General Practitioner
Industry Report
April 2024

Foreword

General Practice is always at the forefront of changes to the medical industry. Practice owners are increasingly concerned about the viability of their practices, attracting and retaining doctors and managing workload. Bulk billing rates are rapidly declining as practices pass on costs to patients. The threat of payroll tax audits have seen practices take up the state-based amnesties on offer whilst looking at ways to reduce their payroll tax risk. The Australian Tax Office has also taken aim at Practice profits. With all these developments it is important to make sure your practice is financially sound and investing resources in the right tools to enable growth over the long term.

Practice viability is becoming an increasing concern for owners.

As the most accessed sector of the medical industry, general practice is at the core of the healthcare system serving as the first point of contact for millions of Australians seeking medical care. However, with the ever-evolving landscape of healthcare, practice owners are finding it increasingly more difficult to navigate the challenges of the industry and identify opportunities for practices to thrive.

Practice viability continues to be a concern for owners as growing operating costs and a diminishing work force continue to put strain on the sector. More and more practices are being forced to shift away from bulk billing and offload the costs onto patients to maintain profitability, resulting in lower levels of patient satisfaction. As many practice owners in 2023 struggle to remain competitive whilst balancing profitability, GP/staff satisfaction as well as patient accessibility and quality of care, it's vital that practices employ the correct strategic responses and tactics to help achieve their goals and ensure their prosperity for the future.

In this year's General Practitioner Industry Report, Prosperity continues its ongoing commitment to the medical industry by providing a comprehensive analysis of the business changes in the general practice sector over the past 12 months, including what challenges practice owners are faced with and their opportunities for the future.

Prosperity Health's top priority is ensuring the best professional support and advice for our general practice clients so that they can gain an edge over competitors, maximise their practice's value and reach their full potential.

As Prosperity continues to grow with now 14 partners and over 180 employees across our three offices in Sydney, Newcastle and Brisbane, we've established a reputation built upon our expert team and vast experience and resources in the sector to deliver consistent high quality services and advice.

Brendan Campbell
Director
Prosperity Health

Attraction and retention of GP's are a key concern along with many practices forgoing bulk billing due to increased cost pressures.

RECENT INDUSTRY ANALYSIS

2023 observed a continuation of the shift away from bulk billing and a growing concern for the viability of practices. As a result, attraction and retention of the GP workforce has become more of a pressing issue for the future of the General Practice sector in Australia.

The 2023 RACGP General Practice Industry Report shines the spotlight on the General Practice sector in Australian and offers an insightful analysis into the performance of the industry.

- There is a growing concern surrounding the attraction and retention of the general practice workforce with heavy workloads and demands on GPs eroding optimism around the profession.
  - Less than 40% of practising GPs would recommend their profession to junior colleagues.
  - 29% of GPs intend to retire in the next five years.
  - The proportion of aspiring practice owners has halved since 2020.
  - GP work-life balances have continued to decline since 2019.
  - 47% of GPs reported dissatisfaction with their remuneration this year.
- The main issues faced by GPs in 2023 are managing workload, understanding and adhering to regulatory and policy changes, patient access to other medical specialists, maintaining income and ensuring accessibility of high quality care.
- As the historical trend of underfunding for general practice as a percentage of total government health spending continues, with the contribution decreasing to just 6.5% from 7.12% in 2022, concern for the cost of care in Australia becomes ever more pressing.
- Following on from the historic decrease in 2022, the proportion of GPs bulk billing all of their patients has halved in 2023 to just 12%. The significance of such a dramatic drop in just 2 years accentuates the consequences that a lack of government funding for general practice care causes for patient costs. The recent increases in medicare rates are still not enough to bridge the gap for patients, other than for concessional card holders. Subsequently, GPs are finding it harder to provide quality care to their patients without drastically offloading costs.
- The proportion of GP practice owners who are concerned about practice viability has increased to 81%. The biggest challenges faced by practice owners in 2023 are sourcing and retaining GPs, maintaining business profitability, and coping with increasing business costs.
- More and more practice owners are feeling the strain from the increasing business challenges of running a general practice. Compliance and business administration are becoming increasingly more time consuming, and many are struggling to manage their patient loads and the business responsibilities within the practice.

Enhancing the practice and patient experience has helped enable GPs to tackle rising costs and patient frustrations with convenience and accessibility.

Commbank's 2023 GP insights report provides an examination of the latest industry and practice level trends. Staff shortages and shortfall of medicare schedule fees rising operating costs are putting practice sustainability and capacity under pressure, with 78% of practices experiencing higher costs and 72% of practice's capacity and growth impacted by staff shortages.

How are practice's responding to the pressing challenges and ensure their sustainability and prosperity?

- Many practices are reviewing their billing models to ensure sustainability and combat the rising costs and shortfall of Medicare schedule fees. Common changes by GPs include reducing the proportion and volume of bulk billed services and increasing private billing fees, or employing flexible charging based on appointment type and time.
- To counteract the persistent shortage of GP's and practice staff, practices have been concentrating on expanding capacity by putting their people first including other value added entitlements such as fringe benefit salary packaging. Through shifting their focus onto a supportive workplace culture with flexible working arrangements and higher salary packages, practices have been able to increase capacity and services to meet demand and improve staff wellbeing whilst also offering better availability, continuity of care and access to preferred general practitioners for patients.
- Enhancing the practice and patient experience has helped enable GPs to tackle rising costs and patient frustrations with convenience and accessibility. By directing technology budgets to improve patient interactions, practices can boost convenience and flexibility for the patient. Strategically focussing to work on the practice instead of in the practice and to review innovative changes in the industry can help to improve efficiency. Additionally, improving practice efficiency, productivity and decision making can be driven by focussing on updating IT processes and integration as well as monitoring operational and financial performance through data analytics.

Based on data collected by Cubiko, we can see that the Gross GP billings per hour has increased from $324 in 2022 to $355 in 2023. Whether this is due to an overall increase in billings or appointment throughput remains unclear.

Chronic disease management has increased slightly in 2023 slightly over 10% of all billings.

We can also see a reduction in Telehealth consultations, moving from 11.47% of billings in 2022 to just over 10% of billings in 2023. This is less of a reduction than the prior year indicating that Telehealth is here to stay.

	2022	2023
Gross GP billings per hour	$324	$355
Chronic Disease management	9.32%	10.49%
Telehealth consultations	11.47%	10.05%


System

The rules are changing and you might have to pay more tax on your practices profits.

HOW ARE YOUR PRACTICE PROFITS TAXED AND WHAT IS CHANGING?

For years, Medical Practices have derived profits and then paid taxes. This is typically in a Company or through a trust where family members of the principal doctor have paid tax on the profits. Unfortunately, the rules are changing and you might have to pay more tax on your practices profits.

The new ATO guidance (PCG 2021/4) totally changes the way that professional firm profits can be allocated (or split) among a family group from 1 July 2022 onwards. Typically, a professional will attempt to "split" their income to their family (spouse and children) who have lower income and will therefore pay lower amounts of tax, or to a "bucket company" where tax may be capped at either a 25% or a 30% tax rate.

This has been standard tax planning advice recommended by accountants for decades. The average tax rate paid by the professional and their associated group of entities is often between 26% and 30%. However, it is clear that the ATO is now making their own judgement that they would like to see the average tax rate paid by a professional and their associated group to be 35% or more. The ATO issued PCG (Practical Compliance Guideline) 2021/4 "Allocation of Professional Firm Profits" in December 2021. It applies to professional firms from 1 July 2022. A professional firm is one that offers customised, knowledge-based services to clients which include medicine (doctors, dentists, medical specialists, lawyers, architects, engineers, accountants, financial advisors, and Consultants).

The ATO document PCG 2021/4 is concerned with what the ATO views as "inappropriate tax outcomes arising from the allocation of profits from professional firms". This means that the ATO doesn't like professionals splitting out some of their income to lower taxed family members or associated companies. This is a reality that you will now need to urgently consider, because no-one likes the thought of being subjected to a review or an audit by the ATO. The key question is this: How much additional tax are you prepared to pay to put yourself in the "green zone" and reduce the risk of being in the ATO cross hairs?

These new ATO guidelines apply from 1 July 2022. They are a significant change from the former guidelines suspended by the ATO in December 2017. While the Guidelines take effect from 1 July 2022, the PCG provides for a two-year transitional period until 30 June 2024 for those with pre-existing arrangements that were considered to be low risk under the suspended guidelines.

Risk Assessment Framework

The Guidelines provide for a "traffic light style" risk assessment framework containing three risk factors that allow certain professionals to self-assess their risk of ATO compliance activity. The Guidelines target arrangements that are seen by the ATO to be a form of income splitting by Individual Professional Practitioners ("IPP") whose entitlement to a share of the profits of their firm is seen as comprising both income from personal exertion as well as income generated from a business structure and its assets.

Gateway Table

The PCG outlines a two-step approach. Before you get to the "scoring tables", you first have to pass through two "gateways".

Gateway	Details
Gateway 1 - Commercially Driven	• The arrangement between the interposed entity and the individual professional must be "commercially driven". • There must be a genuine commercial basis for the arrangement and also for the way that profits are distributed. • It is crucial that the arrangement is properly documented.
Gateway 2 - No High-Risk Features	• The arrangement must not contain "high-risk features", for example multiple classes of shares or units held by non-equity holders.

If you get through both of these gateways, then you can use the scoring tables to assess your risk of an ATO audit of your arrangements.

If you get through both of these gateways, then you can use the scoring tables to assess your risk of an ATO audit of your arrangements. If you don't get through these gateways, then the PCG cannot be applied even if you would have otherwise scored in the "green zone". If you pass the gateway tests you will now move on to the "risk assessment framework".

Risk Assessment Scoring Table

There are 3 risk assessment factors (RAF's). RAF 1 produces a score based on the proportion of profit entitlement included in the IPP's assessable income compared to the total amount of income to which the IPP and all of their associated entities are collectively entitled.

RAF 2 measures the total effective tax rate on income received from the firm by the IPP and their associated entities.

Both RAF 1 and RAF 2 must be calculated and scored in accordance with the below table.

Risk Zone	Score					
	1	2	3	4	5	6
1. Proportion of profit entitlement from the whole of the firm group returned in the hands of the IPP	> 90%	> 75% to ≤ 90%	> 60% to ≤ 75%	> 50% to ≤ 60%	> 25% to ≤ 50%	≤ 25%
2. Total effective tax rate for income received from the firm by the IPP and associated entities	> 40%	> 35% to ≤ 40%	> 30% to ≤ 35%	> 25% to ≤ 30%	> 20% to ≤ 25%	≤ 20%
3. Remuneration returned in the hands of the IPP as a % of the commercial benchmark for the services provided to the firm	> 200%	> 150% to ≤ 200%	> 100% to ≤ 150%	> 90% to ≤ 100%	> 70% to ≤ 90%	≤ 70%

RAF 3 measures the remuneration returned in the hands of the IPP as a percentage of a commercial benchmark for the services that the IPP provides to the firm. However, the ATO realises that it can be difficult to establish an appropriate benchmark, so the use of RAF 3 is optional, and you can choose to only use RAF 1 and RAF 2.

In general terms, you are within the green zone if your overall “associated entities” tax rate is at least 35% or higher.

Risk Zone Table

The aggregate scores from either the first 2 Risk Zones or from all 3 Risk Zones will place an IPP into one of the 3 zones shown in the table below.

Risk Zone	Risk Level	Aggregate Score against first two factors	Aggregate score of all three factors
Green	Low Risk	≤ 7	≤ 10
Amber	Moderate Risk	8	11 & 12
Red	High Risk	≥ 9	≥ 13

The ATO has stated that IPP’s in the “Amber Zone” will likely trigger further analysis by the ATO, and for the “Red Zone” ATO reviews are likely to be commenced as a matter of priority. In general terms, you are within the green zone if your overall “associated entities” tax rate is at least 35% or higher.

Unfortunately the ATO (and state tax authorities) are using this method of setting guidelines when there have been no changes to the law, however the cost to take on the ATO in court can be very expensive. Therefore you need to plan to review your professional firm profit allocations annually to ensure that you remain within the “Green Zone” and so you are aware of the risks to you if you venture into the “Amber Zone” or the “Red Zone”.

PRACTICE PROFITS – CASE STUDY

Consider an owner of a medical practice who in the 2023 financial year generated $500,000 in profits. These profits were distributed to a family trust, which has the option of splitting this income to either a company (with a tax rate of 25%) or the medical practitioner (IPP).

Scenario 1 – High Risk

In this scenario the Medical practitioner has received $100,000 from the profits of the practice (from an available total of $500,000).

Risk Zone	Calculation	Result	Risk Assessment Score
Risk Zone 1 – Proportion of Profit to IPP	Total net Firm Income and Remuneration / Total Firm amounts collectively entitled	100,000 / 500,000 = 20%	6
Risk Zone 2 – Effective Tax Rate	Total effective Tax / Total Firm amounts collectively entitled	129,125 / 500,000 = 25%	5
Aggregate Risk Score		**Red**	**11**

Scenario 2 – Moderate Risk

In this scenario the Medical practitioner receives $240,000 from the profits of the practice (from an available total of $500,000), with the remainder going to the company.

Risk Zone	Calculation	Result	Risk Assessment Score
Risk Zone 1 – Proportion of Profit to IPP	Total net Firm Income and Remuneration / Total Firm amounts collectively entitled	240,000 / 500,000 = 48%	5
Risk Zone 2 – Effective Tax Rate	Total effective Tax / Total Firm amounts collectively entitled	152,325 / 500,000 = 30%	3
Aggregate Risk Score		**Amber**	**8**

Recent Payroll Tax cases have shone a light on the Independence of Contracting Doctors.

Scenario 3 – Low Risk

In this scenario the Medical practitioner receives $260,000 from the profits of the practice (from an available total of $500,000), with the remainder going to the company.

Risk Zone	Calculation	Result	Risk Assessment Score
Risk Zone 1 – Proportion of Profit to IPP	Total net Firm Income and Remuneration / Total Firm amounts collectively entitled	260,000 / 500,000 = 52%	4
Risk Zone 2 – Effective Tax Rate	Total effective Tax / Total Firm amounts collectively entitled	156,325 / 500,000 = 31%	3
Aggregate Risk Score		**Green**	**7**

In this case, for an extra $4,000 in tax to pay, you reduce your risk in being subject to an ATO audit.

Is your practice 'payroll tax audit ready'?

Recent Payroll Tax cases have shone a light on the Independence of Contracting Doctors. Practices should be considering putting in a range of measures to ensure Doctor independence.

Following the Victorian 2019 decision in the Optical Superstores case, the NSW 2019 Homefront Nursing case and the 2022 Thomas and Naaz case, the various State Revenue offices (collectively 'OSR') have been actively engaged in payroll tax audits on medical and dental practices. With the power to issue backdated assessments for up to five years and impose penalties of between 10-75% of any back taxes levied, the potential claims could be substantial.

Whilst there doesn't seem to be a backing away from the application of Payroll Tax, a number of states have opted to introduce amnesties and audit deferrals.

- QLD has implemented a payroll tax amnesty that extends until 30 June 2025 to give medical practices more time to become compliant. QLD has also specifically exempted centres that contract GPs as sole traders from payroll tax.
- NSW has opted to put a 12 month pause on audits from 4 September 2023. This ends on 4 September 2024
- VIC has no deferrals or amnesties in place.
- SA has implemented a payroll tax amnesty but only until 30 June 2024.
- ACT has implemented a payroll tax amnesty until 30 June 2025, as long as GPs are bulk-billing at least 65 percent of all patients.
- WA is not applying payroll tax on contracted GPs.

As you would know, there continues to be uncertainty regarding payroll tax risk for medical practices. Many medical practices are introducing additional changes to their systems and are now considering making a change to set up multiple bank accounts and EFTPOS machines for each independent GP practitioner.

Practices should be considering putting in a range of measures to ensure Doctor independence.

Considerations for payroll tax

When considering whether your medical practice may be subject to payroll tax, there are many factors to consider including:

- Are the patient fees collected and paid directly to the GP? Or are they collected by the medical centre and then remitted to the GP?
- Does the medical practice provide use of rooms and facilities as a service, or is there a formal lease in place?
- Does the medical practice exercise control over the practitioner?
- Are the GPs required to use the medical practice facilities to see and treat their patients, or do they have discretion on how they conduct their own business?
- Are the patients attributed to the independent GP/other practitioner or to the medical practice itself?

All GP and Specialist practices should be seeking an urgent review of how billings are received in order to reduce their payroll tax risk exposure.

Should Practices have to pay Payroll tax on contracting Doctors?

Going forward, we see there are two options to consider for the flow of funds:

1. **Doctors collect their own billings,** less restrictive contracts, and less control for a possible saving of payroll tax. There are two ways to administer this

    - Individual doctor provides the reconciliations and reporting to the practice manager

    - Practice manager has read only access to the individual doctor's bank account and prepares the reconciliation supported by technology

    It is also important to ensure the following are put in place:

    - Contractual arrangements, with a specific focus on items such as the ownership of the patient relationship, the characterisation of payments from the doctor to the practice, any conditions imposed on the doctor by the practice and the funds paid for such services; and

    - Practice website and marketing collateral, and day-to-day communication refer to the doctors as independent, and not as staff or team of the Practice. Patients are to be considered as patients of the Doctor and not the practice.

OR

2. **Practice collects billings,** keep more restrictive contracts and have more control over Doctors and patients, and less admin time spent reconciling through one account and just pay the additional payroll tax (this is really a cost benefit analysis that may suit smaller practices with lower payroll tax exposure).

Please contact us if you or someone you may know are interested in reducing your payroll tax risk.

ABOUT PROSPERITY HEALTH

Prosperity is an independently owned, award-winning chartered accounting and financial advisory firm with offices in Sydney, Brisbane and Newcastle.

Our Health team specialises in providing medical and allied health professionals with the financial services they need. Our team of specialists provide comprehensive accounting, audit, taxation, salary packaging and financial advisory services to practices of all sizes as well as individual practitioners and their families.

With 14 partners and over 180 employees throughout the firm, Prosperity has the necessary expertise, experience and resources to service our clients' needs. We are very proud of our reputation among our clients and we follow best practice processes and procedures to ensure our clients receive consistently high-quality service and solutions.

Our experienced Prosperity Health team can work closely with you to assess your individual circumstances and work with you to develop strategies to reach financial goals and objectives.

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