Australian General Practice Network Submission to Australia's future tax system: Further Consultation paper

April 2009

The Australian General Practice Network (AGPN) welcomes this further opportunity to provide comment on the Government's proposal to review Australia's taxation system as discussed in "*Australia's future tax system: Consultation Paper December 2008*".

AGPN previously made a submission to the Taxation Review on 16 October 2008.
The current submission builds on recommendations made previously by AGPN in order to respond to the additional questions provided in the Review's more recent Consultation Paper.

AGPN is the peak national body of the divisions of general practice, comprising 111 divisions across Australia, as well as eight state based organisations. Approximately 90 percent of GPs and an increasing number of practice nurses and allied health professionals are members of their local division. Network Members (Divisions, SBOs and AGPN) operate essentially as not-for profit small businesses whose core activities are the delivery and organisation of primary care through general practice and broader primary care teams. Through this work the divisions network plays a pivotal role in ensuring all Australians can access a high quality health system. AGPN's responses to the Review's further Consultation Paper are restricted to those questions that relate to the Network's scope of work, namely parts of questions 4, 7, and 11 as detailed below.

Section 4: Taxation potentially impacting on heath workforce

Q 4.13 What structure of income tests and taxes would best support the increasing diversity of work and the need to increase workforce participation, and where should improved incentives be targeted?

Q 4.14 Does the tax-transfer system create disincentives for individuals seeking to acquire new skills or upgrade existing skills? If so, what sort of tax or transfer changes would provide better incentives?

Across all areas of Australia, there are evidenced shortages in workforce supply particularly in general practice, medical specialty areas, dentistry, nursing and some key allied health areas such as psychology[1]. Medical shortages remain despite an increasing reliance on overseas trained doctors, who now make up 25 per cent of that workforce compared with 19 per cent a decade ago. These workforce shortages are even more acute in rural and regional Australia.

[1] Productivity Commission, 2005, *Australia's Health Workforce: Productivity Commission research report,* Canberra: Commonwealth of Australia.

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The audit of the rural and regional health workforce commissioned by the Australian Government Department of Health and Ageing in April 2008 showed the supply of the medical workforce and other health professionals is low to very poor in many rural and regional areas of Australia[2]. Nurses are the only sector of the health workforce that is relatively evenly available throughout rural and regional Australia.

A greater emphasis on health workforce retention and re-entry will help to stabilize if not increase workforce numbers. AGPN supports current initiatives such as bonded scholarships to increase the number of newly trained health professionals working in rural and remote areas. Other incentives such as tax incentives can play a critical role in retaining current health professionals in areas of shortage or in attracting them to work in rural and remote areas. Tax incentives could also be used in attracting others to re-enter or re-train in health professions.

AGPN recommends that the tax review gives consideration to doubling the number of Commonwealth Supported university places in areas of health workforce shortage including for general practitioners, dentists, nurses and allied health areas such as psychology. In addition, to attract more trained health professionals to work in rural and remote areas, AGPN recommends Higher Education Contribution Scheme repayments be reduced or waived for health professionals working in rural and remote areas in an area of workforce shortage.

AGPN would also like to draw attention to a further taxation area that is adversely impacting on health workforce and access to health services in rural locations where such services are often already depleted. Some progress has been made to support the expansion of general practice infrastructure in rural and remote areas through the National Rural and Remote Health Infrastructure Program (NRRHIP). Through this program, the Australian Government has committed $46 million over four years to expand general practice infrastructure in rural areas. The availability of such grants can make a real difference to the provision of local services to people in rural Australia where it is difficult to access health care. These grants, however, currently attract income tax of up to 40 percent. This is a significant disincentive to rural and remote practices and / or divisions applying for funding and can prevent necessary health infrastructure from being developed in areas where such need is crucial.

AGPN recommends lowering the income tax associated with National Rural and Remote Health Infrastructure Program NRRHIP grants in order to promote better access to health care in rural areas.

[2] Australian Government Department of Health and Ageing, 2008, *Report on the Audit of Health Workforce in Rural and Regional Australia, April 2008.* Canberra: Commonwealth of Australia.

Section 7: Taxation impacting on Not-for-profit organisations

Q7.1 What is the appropriate tax treatment for NFP organisations, including compliance obligations?

Q7.2 Given the impact of the tax concessions for NFP organisations on competition, compliance costs and equity, would alternative arrangements (such as the provision of direct funding) be a more efficient way of assisting these organisations to further their philanthropic and community-based activities?

Taxation of Not for profit (NFP) organisations is highly relevant to AGPN as the Network is comprised of such organisations. AGPN is however aware that the Productivity Commission is currently conducting a study on the contribution of the NFP sector to Australia's productivity. The study acknowledges the important contribution that NFP organisations already make to Australian society and examines ways of maximising this. The Study includes consideration of taxation regulations for NFPs that may impede the sector from making its fullest contribution. AGPN will be making submission to the Commission and is undertaking its own Network member consultation to inform its response. In order to provide a more fully informed response to the Taxation Review, AGPN requests that it defers responding to this section until it has completed its submission to the Productivity Commission (end of May 2009). AGPN also recommends that the Taxation Review gives overall consideration to the relevant taxation findings of the Productivity Commission's study when developing its own final recommendations.

Section 11: Taxation impacting on population health/ illness prevention

Q11.1 Is it appropriate to use taxes on specific goods or services to influence individual consumption choices, and if so, what principles can be applied in designing the structure and rates of such taxes?

There is strong international evidence to support the efficacy of taxes in reducing the consumption of alcohol[3] and cigarettes[4]. There is also some more indirect evidence to suggest taxing energy dense foods may have potential efficacy in preventing and reducing overweight and obesity[5]. AGPN advocates for increased taxes to be applied to all three products: alcohol, cigarettes and energy dense foods and called for this in its submission to the preventative health taskforce[6] To promote healthy dietary choices and prevent overweight and obesity, it is equally important to subsidise the cost of healthy foods (e.g. fruits, vegetables, lean meat and dairy products) as it is to increase taxes on energy dense foods.

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[3] Babor T. et al, 2003, *Alcohol: no ordinary commodity*. Oxford Medical Publications: Oxford.
[4] Chaloupka, F. 1999, Macro-social influences: The effects of prices and tobacco control policies on the demand for tobacco products, *Nicotine and Tobacco Research*.
[5] Goodman C. & Anise, A (2006). *What is known about the effectiveness of economic instruments to reduce Consumption of foods high in saturated fats and other energy-dense foods for preventing and treating obesity?* Copenhagen, WHO Regional Office for Europe (Health Evidence Network report; http://www.euro.who.int/document/e88909.pdf , accessed [5 December 2008]).
[6] Australian General Practice Network, 2008, Submission to the preventative health taskforce available at [http://www.agpn.com.au/client_images/257540.pdf].

With regard to the optimal structure and rates of such taxes in terms of minimising consumption, the evidence is clearer for alcohol and tobacco than it is for energy dense foods.

Alcohol consumption: Currently in Australia, excise is applied to all beers and spirits partially based on their respective alcohol content or volume. However for wine, a wine equalisation tax (WET) is applied which is based on the wholesale price of the wine rather than the volume of alcohol it contains. The current taxation system for wine therefore may provide an incentive for the consumer to purchase higher quantities of more inexpensive wine, regardless of alcohol content, potentially encouraging harmful levels of alcohol consumption.

AGPN supports the use of a volumetric tax for all forms of alcohol as this will provide an increased incentive for individuals to consume drinks with lower alcohol content. Research from the World Health Organisation (WHO)[7] and the Australian Alcohol Education and Rehabilitation Foundation[8] has shown a volumetric tax system for alcohol to be the most sustainable and cost-effective intervention to reduce harmful alcohol consumption. The WHO research also found that alcohol taxes were the most cost-effective intervention in curbing alcohol consumption, even without accounting for the additional revenue generated by the taxes. The increased tax on ready-to-drink alcopops was trialed in Australia from April 2008 to March 2009 and was subsequently abolished in late March 2009, although there is currently consideration of further reviewing and reintroducing this tax in the budget session of Parliament[9]. The tax was associated with a substantial reduction in sales of alcopops over the trial period[10]. AGPN supported this tax as a preliminary measure to address problem drinking in youth. However, selectively increasing the tax on certain alcoholic products such as ready to drink (RTD) alcoholic drinks or "alcopops" may result in consumers substituting alcopops with other cheaper alcoholic beverages (e.g. cask wine and beer). Applying a volumetric tax to all forms of alcohol will help to minimise the problem of alcohol substitution, and is likely to have a greater impact in reducing harmful alcohol consumption across all population groups, not just the alcopop consumers.

Tobacco consumption: Increased taxes on tobacco products should be complemented by decreased out of pocket expenses for engaging in smoking cessation interventions. This could be achieved via the tax system by increasing subsidies for smoking cessation interventions (e.g. nicotine patches) and lifestyle modification programs

Food consumption: Studies in the United States have shown that reducing the price of low fat snacks such as fruits and vegetables in vending machines has resulted in increased sales and consumption of these snacks[11].

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[7] Chisholm, D., Rehm, M. van Ommeren, M., Monteiro, M. & Frick. U. 2004, The comparative cost-effectiveness of interventions for reducing the burden of heavy alcohol use, *Journal of Studies on Alcohol, 65,* 782-793.
[8] Australian Alcohol Education and Rehabilitation Foundation, 2008, *Volumetric taxation highlighted as the most cost-effective intervention to reduce alcohol-related harm,* Media Release published 31 July 2008.
[9] The Age, 16 April 2009, *Second shot at alcopops tax hike*, accessed from [http://www.theage.com.au/national/second-shot-at-alcopops-tax-hike-20090415-a7h3.html]
[10] Chikritzhs, T.N., Dietze, P.M., Allsop, S.J., Daube, M.M., Hall, W.D. & Kypros, K., 2009, the "alcopops" tax: heading in the right direction, *Medical Journal of Australia, 190*, 6, 294-295.
[11] Brownson, R.C., Haire-Joshu, D. & Luke, D.A. 2006, Shaping the context of health: a review of environmental and policy approaches in the prevention of chronic diseases, *American Journal of Public Health, 27,* 341-70.

The evidence is less clear about the impact of taxes on energy dense or high fat foods on levels of consumption of those foods. A study from the United Kingdom cautions that applying increased taxes to foods with high levels of saturated fat may have limited overall net dietary gains because the reductions in consumption of high saturated fat foods were offset by increased consumption of high salt foods[12].

AGPN recommends that more research is needed to determine the most appropriate design of taxes on foods to prevent overweight and obesity and promote optimal dietary intake of appropriate nutrients. This research could be commissioned by the proposed National Preventative Health Agency.

11.2 Can the competing potential objectives of alcohol taxation, including revenue raising, health policy and industry assistance be resolved? What does this mean for the decision to tax alcohol more than other commodities?

Currently, only around 2 percent of the total health budget is spent on preventative health measures[13.] The additional revenue accrued through increased taxes on alcohol and tobacco could provide a base from which to invest more in preventative health programs to help build a more prevention-oriented health system.

The allocation of an increased proportion of alcohol and tobacco revenue to preventative health programs has been supported by many key public health stakeholders including the Australian Chronic Disease Alliance[14]. A study commissioned by this alliance found public support for increased alcohol and tobacco taxes is likely to be stronger if the revenue raised is used for preventative health programs[15]. Delegates at the National 2020 summit earlier this year also expressed support for the establishment of a national preventative health fund, funded by alcohol and tax revenue[16]. A well-resourced preventative health fund could equip Australia with the resources needed to respond to the social and economic challenges posed by alcohol and tobacco use and the chronic disease epidemic.

11.3 What is the appropriate specific goal of taxing tobacco? Is it necessary to change the structure or rate of tobacco taxes?

The appropriate specific goal of taxing tobacco is reducing the health, social and economic costs of cigarette consumption. In 2004/05, tobacco use cost the nation a total of $31.5 billion including lost productivity costs of $5.7 billion for tobacco[17]. According to data reported

[12] Mytton, O., Gray, A., Rayner, M. & Rutter, H. 2007, Could targeted food taxes improve health? *Journal of Epidemiology and Community Health, 61,* 689-694.
[13] Productivity Commission, 2006, *Potential Benefits of the National Reform Agenda*, Report to the Council of Australian Governments, Canberra.
[14] The Australian Chronic Disease Alliance includes Cancer Council Australia, the Heart Foundation, Public Health Association of Australia and Action on Smoking and Health.
[15] The Australian Chronic Disease Alliance, 2008, *More than 80% back 'alcopops' and tobacco tax: Newspoll survey,* Media Release, accessed 24 September 2008.
[16] *Australia 2020 Summit: Final Report*, Canberra: Commonwealth of Australia.
[17] Collins, D.J. & Lapsley, H.M. 2008, *The costs of tobacco, alcohol and illicit drug abuse to Australian society in 2004/05*. Canberra: Commonwealth of Australia.

in the Australian burden of disease study[18], tobacco was responsible for the greatest disease burden in Australia (7.8 percent of the total burden) in 2003. Tobacco consumption accounts for 9.7 percent of the national burden of cardiovascular disease.

AGPN believes it is necessary to increase the tax excise applied to tobacco in Australia and ensure tobacco tax excises are the same in each State and Territory. A review of tobacco tax in Australia is long overdue as tobacco tax has not increased in real terms for a decade. There is strong evidence to support the efficacy of tax increases in reducing demand for and consumption of tobacco. Evidence demonstrates that tax increases which raise the real price of cigarettes by 10 percent can reduce smoking by about four per cent in high income countries and by about eight per cent in low income or middle income countries[19]. Furthermore, US evidence has shown that every 10 percent increase in the real price of cigarettes reduces the number of young-adult smokers by 3.5 percent and the number of children who smoke by six or seven percent[20].

Currently, excises on cigarettes are different in each State and Territory. AGPN supports the position that excises on cigarettes should be reviewed to be the same in each State and Territory.

11.4 If health and other social costs represent the principle rationale for specific taxes on alcohol and tobacco, is any purpose served in retaining duty free concessions for passenger importation of these items?

AGPN supports the views of other health agencies (e.g. the AMA) that the current duty free exemptions for alcohol and tobacco products brought into Australia from overseas needs to be abolished as these tax breaks reinforce increased alcohol and cigarette consumption.

Additional Comments: There is a strong correlation between people's socioeconomic status and their overall health and wellbeing[21]. AGPN suggest that in addition to the suggested taxation measures to assist preventative health care, taxation incentives to help promote healthy behaviour are also considered in relation to people's personal taxation.

[18] Begg S, Vos T, Barker B, Stevenson C, Stanley L, Lopez AD, 2007. *The burden of disease and injury in Australia 2003*. PHE 82. Canberra: Australian Institute of Health and Welfare.
[19] Jha, P & Chalpoupka, F.C. 2000, The economics of global tobacco control, *British Medical Journal, 321,* 358-361.
[20] Chaloupka, F. 1999, Macro-social influences: The effects of prices and tobacco control policies on the demand for tobacco products, *Nicotine and Tobacco Research*.
[21] Wilkinson R & Marmot M (eds) 2003. *Social determinants of health: the solid facts*. 2nd edn. Copenhagen: WHO Regional Office for Europe.