

RFDS Queensland Head Office

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Submission by Royal Flying Doctor Service (Queensland Section)

ABN 80 009 663 478

Productivity Commission draft report 'Remote Area Tax Concessions and Payments'

We refer to the Productivity Commission invitation to consult on the draft report 'Remote Area Tax Concessions and Payments' which was released on 4 September 2019.

Background

Royal Flying Doctor Service (Queensland Section) ("RFDS Qld" and "the Service") is a Registered Charity. As a charity, all assets and all income are applied to the purpose of the organisation, focused on the delivery of health services, primarily in Queensland.

RFDS Qld provides health services to regional and remote Queensland. The services delivered include;

- Primary Health Clinics in various communities, many delivered using the aviation platform;
- Mental health services with some delivered through a car based platform;
- Emergency retrievals using the aviation platform;
- Dental health services delivered through a road based platform; and
- Inter hospital medical transport services delivered using the aviation platform.

In order to deliver these services, RFDS Qld employs staff who are required to live in remote communities. Without those staff being located in those communities, the RFDS Qld would be restricted in the delivery of health services.

Current communities where housing assistance is provided include:

- Charleville
- Mt Isa

Attracting staff to live in each of these two locations is important in the delivery of the health services.

Emergency retrieval aircraft are based at Charleville, Mt Isa and Cairns with support from the other bases. RFDS Qld has the goal to reach those in need in an emergency situation with two hours of the request. The Charleville and Mt Isa bases are integral to the delivery of those emergency services.

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The Royal Flying Doctor Service in Australia operates through a federated model. The commentary in this submission is based on the circumstances applicable to the RFDS Qld. However, the other RFDS sections potentially significantly impacted include:

- Royal Flying Doctor Service (South East Section) - New South Wales
- Royal Flying Doctor Service (Central Operations) - South Australia and the southern half of the Northern Territory (Alice Springs base)
- Royal Flying Doctor Service (Western Operations) - Western Australia
- Royal Flying Doctor Service (Victorian Section) - Victoria
- Royal Flying Doctor Service (Tasmania) - Tasmania

Remoteness

From an employment perspective, many of the locations from which the RFDS provides services are remote.

The mission and purpose of the Royal Flying Doctor Service in Australia is about the delivery of health services to all of Australia outside the major urban centres - the organisation has the stated goal - the furthest corner the highest care.

Most of the areas serviced by the Royal Flying Doctor Service are remote.

There may be a perceived wealth within those communities that are surrounded by mining enterprises but the Royal Flying Doctor Service experience is that there are many within those communities who still rely on services provided by the likes of the Royal Flying Doctor Service.

This submission will be based on the examples from RFDS Qld as representative of each of the Royal Flying Doctor Service operating entities. Specific details can be provided to the Productivity Commission for all remaining Royal Flying Doctor Service entities if so required.

Removal of FBT exemption on accommodation**Rationale for locations**

The locations where the RFDS Qld provides accommodation are remote and are locations to which it is difficult to attract and retain medical practitioners and pilots. Accommodation is only provided to these categories of employees and is provided out of necessity to do so to attract them to these locations.

The current locations for RFDS Qld include Charleville and Mt Isa. Both of these locations offer challenges from a real estate perspective where the selection of available residential properties is limited. The real estate markets in these towns have limited selection and lower volume of transactions.

The RFDS Qld owns properties in these two locations in order to provide suitable and available accommodation to staff it needs to attract to these communities.

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It is not necessary to do the same in other locations where RFDS Qld has a base, such as Cairns - here there is a wide selection of accommodation available and the location is more attractive from an employment perspective.

That is, the locations where the accommodation is needed to be provided by RFDS Qld are the more remote base locations, where there is a more restricted choice of accommodation, and a limited pool of suitably qualified persons in the required fields who are prepared to relocate to these locations.

FBT exemptions and financial impact

As a Public Benevolent Institution the RFDS Qld is an exempt employer for FBT purposes. The exemption is capped at \$30,000 of grossed up value of fringe benefits. In broad terms this roughly equates to about \$15,000 of taxable value of benefits (before the gross up).

The FBT exemption of \$30,000 gross up FBT value is used by the RFDS Qld as part of its remuneration package of employees and allows the RFDS Qld to pay a lower cash salary, providing a saving in employment costs to the RFDS Qld. These benefits provided are generally in the categories that are reportable.

Previous reviews of the FBT concessions for Not for Profits by the Henry Review, the Productivity Commission in 2009, and the Tax Working Group all concluded that no change be made to these arrangements.

As all of the FBT exemption is applied to the employee remuneration, any additional fringe benefits will be in excess of the exemption cap and therefore fully taxable. Employees will not be prepared to forego their remuneration benefits without being compensated by higher wages.

The RFDS Qld only provides accommodation in limited circumstances and only in those communities in which it is required in order to secure appropriately qualified personnel.

RFDS Qld employs in excess of 400 people, across nine operational bases and one administration centre. RFDS Qld only provides a small number of houses in two remote locations. The RFDS Qld is not applying any inappropriate advantage with regards to any FBT concessions for remote housing.

If the FBT exemption on accommodation is removed or replaced with a 50% exemption, the cost of the FBT will impact on the RFDS Qld. Costs are disclosed in the attached schedule.

Every dollar of income generated by the RFDS Qld is applied to the delivery of health services. Any additional expense associated with either the full value or at 50% concessional rate would mean that this amount of funds would be taken away from other discretionary health services.

Similar circumstances will apply to the other Royal Flying Doctor Service operating entities around Australia.

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Employee / recipient contributions

If the report recommendation is to apply a 50%, there should be a further recommendation to ensure the manner in which employee contributions (from after tax income) are applied is equitable.

A comparable 50% FBT taxing process applies to meals provided to employees.

The taxable value of the fringe benefit is calculated as follows

		\$
• Gross taxable value of benefit provided	A	100
• Less employee contribution	B	50
• Taxable value net of contribution	A-B	50
• Less discount	50% of (A-B)	(25)
• FBT Taxable value	50% of (A-B)	(25)

As a consequence for employees on lower levels of income the employee contribution from after tax income is only 50% effective and takes the full contribution to eliminate the FBT taxable value.

If the 50% exemption is to be a genuine reduction, the 50% discount should be applied before the recipient contribution, namely

		\$
• Gross taxable value of benefit provided	A	100
• Less discount	50% of A	(50)
• Taxable value net of discount	C	50
• Less employee contribution	B	50
• Taxable value net of contribution	C-B	nil

Terminology

As part of the FBT legislation to establish access to the FBT concession, one of the possible tests is that "it is customary in the industry". It is submitted that this terminology is used so as to ensure that all employers are included in the concession including those that employ a small number of staff.

As a health provider it is submitted that it is customary to provide accommodation in those locations to which it is difficult to attract the appropriately qualified personnel.

Access to the concession is not restricted to those employers who have specific Employee Agreements or Awards, and nor should it be.

It would not be unreasonable to clarify this access definition but to do so in a manner that can include employers of all sizes and across a diverse range of activities

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Reportable

If there is a requirement to include the value of any supposed benefit as a reportable benefit, this will introduce a significant administrative burden on the employer. Where the accommodation is in staff quarters, or on agricultural enterprises, the employer will need to substantiate the market value of the accommodation in order to ascertain the reportable amount.

Inclusion as a FBT Reportable benefit will mean that the employer will need to demonstrate the method of calculation to the employee and may be challenge by those employees who are impacted by the increase in their Adjusted Taxable Income as a consequence of the accommodation benefit.

Those employees who are required to pay Child Support will be particularly impacted as this is based on the Adjusted Taxable Income.

Summary

RFDS Qld on behalf of all of the Royal Flying Doctor Service entities respectfully submits that the concession for employer provided accommodation should remain as an exempt fringe benefit and should remain as not reportable.

Kind regards,

Greg O'Toole
Chief Financial Officer
Royal Flying Doctor Service (Queensland Section)