17 MAY 2017

Tax nightmare looms for Health Care Homes

Posted by
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General practices could face a taxation nightmare as a result of the Health Care Homes initiative for treating chronic disease.

Uncertainty about the impact of the bundled-payment funding model was among the top concerns of independent GP owner-doctors at a post-budget strategy meeting in Melbourne last weekend.

Dr Sean Stevens, a director of the Australian General Practice Alliance, said the taxation issue was "huge" for practice owners and the future of the Health Care Homes scheme would be in trouble if they did not get on board.

"If the government wants to roll this out they are going to need to do it with practice owners," he said.

"The payroll tax issue has not been resolved. There has not been adequate consultation with practice owners.

"If you're a large corporate, you can afford lawyers to structure things so that payroll tax is not an issue.   But if you are a practice owner with eight GPs, that could potentially be very expensive and explode in your face."

The potential barrier to participation in Health Care Homes arises because the federal government's bundled payments – essentially a reassignment of chronic care plan funding – will go to practices, not to treating GPs. Depending on how the funds are passed on to GPs, their legal and taxation status will be affected.

The concern arises as doctors are still digesting the news that practices belonging to the two largest corporate players have snapped up about 50% of the Health Care Homes trials to start later this year.

David Dahm, a chartered accountant who acts as a management consultant to practices across the country, agreed that independent practice owners were right to be worried, saying they faced potentially massive new tax liabilities without careful restructuring.

As the Health Care Homes scheme grew in size, these liabilities would “swell like a boil”, he said.

Practices are commonly set up as “service entities” and split their administrative and clinical arms legally.

“Under the new scheme, a GP would be contracted to provide clinical services to the practice, instead of the patient, causing significant commercial, medico-legal and taxation issues,” Mr Dahm, also a taxation agent, told The Medical Republic..

In the murky world of tax rulings, not only could a practice be hit for payroll tax on the HCH component paid to doctors, tax authorities could potentially then go after the practice for tax on all the doctors’ earnings.

For a practice where doctors were taking home $1 million, there would be an instant 5% jump in overheads. But knock-on costs could appear, for example, with demands for mandated superannuation.

Dr Stevens said owners’ concerns over the tax issue was second only to their ongoing fears about the status of pathology rents that GP owners can charge for collection centres at their clinics.

With tax rules open to interpretation, “there’s so much money at stake, it’s a huge risk that you can’t ignore”, Dr Stevens said.

AGPA is holding post-budget meetings with practice owners in state capitals over coming weeks, starting with a meeting tonight in Perth.

More meetings will follow in Sydney, Brisbane and other capitals.