

17 January 2014

General Manager
Law Design Practice
The Treasury
Langton Crescent
PARKES ACT 2600

Dear Sir/Madam

Phase-out of the Net Medical Expenses Tax Offset

The Consumers Health Forum of Australia (CHF) welcomes the opportunity to provide a submission to the Treasury on the exposure draft legislation to implement the phase-out of the net medical expenses tax offset (NMETO), as announced in the 2013-14 Federal Budget.

CHF is the national peak body representing the interests of Australian healthcare consumers. CHF works to achieve safe, quality, timely healthcare for all Australians, supported by accessible health information and systems. Previously, we provided a submission to the Treasury on the exposure draft legislation to implement the 2012-13 Budget measure to implement means-testing of the NMETO.

The NMETO provides a tax offset of 20 per cent for out-of-pocket expenses above \$2120 in a financial year. The NMETO is currently means-tested, so that the tax offset is reduced to 10 per cent for out-of-pocket expenses above \$5000 for those above the designated income threshold. In our submission, CHF supported means-testing of the NMETO but argued for the introduction of income tiers consistent with those used for the Private Health Insurance Rebate.

Under the proposed arrangements, the NMETO will be abolished after 1 July 2019. There are some complex transitional arrangements proposed for those who are currently claiming the NMETO to continue to claim the NMETO under certain circumstances for expenses incurred up to the end of the 2014-15 financial year.

Some additional transitional arrangements will also be in place to enable taxpayers to claim the NMETO for a more limited range of out-of-pocket expenses until 1 July 2019. Disability aids, attendant care and aged care expenses can be claimed until 1 July 2019. After this time, the National Disability Insurance Scheme (NDIS) and aged care reforms are expected to be fully operational to offset the removal of the NMETO for consumers eligible under those schemes.

Beyond the transitional arrangements, no measures are planned to mitigate or otherwise offset the value of the NMETO to consumers who are not eligible under the NDIS and aged care reforms.

CHF believes the abolition of the NMETO is likely to have a significant impact on patient affordability by increasing the out-of-pocket costs of health consumers, particularly those in poor health and with high-level healthcare needs. Consumers in Australia already bear the burden of significant out-of-pocket costs, with Australians paying, on average, more than \$1075 out of their own pockets to access health care.¹ Australia also compares poorly internationally as our out-pocket payments are higher than the OECD median.²

Costs present a considerable barrier to access to health services for some consumers. The COAG Reform Council's report on Australia's healthcare performance in 2010-11 reported that more and more Australians are experiencing financial barriers to accessing healthcare services. This has led to people not seeing, or delaying visits to GPs, medical specialists and dental professionals when they need to. Consumers also reported financial barriers to accessing diagnostic testing and purchasing prescription medicines.³ The same report published the following year found that little had changed.⁴

The Government argues that the NMETO should be abolished because it does not provide assistance for upfront payments as the tax offset can only be claimed at the end of the financial year after expenses have been incurred. The Government also argues that the NMETO is poorly targeted as it only provides assistance to taxpayers with a tax liability rather than those with high out-of-pocket expenses on the lowest incomes, who pay little or no taxes.

CHF acknowledges the NMETO's shortcomings. However, in the absence of other mechanisms, it plays an important role in helping consumers manage their out-of-pocket expenses. In many cases, consumers with chronic, complex or multiple conditions receive lower levels of subsidy for their health expenses and have higher out-of-pocket costs compared to those with one-off, acute conditions.⁵ Accordingly, the NMETO can be particularly useful for consumers in poor health and with chronic conditions because it allows them to claim a tax offset for a wide range of health expenses, including those only partially, or not covered by Medicare safety nets, private health insurance or the Pharmaceutical Benefits Scheme safety net.

The uptake of the NMETO has been strong, with approximately 802 000 people claiming the tax offset in 2010-11 at a cost of \$567 million.⁶ Given the value placed on the NMETO by health consumers, CHF is concerned that the abolition of the NMETO will not be accompanied by measures to mitigate or otherwise offset the value of the NMETO to consumers who may not be eligible to benefit from the NDIS and aged care reforms.

¹ Australian Institute of Health and Welfare 2012. *Health expenditure Australia 2010-11. Health and welfare expenditure series no. 47. Cat. no. HWE 56.* AIHW, Canberra

² Ibid.

³ COAG Reform Council 2012. *Healthcare 2010-11: Comparing performance across Australia.* COAG Reform Council, Sydney

⁴ COAG Reform Council 2013. *Healthcare 2011-12: Comparing performance across Australia.* COAG Reform Council, Sydney

⁵ Doggett, J. 2009. *Out of pocket: rethinking health copayments.* Centre for Policy Development, Canberra

⁶ Biggs, A. 2013. *Net medical expenses tax offset, Budget Review 2013-14 Index.* Accessed 14 January 2014, http://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/BudgetReview201314/MedicalExpenses

For these consumers, the Government's rationale is that the Medicare Safety Net will continue to be the primary support mechanism for medical expenses following the abolition of the NMETO. However, CHF has concerns with this approach given the restrictions placed on the Extended Medicare Safety Net (EMSN) announced in the 2013-14 Budget, which saw the threshold of eligibility being raised from \$1221.90 to \$2000, making it more difficult for consumers to receive additional rebates for high out-of-pocket costs.

In CHF's view, it is clear that the overall effect of abolishing the NMETO and the restrictions placed on the EMSN would be to disproportionately impact on vulnerable healthcare consumers, which may further impact on people delaying, or not seeking treatment for their health conditions.

In the absence of any measures to alleviate rising out-of-pocket costs for consumers following the proposed abolition of the NMETO, and given the Medicare Safety Net's function as the primary support mechanism for medical expenses, CHF reiterates its call for an inquiry into Medicare to ensure that it continues to meet its objectives of providing sustainable and affordable healthcare to all Australians.⁷

CHF has also highlighted a number of opportunities in its submission to the 2014-15 Federal Budget to improve the performance of the health budget, reduce waste and re-direct funding into areas such as primary health care that will have a greater long-term positive impact on both the health outcomes of Australians and health spending, and we commend these recommendations to the Treasury.⁸

CHF appreciates the opportunity to provide a submission to this consultation. If you would like to discuss these comments in more detail, please contact me on (02) 6273 5444.

Yours sincerely,



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A/CHIEF EXECUTIVE OFFICER

⁷ Consumers Health Forum of Australia. (2014). Medicare needs a revamp – but not at the expense of those who need it most. (Media release). Accessed 14 January 2014, <https://www.chf.org.au/pdfs/med/MED-20140113--CHF-calls-for-Medicare-inquiry.pdf>

⁸ CHF's submission to the 2014-15 Federal Budget is available at <https://www.chf.org.au/pdfs/sub/sub-1130-CHF-Budget-Submission-2014-15.pdf>