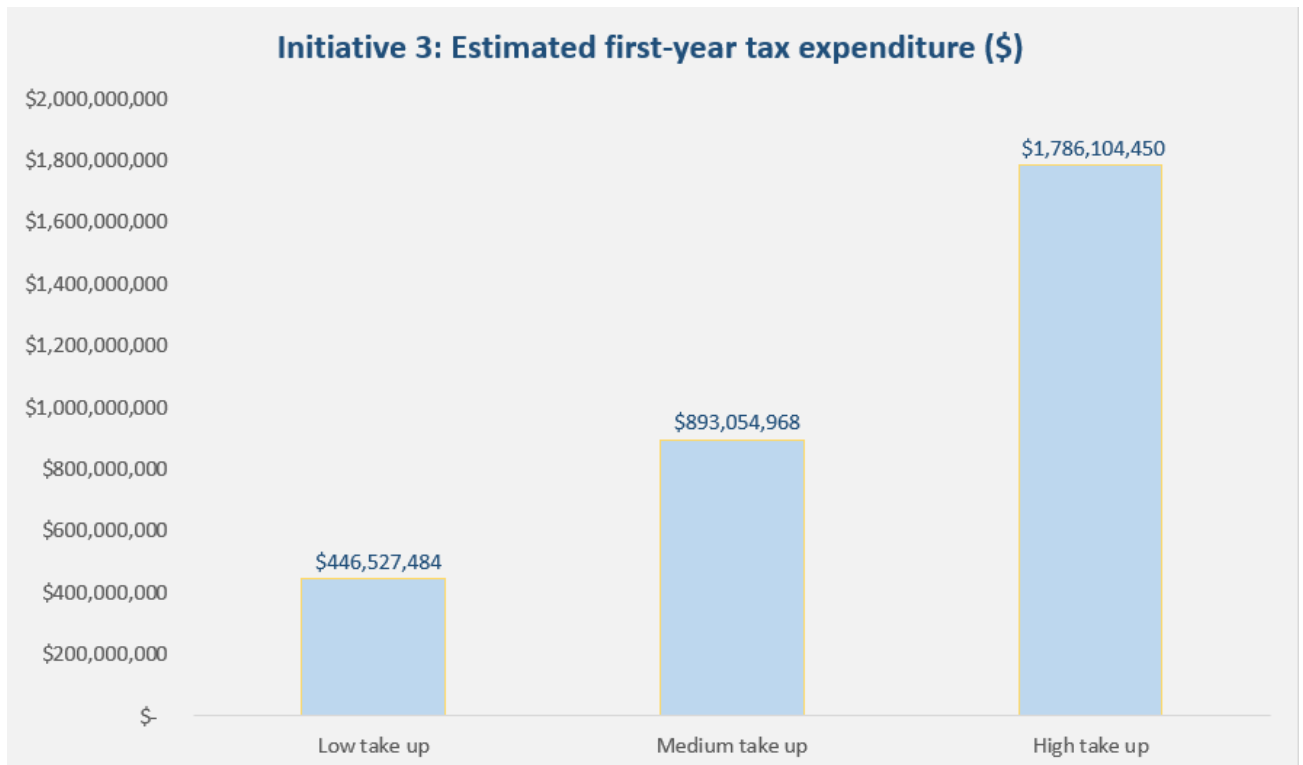
²⁸ https://www.glassdoor.com.au/Salaries/private-teacher-salary-SRCH_KO0,15.htm

²⁹ <https://www.abs.gov.au/statistics/labour/employment-and-unemployment/public-sector-employment-and-earnings/latest-release>

| | Rate | First year take-up |
|--------|------|--------------------|
| Low | 15% | 81,394 |
| Medium | 30% | 162,788 |
| High | 60% | 325,575 |

3.4.2 Estimated cost to the government

Based on the estimated take-up rates described above and a cost of the exemption of **\$5,486 per employee** (albeit the actual expenditure claimed by employees is likely to be lower based on the experience of NALSPA members), the projected tax expenditure in the first year of the exemption is estimated to be as follows:



3.5 Macroeconomic, environmental and other impacts

In addition to providing cost of living relief for certain government employees in the short term, this initiative will provide some significant long-term benefits. These include, but are not limited to:

- Australian schools are facing unprecedented teacher supply and retention challenges, with workforce shortages one of the single biggest issues facing teacher employers in all school sectors and early childhood education settings across Australia³⁰. By implementing this initiative, the government incentivises current job seekers and future workforce to join Australia's most vital sectors.
- The proposed initiative also serves to achieve for teachers in the public system greater parity in disposable income with the private sector. This may help to redress the drain of teachers from the public system to the private system³¹.

³⁰ <https://ministers.education.gov.au/clare/teacher-workforce-shortages-issues-paper>

³¹ <https://www.abc.net.au/news/2023-02-05/public-schools-losing-teachers-to-private-education-jobs/101748966>

- By effectively subsidising the salaries of workers in the education and aged-care sectors, this may be a means of the federal government providing indirect funding to the states and territories.
- With reduced income inequality and financial stress, employees working in these critical sectors will experience increased job satisfaction leading to higher productivity, efficiency and improved financial wellbeing.
- Consumer spending is a key driving force of the economy. The initiative aims to ease the cost of living expenses for certain government employees, thereby adding to disposable income for such employees.

APPENDIX D

Initiative 4: Index the caps applicable to the s 57A exemption and s 65J rebate

To limit the erosion of the benefit of the FBT exemption under s 57A (applicable to PBIs, HPCs, hospitals and public ambulance services) and the FBT rebate under s 65J (applicable to income tax exempt not-for-profit employers), index the existing caps against CPI.

Since 2000, the FBT exemption available under s 57A of the *Fringe Benefits Tax Assessment Act 1986* for employers that are PBIs, HPCs, hospitals and public ambulance services has been capped at a grossed-up taxable value of \$30,000 per employee (\$17,000 per employee for hospitals and public ambulance services) as outlined in Appendix D.

Likewise, the FBT rebate available under s 65J for eligible income tax exempt not-for-profit employers has also been capped at a grossed-up taxable value of \$30,000 per employee. Employees of these eligible employers have been able to salary package benefits and receive the exemption or rebate, noting the policy intent behind the exemption is to provide the opportunity to remunerate employees at a lower cost, **given the salaries of employees in these sectors are generally lower than average.**

The policy intent behind the rebate is to similarly reduce the net cost of remunerating employees by providing a rebate in lieu of the income tax deduction for the cost of FBT these tax-exempt employees are unable to access.

These caps, however, are not indexed **and have remained the same since 2000.** CPI (using the index reference base) over this same time period has increased 93.8%³², **materially eroding the benefit** to eligible employees of the exemption and rebate. These comparatively lower-income earning employees, working in the not-for-profit, health and aged care sectors predominately, are not immune to the rising cost of living and in fact are among those employees hit hardest.

We note that on 13 April 2000, then Federal Treasurer, The Hon Peter Costello, upon announcing that the Government had reached agreement with the Australian Democrats on the passage of the legislation giving effect to the FBT capping of concessions measure (capping of the grossed up taxable value per employee for NFPs and charities), also announced *that "The Government has further agreed to review the level of the cap from time to time in the light of general salary movements"*. Such a review has never taken place to our knowledge as promised.

4.1 Cost of living pressures targeted

This initiative for the consideration of the Committee is aimed at reducing cost of living pressures experienced by employees working in the not-for-profit, health and aged care sectors. The most common benefits salary packaged by employees of employers covered under s 65J of the *Fringe Benefits Tax Assessment Act 1986* include, but are not limited to:

- Living expenses
- Childcare fees
- Home mortgage and rent payments
- Utility bills
- Insurance costs

³² <https://www.ato.gov.au/tax-rates-and-codes/consumer-price-index#ato-Indexreferencebase201112>

4.2 FBT Policy implementation and administration

4.2.1 Legislative framework of the FBT policy

Section 65J of the *Fringe Benefits Tax Assessment Act 1986* makes available to certain tax-exempt not-for-profit organisations a rebate of 47% of the FBT liability, capped at \$30,000 per employee. Employers currently eligible for this rebate are:

- registered charity covered by item 1.1 of the table in section 50-5 of the *Income Tax Assessment Act 1997*;
- scientific institution covered by item 1.3 of the table in section 50-5 of the *Income Tax Assessment Act 1997*;
- public educational institution covered by item 1.4 of the table in section 50-5 of the *Income Tax Assessment Act 1997*;
- society, association or club established for the encouragement of science and covered by item 1.7 of the table in section 50-5 of the *Income Tax Assessment Act 1997*;
- employer association or an employee association covered by item 3.1 of the table in section 50-15 of the *Income Tax Assessment Act 1997*;
- trade union covered by item 3.2 of the table in section 50-15 of the *Income Tax Assessment Act 1997*;
- society or association established for the purpose of promoting the development of aviation or tourism and covered by item 8.1 of the table in section 50-40 of the *Income Tax Assessment Act 1997*;
- society or association established for the purpose of promoting the development of any of the following Australian resources and covered by item 8.2 of the table in section 50-40 of the *Income Tax Assessment Act 1997*;
 - agricultural resources
 - horticultural resources
 - industrial resources
 - manufacturing resources
 - pastoral resources
 - viticultural resources
 - aquacultural resources
 - fishing resources
- society or association established for the purpose of promoting the development of Australian information and communications technology resources and covered by item 8.3 of the table in section 50-40 of the *Income Tax Assessment Act 1997*;
- society, association or club established for the encouragement of any of the following and covered by item 9.1 of the table in section 50-45 of the *Income Tax Assessment Act 1997*;
 - animal racing
 - art
 - game or sport
 - literature
 - music
- society, association or club established for musical purposes and covered by item 9.2 of the table in section 50-45 of the *Income Tax Assessment Act 1997*.

The total grossed-up value of benefits that can be provided to each employee of a rebatable employer is normally capped at \$30,000. If the total grossed-up value of the fringe benefits provided to an individual employee exceeds \$30 000, the rebate cannot be claimed for the FBT liability on the excess amount.

Noting, for the FBT years ending 31 March 2016 and 31 March 2017, the capped rebate amount of \$30,000 was increased to \$31,177. This increase was due to the effect of the temporary budget repair levy. However, the threshold returned to \$30,000 for the 2018 and subsequent years, making the current rebates thresholds available under s 65J of the *Fringe Benefits Tax Assessment Act 1986* remain stagnant at \$30,000 since the inception of this provision in 2000.

Section 57A of the *Fringe Benefits Tax Assessment Act 1986* exempts fringe benefits provided by certain not-for-profit sector and public sector employers. The employers currently eligible for this concession are:

- registered public benevolent institutions endorsed under s 123C of the *Fringe Benefits Tax Assessment Act 1986*;
- government bodies employing hospital staff *Fringe Benefits Tax Assessment Act 1986* under s 136 of the *Fringe Benefits Tax Assessment Act 1986*;
- hospitals;
- public ambulance services; and
- registered health promotion charities endorsed under s 123D of the *Fringe Benefits Tax Assessment Act 1986*

Employers currently included in the scope of this exemption are not subject to FBT on certain non-reportable fringe benefits, with the amount of the exemption capped (on a per employee basis) on the remaining grossed-up taxable value of fringe benefits as follows:

- \$17,000 for an employee of a hospital or public ambulance service; and
- \$30,000 for an employee of a health promotion charity or a non-hospital PBI.

The manner in which the cap on the existing s 57A exemption is applied is through s 5B of the *Fringe Benefits Tax Assessment Act 1986*.

NALSPA recommends the Committee consider making recommendation for the amendment of the *Fringe Benefits Tax Assessment Act 1986* to index the caps set that apply under subs 5B(1E) and subs 65J(2B) of the *Fringe Benefits Tax Assessment Act 1986*, similar to the indexation of the of the concessional superannuation contributions cap under s 291-20 of the *Income Tax Assessment Act 1997*.

NALSPA also recommends, by use of a legislative provision in the *Fringe Benefits Tax Assessment Act 1986* that operates in the same way as s 960-285 of the *Income Tax Assessment Act 1997*, the indexation be stepped such that the caps only increase when the indexation results in a total increase of a specified amount (for example, \$2,500).

4.2.2 Complexities and challenges associated with the initiative

Implementation of this initiative would be relatively straightforward, with little complexity. It would entail a legislative amendment to index the exemption and rebate thresholds specified in subs 5B(1E) and 65J(2B) respectively, noting similar legislative provisions exist under s 291-20. and 960-285 of the *Income Tax Assessment Act 1997*.

4.2.3 Practical implications associated with the initiative

Given the proposed initiative merely indexes existing caps and does not otherwise affect the operation of the s 57A exemption or the s 65J rebate, NALSPA envisages little practical difficulty with this initiative.

Salary packaging providers already offer packaging of benefits to employees of employers for the FBT exemption and FBT rebate – such practice is well bedded and regarded as an essential across Australian workplaces.

This means the systems already in place will require only minor changes to accommodate adjustments to the cap when it increases due to indexation. Where the indexation is annual and not stepped, the caps will not be round numbers and this may present practical impediments to accurate compliance due to the potential for systems to not be updated either accurately or in a timely manner.

This practical difficulty can be alleviated though through the recommended stepped approach to indexation, meaning the caps will only increase by round numbers (for example, \$2,500) and not necessarily every year. This will mean employers will have forewarning of when the cap will increase and can implement in a timely manner any system changes to accommodate the increase.

4.3 Estimated financial benefits for employees accessing the benefits

Currently (and since 1 July 2000), the total grossed-up value of benefits that can be provided to each employee is capped at a threshold of:

- \$17,000 for an employee of a hospital or public ambulance service. Dividing this by the gross-up rate of 1.8868, this effectively means \$9,010 of benefits can be salary packaged with no FBT liability incurred.
- \$30,000 for an employee of a health promotion charity or a non-hospital PBI. Dividing this by the gross-up rate of 1.8868, this effectively means \$15,900 of benefits can be salary packaged with no FBT liability incurred.

Section 65J was legislated in April of 1994 but was not capped until 2000. The consumer price index (CPI) for the June 2000 quarter was 70.2 and for the December 2023 quarter was 136.1³³, marking a **93.8% increase from June 2000 to December 2023**. If the rebate threshold was indexed to align with the rising cost of living since the introduction of capping threshold (June 2000), the total grossed-up value of benefits provided to each employee would increase by 93.8%, thereby amounting to:

- **\$32,946 for an employee of a hospital or public ambulance service.** Dividing this by the gross-up rate of 1.8868, this effectively means \$17,461 of benefits could be salary packaged with no FBT liability incurred.
- **\$58,140 for an employee of a health promotion charity or a non-hospital PBI.** Dividing this by the gross-up rate of 1.8868, this effectively means \$30,814 of benefits could be salary packaged with no FBT liability incurred.

On average, Australians expend \$23,920³⁴ per annum on personal rent. For a government sector employee working in the healthcare sector, earning the average annual income of \$93,556³⁵ and salary packaging their rental expense up to the capping threshold, the proposed initiative will provide an annual benefit of **\$1,683** in the form of increased disposable income for employees of health promotion charity or a non-hospital PBI.

For employees of a hospital or public ambulance service, the proposed initiative will provide an annual benefit of **\$2,916** in the form of increased disposable income. This is demonstrated in our calculations below, comparing the value of rent salary packaged by an average government employee working in the healthcare using the current capping thresholds versus the capping thresholds that would have been available if it were indexed since the inception of capping thresholds under s 65J and 57A of the *Fringe Benefits Tax Assessment Act 1986*.

³³ <https://www.ato.gov.au/tax-rates-and-codes/consumer-price-index#ato-Indexreferencebase201112>

³⁴ <https://www.abs.gov.au/statistics/detailed-methodology-information/information-papers/new-insights-rental-market>

³⁵ <https://www.abs.gov.au/statistics/labour/employment-and-unemployment/public-sector-employment-and-earnings/latest-release>

Employee of a health promotion charity or a non-hospital PBI, current capping threshold of \$30,000

| Calculation | Salary + salary packaged (current capping threshold) | Salary + salary packaged (if indexed since June 2000) |
|--|--|---|
| Average annual income of charity worker | \$59,071 ³⁶ | \$59,071 |
| Less salary packaged: average annual rent in Australia (up to capping threshold) | \$15,900 | \$23,920 |
| Taxable income | \$43,171 | \$35,151 |
| less: income tax (2023-24 rates) | \$4,744 | \$3,221 |
| less: 2% Medicare | \$863 | \$703 |
| Income after tax and salary sacrifice amount | \$37,564 | \$31,227 |
| less: average annual rent in Australia (over the salary packaging threshold) | \$8,020 | nil |
| Net disposable income after rent | \$29,544 | \$31,227 |
| Reportable fringe benefits amount | nil | nil |

Employee of a hospital or public ambulance service, current capping threshold of \$17,000

| Calculation | Salary + salary packaged (current capping threshold) | Salary + salary packaged (if indexed since June 2000) |
|--|--|---|
| Average annual income of government employee working in healthcare sector | \$93,556 | \$93,556 |
| Less salary packaged: average annual rent in Australia (up to capping threshold) | \$9,010 | \$17,461 |
| Taxable income | \$84,546 | \$76,095 |
| less: income tax (2023-24 rates) | \$17,944 | \$15,198 |
| less: 2% Medicare | \$1,691 | \$1,521 |
| Income after tax and salary sacrifice amount | \$64,911 | \$59,376 |
| less: average annual rent in Australia (over the salary packaging threshold) | \$14,910 | \$6,459 |
| Net disposable income after rent | \$50,001 | \$52,917 |
| Reportable fringe benefits amount | nil | nil |

4.4 Take-up rate and cost estimates

4.4.1 Estimates of take-up based on industry experience and input.

All eligible employees currently accessing the exemption and rebate available under ss 57A and 65J of the *Fringe Benefits Tax Assessment Act 1986* respectively would be expected to take up the increase in these thresholds. Furthermore, the salary packaging providers already offer packaging of benefits to employees of employers for the FBT exemption and FBT rebate. This means the systems already in place will require only minor changes to accommodate adjustments to the cap if it was to increase due to indexation.

4.4.2 Estimated cost to the government.

If the government were to implement in the 2024 financial year this initiative to index the capping thresholds applicable to ss 57A and 65J of the *Fringe Benefits Tax Assessment Act 1986* in line with CPI, the projected tax expenditure as a result of implementing this initiative would be \$195m in 2024, \$158m in 2025 and \$142m in 2026. This is demonstrated as follows:

³⁶ <https://au.jooble.org/salary/charity-work>

| Year of forecast | Inflation forecast (%) ³⁷ | Current tax expenditure (\$m) ³⁸ | | Tax expenditure associated with implementing this initiative (\$m) | | Total additional tax expenditure |
|------------------|--------------------------------------|---|-------|--|-----------------------------------|----------------------------------|
| | | s 57A | s 65J | Indexing caps applicable to s 57A | Indexing caps applicable to s 65J | |
| 2023-24 | 4.1% | 4,695 | 55 | 192 | 2 | 195 |
| 2024-25 | 3.5% | 4,490 | 35 | 157 | 1 | 158 |
| 2025-26 | 3% | 4,695 | 40 | 141 | 1 | 142 |

The additional tax expenditure outlined above has been calculated by taking, for the years in question, the existing forecast tax expenditures in respect of the s 57A and s 65J concessions and multiplying those by the forecast annual inflation rates for those same years.

4.5 Macroeconomic, environmental and other impacts

In addition to providing cost of living relief for certain employees in the short term, this initiative will provide some significant long-term benefits. These include, but are not limited to:

- One major issue that has persisted, despite successive government attempts to address it, is the shortage of medical practitioners and specialists, particularly in rural, regional and remote areas (Australian government, 2023). It is essential to have a robust health workforce to maintain the health care of Australians now and into the future. Further, Australian schools are facing unprecedented teacher supply and retention challenges, with workforce shortages one of the single biggest issues facing teacher employers in all school sectors and early childhood education settings across Australia (Australian government, 2022). By implementing this initiative, the government incentivises current job seekers and future workforce to join Australia's most vital sectors through comparatively better remuneration as a result of effectively higher disposable income. This in turn, can ensure these critical sectors have skilled workforce needed to meet the demands in the long term.
- With reduced income inequality and financial stress, employees working in these critical sectors will experience increased job satisfaction leading to higher productivity, efficiency and improved financial wellbeing.
- Consumer spending is a key driving force of the economy. The initiative aims to ease the cost of living expenses for certain employees working in the not for profit sector, thereby adding to disposable income for such employees.

³⁷ <https://www.rba.gov.au/publications/smp/2023/nov/overview.html>

³⁸ <https://treasury.gov.au/sites/default/files/2023-02/p2023-370286-teis.pdf>

APPENDIX E

Initiative 5: FBT exemption for ZLEV charging infrastructure

Introduce an FBT exemption for the acquisition and installation of ZLEV charging ports for employees' private use.

Zero and low emissions vehicle (ZLEV) charging infrastructure is a significant up-front cost when purchasing or leasing a ZLEV. On average, it can cost anywhere between \$1,000 to \$2,500 for an average Australian household to set up a home ZLEV charging station³⁹. This upfront outlay may act as an impediment to individuals otherwise seeking to move into an FBT exempt ZLEV with no upfront outlay and lower running costs than an equivalent internal combustion engine powered car.

It is the experience of NALSPA members that the absence of an FBT exemption for home charging hardware and installation costs is impacting upon the attractiveness of acquiring a ZLEV, given there are a number of additional out-of-pocket costs which leaseholders must meet out of their post-tax income.

NALSPA members report that for some prospective ZLEV buyers, these additional out-of-pocket expenses cause them to re-consider their purchase, or to not install home charging and instead rely more heavily on public charging infrastructure.

5.1 Cost of living pressures targeted

This initiative is aimed at reducing the impact of the upfront cost of installing charging infrastructure associated with FBT-exempt ZLEVs. It also indirectly targets the daily running costs of otherwise operating an internal combustion engine powered car by removing a disincentive for an employee to transition to an FBT-exempt ZLEV with substantially lower daily running costs⁴⁰.

5.2 FBT policy implementation and administration

5.2.1 Legislative framework of the FBT policy

Currently, the FBT exemption for qualifying ZLEVs under s 8A of the *Fringe Benefits Tax Assessment Act 1986* does not extend to the charging infrastructure associated with those vehicles. Furthermore, section 53 under division 13 of the *Fringe Benefits Tax Assessment Act 1986* only allows car expenses incurred in relation to registration, insurance, repairs and maintenance and fuel provided by way of expense, property or residual benefit. This exemption also does not extend to the charging infrastructure associated with an FBT-exempt ZLEV.

To achieve the proposed exemption from FBT of ZLEV charging infrastructure, NALSPA recommends this definition of a "car expense" under subs 136(1) of the *Fringe Benefits Tax Assessment Act 1986* be amended to include costs associated with the acquisition and installation of ZLEV charging infrastructure. This will result in the existing exemption for car expenses incurred in relation to cars that are either car fringe benefits or exempt ZLEVs under s 53 of the *Fringe Benefits Tax Assessment Act 1986* applying to the acquisition and installation of ZLEV charging infrastructure.

5.2.2 Complexities and challenges associated with the initiative

Implementation of this initiative would be relatively straightforward, with little to no complexity. It would merely entail a legislative amendment to the definition of "car expense" under subs 136(1) of the *Fringe Benefits Tax Assessment Act 1986*. This would have the effect of expanding the scope of s 53 of the *Fringe Benefits Tax Assessment Act 1986* to cover costs associated with the acquisition and installation of ZLEV charging infrastructure, with no amendment to s 53 itself required.

³⁹ <https://evse.com.au/blog/evchargercost/>

⁴⁰ <https://www.transport.nsw.gov.au/projects/electric-vehicles/why-buy-an-electric-vehicle>

5.2.3 Practical implications associated with the initiative

Given the straightforward nature of the proposed exemption for ZLEV charging infrastructure, falling under the existing exemption for car expenses under s 53 of the *Fringe Benefits Tax Assessment Act 1986*, there are no anticipated practical complications arising in connection with the take-up of the exempt benefit by employees by salary packaging.

From an FBT compliance perspective, should such an exemption be introduced, administrative burdens would be minimal due to the nature of the proposed exemption, which effectively would allow the entire cost of ZLEV charging infrastructure installation to be exempt from FBT, negating the need to perform calculations of the taxable value of the benefit.

As charging infrastructure is often packaged with the supply of a ZLEV, this measure will also remove the current administrative burden of disaggregating the cost of the charging infrastructure (currently not exempt from FBT) from the cost of the ZLEV (the vehicle currently being exempt from FBT).

5.3 Estimated financial benefits for employees accessing the benefits

For an employee earning the estimated average annual income of someone who salary packages a ZLEV of \$120,000 and salary packaging an average \$1,750* upfront cost for the acquisition and installation of ZLEV charging infrastructure, such an exemption as proposed would provide a once-off benefit of **\$604** in the form of increased disposable income. This is demonstrated in our calculations below, comparing the average employee salary packaging an FBT exempt ZLEV charging infrastructure to an average employee paying for installation of an ZLEV charging infrastructure from their after-tax income.

| Calculation | Salary only (no packaging) | Salary + ZLEV charging infrastructure salary packaged |
|---|----------------------------|---|
| <i>Average annual income of an Australian</i> | \$120,000 | \$120,000 |
| <i>less: salary packaged ZLEV charging infrastructure</i> | nil | \$1,750 |
| <i>Taxable income</i> | \$120,000 | \$118,250 |
| <i>less: income tax (2023-24 rates)</i> | \$29,467 | \$28,898 |
| <i>less: 2% Medicare</i> | \$2,400 | \$2,365 |
| <i>Income after tax and salary sacrifice amount</i> | \$88,133 | \$86,987 |
| <i>less: average cost of ZLEV charging infrastructure</i> | \$1,750 | nil |
| Net disposable income after purchase of ZLEV charging infrastructure | \$86,383 | \$86,987 |
| <i>Reportable fringe benefits amount</i> | nil | nil |

*average of \$1,000 and \$2,500 that costs for an average Australian household to set up a home ZLEV charging station⁴¹.

5.4 Take-up rate and cost estimates

5.4.1 Estimates of take-up based on industry experience and input.

NALSPA estimates that around 40% or more of all new ZLEV sales are currently attributable to salary packaging arrangements and the Governments FBT Discount Policy. NALSPA estimates the removal of the disincentive to transition into a ZLEV due to the upfront cost of charging infrastructure will further help increase this take-up. On the assumption this exemption results in 41% of new ZLEV sales being attributable to salary packaging, and with total new ZLEV sales in Australia for 2025 conservatively projected to be 125,000 (based on 28,830 sales in the first quarter of 2024 and growth

⁴¹ <https://evse.com.au/blog/evchargercost/>

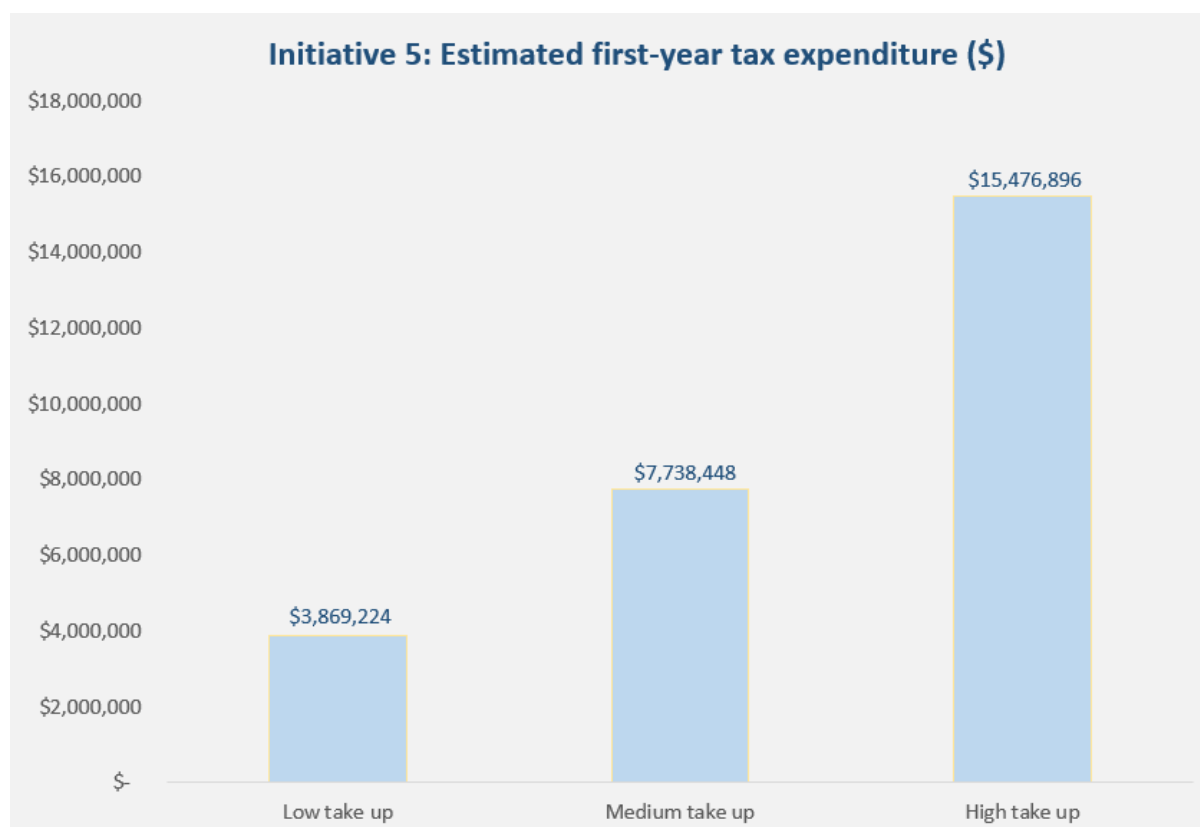
rate of 8.7%), total new ZLEV sales attributable to salary packaging for 2025 are projected to be 51,250 for this purpose.

Due to the need to generate awareness of any potential legislative change and salary packaging, the number of employers who would allow such a benefit, the level of benefit available (which involves the level of spend on the item being sacrificed and also the level of salary of the individual) and consumer preferences, take-up rates may vary, particularly in the early stages of the introduction of the measure. We have assumed low, medium and high take-up rates (being the proportion of employees salary packaging a ZLEV also taking up the charging infrastructure exemption) as follows:

| | Rate | First year take-up |
|--------|-------|--------------------|
| Low | 12.5% | 6,406 |
| Medium | 25% | 12,813 |
| High | 50% | 25,625 |

5.4.2 Estimated cost to the government.

Based on the estimated take-up rates described above and a cost of the exemption of \$604 per employee, the projected tax expenditure in the first year of the exemption is estimated to be as follows:



5.5 Macroeconomic, environmental and other impacts

In addition to providing cost of living relief for individuals, this initiative aligns with the government's carbon reduction policy. This initiative will serve as a measure to encourage individuals, who would otherwise be disincentivised due to ancillary upfront costs, to adopt ZLEVs. This measure is expected to encourage those individuals currently on the edge of entering the ZLEV market to enter the market, resulting in further growth of the ZLEV market in Australia.

Beyond the short term, this initiative will provide some significant long-term benefits. These include, but are not limited to:

- Improved public health due to reduction in pollutant emissions from road traffic.
- Environmental benefits stemming from a further shift to ZLEV ownership.
- Accelerate economic growth resulting from increased investment in sustainable technology, encouraging innovation, creating job opportunities ultimately increasing Australia's competitiveness in the global market. The increase in demand for charging infrastructure of ZLEVs as a result of this measure will see the further growth of the ZLEV market in Australia, driving employment and innovation.
- Consumer spending is a key driving force of the economy. The initiative aims to ease the cost of private transport for employees, thereby adding to disposable income for such employees.

APPENDIX F

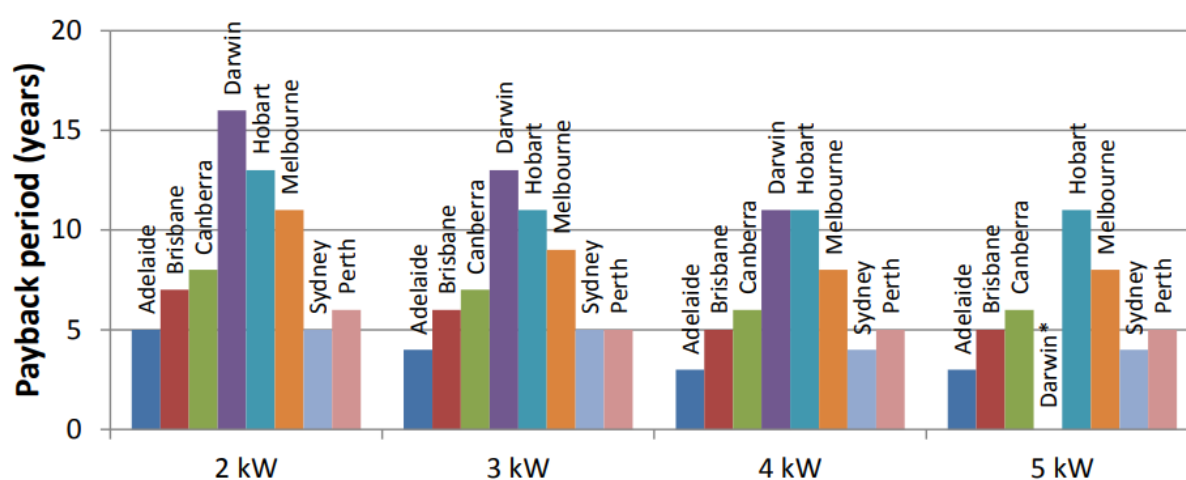
Initiative 6: FBT exemption for solar panels and solar batteries

That the Committee consider introduction of an FBT exemption for the acquisition and installation of solar panels and solar batteries provided by way of expense payment, property, or residual benefit.

Households are continuing to experience rising electricity costs due to the increase in wholesale costs of electricity. Particularly in South Australia, there was a 9.1% increase in quarterly electricity bills from September quarters 2021 and 2022, compared to a 6.4% increase in NSW and 0.6% increase in VIC⁴². To combat rising electricity prices, the government of Australia has introduced an energy price relief plan⁴³, targeted specifically to take action to limit energy prices, provide energy bill relief for households and invest in cleaner, cheaper and more reliable energy for the future.

On average, installation of solar panels costs **\$8,750** in Australia⁴⁴. Despite the rising cost of living pressures, individuals who aspire to contribute to Australia's transition towards sustainable practices through solar panel installation are often deterred by the upfront capital costs associated with such investments and associated payback periods. The payback period (when the cumulative savings are greater than the cumulative costs associated with installation of solar panels) is demonstrated in the figure below.

It can take **over 15 years** for a household in Darwin to reach a payback period for installing a 2kW solar panel system (noting that any changes to CPI affect the payback period).



Source: Solar report, Australian Energy Council⁴⁵

6.1 Cost of living pressures targeted

This initiative is aimed at the longer-term reduction in household energy costs by encouraging the take-up of solar panel and solar batteries that are otherwise considered prohibitively expensive, particularly in an economic climate of rising costs of living.

⁴² <https://www.acc.gov.au/media-release/households-face-higher-electricity-bills-as-wholesale-price-spikes-flow-through>

⁴³ <https://www.pm.gov.au/media/energy-price-relief-plan>

⁴⁴ <https://www.solarquotes.com.au/panels/cost/>

⁴⁵ <https://www.energycouncil.com.au/media/11188/australian-energy-council-solar-report-january-2018.pdf>

6.2 FBT policy implementation and administration

6.2.1 Legislative framework of the FBT policy

NALSPA recommends a specific FBT exemption for solar panels and solar batteries installed in employees' private residences be considered as a policy option by the Committee. The exemption would apply to:

- expense payment benefits (where the employer reimburses the employee for the purchase or lease of solar panel or solar battery);
- property benefits (where the employer provides to the employee ownership of a solar panel or solar battery); and
- residual benefits (where the employer provides to the employee the use of a solar panel or solar battery that the employer owns or leases).

Pleasingly, such an FBT exemption can be introduced as its own provision under Division 13 of the *Fringe Benefits Tax Assessment Act 1986*. Division 13 of the *Fringe Benefits Tax Assessment Act 1986* includes various FBT exemptions available to employers.

6.2.2 Complexities and challenges associated with the initiative

When provided through its own specific provision in the *Fringe Benefits Tax Assessment Act 1986*, rather than through the amendment of existing provisions, the proposed solar panel and solar battery exemption should be relatively straightforward to enact, with little complexity.

6.2.3 Practical implications associated with the initiative

Given the straightforward nature of the proposed solar panel and solar battery exemption, the take-up of the exempt benefit by employees by salary packaging should be easily achieved. Record keeping and compliance monitoring requirements will be relatively simple, with no requirement to monitor or record the ongoing use of the solar panels or batteries.

From an FBT compliance perspective, once such an exemption was introduced, administrative burdens will be minimal due to the nature of the proposed exemption, which effectively will allow the entire cost of a solar panel and solar battery purchase or lease to be exempt from FBT, negating the need to perform detailed taxable value calculations or to monitor the nature of the use of the solar panel or solar battery.

6.3 Estimated financial benefits for employees accessing the benefits

For an employee earning the average annual income of \$98,218⁴⁶ and salary packaging a \$8,750 per annum solar panel lease, the proposed solar panel exemption will provide an annual benefit of **\$3,019** in the form of increased disposable income. This is demonstrated in our calculations below, comparing the average employee salary packaging an FBT exempt solar panel lease to an average employee paying for a solar panel lease from their after-tax income.

⁴⁶ <https://www.abs.gov.au/statistics/labour/employment-and-unemployment/public-sector-employment-and-earnings/latest-release>

| Calculation | Salary only (no packaging) | Salary + solar panel salary packaged |
|---|-----------------------------------|---|
| <i>Average annual income</i> | \$98,218 | \$98,218 |
| <i>Less annual lease costs salary sacrificed</i> | nil | \$8,750 |
| <i>Taxable income</i> | \$98,218 | \$89,468 |
| <i>Less income tax (2023-24 rates)</i> | \$22,388 | \$19,544 |
| <i>Less 2% Medicare</i> | \$1,964 | \$1,789 |
| <i>Income after tax and salary sacrifice amount</i> | \$73,866 | \$68,135 |
| <i>Less solar panel lease expense</i> | \$8,750 | nil |
| Net disposable income | \$65,116 | \$68,135 |
| <i>Reportable fringe benefits amount</i> | nil | nil |

6.4 Take-up rate and cost estimates

6.4.1 Estimates of take-up based on industry experience and input

In Australia, 27.3% of households have some form of solar panel system installed, which equates to a total 2.7 million installations⁴⁷. In 2023, there were 135,701 new solar panel system installations in Australia⁴⁸. As there is no clear growth trend in solar panel system installations, we assume total installations in 2024 will be the same.

Due to the need to generate awareness of any potential legislative change and salary packaging, the number of employers who will allow salary packaging, the level of benefits available (which involves the level of spend on the item being sacrificed and also the level of salary of the individual) and consumer preferences, take-up rates may vary, particularly in the early stages of the introduction of the measure. Based on NALSPA's experience, we have assumed low, medium and high take-up rates as follows:

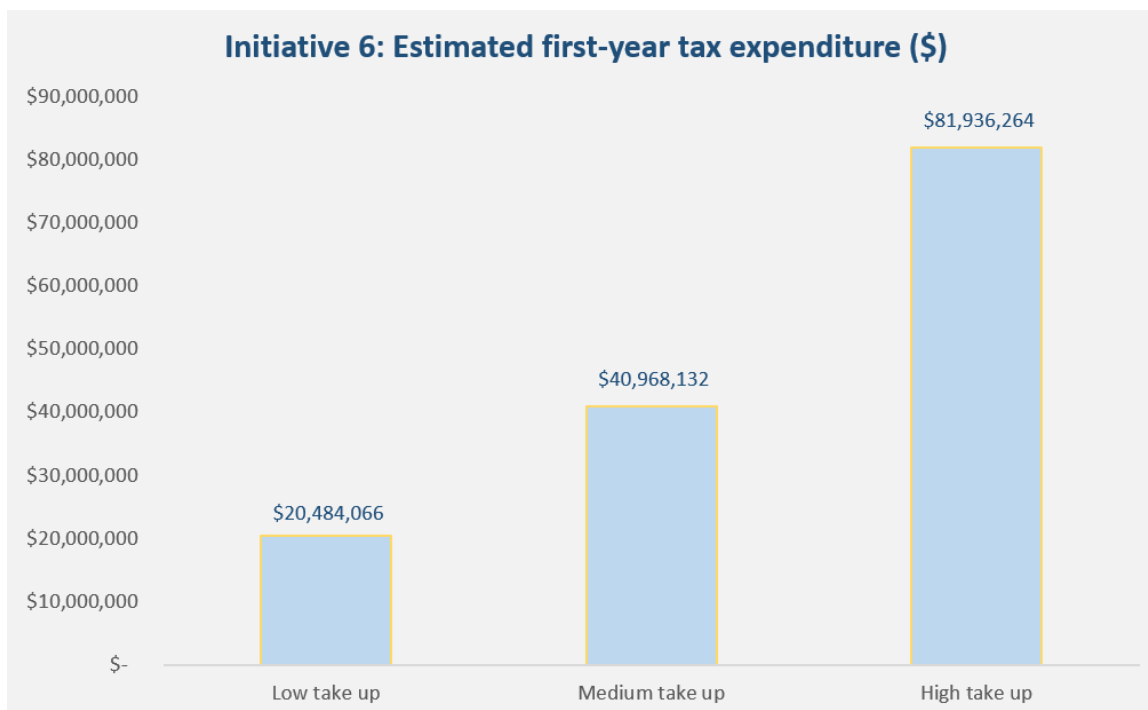
| | Rate | First year take-up |
|--------|-------------|---------------------------|
| Low | 5% | 6,785 |
| Medium | 10% | 13,570 |
| High | 20% | 27,140 |

⁴⁷ <https://www.cleanenergycouncil.org.au/resources/technologies/solar-energy#:~:text=The%20growth%20of%20solar,installations%20in%20the%20industry's%20history.>

⁴⁸ <https://www.solarquotes.com.au/australia/>

6.4.2 Estimated cost to the government

Based on the estimated take-up rates described above and a cost of the exemption of \$3,019 per employee, the projected tax expenditure in the first year of the exemption is estimated to be as follows:



6.5 Macroeconomic, environmental and other impacts

In addition to providing long-term cost of living relief for individuals that purchase solar panels and solar batteries through lower electricity bills, this initiative aligns with the government's carbon reduction policy. By mitigating financial disincentives to the take-up of solar panel and battery installations, this initiative incentivises the use of sustainable energy, which will lead to diminishing carbon footprints and transition towards sustainable practices in the short to medium term.

The reduced demand for power from the grid will also put downward pressure on retail electricity prices, having a broader benefit for consumers of commercially generated power.

Beyond the short-term, this initiative will provide a number of longer-term benefits. These include, but are not limited to:

- Consumer spending is a key driving force of the economy. Solar panels (especially coupled with solar batteries) will reduce electricity bills for households. This initiative will deliver savings in electricity bills for individuals, thereby adding to disposable income for employees.
- Accelerate economic growth resulting from increased investment in sustainable technology, encouraging innovation, creating job opportunities ultimately increasing Australia's competitiveness in the global market. The increase in demand for solar panels and solar batteries as a result of this measure will see the further establishment of the solar market in Australia, driving employment and innovation.
- **There is a high correlation between solar panel buyers and ZLEV ownership. This exemption will further make ZLEV ownership more attractive and affordable.**

APPENDIX G

Other initiatives for future consideration:

Initiative 7: FBT exemption or reduction for electricity bills

Noting the significant rise in household electricity bills, the Australian Government could consider the introduction of an FBT exemption or capped reduction for use of electricity provided by way of expense payment fringe benefits (where the employer reimburses the employee for their electricity bill).

If introduced by way of capped reduction in taxable value, the capped reduction will be similar to the in-house \$1,000 reduction under s 62, where the first \$1,000 (or any other amount deemed appropriate) of an expense payment benefit relating to the employee's electricity bill will be effectively exempt from FBT. This approach has the benefit of limiting the cost of the concession, whilst still providing to employees some relief from the cost of electricity.

This capped reduction for use of electricity provided by way of expense payment fringe benefits (where the employer reimburses the employee for their electricity bill) could also be targeted at employees purchasing electricity under the **Greenpower program**⁴⁹.

The Greenpower program is a government managed program that enables Australian households to tap into clean and renewable energy, also aligning with the government's energy price relief plan⁵⁰, targeted specifically to take action to limit energy prices, provide energy bill relief for households and invest in cleaner, cheaper and more reliable energy for the future. This approach has the benefit of not only limiting the cost of the concession, but also encouraging the uptake of energy from renewable sources by incentivising employees to enter into the Greenpower program.

Initiative 8: Allow salary packaging of food or drink consumed on employer premises that is otherwise exempt under s 41

On average, an Australian employee spends \$18.52 on lunches, snacks and beverages during their workday. Over a 48-week work year, the average spend on food, snacks and beverages accumulates to \$889 each year⁵¹.

Currently, under s 41 of the *Fringe Benefits Tax Assessment Act 1986*, food or drink provided as a property fringe benefit and consumed on the premises of the employer is exempt from FBT. However, under subs (2) of s 41, this provision limits the use of the FBT exemption to not apply to any food or drink provided under a salary packaging arrangement.

The Australian Government could consider removing this limitation to allow employers to offer employees salary packaging of exempt food and drink consumed at work, thereby giving some cost-of-living relief to employees.

Implementation of this initiative would be relatively straightforward, with little to no complexity. It would merely entail a legislative amendment to remove subs (2) of s 41 of the *Fringe Benefits Tax Assessment Act 1986*.

⁴⁹ <https://www.greenpower.gov.au/>

⁵⁰ <https://www.pm.gov.au/media/energy-price-relief-plan>

⁵¹ <https://mccrindle.com.au/article/the-cost-of-work-what-we-pay-to-work/#:~:text=ALMOST%20%24900%20ON%20LUNCHES%20PER,during%20their%20workday%20every%20week>

Initiative 9: FBT exemption or reduction for select household expenditure

An average homeowner has been paying an extra \$474 for their home insurance every year, compared to premiums paid one year ago. Furthermore, households situated in flood-prone areas have faced much higher increases in insurance premiums than other households⁵².

The Australian Government could consider the introduction of an FBT exemption or capped reduction for select household expenditure items, such as insurance provided by way of expense payment fringe benefits (where the employer reimburses the employee for costs incurred associated with their household expenditure items, such as insurance).

If introduced by way of capped reduction in taxable value, the capped reduction will be similar to the in-house \$1,000 reduction under s 62, where the first \$1,000 (or any other amount deemed appropriate) of an expense payment benefit relating to the employee's household expenditure item will be effectively exempt from FBT. This approach has the benefit of limiting the cost of the concession, whilst still providing to employees some relief from their household expenditure items.

⁵² <https://www.smh.com.au/money/insurance/surging-home-insurance-premiums-penalise-loyal-customers-20240201-p5f1rq.html>

APPENDIX H

FBT and salary packaging arrangements explained

Fringe benefits tax

A fringe benefit is a 'payment' to an employee, but in a different form to salary or wages. Under the *Fringe Benefits Tax Assessment Act 1986*, a fringe benefit is a benefit provided in respect of employment, including former or future employees. Examples of benefits provided to employees include shares, company cars, study assistance payments, loans and electronic devices.

FBT is a tax paid by the employer and the liability calculated on the benefit provided is dependent on the type of fringe benefit and grossed-up rate. The grossed-up rate is based on the employer's entitlement to a GST credit for GST paid on benefits provided to an employee. For the 2024 FBT year, the tax rate for FBT is 47%.

Exemptions

Where an employee is a not-for-profit organisation, the entity may be exempt from FBT or be eligible for concessions. For an organisation to be considered a not-for-profit organisation, they must be registered with the ACNC and be endorsed by the ATO. For FBT purposes, the relevant sub-types of not-for-profit organisations are:

- Registered health promotion charity;
- Registered public benevolent institution; and
- Registered religious institution.

Capped exemption threshold

Subject to certain conditions, the following organisations are exempt from FBT to a capping threshold. The capping threshold included in the table below is based on the total grossed-up value of benefits provided to each employee. Where an employee is in receipt of a grossed-up value greater than the capping threshold, the amount exceeding the threshold is subject to FBT and payable by the employer.

| Employer | Capping threshold |
|---|-------------------|
| Registered public benevolent and health promotion charities | \$30,000 |
| Public and not-for-profit hospitals and public ambulance services | \$17,000 |

Reportable Fringe Benefit Amount (RFBA)

Where the value of certain fringe benefits provided to an employee during the FBT year (1 April to 31 March), exceeds \$2,000 in an FBT year, the grossed-up taxable value of those benefits must be reported on the employee's payment summary by the due date for finalisation for the corresponding income year. The value of all fringe benefits other than excluded fringe benefits must be attributed to the relevant employee.

An RFBA is not subject to income tax is not an amount the employee is obtained to pay. However, the RFBA may be relevant in assessing the employee's liability or entitlement to certain items including government benefits.

Salary Sacrifice Agreements

What is salary sacrifice?

Salary sacrifice is a pre-arranged agreement between an employer and employee, where the employee agrees to convert part of their pre-tax salary into non-cash benefits. It is important to note that a sacrificing agreement may impact FBT obligations, employee's assessable income, GST credits, employee contributions and reporting Pay-as-you-go ('PAYG') withholding.

Salary sacrifice agreements ('SSA') reduce an employees' taxable income through redirecting their pre-tax salary to non-cash benefits, to maximise tax savings. Employers must give consideration to the FBT implications arising from the provided benefits and select exempt benefits to minimise the organisation's FBT liabilities. Furthermore, the benefits provided under SSA can influence other employment benefits, potentially impacting the employee's loan qualifications or eligibility for government services due to adjusted reported incomes.

Interaction between FBT and SSA

Implementing SSA and the implications on FBT

The implementation of salary sacrifice agreements requires careful consideration of the potential FBT compliance obligations and effective tax benefits available. Employers must ensure that the arrangement between the employer and employee are properly documented, outlining the specific benefits provided and the value to the employer and employee.

When integrating SSAs, employers should consider the arrangement's effect on payroll systems and reporting requirements. This may require adjustments to the calculation of PAYG withholding and ensuring accurate inclusion of reportable fringe benefit amounts on employee payment summaries. When an SSA is entered, the employer will need to ensure the superannuation guarantee contributions are appropriately calculated and reported to meet legislative requirements while optimising tax benefits for the employee and employee.

By thoroughly understanding and accurately implementing SSAs to be compliant with legislative requirements, employers can provide employees with valuable benefits in a tax-efficient manner. As a result, enhancing employee satisfaction with increased net pay or additional benefits, making SSAs mutually beneficial.

APPENDIX I

Common categories of fringe benefits

Expense payment fringe benefits

An expense payment fringe benefit may arise in either of two ways:

- the employer reimburses an employee for expenses they incur; or
- the employer pays a third party in satisfaction of expenses incurred by an employee.

In either case, the expenses may be business expenses or private expenses, or a combination of the two.

Property fringe benefits

A property fringe benefit arises when an employer provides an employee with free or discounted property.

For FBT purposes, property includes:

- goods (including gas and electricity, unless provided through a reticulation system) and animals;
- real property, such as land and buildings; and
- rights to property, such as shares or bonds.

Residual fringe benefits

The term fringe benefit has a very broad meaning. It includes any right, privilege, service, or facility provided in respect of employment.

Any fringe benefit that is not subject to the rules outlined elsewhere in the *Fringe Benefits Tax Assessment Act 1986* is called a residual fringe benefit. Essentially, these are the fringe benefits that remain, or are left over, because they are not one of the more specific categories of fringe benefit.

A residual fringe benefit could include an employer providing services such as travel or professional or manual work, or the use of property. It could also include providing insurance cover - for example, health insurance cover the employer takes out for employees under a group policy.