

Introduction

Diabetes Australia is the peak body representing 1.7 million Australians living with all types of diabetes.

We welcome the opportunity to provide feedback to the *Re:think* tax white paper to ensure Australia's tax system can meet the needs of future challenges.

Diabetes is the world's fastest growing chronic disease and Australia is no different. Every day, 280 Australians are diagnosed with the condition. Currently, there are approximately 1.7 million Australians living with diabetes¹. This is set to double over the next two decades with 3.5 million people expected to live with the condition by 2033.²

Diabetes has significant personal and financial costs. Nationally, it is the leading cause of preventable blindness, limb amputation and kidney disease. The annual cost to Australia of type 2 diabetes is estimated at \$14.6 billion³. Forecasts indicate this will increase to \$30 billion by 2025. This includes the costs of healthcare, carers and Commonwealth Government subsidies. If we fail to act healthcare spending will skyrocket placing an unsustainable burden on Australia's health system.

Diabetes Australia, together with its state-based member organisations, are the nation's leading diabetes organisations with extensive expertise in diabetes education and care. We are the trusted source of support for millions of Australians seeking help in managing their diabetes. We provide vital education and information services to more than 1.2 million Australians with diabetes. In one year alone, we'll deliver more than 3.4 million support and education interactions for people with diabetes via telephone, online mail and face-to-face education.

We are particularly committed to delivering programs, services and resources to socially disadvantaged communities including Aboriginal and Torres Strait Islander communities in regional and remote communities, culturally and linguistically diverse communities and people from low socio-economic backgrounds.

Australia's tax system, including income tax exemptions, deductible gift recipient status, fringe benefits tax concessions and other elements, are essential to ensuring we can continue to deliver services for people with all types of diabetes. Any changes to the tax system that would decrease the revenue of Diabetes Australia, and its state and territory

¹ Colagiuri, S and Johnson, G. (2014) *Case for Action – Proposal to National Health and Medical Research Centre: A comprehensive type 2 diabetes prevention program*. Submitted by the NHMRC Research Translation Faculty Diabetes Mellitus Steering Group.

² Magliano, D. J., Peeters, A., Vos, T., Sicree, R., Shaw, J., Sindall, C., Haby, M., Begg, S. J. and Zimmet, P. Z. (2009), "Projecting the burden of diabetes in Australia – what is the size of the matter?" *Australian and New Zealand Journal of Public Health*, 33: 540–543.

³ Lee C.M., Colagiuri, S, Magliano DJ, Cameron AJ, Shaw J, Zimmet P, Colagiuri S (2013), "The cost of diabetes in adults in Australia." *Diabetes Research and Clinical Practice*, 99 (3):385-90.

member organisations, would inhibit our capacity to continue to deliver these critical, and sometimes life-saving, services.

Our response has two focuses:

1. ensuring Australia has the best possible tax system to support not-for-profit organisations in delivering benefits to the community
2. using the tax system to incentivise better health outcomes for all Australians. Better health outcomes translate into healthier Australians and considerable savings in Government expenditure.

Diabetes Australia is also contributing to a group submission from the Australian Chronic Disease Prevention Alliance that incorporates Cancer Council Australia, Kidney Health Australia, National Heart Foundation of Australia and the National Stroke Foundation.

A better tax system for not-for-profit organisations

Diabetes Australia believes the *Re:think* tax white paper provides an ideal opportunity to consider how the Australian tax system can support Australia's not-for-profit sector.

Rates of charitable giving, a key source of revenue for Diabetes Australia and its member organisations, have not grown since the GFC. This may be linked to slower economic growth, rising unemployment and heightened financial stress. The Federal Government should be cautious in implementing changes to that tax system that may amplify the financial constraints not-for-profits are currently experiencing. Changes may impact organisations like Diabetes Australia's ability to deliver critical health education services.

The following incorporates Diabetes Australia's response to the following questions:

- **48. To what extent do the tax arrangements for the NFP sector raise particular concerns about competitive advantage compared to the tax arrangements for for-profit organisations?**
- **49. What, if any, administrative arrangements could be simplified that would result in similar outcomes, but with reduced compliance costs?**

Income tax exempt and deductible gift recipient status

Diabetes Australia opposes any changes that would restrict, reduce or remove the income tax exempt status or deductible gift recipient regime of certain not-for-profit organisations. Changes resulting in increased taxation, reduced revenue or extra administration for Diabetes Australia would reduce already scarce financial resources available to provide much needed services to the community.

The reduction or removal of the current Fringe Benefit Exemptions could lead to higher staffing costs as Diabetes Australia, and the state and territory member organisations, attempt to provide salary parity with the public and private sectors. The increased

labour costs could severely curtail the services offered to people with, and at risk of, diabetes.

Despite rates of charitable giving stagnating across Australia, donations, bequests and other fundraising mechanisms remain a key source of income. Changes to deductible gift recipient status may trigger further stagnation, or decline, in rates of charitable giving which would also impact on Diabetes Australia's capacity to deliver essential programs and services.

Cap on Meal and Entertainment Benefits

Diabetes Australia has serious misgivings about any reform that would negatively impact on its staff remuneration packages. Diabetes Australia is concerned about the ramifications of the \$5,000 cap on Meal Entertainment and Venue Hire Benefits announced in the 2015/16 Federal Budget. These changes will reduce the take-home pay of our workforce including people providing critical health and technical services.

The salary sacrificing arrangements are available to all staff but the reduction in take-home pay is likely to be felt most keenly by low and middle income staff. In fact, a 2012 report found the maximum percentage increase (12 per cent) in disposable income from salary packaging benefits people earning between \$30,000 - \$60,000 per year⁴.

While many Diabetes Australia employees choose to forgo the higher salaries they could earn in the private and public sectors to deliver essential services to disadvantaged people, a survey of not-for-profit organisations in 2012 found 95 per cent of employees still rated salary packaging as 'Very important' or 'Quite important' to their future employment in the sector.⁵ Diabetes Australia is concerned we could lose a substantial number of specialised and skilled staff if the proposed changes go ahead.

Diabetes Australia supports a cap on salary sacrificed meals and entertainment, however we believe that \$10,000 per annum may be more appropriate. Further, if the Federal Government is introducing a cap then it would be appropriate to allow a longer, transition (beyond 1 April 2016), which would assist organisations to work on other staff retention strategies. The proposed changes will see a considerable reduction in remuneration for many staff. Further, the current caps are the same as they were when introduced in 2000-01 and have not been indexed for inflation.

Finally, Diabetes Australia believes the cap on Meal Entertainment and Venue Hire may have unintended consequences that is felt throughout the hospitality industry, given staff from not-for-profit organisations will have less disposable income to spend at restaurants, cafés and other venues.

⁴ McMillan Shakespeare (2012) *The Not-for-profit (NFP) Sector Tax Concession Working Group Discussion Paper: Fairer, simpler and more effective tax concessions for the Not-for-profit sector*.

⁵ Ibid.

Other fringe benefits tax concessions

As a Public Benevolent Institution, Diabetes Australia, and its member organisations, are entitled to a fringe benefit tax exemption of up to \$30,000 per employee per fringe benefit year⁶. These exemptions are essential to enabling the organisation to provide competitive wages.

Fringe benefits tax concessions do not place not-for-profit organisations at a competitive advantage. Rather evidence suggests salary rates of not-for-profits are significantly below commercial equivalents. In fact, a 2010 Productivity Commission report found that not-for-profit workers were forgoing between \$10,000 to \$30,000 in wages when compared with positions in the private and public sector.

The current concessions enable Diabetes Australia to offer staff salaries that are, at least in terms of take-home pay, on par, or slightly lower than salaries available to private or public sector employees. Without this, we would struggle to recruit and retain highly skilled staff in a competitive market.

It is clear that the removal of fringe benefit tax concessions would have severe consequences for not-for-profits like Diabetes Australia and the state and territory diabetes organisations.

Summary

Diabetes Australia believes:

- There should be no changes that restrict, reduce or remove the income tax exempt status or deductible gift recipient status.
- Salary sacrificing meals and entertainment is essential to attracting and retaining employees and any cap would place the organisation at a severe competitive disadvantage.

A tax system to promote a healthier Australia

Australia is in the grips of an obesity epidemic and the current tax white paper creates substantial opportunities to address this epidemic through corrective taxation.

Data from the Australian Institute of Health and Welfare shows almost two-thirds (63 per cent) of Australians are overweight or obese. This places them at a higher risk of developing costly and debilitating health conditions like diabetes. In fact, obesity is already estimated to cost the Australian economy around \$58 billion per annum.⁷ As the Australian population grows and ages, these costs will grow to unsustainable levels.

Australian taxpayers are paying a high price for the low cost of junk foods.

⁶ The limit for Fringe Benefit Tax Exemptions was raised to \$31,177 for the FBT years 1 April 2015 to 31 March 2017 as part of the Temporary Budget Repair Levy.

⁷ Access Economics. (2008) *The growing cost obesity in 2008*. Diabetes Australia: Canberra.

There is compelling evidence suggesting growing rates of overweight and obesity are caused by increased energy intake from increased consumption of energy-dense foods.⁸

As previously demonstrated by aggressive corrective excises levied on tobacco products, corrective taxation works. As a 2015 World Health Organisation report concluded:

“Evidence shows that the environments in which people develop their dietary behaviour and make their food choices are a significant influence on what they purchase and, in turn, what they eat. The evidence indicates that food prices influence, to a certain degree, what and how much people buy. Thus price policies that address affordability and purchasing incentives for different foods are seen as a key policy tool.”⁹

Diabetes Australia believes legislation and education are also essential elements to addressing the obesity epidemic and that corrective taxation could generate revenue to fund appropriate programs.

The following incorporates Diabetes Australia’s responses to the following questions:

- **17. To what extent are the concessions and exemptions in the fringe benefits tax system appropriate?**
- **51. To what extent are the tax settings (that is, the rate, base and administration) for the GST appropriate? What changes, if any, could be made to these settings to make a better tax system to deliver taxes that are lower, simpler, fairer?**
- **54. To what extent does Australia have the appropriate mix of taxes on specific goods and services? What changes, if any, could improve this mix?**

GST on fresh fruits and vegetables

Making fresh fruit and vegetables cheaper and increasing the price of foods with no nutritional value are key elements of any corrective taxation regime designed to substantially reduce rates of overweight and obesity in Australia. This could be accomplished by preserving the GST exemption on fresh fruit and vegetables and introducing a new tax on unhealthy foods.

Diabetes Australia does not support extending the GST to fresh fruit and vegetables. The current arrangements exempting fresh fruit and vegetables from the GST is a de facto corrective subsidy delivering cheaper fruit and vegetables and increasing the cost of processed foods which are generally higher in fats and sugars.

⁸ Swinburn B, Sacks G, Ravussin E. (2006) “Increased food energy supply is more than sufficient to explain the US epidemic of obesity. *American Journal of Clinical Nutrition*. 90(6): 1453-1456.

⁹ World Health Organisation (2015). *Using price policies to promote healthier diets*.

According to National Health Survey data, only around nine per cent of Australians currently eat the recommended daily amounts of fruit and vegetables.¹⁰ This is a major contributor to the obesity epidemic.

Research has found applying the GST to fresh fruit and vegetables could cause consumption to decline by about five per cent which would have significant short and long-term effects on the health of individual Australians and trigger a significant burden for Australia's health system.¹¹ Research has found that this would translate to around 90,000 additional cases of heart disease, stroke and cancer which could cost up to \$1.8 billion to treat.¹² These long-term costs to the health system and national productivity would ultimately dwarf any potential revenue gains and administrative benefits.

Further, Diabetes Australia is concerned that applying GST to fresh fruit and vegetables would be regressive and disproportionately impact low income earners who spend a higher proportion of their income on food than medium and high-income households.

If the GST is applied to fresh fruit and vegetables then we would strongly urge the Federal Government to provide funding for an appropriate program to mitigate the negative health effects of this decision.

Corrective taxes on sugar-sweetened beverages and junk food

In terms of new corrective taxes Diabetes Australia believes the Government should investigate a tax on sugar-sweetened beverages (SSBs) and a tax on unhealthy food as determined by nutritional profile.

The revenue raised from these measures could be hypothecated to invest into public health initiatives.

SSBs have no nutritional value. Instead they put people at a higher risk of a range of chronic conditions. Research has found people can reduce their risk of developing diabetes by 25 per cent simply by consuming one less sugar-sweetened beverage a day¹³. Worryingly, the 2007 Australian National Children's Nutrition and Physical Activity Survey found almost half (47 per cent) of children consumed SSBs daily.¹⁴ Rates of consumption of SSBs are increasing with evidence showing average annual consumption has increased from around 47 litres per person in the 1970s to an average of around 113 litres per annum.¹⁵

¹⁰ Australian Bureau of Statistics. (2012) *Australian Health Survey: Updated Results*.

¹¹ Veerman, J Lennert and Cobiac, Linda J. (2013) "Removing the GST exemption for fresh fruits and vegetables could cost lives" *Medical Journal of Australia* 199 (8): 534-535.

¹² Ibid.

¹³ O'Connor, L, Imamura, F, Lentjes M.A.H., Khaw K.T., Wareham, N.J., and Forouhi N.G. (2015). "Prospective associations and population impact of sweet beverage intake and type 2 diabetes, an effects of substitutions with alternative beverages." *Diabetologia*

¹⁴ Clift PM et al., 'Beverage intake and obesity in Australian Children' (2011) 12 *Nutrition and Metabolism*; 87.

¹⁵ Gill T., Rangan A., Webb K. "The weight of evidence suggests that soft drinks are a major issue in childhood and adolescent obesity." (2006) *Medical Journal of Australia*; 184(6): 263-364.

Diabetes Australia believes a tax on SSBs would discourage consumption of unhealthy products, increase consumption of healthy alternatives including water and promote healthier behaviours. Taxing SSBs may also encourage product reformulation as manufacturers seek to mitigate the effects of the tax. While this could potentially offset revenue gains, it would lead to ongoing savings in health spending.

Studies have found certain at-risk groups, including younger and frequent consumers, are most likely to change their behaviours in response to a tax on SSBs.

Diabetes Australia argues that a volumetric tax, which could be calculated on a per gram of sugar basis, would be the most effective method. The tax should be set sufficiently high to discourage consumption. Evidence suggests a tax that increases retail price by around 20 per cent would be most effective.

Taxes on SSBs are currently in force in Mexico and Norway. Most recently, voters in Berkley and San Francisco voted in support of a tax.

Diabetes Australia also believes the Federal Government should also investigate a tax on “unhealthy foods”. We consider these foods to be discretionary foods with little or no nutritional value (i.e. potato chips, biscuits, chocolate products). Evidence has shown taxing foods based on individual nutrients can have unintended consequences. Therefore, Diabetes Australia believes the tax should be based on the widely accepted SAIN-LIM system of nutritional profiling¹⁶. A tax should be levied at a sufficient level to discourage consumption.

Taxes on junk or unhealthy foods have been implemented in Hungary (2011) and France (2012). In Hungary, an evaluation found consumption of taxed products decreased by around 25%.¹⁷

Importantly, there seems to be broad community acceptance for a tax on SSBs and unhealthy foods with 50 per cent of people polled in 2014 approving of a tax on these products.¹⁸ A 2012 national survey conducted by Cancer Council Victoria found 65 per cent of people surveyed supported a tax on SSBs.

Encouraging physical activity through FBT concessions

Finally, Diabetes Australia believes to combat the obesity epidemic more must be done to encourage physical activity. We believe it is possible to reform the salary sacrificing component of Australia’s fringe benefits tax system by making healthier behaviours an exempt and non-reportable benefit for fringe benefit taxation purposes.

Diabetes Australia believes the Federal Government should investigate the possibility of including gym membership fees and other costs associated with access to external fitness facilities or fitness services provided by suitably qualified exercise professionals

¹⁶ The SAIN-LIM system for profiling foods was developed by the National Institute of Education for Health and Prevention in France in 2007. The SAIN indicator summarises the positive aspects of a food while the LIM indicator rates the unhealthy aspects (i.e. saturated fats, salt and/or added sugar).

¹⁷ World Health Organisation (2014) *Global status report on noncommunicable disease 2014*.

¹⁸ Essential Research (2014) *The Essential Report Health Star Ratings*.

(i.e. licensed or registered personal trainers, fitness instructors and other exercise professionals) as options for inclusion as exempt and non-reportable benefit for fringe benefits taxation purposes.

International examples include the Cycle to Work program in the United Kingdom which provides subsidies for the purchase of bicycles to cycle to work. Primarily, an instrument to increase public transport utilisation, the program also encourages physical activity. A British Heart Foundation evaluation (2011) found 61 per cent of participants did not cycle to work before utilising the scheme.

Summary:

Diabetes Australia believes:

- There should be no changes to exemption of fresh fruit and vegetables from the GST
- The Federal Government should investigate a tax on sugar-sweetened beverages and junk food with revenue to be hypothecated for investment in preventive health measures
- Opportunities should be explored to incentivise physical activity through exemption and non-reportable for salary sacrificing gym or sports club membership for fringe benefits tax purposes.