AFTS Secretariat
The Treasury
Langton Crescent
PARKES ACT 2600

Dear Dr Henry

Thank you for the opportunity to comment on the review of the Australian tax system.

The Australian General Practice Network (AGPN) welcomes the review of the tax system including the Prime Minister's decision to refer the current alcohol taxation system to this review. AGPN views this review as an excellent opportunity to improve the health and productivity of Australia by reforming tax systems for alcohol and tobacco. In addition, the extra revenue accrued through increased taxes on alcohol and tobacco could be used as a base from which to invest more in preventative health and thereby increase Australia's capacity to respond to and manage the growing chronic disease epidemic.

There is also scope to address health workforce skills shortages, particularly in rural and remote areas through tax reforms by:

- offering more commonwealth supported places for university study in areas of shortage and
- Abolition of, or reductions in, Higher Education Contribution Scheme repayments to attract health professionals to work in rural and remote areas.

Tax reform for alcohol and tobacco

Tobacco and alcohol are among the leading contributors to the burden of disease in Australia and therefore have a major impact on the Australian economy, both through increased costs to our health system and reduced workforce productivity.

Between them, tobacco and alcohol account for more than 10 percent of the burden of disease on our society. According to data reported in the Australian burden of disease study[1], tobacco was responsible for the greatest disease burden in Australia (7.8 percent of the total burden) in 2003.

[1] 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.

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Harmful alcohol consumption was associated with 3.2 percent of the total disease burden in 2003[2]. Tobacco and harmful alcohol consumption both had significant impacts on rates of chronic disease with both factors significantly contributing to the national burden of cardiovascular disease (accounting for 9.7 percent and 0.9 percent of cases respectively). Harmful alcohol consumption also accounted for 9.7 percent of the burden of mental illness. In 2004/05, tobacco use and harmful alcohol consumption cost the nation a total of $31.5 billion and $15.3 billion respectively including lost productivity costs of $3.5 billion for alcohol use and $5.7 billion for tobacco[3].

In 2007, about one third of persons aged 14 years or older put themselves at risk or high risk of alcohol-related harm in the short term on at least one drinking occasion[4]. In the same period, 10.3 percent of persons aged 14 years or older consumed alcohol in a way considered risky or a high risk to their health, in the long term. In addition, one in six (16.6 percent) of the population aged 14 years or older reported smoking daily and around 1.3 percent of the population smoked weekly.

The 2007 National Drug Strategy Household Survey reports both daily and weekly smoking rates have declined since 2004[5]. In contrast, patterns of alcohol consumption have remained largely unchanged since 1991. In fact, National Health Survey data from 2004-05 showed the proportion of people drinking at a risky/high risk level had increased from 8.2 percent in 1995 to 10.8 percent in 2001 and 13.4 percent in 2004-05[6].

Australian and international evidence has shown that excise taxes on products such as tobacco and alcohol curb consumption behaviours and can therefore be an effective public health intervention. Therefore increasing Australian tobacco and alcohol taxes can help reverse the increased prevalence of harmful alcohol consumption and ensure continued reductions in rates of smoking.

Tax increases are regarded as the single most effective intervention to reduce demand for tobacco. The 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[7]. 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 kids who smoke by six or seven percent[8].

A review of tobacco tax in Australia is long overdue as tobacco tax has not increased in real terms for a decade. 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. It also supports the views of other health agencies that the current duty free exemption for tobacco products brought into Australia from overseas needs to be abolished as this tax break reinforces cigarette smoking.

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[2] ibid

[3] 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.

[4] Australian Institute of Health and Welfare, 2007 National Drug Strategy Household Survey, Canberra: Commonwealth of Australia.

[5] ibid

[6] Australian Bureau of Statistics, 2006, *National Health Survey: Summary of results: Australia 2004-05.*

[7] P Jha, F.C. 2000, The economics of global tobacco control, *British Medical Journal, 321,* 358-361.

[8] Chaloupka, F. 1999, Macro-social influences: The effects of prices and tobacco control policies on the demand for tobacco products, *Nicotine and Tobacco Research*.

Higher priced alcohol is also associated with per capita decline in consumption. International evidence has shown increasing the price of alcohol can reduce road accidents and fatalities; workplace injuries; deaths from cirrhosis of the liver; various kinds of violent crime, including assaults, rapes, robberies and homicide, and spouse and child abuse[9]. Conversely, cuts to alcohol tax have been shown to increase alcohol-related mortality by as much as 17 percent, equivalent to approximately 8 additional alcohol-related deaths per week[10].

In Australia, taxation office data has shown that the recent introduction of the 'alcopops' tax has coincided with a significant decrease in spirit consumption, particularly of the ready-to-drink mixes. AGPN supports the alcopops tax and has expressed its support for other government efforts to curb alcohol consumption in Australia such as the alcohol toll reduction bill.

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. This system also has the potential to exacerbate inequities in health as it may encourage those from lower socioeconomic status households, who are already disproportionately affected by and at risk of chronic disease[11], to consume alcohol at more harmful levels.

AGPN recommends that the Australian Government gives consideration to increasing the taxes on both alcohol and tobacco. AGPN also supports the delivery of this increased alcohol tax through the introduction of a volumetric tax system for alcohol whereby the base tax is determined according to the alcohol content in the products rather than applied to the price scale for alcoholic beverages. A volumetric tax system provides an increased incentive for individuals to consume drinks with lower alcohol content. Research from the World Health Organisation (WHO)[12] and the Australian Alcohol Education and Rehabilitation Foundation[13] 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 noted that alcohol taxes were the most cost-effective intervention, even without accounting for the revenue from the taxes.

Increased expenditure on preventative health

The growing epidemic of chronic illness in Australia calls for an increased investment in preventative health. More than 50 percent of the Australian population already have a chronic illness or long-term condition, the prevalence of type 2 diabetes has doubled in the past decade and is expected to reach 3 million by 2030, and cardiovascular diseases (many of

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[9] Babor T. et al, 2003, *Alcohol: no ordinary commodity*. Oxford Medical Publications: Oxford.

[10] Koski, A; Sirén, R; Vuoir, E; Poikolainen, K., 2007, Alcohol tax cuts and increase in alcohol-positive sudden deaths – a time-series intervention analysis, *Addiction, 102*, 362-368.

[11] Wilson, A.J., Oldenburg, B.F. & Lopez, A.D. 2003, Targeted approaches for reducing inequities in chronic disease, *Medical Journal of Australia, 179*, 5, 231-232.

[12] 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.

[13] 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.

which are preventable) are the leading cause of death. Much of the burden of chronic disease is preventable through modification to lifestyle factors such as alcohol consumption, tobacco use, nutrition and exercise.

There are significant economic implications of the Australian chronic disease epidemic including adverse impacts on levels of workforce participation and productivity. Chronic diseases such as cardiovascular disease, mental illness, type 2 diabetes and musculoskeletal disease along with cancer and serious injury have been estimated to reduce labour force participation rates by between around 12 and 40 per cent[14]. This translates to substantial reductions in workplace productivity and significant costs to the individual and to the Australian economy.

The costs of lost productivity from chronic disease are of particular concern. Access Economics recently reported lost productivity costs in 2005 of **$1.7 billion from obesity-related illness** and **$3.6 billion from cardiovascular disease[15]**. **Diabetes was estimated to cost the nation around $21 billion in 2005** including lost productivity health and carer costs, taxation revenue foregone and welfare and other payments.

In spite of the clear and overwhelming evidence of the devastating social and economic impacts of chronic disease in Australia, currently only around 2 percent of the total health budget is spent on preventative health measures[16]. 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[17]. 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[18]. 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[19]. 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.

Tax reform to address health workforce shortages

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[20] .

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[14] Productivity Commission, 2006, *Potential Benefits of the National Reform Agenda*, Report to the Council of Australian Governments, Canberra.

[15] Access Economics, 2006, *The economic costs of obesity: report to Diabetes Australia.*

[16] Productivity Commission, 2006, *Potential Benefits of the National Reform Agenda*, Report to the Council of Australian Governments, Canberra.

[17] The Australian Chronic Disease Alliance includes Cancer Council Australia, the Heart Foundation, Public Health Association of Australia and Action on Smoking and Health.

[18] The Australian Chronic Disease Alliance, 2008, *More than 80% back 'alcopops' and tobacco tax: Newspoll survey,* Media Release, accessed 24 September 2008.

[19] *Australia 2020 Summit: Final Report*, Canberra: Commonwealth of Australia.

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

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. 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[21]. 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.

Recommendations

AGPN recommends that in reviewing the tax system, the Australian Government should:

- Increase taxes for both alcohol and tobacco;
- Introduce a volumetric tax system for alcohol that is applied to all forms of alcohol;
- Rationalise the levels of tax on tobacco to be the same in each State and Territory;
- Abolish the tax duty exemption on tobacco brought into Australia from overseas;
- Support the National 2020 Summit recommendation to invest a proportion of the revenue from the proposed increased taxes in preventative health programs or activities;
- Double the number of Commonwealth Supported university places in areas of health workforce shortage; and
- Reduce or waive Higher Education Contribution Scheme repayments for trained health professionals working in rural and remote areas.

[21] 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.

Conclusion

The Australian General Practice Network urges the Australian Government Department of Treasury to consider reform of taxes for alcohol and tobacco and the introduction of tax incentives to address health workforce shortages. Increased taxes for alcohol and tobacco, supported by enhanced prevention and treatment measures implemented through the health care system, will provide savings in health expenditure and improve workforce participation and productivity. Investing revenue from these taxes into preventative health activities will better equip the nation to manage the chronic disease epidemic.

Both reforms proposed above are necessary public health interventions with the potential to yield significant economic, social and health benefits for the nation. Tax reforms can also help enhance the future viability of the Australian health workforce by attracting more new students to train in areas of shortage and attracting and retaining more health professionals in rural and remote areas.

Yours sincerely

David Butt
Chief Executive Officer
16 October 2008

About AGPN

Australian General Practice Network (AGPN) is the new name of the Australian Divisions of General Practice (ADGP) which was established in 1998 as the peak national body representing 111 divisions of general practice and their state-based organisations across Australia. We are the largest voice for general practice in Australia with over 95 per cent of Australia's GPs members of their local division. The Network delivers local heath solutions through general practice.