NATIONAL RURAL HEALTH ALLIANCE INC.

Submission in response to White Paper (March 2015)

A better tax system

May 2015

This Submission is based on the views of the National Rural Health Alliance but may not reflect the full or particular views of all of its Member Bodies.

Introduction

The National Rural Health Alliance is the peak non-government organisation working in Australia for improved rural and remote health. It comprises 37 national organisations and is committed to better health and wellbeing for the more than 6.7 million people of rural and remote areas.

Members include consumer groups (such as the Country Women's Association of Australia, the Isolated Children's Parents' Association and Health Consumers of Rural and Remote Australia), representation from the Aboriginal and Torres Strait Islander health sector (AIDA, NACCHO and IAHA), health professional organisations (representing doctors, nurses, allied health professionals, dentists, pharmacists, optometrists, paramedics, health students, chiropractors and health service managers) and service providers (such as the Royal Flying Doctor Service and the Council of Ambulance Authorities). The full list of Member Bodies is attached.

Each of the Member Bodies is represented on Council of the Alliance, which guides and informs policy development and submissions. With such a broad representative base, the Alliance is in a unique position to provide input on the broader issues relating to health and wellbeing in rural and remote areas.

The Alliance welcomes the review of Australia's taxation system and agrees that the system should be reshaped. Not surprisingly its view is that the main driver of that reshaping should be to support improved health and wellbeing for the people of rural, regional and remote Australia.

The Alliance believes that an 'improved' tax system would mean greater fairness and support for disadvantaged people, including those who experience the particular challenges of living in smaller communities and more sparsely populated areas. It believes that the fairness criterion is the most important of the three listed in the White Paper - of much greater significance than the extent to which taxes are lower and the system simpler.

Taxation and rural wellbeing

The Alliance works to improve the health of Australians living in rural and remote areas so they can live healthy lives and effectively participate in Australia's economy and society. People are most likely to be healthy if they live in communities in which human, produced and natural resources, as well as social capital, are available and well used. The Alliance uses a broad definition of 'health', with the result that the Alliance's interests span a large number of policy areas.

One of the NRHA's central efforts is to help overcome the disadvantages that Australia's geography imposes on the provision of high quality, cost-effective health services to people in rural and remote areas. This gives rise to the wider concern that Australian society and its governments should recognise and act on the significant impact that geography has on economic opportunities, social interactions and non-health services.

The Alliance has long supported an interventionist approach to health and wellbeing in rural and remote areas, and believes that the so-called 'major policy levers' should be used to improve quality of life, business prospects and access to services in rural and remote areas.

Chief among these major policy levers is the taxation system. To argue, as some do, that there should not be specific incentives for rural and remote people or businesses on the grounds of the complexity that would be created is to fail to recognize the complexity that already exists in the taxation system.

There is, for example, a specific tax allowance for entities in more remote areas. This is discussed in some detail below. A drive for simplification of the system should not be at the expense of changes that will make it fairer.

Aspects of the taxation system

Review of the taxation system raises four main issues relating to health and health service provision in rural and remote areas.

First, the provision of health and other services to rural and remote Australians, as to all others, depends on an adequate and sustainable system of public sector financing – both in general, and for each level of government. At the end of the day, that is the purpose of the taxation system, and hence a major criterion against which tax reform should be judged. When tax revenues are insufficient for the ongoing funding of essential services, as at the present, the best response is a mix of actions relating to tax rates, coverage, allowances and exemptions, and changes in the mix and volume of public expenditures.

Second, the tax system directly affects the cost and provision of health services, including in rural and remote Australia.

Third, the tax system influences the extent to which there is equity between people in different employment, demographic and geographic situations. People living in rural and remote areas must not be put at a disadvantage compared with those in more densely populated parts of the country by the uniform application of a single tax system. This is not just a matter of fairness – it is incontestable that the economic and social conditions in rural and remote Australia, including the physical health of its inhabitants, are directly linked to an equitable sharing of both the benefits and costs of economic progress on a geographic basis.

Fourth, there is a strong positive correlation between individuals' socio-economic status and their health outcomes. Any policy measure which widens economic inequality can be expected to worsen health outcomes, and vice versa.

The tax take

The goal of a tax system is to provide the wherewithal for public expenditures and to shape an economy for the wellbeing of people, and for growth, international competitiveness and domestic fairness.

The extent to which increased tax revenue is needed in order to correct a medium term fiscal challenge depends in part on the extent to which changes in the volume and composition of public expenditures and in economic growth (and thus in bracket creep) contribute to the necessary adjustment.

The Alliance has long been of the view that Australia does not have a national budget emergency. What it does face is a medium term fiscal challenge. The corollary of this distinction is that the need for governments in Australia to cut expenditure on services – especially essential services – has been exaggerated.

The ongoing challenge for governments is to manage structural change in the economy and ensure that the costs of economic change do not fall disproportionately on specific groups or regions. The need for structural change is significant due to the speed at which the mining boom has softened - as indicated on an almost daily basis by the iron ore price. But that need should not be exaggerated.

Structural change in Australia's economy is always necessary and is all the more challenging for being determined by factors beyond the nation's control. Australian governments have all the responsibility but little of the control. The domestic economy is continually buffeted by changes in the relative price of various goods and services around the world, the effect of bilateral and multilateral trade deals, boardroom decisions across the globe, and such distant phenomena as weather events in other exporting nations.

It is now widely accepted that the 2014-15 Budget was founded on the false premise that the budget 'fix' should be based on cuts in services, rather than being shared between various taxation and expenditure measures. Foreshadowing the need for taxation changes during 2014 would have reduced the pressure on essential services in that Budget.

To the extent that service cuts should contribute to meeting the budget challenge, they should not fall disproportionately on essential services such as health, education, public housing and transport. Reasonable taxation changes are a fairer alternative.

Another alternative is to change the mix of public expenditure in order to increase the proportion that goes to goods and services that reduce the call on other public outlays. Health promotion and illness prevention expenditures are of this kind. The more a nation spends on primary care and health promotion, the less will be required for hospitals. In this context, the inclusion in the Budget announcements of a saving on "preventative health research" is of great concern.

If it were to happen, an overall increase in the proportion of public expenditure going to health would not of itself be a negative for the economy. The Government's Commission of Audit reported that "a rise in the share of the nation’s income devoted to health care is not necessarily a matter of policy concern as long as the expenditure is cost effective, used efficiently, and the benefits outweigh its opportunity cost ".

Compared with other OECD countries, when all taxes and transfer payments are considered, Australia is a relatively low taxing nation.

The value of public expenditure on health must be optimised, requiring enough flexibility to move monies away from less cost-effective purposes. The Alliance therefore supports cutting expenditure on ineffective MBS items (using the MSAC mechanism), as is now intended, and diverting it to other areas of the health sector. Resources could also be switched from 'futile care', for example. Savings can also be made from price control (through international comparisons) for medicines, prostheses and interventions; changing attitudes of patients and clinicians to health tests; reducing over-doctoring (maybe through the introduction of Geographic Provider Numbers); and workforce efficiency gains from changes in scopes of practice.

The tax review process needs to be informed by the extent to which increased tax revenue, as distinct from savings and other measures, should contribute to the necessary economic rebalancing.

The Goods and Services Tax (GST)

Much has been made of the need to include potential changes to the Goods and Services Tax (GST) in taxation reform. If the GST is to contribute to a significantly higher tax take, it would mean extending its coverage to additional items (known as broadening the base), increasing the rate to something over ten per cent, or a mixture of both.

Broadening the base

The White Paper proposes broadening the base of the GST by ending the exemption of health services. **The Alliance opposes this proposal**.

Given the extent of public sector health funding, to include health in the tax base would require an offsetting increase in expenditure, with no net impact other than an absurd shuffling of paper.

The exemption of health services should not be viewed as a concession.

The GST health exemptions distinguish between formal and informal care services. This is yet another disadvantage experienced by people in rural and remote areas who access fewer of the formal health services to which the exemption applies. Compared with their urban counterparts, rural and remote Australians are more likely to remain in their homes than seek hospital or nursing home admission and more likely to use medicines available in general retail stores than those only available in pharmacies. The limitation of the exemption to those medicines that must be sold only under the supervision of a pharmacist means that wide range of commonly-used ‘over-the-counter’ pharmaceuticals and medical supplies will be taxed, implying both an increase in health costs generally, and the relative disadvantage of those with less ready access to a pharmacy.

The exemption for hospitals and nursing homes (and similar services such as meals-on-wheels) covers some goods and services that are taxed when supplied by a patient in their own homes or in some cases by commercial and community suppliers.

Increasing the rate of GST

At whatever rate it is levied, because of the inclusion of transport and retail costs and margins in the calculation of the GST payable, it has a greater impact on prices in rural and remote areas than in the capital cities. This should be borne in mind in any consideration relating to GST.

The Alliance believes that the existing rate should be reviewed in consultation with the States and Territories. The fiscal pressure on State and Territories in relation to the provision of sustainable, ongoing health services is considerable - almost certainly more serious than for the Federal Government. The rate of GST must be such as to enable the States and Territories to have sufficient revenues in future years to meet reasonable service commitments.

Tax concessions

The total tax take is affected by the nature, extent and distribution of taxation concessions.

Superannuation

The Alliance is convinced that there is sufficient evidence of the inequity of existing arrangements for superannuation tax incentives for changes to be made. The potential benefits to the tax take are very substantial. The changes would result in greater equity and could, over the longer term, make a significant difference to the distribution of wealth within Australia. The difference between the value of wealth and assets of the top and bottom cohorts in Australia is already alarming and is becoming even greater. There is empirical evidence that the more unequal a society the worse its overall status of health.

The Alliance also supports the notion of encouraging the investment of superannuation funds into research, service provision or workforce initiatives targeted specifically at improving access to health services for people in rural and remote areas.

Charitable tax exemptions

The White Paper invites comment on the possibility of removing charitable tax exemptions. The social fabric of many communities in both cities and rural areas is built around activities of unincorporated or more formally organised not-for-profit organisations. The Alliance believes that it is imperative that the social capital contributions of volunteering and professional NGOs continue without undue government interference.

The review should ensure that tax arrangements are as simple as they can be for not-for-profit organisations. In particular there should be a commitment to no new reporting or cost burdens on such bodies.

More broadly, the White Paper also suggests that income tax exemptions on not-for-profit (NFP) social enterprises might be reviewed. It also infers that fringe benefit tax concessions for employees of specific NFPs (health promotion charities, public and NFP hospital employees, and public benevolent health service provider charities) might be wound back. NFP social enterprises employ thousands of health professionals in rural Australia and any change to the tax treatment of these social enterprises would affect employment arrangements and specific employment entitlements. Any change to NFP fringe benefit tax concessions would also flow to public hospital employees by application of competitive neutrality.

Any changes to the tax treatment of health social enterprises or NFP health sector employees need to be fully modelled and publicly tested to avoid unintended consequences.

Charitable Giving

It is neither sensible nor practicable for governments to raise sufficient taxes to meet the costs of all services that communities want.

Charities raise funds from donors to meet government shortfalls. Tax incentives for charitable giving have not changed substantially since they were introduced in the Tax Act.

The Alliance believes that consideration should be given to new tax incentives to encourage greater giving to charity. The best way to achieve this would be by lifting the deductible gift allowance from its current 100 per cent to something higher. Any rate over 100 per cent would radically change corporate philanthropy. Currently there is no tax incentive to make a donation over a normal business expense.

Appropriate modelling should inform the new rate set for tax deductibility for charitable gifts.

The Remote Zone Tax Allowance

The Alliance regards regional development as a health issue. The determinants of good health include a number of social and economic factors which are related to the economic status of particular regions. They include employment and income, the extent and quality of local infrastructure, and vibrant and sustainable community groups.

The Alliance is always concerned with the distribution of health professionals in rural and remote areas. But the fact of the matter is that, as well as a range of short-term programs to encourage health and other professionals to remote areas for part of their working lives, it would also be helpful to invest in the economic sustainability of remote communities and businesses.

This was the original purpose of the remote zone tax allowance. Now called the Zone Tax Offset, it is available to taxpayers who have lived or worked in one of the defined zones (not necessarily continuously) for 183 days or more during the previous tax year. The tax offset amounts are between $57 (sic) and $2351, depending on marital status and the zone. Some towns are eligible for a higher zone tax offset (called Special Areas) if the shortest land or sea route is more than 250km from the centre of any urban area with a census population of over 2,499.

These zone rebates are supposed to recognise the disadvantages faced by taxpayers living in remote areas due to climate, isolation and the higher costs of living.

Apart from the very small savings through the existing remote zone rebates, people in remote areas pay the same rates of tax as others but have access to far fewer tax-funded services and facilities. Overcoming the disadvantages and disincentives currently faced by taxpayers and businesses in remote areas will both enhance economic activity and improve equity between Australia's regions in terms of people's access to services and facilities.[1]

[1] The strategic underpinning of remote areas has long-term national benefits and so is a national responsibility, not something that can be left to individual employers to fix through workplace agreements. In the recent 2015-16 Budget fly-in, fly-out workers were excluded from eligibility for the Zone Tax Offset In the recent 2015-16 Budget fly-in, fly-out workers were excluded from eligibility for the Zone Tax Offset.

The system was last reviewed in 1993-94, is out of date and should be entirely re-cast. It should be modernised both for the sake of equity and as a means of stimulating the economy of more remote areas.

Around two per cent of taxpayers live in remote or very remote Australia, many of them in Northern Australia. The 2015-16 Federal Budget confirmed an allocation of $5 billion to a Northern Australia Infrastructure Facility, to be detailed in a white paper later in 2015. Tax measures should be part of the plan for development of Northern Australia.

The Federal Government's enthusiasm for development of the North can be contrasted with its approach and the approach of State and Territory Governments to continued provision of services to remote communities. The Alliance is firmly of the view that the communities and the people of isolated and more remote areas are an indispensable part of Australia's economic, cultural and social matrices. Common sense dictates that it will never be practicable to locate more specialised services in remote places with small populations. But the question is not whether essential services should continue to be provided to people in those areas but by what means.

Elements of place have a strong effect on health, for instance through people's access to jobs and incomes. Recent evidence has shown the huge discrepancy in average income by location. Recent data show that in an affluent Sydney suburb (eg Mosman) the average individual income is around $123,000, in a less affluent suburb (North Sydney) $85,000 and in a small town in the west of the State it is astonishingly different at around $38,000.

Other aspects of taxation policies

Rural labour shortages

The White Paper is silent on the matter of labour force distribution. It is a crucial mater for the sustainability of rural industries and communities, and one that can be readily influenced through the tax system.

A review of labour force shortages in rural areas (not just health professionals) would demonstrate the value of incentives to attract and retain workforce in areas of workforce shortage. In framing follow-up to the White Paper, tax measures to retain workers in specific categories should be considered.

Dental care

There is widespread support for better access to dental care for people on low income, for Aboriginal and Torres Strait Islander people, and for those living in rural and remote areas.

In the past it has been proposed by some people in this should be a DentiCare service for oral and dental health, equivalent to Medicare. It has been suggested that the costs of such a system could be offset by an increase in taxation of less than 1 per cent.

The current taxation review could, if directed, consider issues relating to the Medicare levy or other specific health issues.

Geographic effects

The taxation system must work in such a way as to facilitate economic changes within Australia and provide the capacity to cushion any negative effects of these changes on individual communities and workers.

In the past 12 months closures in the manufacturing sector have highlighted the balance that governments of the day need to adopt – including through taxation – between continued public funding for lost economic causes and reasonable intervention to ensure that incomes and wellbeing of communities and families can be enhanced despite such closures.

Taxation and the social determinants of health

Much of the recent focus on drugs in Australia has been on the epidemic of ice. However the most pervasive and serious adverse consequences of drug use in Australia come from the use and abuse of alcohol, and from smoking. A greater proportion of people in rural than metropolitan areas use of alcohol in such a waste of time it short-term or long-term health, and smoke on a daily basis. These matters are of particular concern for the Alliance and both could be mitigated through the tax system.

The Alliance is on record as being concerned about the priority given to health promotion and illness prevention activity, which has been transferred from the now defunct Australian National Preventive Health Agency to the Department of Health. A particular matter of concern was to read in the 2015-16 Budget papers a reference to expenditure savings through "rationalising and streamlining" of preventative health research.

The Alliance would like to be assured that health promotion and illness prevention work will continue to receive strong political support, and will in the future be well-funded consistently through time: efforts to effect behavioural change require a long-term, patient approach.

Taxation incentives and disincentives are critical parts of health promotion and illness prevention activity.

The taxation of alcohol

The Alliance supports the longstanding notion that a change in the system by which alcohol is taxed would effectively reduce harm from alcohol**.**

There is strong evidence[2] that alcohol misuse and its associated harms would be reduced by higher alcohol taxation, including differential tax rates on forms of alcohol that are particularly subject to abuse. The National Preventative Health Taskforce recommended better management of both the physical availability (access) and economic availability (price) of alcohol. The tax system should also stimulate the production and consumption of low-alcohol products**.**

Illicit drugs such as amphetamines have been much in the news recently. There is evidence that this new scourge is more prevalent in rural and remote than major city areas. However that differential is dwarfed by the differential in rates of harmful drinking. The prevalence of harmful drinking is 12 per cent higher than that of illicit drug use in major cities, 30 per cent higher in rural areas, and 90 per cent higher in remote areas.

While 19 per cent of those in major cities drink alcohol in quantities risking ill health later in life, the comparable figures for rural and more remote areas are 21 per cent and 24 per cent.

In the nation's work to reduce harm from illicit and legal substances, both the city–remote and the illicit drugs-alcohol perspectives must be observed.

Smoking

The prevalence of smoking nationally is roughly comparable to the prevalence of illicit drug use. But, again, rates are higher in more remote areas.The 2011-12 National Health Survey showed that while 14.7 per cent of those in major cities smoke, comparable figures in rural areas are 18 per cent and 22 per cent, with an even higher figure in remote areas.

The NRHA has a particular concern about smoking, given the fact that the rates have come down consistently in city areas but not among rural and especially remote communities. Our own work with ABS has shown that while the prevalence of smoking has deceased over the past decade for young people in cities, this decline is not clearly noticeable in rural areas, particularly in the case of young rural people of lesser financial means.

It is the Alliance's view that no single initiative could be more effective in improving health and wellbeing of people in non-metropolitan areas than successful efforts to reduce rates of daily smoking. Not only would this be a major contributor to better health in its own right, but it would also provide valuable information about how health promotion campaigns can be made more effective in rural and remote areas.

The NRHA is currently preparing a paper on what lies behind the quite different trends in changes in rates of smoking in city and country areas.

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[2] see for example Collins and Lapsley 2008.

The cost of fresh food

Fresh produce is already less readily available and more costly in remote areas than the metropolitan suburbs. This is a significant contributor to poorer health status.

It is quite conceivable to use the tax system to support the cold chain and transport systems to overcome this barrier to good health. If governmental, commercial and community interests can 'conspire' to ensure that certain popular sugary drinks are available at the same price in remote as city areas, it must surely be possible to achieve the same for fresh food.

A thorough review of the taxation system is a great opportunity to consider such targeted and innovative issues as this. The tax system does much to determine health status, including in rural and remote areas, and the opportunity to contribute to equalising health status and service access should not be missed.

ATTACHMENT

Member Bodies of the National Rural Health Alliance

ACEM (RRRC)	Australasian College of Emergency Medicine (Rural, Regional and Remote Committee)
ACHSM	Australasian College of Health Service Management
ACM (RRAC)	Australian College of Midwives (Rural and Remote Advisory Committee)
ACN (RNMCI)	Australian College of Nursing (Rural Nursing and Midwifery Community of Interest)
ACRRM	Australian College of Rural and Remote Medicine
AGPN	Australian General Practice Network
AHHA	Australian Healthcare and Hospitals Association
AHPARR	Allied Health Professions Australia Rural and Remote
AIDA	Australian Indigenous Doctors' Association
ANMF	Australian Nursing and Midwifery Federation (rural members)
APA (RMN)	Australian Physiotherapy Association Rural Member Network
APS	Australian Paediatric Society
APS (RRPIG)	Australian Psychological Society (Rural and Remote Psychology Interest Group)
ARHEN	Australian Rural Health Education Network Limited
CAA (RRG)	Council of Ambulance Authorities (Rural and Remote Group)
CRANAplus	CRANAplus – the professional body for all remote health
CWAA	Country Women's Association of Australia
ESSA (NRRC)	Exercise and Sports Science Australia (National Rural and Remote Committee)
FRAME	Federation of Rural Australian Medical Educators
FS	Frontier Services of the Uniting Church in Australia
HCRRA	Health Consumers of Rural and Remote Australia
IAHA	Indigenous Allied Health Australia
ICPA	Isolated Children's Parents' Association
NACCHO	National Aboriginal Community Controlled Health Organisation
NRF of RACGP	National Rural Faculty of the Royal Australian College of General Practitioners
NRHSN	National Rural Health Students' Network
PA (RRSIG)	Paramedics Australasia (Rural and Remote Special Interest Group
PSA (RSIG)	Rural Special Interest Group of the Pharmaceutical Society of Australia
RDAA	Rural Doctors Association of Australia
RDN of ADA	Rural Dentists' Network of the Australian Dental Association
RFDS	Royal Flying Doctor Service
RHWA	Rural Health Workforce Australia
RIHG of CAA	Rural Indigenous and Health-interest Group of the Chiropractors' Association of Australia
ROG of OAA	Rural Optometry Group of the Australian Optometrists Association
RPA	Rural Pharmacists Australia
SARRAH	Services for Australian Rural and Remote Allied Health
SPA (RRMC)	Speech Pathology Australia (Rural and Remote Member Community)