



The Hon Michael Sukkar MP & The Hon David Coleman MP
Assistant Treasurer & Assistant Minister to the Prime Minister for Mental Health and Suicide Prevention
Federal Parliament
Canberra City ACT 2601

CC: The Hon Josh Frydenberg, Treasurer
CC: The Hon Greg Hunt, Health Minister
CC: Paul McCullough, Individuals and Indirect Tax Division, Treasury
CC: Ben Kelly, Law Design and Practice Group, ATO

25 October 2021

Dear Ministers

Subject: Supporting health and wellness through tax reform

The importance of mental health and overall wellbeing has never been more prevalent as more and more Australians recognise the importance and value in seeking help and proactively taking measures to improve how they manage conditions such as anxiety and depression.

As a business of over 8,000 people, which interacts regularly with thousands of Australian organisations on a daily basis, we see first hand the impact that mental health can have on our workforce, our clients and the economy. We have produced this submission, using not only our own expertise as a leading accounting, tax and consulting firm, but also from listening to our people and our clients and the experiences they have faced. This submission includes a number of recommendations we hope will support conversations around how broader public policy settings, such as our tax settings, can evolve to support access to mental health products and services that can improve an individual's ability to get the support and assistance they need.

We recognise the importance that all levels of government in Australia now place on mental health. At the Commonwealth level, this includes the allocation of an additional \$2 billion over the next four years to improving access to mental health prevention and support services as well as a commitment to draw up a new national agreement on mental health and suicide prevention.

The key focus of this submission is the current Income Tax and Fringe Benefits Tax (FBT) settings which can impact both individuals' and employers' ability to access

health and wellness benefits. We believe there is scope for reforming these settings so they can further support and enhance Australia's overall health and economic productivity.

It is estimated that one in five Australians experience a mental health condition at any time and one in three experience workplace stress¹. The costs of mental illness include lost income, extra social security payments and lost taxes. This imposes an enormous cost to Australia's economy, government, and society at \$200-220 billion per year², not to mention the non-financial costs such as the hardship experienced by individuals living with a mental health condition and their loved ones. We understand the Commonwealth Government is projected to incur costs comprising a 22% increase in social security payments and a 45% increase in lost taxes as a result of depression and other mental and behavioural disorders through its impact on productive life-years.

This loss of productivity is extensive, as is the tax revenue forgone as a result of individuals suffering mental illness. Australian governments are clearly committed to proactive and preventative approaches to combat the escalating health and financial impact on Australia and its people, and we want to support these efforts.

¹ Australian Government, Comcare, 2013, *Working Together: Promotion mental health and wellbeing at work*, Canberra, p. 12.

² Australian Government, Productivity Commission, 2020, *Mental Health*, Report no. 95, Canberra, p. 9.



We believe Australia has an opportunity now to have a world leading impact in mental health and wellbeing through a multi-faceted approach to tax reform.

Adopting a world leading approach will also serve Australia well in the global war for talent, and aligns directly with the Government's focus on transforming Australia as an attractive place for enterprises and individuals and thereby support the Australian economy.

The impact of the COVID-19 pandemic, including extensive lockdowns experienced across much of Australia, will have long lasting effects on the health and wellbeing of the Australian people for years to come.

We believe that allowing individuals and employers targeted access to a larger suite of health orientated benefits, without adverse tax and financial consequences, will result in Australians being healthier, more resilient and able to fully participate in the economy. Furthermore, we believe incentivising Australians with such reform will result in greater productivity, reduced overall health costs for the Government and benefit the Australian economy.

In our detailed report we provide our thoughts on why we need tax reform to accommodate wellness benefits, including proposed recommendations for adjusting the Income Tax and FBT regimes to help incentivise, rather than obstruct, the provision of health related services.

We welcome any further opportunities to discuss the matters addressed below with the Treasury. Please don't hesitate to contact either of us or alternatively, Rebecca Cohen on 02 8266 8476 or Alice Kase on 02 8266 5506.

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Yours sincerely

A handwritten signature in blue ink that reads 'C Morris'.

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1 Executive summary

Individuals currently have no support through the tax system in relation to funding the net cost of their health and wellbeing. Although there may be various other Federal or State/Territory based funding and support initiatives that more generally support health and wellbeing, from an individual perspective, other than through approved Medicare rebates, we believe there are opportunities to consider more options for Australians.

In our experience, employers are looking at ways to enhance and improve the overall wellness of their employees (and in a cost-effective manner). This provides employers with direct productivity benefits and employees are increasingly expecting employers to provide them with general health and wellbeing support.

Against that background, we believe that the income tax and/or FBT settings should be reformed to support this changing focus. We consider that since the issue is very timely in the current circumstances, any potential reforms should be considered as part of the forthcoming Mid-Year Economic Fiscal Outlook.

We make eight recommendations across three areas:

Income tax: We believe there is merit in amending the income tax law to allow:

1. A targeted deduction for individuals for designated health and wellbeing costs that are not otherwise reimbursed through Medicare or private health insurance arrangements or employers; or
2. A version of the former net medical expense tax offset to be reinstated, in an updated and more relevant form. This could cover costs paid to a legally qualified medical or health care provider, and for example extend to include alternative and holistic wellbeing plans and treatments.

FBT: From an employer perspective, currently, wellness benefits only qualify for concessional FBT treatment in restricted circumstances, resulting in reduced support and/or limited take-up by employers due to the additional FBT cost.

Reforms under FBT could include:

3. Allowing employers to reduce the value of FBT on any mental health support benefits provided to employees under the “otherwise deductible” rule, if they are conversely deductible to the employee (as per recommendation 1).
4. Raising awareness and resolving uncertainties within existing specific FBT health-related exemptions, for example fitness programs and chiropractic services.
5. A specific FBT exemption for private health insurance to reduce the burden on the current public healthcare system as employees utilise the private healthcare system as well as utilising private health insurance “Extras” packages to seek preventative healthcare in a proactive manner.
6. Alternatively, and having regard to potential fiscal restraints of the above recommendation, consideration should be given to providing a specific FBT exemption for mental health-related benefits provided by employers to employees that would not otherwise be covered by the existing FBT health-related exemptions.
7. Increasing the minor benefit threshold, which is currently capped at \$300, and has remained unchanged since 1 April 2007.

We have recently engaged with the Australian Taxation Office (ATO) on the FBT interpretative issues around the existing FBT concessions and how they operate, and they have committed to provide us with their views in due course. Notwithstanding their pending commentary, we submit that there is opportunity to amend the existing FBT law as noted above which would also assist in allowing greater benefits to be provided to employees which promote health, fitness and wellbeing that would not otherwise fall within the existing FBT health-related concessions.

Digital-enabled healthcare:

8. A Federal Government subsidy could be provided to small businesses to enable them to offer digital-enabled healthcare. This would not only drive up investment in digitisation across the health and wellbeing sector, but also support new channels of delivery so mental health services can scale up more effectively than traditional support models.

2 Background – Why is wellness important?

- Mental health is an important societal issue that impacts individuals, organisations and the broader community, impacting almost half of Australian adults directly and costing our economy billions. By prioritising individuals' wellbeing, there are a number of significant benefits to business, society and the economy, including boosting economic participation and productivity.
- All organisations should consider the importance of wellbeing, helping their people feel empowered and supported by moving away from wellbeing as just a "corporate initiative" or a "nice to have" benefit, to providing genuine, practical, appropriate measures and support for employees to build everyday wellbeing as a norm across different dimensions of their life in order to drive performance, fulfillment and engagement.

3 The business case is strong for organisations to invest in employee wellbeing

- According to the Black Dog Institute, "mental illness is now the leading cause of sickness absence and long-term work incapacity in Australia³". Furthermore, research shows that when individuals are both physically and mentally healthy, they are more productive, experience a greater quality of life and manage stress more effectively. There are many possible factors that contribute to wellbeing - from exercise and sleep, to taking frequent breaks and finding ways to recharge and find balance⁴.

³ Black Dog Institute, 2017, *Workplace Mental Health and Wellbeing Programs*, brochure, Sydney, p. 3.

⁴ Black Dog Institute, 2021, *Workplace Wellbeing*. Available at: <https://www.blackdoginstitute.org.au/resources-support/wellbeing/workplace-wellbeing/> (Accessed: 8 October 2021).

- In 2020, the Organisation for Economic Co-Operation and Development (OECD) released the 'How's Life? 2020' report, charting the mental health and wellbeing of people in 37 OECD countries and 4 partner countries⁵. Wellbeing is at the forefront of mind internationally, incorporating a broader notion of wellbeing into their policy processes. Additionally, from an international perspective, countries such as Finland, Sweden and Norway require employers to offer additional health and wellbeing benefits, as a form of prevention for work-related illnesses and accidents, and to promote a safe work environment.
- Organisations that facilitate a focus on the wellbeing of their employees experience significant benefits as noted below, as do government and broader society. This is contrasted to the Department of Health physical wellbeing guidelines which indicate that one in every two Australian adults do not participate in sufficient physical activity⁶. We recognise that workplaces have a role to play and that it is not just a matter for governments.
- In addition, a significant business risk for many organisations is the ability to attract and retain employees, with some employees citing an organisation's focus on wellbeing as being a key reason for joining or leaving⁷. Being able to provide additional wellbeing activities and/or allowances for employees is fundamentally a cost of doing good business and increasingly viewed as more than a benefit or perk for individuals.
- Organisations are investing more in mental health activities by providing meaningful wellbeing activities and support for employees - partly because of more extensive improved corporate governance practices but also because society and staff expect progress in this area. Under the Work Health and Safety legislation in each state and territory, each Australian employer has obligations to maintain a safe and healthy workplace, ensuring the necessary controls are in place to manage physical and psychological workplace risks.

⁵ Organisation for Economic Co-Operation and Development, 2020, *How's Life? 2020*, OECD Publishing, Paris.

⁶ Australian Institute of Health and Welfare, 2020, *Insufficient physical activity*, Canberra. Available at: <https://www.aihw.gov.au/reports/risk-factors/insufficient-physical-activity/contents/insufficient-physical-activity> (Accessed: 11 October 2021).

⁷ Instinct and Reason, 2014, *Heads up Initiative: Employer of Choice Study*, Melbourne, p. 3.

- One way of maintaining employee health is to encourage employees to practice wellbeing and undertake positive health promotion practices which benefits overall employee health.
- When employers promote a culture of safety and proactively promote health and wellbeing programs, it is acknowledged that this can influence:
 - A reduction in workers compensation claims⁸ - per year, Safe Work Australia reports that 6% of workers compensation claims are due to work-related mental health, equating to approximately \$543 million paid to 7,200 Australians.
 - Increased productivity - when employees feel physically, mentally, and socially well, productivity is enhanced⁹. For example, research by Medibank has found that the healthiest employees, taking into account factors such as physical activity, nutrition, weight, stress, behaviours such as smoking or drinking etc, can be three times more productive at work, compared to unhealthy employees¹⁰. More broadly, it has been found that a decline in mental health can increase the likelihood of workforce participation by 30%¹¹.
- Workplace wellbeing programs enable employees to adopt and maintain healthy behaviours that are good for individuals, communities, businesses and the broader economy. Not only is employment linked to mental (and physical) health, it is considered a “key factor” for wellbeing¹², with research indicating unemployment can be detrimental to wellbeing¹³. Moreover, in Australia, people who experience financial hardship are also more likely to have mental ill health compared to those who don’t, with other direct or indirect costs in the form of “decreased quality of life, relationship breakdowns, social isolation and stigma¹⁴”. As at February 2021, it was estimated that 7% of Australians aged 15 and over were unemployed due to ill health or disability¹⁵.
- For employers, a positive and healthy employee is more likely to provide a number of benefits for the workplace, including, but not exclusive to:
 - Productive and engaged employees - employees who don’t look after their mental and physical health can feel less productive due to stress, depression, injury or illness.
 - Increased employee morale - employers that don’t invest in their employees’ wellbeing can lead to an employee feeling less valued which can lead to low morale.
 - Retention - an employee is more likely to leave a workplace due to the poor mental health environment and in the current climate, where there is a global war for talent and attrition expected to grow, retaining a healthy workforce is a business imperative.
 - Reduced absenteeism - unhealthy employees are more likely to take time away from the workplace.

4 Benefits to employers for providing wellbeing programs and initiatives

- Organisations have an important role to play in providing workplace environments that are mentally healthy. It is critical to recognise a business’ duty under work health and safety laws is to provide wellbeing benefits to employees that help eliminate or minimise risks to employees’ mental and physical health.

⁸ ACT Work Safety Commissioner, 2009, *A Guide to Promoting Health and Wellbeing in the Workplace*, Canberra, p. 12.

⁹ The Wellbeing Law & Australian HR Institute, 2020, *The wellbeing lab 2020 workplace report*, n.p., p. 6.

¹⁰ Medibank, 2005, *The health of Australia’s workforce*, n.p., p. 6.

¹¹ Frijters P, Johnston D & Shields M, 2014, ‘The effect of mental health on employment: Evidence from Australian panel data’, *Health Economics*, vol. 23(9), September 2014.

¹² Australian Institute of Health and Welfare, 2021, *Australia’s welfare 2021 data insights*, AIHW, Canberra, p. 88.

¹³ Botha F et al., 2021, ‘COVID-19 labour market shocks and their inequality implications for financial wellbeing’, *J Popul Econ*, vol. 34, April 2021.

¹⁴ Shared Value Project & PwC, 2019, *Creating shared value: the business imperative to improve mental health in Australia*, n.p., p. 4.

¹⁵ ABS 2021f, *Potential workers, February 2021*. Available at: <https://www.abs.gov.au/statistics/labour/employment-and-unemployment/potential-workers/feb-2021#data-download> (Accessed: 8 October 2021).

- o Positive customer service and an ability to generate greater ideas and innovative / creative solutions¹⁶.
- In short, a culture that prioritises individual wellbeing provides an environment for employees to centre their health and healthy practices as part of their day to day work and build a more positive and meaningful life, extending beyond benefits such as higher job satisfaction or retention rates¹⁷ to remain engaged in employment, enabling them to support themselves, as well as their families and communities, and in turn, contributing to the broader economy.
- Workplaces can also play a role in prevention of chronic diseases through health and wellbeing programs that promote a healthy diet and physical activity. Both diet and physical activity have been found to support prevention of diseases such as 'heart disease, stroke, cancer, chronic respiratory diseases and diabetes'¹⁸. Workplace initiatives that encourage employees to stand more, sit less and promote exercise, such as a step count challenge, can also support overall worker wellbeing¹⁹. A sedentary lifestyle is considered to be a major contributor to adverse health outcomes such as type 2 diabetes, obesity and cardiovascular disease, colon cancer, high blood pressure, osteoporosis, depression and stroke²⁰.

¹⁶ Australian Government, Comcare, 2019, *Emerging Evidence Alert May 2019*, Canberra, p. 2-15.

¹⁷ Shared Value Project & PwC, op. cit., p. 4.

¹⁸ World Health Organisation, 2008, *Preventing Noncommunicable Diseases in the Workplace through Diet and Physical Activity: WHO/World Economic Forum report of a joint event*, WHO Press, Geneva, p. 4.

¹⁹ The State of Queensland (Queensland Treasury, office of Industrial Relations), 2017, *The case for sitting less and moving more*, n.p., p. 1.

²⁰ Australia Government, Comcare, 2019, *Effective Health and Wellbeing Programs*, Canberra, p. 12.

5 Benefits to society for providing wellbeing programs and initiatives

- It is estimated that one in five Australians experience a mental health condition at any time and one in three experience workplace stress²¹. While this imposes an enormous hardship on the individual impacted, it also significantly impacts Australia's economy, Government, and society. This also presents significant challenges for those impacted by economic and social conditions that impact on their overall health and wellbeing in Australian society. An enduring challenge for health programs and initiatives in Australia is understanding the social determinants of health, and how this impacts the average Australians interaction with society and the healthcare system.
- Furthermore, considering the impact of cumulative environmental factors (such as the bushfires in 2019-2020, the ongoing COVID-19 pandemic since 2019 and the floods) on the mental health and wellbeing of the Australian community (which, also includes financial health), there is a role for employers to play from a broader social responsibility perspective, as well as a moral imperative, to directly contribute to the wellbeing of their employees.
- Work provides an important avenue of connection, meaning and purpose for most people. The Royal Australian College of Physicians and General Practitioners broadly regards this as the 'Health Benefits of Work' - that good work is good for health²². This places employers in an extremely influential position to influence the overall health and wellbeing of their employee cohorts, and in turn put strategies in place to mitigate the interaction between employees and the broader healthcare system.

²¹ Australian Government, Comcare, op. cit., p. 12.

²² The Royal Australasian College of Physicians, 2011, *Australian and New Zealand Consensus Statement on the Health Benefits of Work*, The Royal Australasian College of Physicians, Sydney, p. 7.

- This is also increasingly important within workplaces where the average adult now spends a significant portion of their time at work, with a third of the global workforce estimated to work over 48 hours per week²³.
- “Mental health conditions present substantial costs to organisations. However, through the successful implementation of an effective action to create mentally healthy workplaces, organisations, on average, can expect a positive return on investment of 2.3” for every dollar they spend²⁴.
- If employers invest in a structured, effective and successful program for their employees this can provide immeasurable benefits to the health and wellbeing of employees and assist in the reduction of overall healthcare expenses and impacts in society.
- Improving the health system and wellbeing of all Australians requires transformation in both thought and in practice. This necessitates all of us in society, across Governments, employers, workers, unions, advocacy groups and healthcare professionals, to have a role in promoting and facilitating individual health and wellbeing.

6 Reforming the Income Tax Regime

Current position

- Currently in Australia, an individual generally is not able to claim an income tax deduction in accordance with any provision in the *Income Tax Assessment Act 1936/1997* (ITAA) for costs associated with maintaining their health and wellbeing, preventative health care or costs to treat an existing medical condition. Limited deductions may only be available to those who work in the health industry and only those that have a work-related purpose. A general deduction is typically denied on the basis that such costs are considered to be private in nature and have no direct connection to the gaining or producing of assessable income²⁵,

²³ International Labour Organization, 2018, ‘Working time and the future of work’, *ILO Future of Work Research Paper Series*, PRODOC, ILO, Geneva, p. 3.

²⁴ National Mental Health Commission, Beyond Blue & PwC, 2014, *Creating a mentally healthy workplace: Return on investment analysis*, n.p., p. 17.

²⁵ Not allowed as a general deduction under section 8-1 of the ITAA1997).

regardless of whether such expenditure can actually preserve or enhance the income earning capacity of the individual. Judicial authorities have typically treated such costs as a prerequisite to earning assessable income, relating to a personal medical condition and as private in nature.

- This is the case even though a taxpayer, as a matter of practicality, may need to incur the expenditure to earn assessable income (for example, costs to travel to attend medical or health appointments mandatorily required for employment through to costs to seek professional help to sustain or improve mental health arising from work-related stress).
- Furthermore, there is no existing tax offset that can apply to such costs, even if provided by a qualified medical or health practitioner. The previous net medical expenses tax offset ceased to apply from 1 July 2019 and prior to that was limited to expenses relating to disability aids, attendant care or aged care.
- COVID-19 has brought to the forefront the importance of individual health and wellbeing. The work environment has also changed, bringing with it new challenges for employees to sustain and maintain their resilience and stamina to continue to work productively. As detailed above, the cost to the economy is significant. This impact is not limited to the current year but is likely to continue into future income years.

Proposed reform

Specific deduction

- We recommend that the income tax law should allow a specific deduction for designated health and wellbeing costs that are not otherwise reimbursed through Medicare or private health insurance arrangements or employers. We acknowledge that there may be fiscal constraints in the short-term around such a proposal but this should also be considered against the prospect of the benefits of improving workforce participation and productivity savings.
- The deduction could be limited to costs in relation to services provided by a qualified health professional or programs that a qualified health professional has certified as necessary for treatment. For example, this could cover costs of biometric screenings, annual health assessments, mental health plans and digital mental health tools.

- Furthermore, the extent of the deduction could also be capped including limitations to prevent creation of tax losses. Such reform would be similar in its application to the current specific deduction²⁶ for self-education costs which do not otherwise meet the requirements to be a general deduction.

Net Medical Expense Offset

- As an alternative, the former net medical expense tax offset²⁷ could be reinstated and extended to include not only costs of a legally qualified medical or health care provider, but also alternative and holistic wellbeing plans and treatments. This could broadly apply to those net costs (i.e. after allowing for Medicare and private health insurance claims and any reimbursement provided by an employer) associated with health care including costs paid to a legally qualified medical practitioner, nurse, chemist, allied health care provider, naturopath, or a public or private hospital, in the course of the treatment or prevention of disease, mental and physical ill-health.

7 Reforming the FBT Regime

Current position

- The FBT regime, as prescribed by the *Fringe Benefits Tax Assessment Act 1986* (FBTAA), is deliberately punitive. Employers effectively have to pay double the cost on any taxable benefits provided to employees, due to the associated FBT. This is a major inhibitor of providing non-cash benefits to employees, and as a result, the majority of employers limit the package of employee benefits to those that qualify for an exemption or concessional treatment.
- Based on the current FBT landscape, there are broadly four options available to employers to provide wellness related benefits to employees, without attracting punitive FBT - the minor benefits exemption, the otherwise deductible rule, the emergency assistance exemption and the work-related healthcare exemption - which are discussed in more detail below.

²⁶ Section 82A of the *ITAA 1936*

²⁷ Section 159 of the *ITAA 1936*

Minor benefits exemption

- Section 58P of the FBTAA allows employers to apply an exemption to benefits that are under \$300, and provided infrequently and irregularly.
- The monetary cap to this exemption is a key limiting factor, given most wellness related courses and meaningful wellness programs would easily exceed a per head cost of \$300. Periodic costs - such as the provision of health insurance or gym memberships - would also not qualify for the exemption due to the legislative requirement of the exemption that the benefit be provided infrequently.
- As such, to access this exemption, employers are limited in providing one-off, token benefits under \$300, which may have limited impact on employees' wellbeing.

Otherwise deductible rule

- As outlined in section 24, 44 and 52 of the FBTAA, employers can reduce the taxable value of certain benefits by the amount that would have been an allowable deduction to the employee - the "otherwise deductible" rule.
- As outlined in the Income Tax section above, there are limited wellness-related deductions currently available. This means there is a limit to the extent that the otherwise deductible rule can apply to wellness and health benefits which potentially would only be available to those who work in the health industry, and only those that have a work-related purpose.

Emergency assistance exemption

- Emergency assistance provided in respect of employment in the form of either an expense, property or residual benefit that is in relation to health care (broadly, an examination, test or form of care - whether therapeutic, preventative or rehabilitative - that is related to the physiological or psychological health of a person) are exempt under section 58N of the FBTAA, but only where the health care is provided in respect of the employment, on premises of the employer (or related company) or at or adjacent to a place where employment duties are performed.

Work-related healthcare exemption

- Several categories of work-related health and counselling benefits (consisting of either an expense, property or residual benefit) are exempt under section 58M of the FBTA. These include:
 - *Work-related medical examinations* - an examination carried out by an audiometrist or a legally qualified medical practitioner, nurse, dentist or optometrist wholly or principally in order to ascertain the physiological or psychological condition of an employee in order to commence new employment, to transfer to a different job with the same employer, or to gain entry to a superannuation fund.
 - *Work-related medical screening or preventative health care* - provision of care provided by a legally qualified medical practitioner, nurse, dentist or optometrist wholly or principally in order to ascertain or prevent the employee suffering from “work-related trauma”.
 - *Work-related counselling* - individual or group counselling provided to improve or maintain the quality of the employees’ performance of work duties, or prepare employees for retirement, relating to matters such as safe work practices, health, fitness, stress management, personal relationships, first aid, drug or alcohol abuse, rehabilitation or prevention of work-related trauma, disease or injury, or retirement problems.

Proposed reform

- The four current concessional FBT options have limited application due to either a monetary ceiling, reliance on work-related deductibility, emergency support to provide immediate relief, or a narrow work-related exemption focus.

Our key recommendations, which would allow employers to provide a broader range of wellness benefits, are as follows:

- *Allowing mental health support benefits to be deductible:* Providing individuals with a wellness related income tax deduction, as detailed in the Income Tax section above, has a direct link to FBT. Employers will be able to reduce the value of FBT on any wellness benefits provided to employees under the “otherwise deductible” rule, if they are conversely deductible to the employee.

- *Raising awareness of the section 58N and 58M exemptions:* As a first step, we have engaged with the ATO recently to address some of the uncertainties around the extent to which these exemptions can apply to many wellness related activities - such as mental health support, fitness programs and chiropractic services - and to help raise the awareness to employers of the scope of these exemptions.
- *Specific FBT exemption for private health insurance:* Private health insurance premiums are currently not treated concessional for FBT purposes. As such, the cost of providing premiums to employees is effectively doubled, which is a big deterrent for employers. The creation of a specific exemption category for Private Health Insurance premiums would complement the current Medicare Levy Surcharge and further reduce the burden on the current public healthcare system as employees utilise the private healthcare system and private health insurance “Extras” packages to seek preventative healthcare in a proactive manner. This could be achieved by an exemption for the provision of private health insurance expense payment and residual fringe benefits. In doing so, employees would also have the ability to salary sacrifice their private health insurance premium, effectively incurring the costs tax-free. This would mean the exemption would not just be limited to employers willing to pay for the premiums, but would also be available to any employee.
- *Specific FBT exemption for mental health support:* Alternatively, and having regard to potential fiscal restraints of the above recommendation, consideration should be given to providing a specific FBT exemption for mental health-related benefits provided by employers to employees. This would apply to the extent to which mental health support benefits provided by employers would not qualify for the existing section 58N and 58M exemptions (and pending the ATO’s clarification and consideration of the breadth of those existing concessions).
- *Increase the minor benefit threshold:* The \$300 minor benefit cap has remained unchanged since 1 April 2007. It has not been updated to reflect inflation and could also support the increased societal acceptance around the importance of mental health. While this might go some way to assist with the after-tax cost for employer provided health and wellbeing benefits, an increase to this threshold would apply to all other types of taxable fringe benefits, i.e. it will not provide targeted reform for wellness benefits. As such, while we generally would support an increase to the minor benefit FBT threshold in the

interests of reducing the employer compliance burden, when it comes to reforms supporting employee health and wellbeing, the preferred approach would be for the previously mentioned reform initiatives.

8 Funding Digital Enabled Healthcare

Current position

- According to the Australian Bureau of Statistics, one in five Australians reported a mental or behavioural condition in 2017-18. Due to the current COVID-19 pandemic, it is expected that one in two Australians will experience a mental health challenge. Although the Government is investing heavily into mental health services and programs to help support individuals, we know that the current healthcare system is overloaded, with waiting lists for services such as psychiatrists/psychologists up to 4-6 months.
- Many employers offer Employee Assistance Programs (**EAP**) in support of employees' physical, social and psychological wellbeing. This often includes services such as counselling, psychology, 24/7 emergency phone support, wellbeing coaching, financial coaching, introductory legal advice and nutrition/diet coaching. EAP services, however, are not able to be provided by many employers, such as small businesses, due to barriers with cost. In addition, the contractor and casual workforce often have limited access to these types of services. Women and young people make up a large proportion of this casual and insecure workforce, and were the most impacted by the COVID-19 pandemic, so it would help to address this inequity into the future.

Proposed reform

- Digital tools and therapeutics are demonstrating growing evidence in supporting people experiencing mental ill-health, and few employers offer access to these services. We propose a Federal Government subsidy be provided to small businesses to enable them to offer virtual-enabled healthcare. As stated above, many EAP services offer proactive health solutions such as coaching to prevent health-related issues. Ensuring small businesses are able to offer these services will take the burden off the public healthcare system in the long-term as employees are able to better manage their own physical and mental health and wellbeing.

9 Recommendations Summarised

No	Recommendation
Income tax	
1	We recommend that the income tax law should allow a specific deduction for designated health and wellbeing costs that are not otherwise reimbursed through Medicare or private health insurance arrangements or employers. We acknowledge that there may be fiscal constraints in the short-term around such a proposal, but this should also be considered against the prospect of the benefits of improving workforce participation and productivity savings. The deduction could be limited to costs in relation to services provided by a qualified health professional or programs that a qualified health professional has certified as necessary for treatment. For example, this could cover costs of biometric screening, annual health assessment, mental health plans and digital mental health tools. Furthermore, the extent of the deduction could also be capped including limitations to prevent creation of tax losses.
2	<i>Net Medical Expense Offset</i> As an alternative, the former net medical expense tax offset could be reinstated and extended. This could broadly apply to those net costs (i.e. after allowing for Medicare and private health insurance claims and any reimbursement provided by an employer) associated with health care including costs paid to a legally qualified medical practitioner, nurse, chemist, allied health care provider, naturopath, or a public or private hospital, in the course of the treatment or prevention of disease, mental and physical ill-health.

FBT	
3	<i>Allowing mental health support benefits to be deductible:</i> Providing individuals with a wellness related income tax deduction, as detailed in the Income Tax section above, has a direct link to FBT. Employers will be able to reduce the value of FBT on any wellness benefits provided to employees under the “otherwise deductible” rule, if they are conversely deductible to the employee.
4	<i>Raising awareness of the section 58N and 58M exemptions:</i> As a first step, we have engaged with the ATO recently to address some of the uncertainties around the extent to which these exemptions can apply to many wellness related activities - such as fitness programs and chiropractic services - and to help raise the awareness to employers of the scope of these exemptions.
5	<i>Specific FBT exemption for private health insurance:</i> Private health insurance premiums are currently not treated concessionally for FBT purposes. The creation of a specific exemption category for Private Health Insurance premiums would take the burden off the current public healthcare system as employees utilise the private healthcare system and private health insurance “Extras” packages to seek preventative healthcare in a proactive manner.
6	<i>Specific FBT exemption for mental health support:</i> Alternatively, consideration should be given to providing a specific FBT exemption for mental health related benefits provided by employers to employees. This would be subject to the extent to which such benefits would not otherwise qualify under the existing section 58N and 58M exemptions.

7	<i>Increase the minor benefit threshold:</i> The \$300 minor benefit cap has remained unchanged since 1 April 2007. It has not been updated to reflect inflation and the increased societal acceptance around the importance of mental health. While this might go some way to assist with the after-tax cost for employer provided health and wellbeing benefits, an increase to this threshold would apply to all other types of taxable fringe benefits, i.e. it will not provide targeted reform for wellness benefits. As such, while we generally would support an increase to the minor benefit FBT threshold in the interests of reducing the employer compliance burden, when it comes to reforms supporting employee health and wellbeing, the preferred approach would be for the previously mentioned reform initiatives.
Digital tools	
8	Digital tools and therapeutics are demonstrating growing evidence in supporting people experiencing mental ill-health, and few employers offer access to these services. A Federal Government subsidy should be provided to small businesses to enable them to offer virtual-enabled healthcare. Ensuring small businesses are able to offer these services will take the burden off the public healthcare system in the long-term as employees are able to better manage their own physical and mental health and wellbeing.

10 Glossary

Acronym	Meaning
ATO	Australian Taxation Office
EAP	Employee Assistance Programs
FBT	Fringe Benefits Tax
FBTAA	Fringe Benefits Tax Assessment Act 1986
ITAA	Income Tax Assessment Act 1936/1997
OECD	Organisation for Economic Co-Operation and Development
PwC	PricewaterhouseCoopers