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Dear Sir/Madam:

RE: Exposure draft legislation released for consultation on the 2015-16 Budget measure that limits the fringe benefits tax concessions on salary packaged entertainment benefits ('the exposure draft')

The Australian Medical Association (AMA) is pleased to offer the following submission on the exposure draft, which proposes to implement the 2015 Budget decision to introduce a separate single grossed up cap of \$5,000 for salary packaged meal entertainment and entertainment facility leasing expenses (entertainment benefits) for employees of public benevolent institutions, health promotion charities and employees of public and not for profit hospitals. The AMA expressed significant concern at the potential impact of this policy prior to its formal announcement because of its impact on recruitment and retention in the public hospital sector and our position remains unchanged.

Currently, in eligible organisations, entertainment benefits can be packaged tax free in addition to other tax free cap limits. The AMA understands that under the proposed arrangements, all salary packaged entertainment benefits will become reportable fringe benefits. Our understanding is that any entertainment benefits exceeding the new cap would then be counted towards the existing general cap.

The AMA supports a fair, efficient and equitable taxation system and would emphasise that the current framework of tax concessions for the NFP sector reflects good public policy, developed over more than 25 years and designed to support the recruitment of suitably qualified staff to work in important institutions that would not otherwise be able to compete against the salaries offered by the private sector. To impose a seemingly arbitrary cap on entertainment benefits greatly diminishes the potential for public hospitals to offset lower salaries and less favourable working conditions.

In this context, any changes to tax concessions for NFP bodies need to proceed with considerable caution. Unfortunately, there has been no attempt to properly assess the

impact of this Budget measure, taking into proper account the adjustment costs in the short and medium term as well as the downstream effects.

The AMA is deeply concerned that the reforms canvassed in the exposure draft could significantly affect the ability of institutions, including public hospitals, to recruit and retain staff. Traditionally, public hospitals have been a less attractive area of practice for doctors, as work in the private sector generally attracts greater remuneration compared to the salaries available in public hospitals. The AMA supports any policy which encourages the recruitment and retention of high quality doctors in public hospitals. Tax benefits, including entertainment benefits, is one benefit available to those working in public hospitals.

The evidence base

The explanatory materials provided by Treasury highlight a number of reports to support the decision to reform FBT concessions for entertainment benefits. However, it should be noted that these reports were unable to quantify the extent to which the entitlement is allegedly being used unfairly and acknowledge that any evidence is largely anecdotal. The explanatory materials also neglect to mention that reports such as the Not-For-Profit Sector Tax Concession Working Group recommended compensation being made available to offset the loss of FBT concessions.

Before a major change like this should have been contemplated the AMA submits that more credible evidence needs to be gathered, analysed and presented.

Public Hospitals

Australia's public hospitals are world class and the mainstay of acute care for the majority of Australians, particularly the most vulnerable members of our society. In this regard, timely access to high quality care is dependent on public hospitals being able to recruit and retain sufficient numbers of medical practitioners and other staff.

There is increasing pressure on the public hospital system in Australia, which has been the subject of constant reform – often with little real clinical input. Public hospitals operate around the clock with unsociable and long hours being well known features of work in this environment. There is constant pressure on medical practitioners and this is widely recognised as a significant disincentive to work in this sector.

Staffing in public hospitals

Public hospitals are staffed by highly committed and capable medical practitioners. Not only do they deliver high quality patient care, they also play a significant role in teaching and training the next generation of medical practitioners.

Medical practitioners earn significantly higher incomes in the private sector than they would working in public hospitals. Advancing acute patient care, opportunities to undertake research as well as teaching and training are key motivations for medical practitioners to work in this sector. However, they deserve to be fairly remunerated for

their skill and experience. Tax concessions such as entertainment benefits offer a means for remuneration to remain competitive relative to the private sector.

Doctors in training complete the vast majority of their training in public hospitals and, as the numbers of doctors in training continue to rise, so does the burden of teaching and training in the public sector.

Any decrease in specialist support will lead to a further erosion of the capacity of our public hospital system to teach and train the next generation of medical practitioners or ensure the high standards of safety and quality that currently exist. With the increasing number of junior medical practitioners entering the workforce and requiring specialist training, it is essential that clinical supervisors and teachers remain actively employed within the public hospital system. This applies for other health professionals including nurses and allied health professionals.

Benefits to the community

The Australian health care system, including the public hospital sector, delivers outstanding outcomes for patients at a relatively modest cost by OECD standards and the public hospital system is accessed by some of the sickest and most vulnerable patients in society. The benefits to the community are significant and must not be overlooked for a short-term, perceived financial gain.

Benefits that encourage medical practitioners to work in public hospitals would be viewed by most in the community as a positive. Salary packaging arrangements are not exclusive to medical practitioners. They also apply to other staff critical to excellent patient care including nurses, allied health staff, medical administration and other clinical support staff such as aides, kitchen staff and cleaners.

If the Government wishes to pursue this policy to the obvious detriment of medical practitioners, then Governments will either need to increase funding to compensate for these changes or face the prospect of losing an increasing number of medical practitioners to the private sector. The latter has obvious implications for access to care for patients. For example, the dedication of part time specialists in public hospitals is vital to the delivery of outpatient care and elective surgery. These specialists have options and any change to the current arrangements will lead to some leaving or limiting their public practice.

If the current supply of medical specialists decreases, we believe it is reasonable to predict a lengthening of waiting lists for elective surgery and outpatient clinics. Hospitals are already under significant strain in this area.

Regional areas

Hospitals, especially those in rural and regional areas, are extremely reliant on some level of tax concessions to attract visiting and locum medical staff. Not only are these medical practitioners essential to the provision of day to day services, they support access to leave for local medical staff and can play a role in reducing the burden of after hours and on-

call work. If this is disturbed there is a significant likelihood that, not only will these hospitals struggle to attract visiting and locum medical staff, they will also struggle to recruit and retain medical practitioners in general due to concerns over workload and the potential for burn out. This may leave vulnerable individuals and communities without quality ongoing health care.

Change impacting on legal entitlements

Salary packaging arrangements are frequently provided for in enterprise agreements.¹ The proposed change to salary packaging would diminish entitlements within these industrial instruments and invite future industrial negotiations to seek compensation for the loss of entitlements.

With these arrangements having been in place for some years, it is arguable that the cost of disturbing them would actually be higher than any benefit gained.

The AMA's position is that the current tax concessions available to the public hospital sector should not be changed as they are operating efficiently and effectively, and encouraging the recruitment of high quality professionals to our public hospital system. We are not aware of any evidence of problematic or unfair results in the hospital sector from tax concessions provided to public hospitals. Indeed, we would say that public and private hospitals complement each other and this reflects deliberate Government policy.

There should be a proper review of the evidence of the use of entertainment benefits and consultation with the medical profession and other members of the not for profit sector about appropriate and measured reforms. It is important for policy and economic reform to continue to support recruitment to public hospitals and to avoid unintended consequences that will impact on access to care for patients.

We look forward to a meaningful engagement with Treasury on this important issue. Should you have any queries, please contact John Alati, Senior Industrial and Legal Advisor on (02) 6270 5473 or jalati@ama.com.au.

Yours faithfully



Dr Stephen Parnis
Vice President

¹ See for example, AMA Victoria-Victorian Public Health Sector Medical Specialists Enterprise Agreement 2013, cl 15.