

**Joint Standing Committee on Foreign Affairs, Defence and Trade**

**Review of the Defence Annual Report 2006-2007**

**Government response to recommendation 3**

**Recommendation 3:** The committee recommends that the Government exempts the Remote Locality Leave Travel entitlement from fringe benefits reporting.

The Government does not agree with this proposal.

The fringe benefits tax (FBT) system plays an important role in maintaining the fairness and integrity of Australia's taxation system. It places employees with access to fringe benefits on a more even footing with employees whose remuneration consists entirely of salary or wages.

The introduction of FBT was designed to remove a serious gap in the income tax law and ensure that all forms of remuneration paid to employees bear a fair measure of tax. The FBT system also facilitates the inclusion of fringe benefits in an employee's income for the purposes of means testing benefits such as family tax benefit. This ensures that families with remuneration consisting entirely of salary are treated equally, when compared to those in receipt of fringe benefits.

FBT applies to virtually all employers, including Government, and is designed to be as inclusive as possible in the coverage of benefits received by employees in respect of employment are taxed, whether received in cash or otherwise.

Providing a FBT reporting exemption for the remote locality leave travel entitlement to members of the ADF would be inequitable to other employees working in remote locations who receive similar benefits (for example, employees working in the mining industry) and have them recorded on their payment summary. This exclusion would also have a broad range of implication across the transfer system.

Many of the existing FBT exemptions are work-related, that is, there is a general underlying principle that concessions or exemptions are provided on the basis that if these expenses were borne by the employee, it would be deductible to them. The Remote Locality Leave Travel Entitlement would not be deductible under the income tax law as there would not be the relevant nexus between the expense incurred and their employment. The expense, had the employee borne it themselves, would be considered private in nature.

The Australia's Future Tax System Review, established by the Rudd Government in 2008 to review our tax and transfer system, delivered its final report to the Government at the end of 2009. Within the scope of the review was the taxation treatment of fringe benefits. The Government is currently considering the review's recommendations and will release the report, and its initial response in early 2010.