

VHA submission to the *Re:think* tax discussion paper

9 June 2015

1. Introduction

This submission outlines the Victorian Healthcare Association's (VHA) response to the *Re:think* Tax discussion paper and our initial contribution to the Commonwealth Government's Tax Reform White Paper process. The VHA looks forward to continued consultation throughout the development of the Tax Reform White Paper.

The Victorian Healthcare Association

The Victorian Healthcare Association (VHA) is the peak body representing the public healthcare sector in Victoria. Our members include public hospitals, rural and regional health services, community health services, aged care facilities and Medicare Locals. Established in 1938, the VHA promotes the improvement of health outcomes for all Victorians, from the perspective of its members.

The VHA welcomes the opportunity to provide input to the consultation, and notes that while the information contained in this submission is based on member feedback, the VHA's submission does not supersede any made by its member agencies.

2. VHA response

Re:think discusses tax concessions provided to the Not-For-Profit (NFP) sector both in terms of competitive advantages and as a means of identifying areas to reduce compliance costs. The NFP sector, in particular public hospitals and community health services (CHS), provides a range of direct and indirect benefits to the Australian community, not least the improvements to health and wellbeing. Public hospitals and CHS operate under considerable financial constraints; they are reliant on external funding and must comply with a significant amount of regulation and legislation, meet quality and safety standards and work with a range of industrial agreements in order to provide care to their communities. In doing so, they are offered a range of tax concessions and exemptions that not only support them to operate in a challenging financial environment, but also provide their medical, allied health, ancillary and management staff, who could otherwise earn a higher wage in the private sector, additional benefits that help to promote the public sector as an employer of choice.

The VHA is concerned that *Re:think* is premised upon a contention that the public hospital sector in particular enjoys an unfair competitive advantage as a result of Fringe Benefit Tax (FBT) concessions. Rather, the public hospital sector *relies* on FBT concessions to recruit and retain skilled staff who might otherwise seek higher wages offered by the private for-profit sector.

Of foremost concern to the VHA is that withdrawing existing tax concessions may impede the capacity of Victorian public health services to deliver quality and timely healthcare. It is therefore crucial that

any proposed changes to the existing tax arrangements for the public hospital and CHS sector are carefully considered against this principle and modelled prior to implementation.

Recommendation: any changes to the tax concessions must not be counterproductive in addressing the workforce shortages and recruitment challenges faced by public health services.

2.1. Context

Healthcare providers are facing enormous challenges. The demand for health services in Australia is increasing and changing rapidly. So too are the costs associated with providing these services. Significant financial stress has been placed on Australia's public health system by the ageing and growing population, the increasing burden of chronic disease, rising costs, and increasing demand for new technology. This demand equation results in significant competition for skilled healthcare professionals across the public and private sectors, particularly in rural and regional areas.

There is already evidence of shortages in Victoria in various specialty medical areas, including: dentistry; nursing; and other key allied health professions. Furthermore, there are significant workforce shortages in outer metropolitan, rural and regional areas and in services such as disability, mental health and aged care.

The expenditure and funding arrangements of health services influence how healthcare is provided and whether the system is capable of adapting to changing community needs. Australia is one of many countries that have strategies in place to attract people to the paid care workforce to help offset lower wages in the sector. A significant narrowing of scope of tax concessions would adversely impact on the recruitment and retention of health and medical staff, and in turn on service delivery.

2.2. Fringe benefits tax

Health professionals working in the public sector have access to exemptions from FBT. For employees of public hospitals and state-funded ambulance services this is capped at \$17,000 grossed-up value, and for employees of CHS this is capped at \$30,000 grossed-up value. Salary packaging is a strategy employed by the NFP sector to increase the net value of take-home wages by providing access to pre-tax earnings for a range of benefits.

The Victorian public healthcare sector currently employs more than 80,000 full-time equivalent staff. This workforce includes doctors, nurses, allied health professionals, executives, cleaners, gardeners, engineers and technicians. The terms and conditions (including wage rate) of employees are determined by enterprise bargaining agreements. Access to other benefits, for example those listed under the FBT exemption legislation, enable the public healthcare sector to compete for the human resources essential to a sustainable public healthcare system.

The VHA is of the view that the impact of a removal, or any diminution, of the FBT concession has the potential to reduce the public sector's competitiveness to attract and retain the skilled staff required to deliver healthcare and will ultimately reduce the standard of service provision. Restrictions to current tax concessions will amplify the difficulty associated with operating in a competitive employment market and arguably result in increased pressure on the public sector to increase wages.

The viability of many rural communities strongly correlates to the level of healthcare available within that community. However, major workforce shortages remain an unfortunate feature in many rural locations. Any further restrictions to the ability of rural communities to recruit or retain a permanent health workforce have the potential to diminish available services and to place further stress on the remaining workforce, exacerbating poorer health outcomes for rural communities.

To date FBT caps have not been indexed, diminishing their value over time. The VHA recognises that access to FBT concessions is a benefit not available to the majority of the workforce, however given that its intent is to support those working in the public healthcare sector, it is fair that the caps are indexed to reflect inflation.

Recommendation: Victorian public health services and community health services must remain exempt from the FBT and, further, FBT caps should be indexed on an annual basis.

2.3. Meals, entertainment and entertainment facility leasing (MET) benefits

The VHA notes that the 2015-16 Commonwealth Budget introduced a cap to the MET benefit of \$5,000 (grossed-up value). The VHA understands that the Commonwealth Government has established the *Re:think* discussion paper and the broader Tax Reform White Paper process to review and consider Australian tax policy in detail and on the basis of evidence.

It is disappointing that this budget measure was implemented outside of the already-established tax reform process and as such, appears to have been made without a full assessment of the impacts on the health sector and healthcare delivery.

As with the FBT exemption, the MET allowance serves as a strong incentive for staff to continue their employment within the public hospital and CHS sectors despite the fact that these sectors are unable to match the wages offered by their counterparts in the private sector.

The VHA acknowledges the intent of the \$5,000 cap is to narrow its scope so that this benefit is not misused. However, preliminary data provided to the VHA from our members suggests that the measure is not widely 'misused'. Indeed, the data shows that the majority of employees in the public and not for profit health sector claim MET in the order of around \$13,000 (grossed up). Further, the MET measure is utilised broadly across the health workforce, not just by executives.

It is important to highlight that use of the MET allowance does not create any personal wealth for employees who claim it; rather, the MET incentivises spending in local service and hospitality economies. Our members' feedback is that the MET allowance supports small business, particularly in rural and regional Victoria where local public hospitals and CHS are major employers. For example, the staff of one employer in regional Victoria collectively claimed approximately \$350,000 in MET allowances in the 2014-15 FBT year. Had the \$5,000 grossed-up cap applied, the amount injected into the local economy would have been less than \$98,000.

The VHA and our members have previously accepted that it is appropriate to apply reasonable limits to the MET allowance; however we consider the \$5,000 grossed-up cap to be too low. If implemented in April 2016, the cap will in effect deliver a wage cut to staff, the majority of whom do not earn executive salaries.

The VHA and its members welcome further discussions with the Commonwealth Government about how alternative limits might apply to the MET allowance that meet the Government's policy objectives while still affording the majority of workers an incentive to choose a career in the public healthcare sector.

Recommendation: that the Government consults with the health sector to determine appropriate limits to the MET allowance.

3. Conclusion

The tax exemptions and concessions available to Victorian public hospitals and CHS are of significant value to the sector and the community more broadly. The VHA supports the Commonwealth Government's stated intention of reviewing Australia's tax system as a whole, including the role of exemptions and concessions available to our members as employers.

Public hospitals and CHS are unable to match wages on offer in the private sector and tax exemptions help to position them as employers of choice in a highly competitive market. Hospitals and CHS in Victoria's rural and regional centers already face difficulties associated with securing employment for General Practitioners, Visiting Medical Officers and other senior medical clinicians. Any diminution of these benefits will further impede the ability of public sector health providers to secure and retain the skilled workforce needed to deliver high quality healthcare to Victorian communities.