

Royal Flying Doctor Service of Australia - Further submission to Productivity Commission

Competitive Neutrality

1 Executive summary

The RFDS submits:

- (a) the activities in which NFPs are directly and wholly competing with for-profit businesses are limited, and the interaction between NFPs and for-profits is usually more complex than the hospital case study;
- (b) the RFDS' experience of competing directly with for-profit businesses has been that it has been disadvantaged due to other factors that have had a far greater impact on the RFDS and its experience of competitive neutrality than tax concessions;
- (c) competition between NFPs and for-profit businesses is multi-factorial, and to focus on redressing one aspect only (ie any financial advantage NFPs may derive from tax concessions), is to ignore other factors which operate to disadvantage NFPs, and would only serve to disadvantage NFPs further;
- (d) when the Commission considers the "financial advantage" of the FBT exemption, that it consider:
 - (i) the erosion of the real benefit derived from the exemption;
 - (ii) the fact that due to reporting requirements it does not distort employee behaviour;
 - (iii) that removing it would redirect dollars away from the NFPs work in the community;
 - (iv) that many NFPs do not have sufficient funds to pay market salaries;
 - (v) that the FBT exemption primarily benefits the employer (being the NFP) on a number of levels; and
 - (vi) the impact of tax rate changes in relation to the advantages that the FBT exemption has for higher income earners;
- (e) that payroll tax is a tax on the employer (being the NFP) and that for-profit businesses have a number of remuneration advantages that lower payroll tax that are not available to NFPs;
- (f) NFPs depend substantially on the available tax concessions, and to remove these benefits would have a significant effect on NFPs (not only in a financial sense, but in the way the organisations are structured and operated), and on the ability of the NFPs to deliver services to the Australian community; and

- (g) there is little evidence that the input tax concessions distort the mix of inputs (ie capital versus labour) for NFPs.

2 RFDS submissions - initial and further

2.1 Initial submission

The RFDS made an initial submission on 29 May 2009, addressing a number of the Commission's request for comments.

The initial submission also includes information about the RFDS's activities and organisational structure.

2.2 Further submissions

In response to the Commission's call for further submissions, the RFDS has chosen to make further submissions in relation to three issues:

- (a) Competitive neutrality;
- (b) Competitive procurement; and
- (c) Portable long service leave.

The RFDS has made its further submissions separately.

This submission is on the issue of **competitive neutrality**.

In particular, the RFDS is responding to the following issues identified by the Commission:

... what is the extent to which NFPs are competing with the for-profit businesses and in what activities? What is the financial advantage conferred to NFPs from their access to tax concessions? How dependent are NFPs on these concessions as an indirect source of funding? Do input tax concessions distort the mix of inputs for NFPs?

In addition to responding to the specific questions on which the Commission sought further input, this submission also addresses specific statements made in the general discussion in *Sections 8.2 and 8.3*.

3 What is the extent to which NFP's are competing with for-profit businesses and in what activities?

3.1 Summary

The RFDS submits that:

- (a) the activities in which NFPs are directly and wholly competing with for-profit businesses are limited, and the interaction between NFPs and for-profits is usually more complex than the hospital case study; and
- (b) the RFDS's experience of competing directly with for-profit businesses has been that it has been disadvantaged due to other factors that have had

a far greater impact on the RFDS and its experience of competitive neutrality than tax concessions.

3.2 Response to the Commission's comments on competitive neutrality in the hospital sector

The Commission's draft conclusions are:

"the competitive neutrality principle is violated by the provision of input tax concessions, especially for FBT and payroll tax, to NFPs that compete against for-profit companies in the provision of similar goods and services on a significant scale. However, in practice concerns about competitive neutrality are confined to a relatively small part of the NFP sector, of which hospitals are a major example".

Firstly, the RFDS concurs that as a general rule the situations in which NFPs and for-profits directly compete for the provision of similar goods and services on a significant scale, **are limited.**

The RFDS also submits that the overlap of areas of operation by NFPs and for-profits is more complex than the hospital example. The situation is almost never straightforward ie a NFP wholly competing with a for-profit organisation. Most NFPs offer a range of services, some of which are in competition with for-profits and some which are not. NFPs are more likely to offer broader services to benefit the community in which the NFP operates, or services for which the NFP has particular expertise. The RFDS finds itself in this position.

With respect to hospitals, the RFDS suggests that these are unique in that there are three major categories of hospital owners / operators:

- (a) State and Commonwealth Governments;
- (b) Public Benevolent Institutions, charities, religious orders such as the Uniting Church, all of whom are NFPs; and
- (c) For-profit businesses, both privately owned and ASX listed.

Our observations are that the Government and NFP-run hospitals provide the majority of the public health system, whilst the for-profit businesses primarily target the private health system / patients.

Consequently, based on our observations we suggest that from a patient / market segment there is limited competition between the hospitals.

There will be competition between the hospitals for suitably qualified staff, particularly nurses. This competition will extend beyond the hospitals to include medical centres, individual doctors, government departments, education institutions and other health service providers such as the RFDS.

The Commission has acknowledged that apart from hospitals, data on the proportion of PBIs in competition with the for-profit sector is sparse. Therefore, the RFDS commends the Commission's request for further data to support its investigation of this issue.

The RFDS also submits that, once further data has been collected further consideration needs to be given to ensure an appropriate and targeted response to

a specific issue, rather than altering the FBT exemption in a manner that affects all NFPs.

The RFDS also submits that it is not correct to conclude that the group that receives the most generous FBT exemption (e.g. PBIs) is the group most likely to be competing directly with for-profits. The RFDS considers that the group that receives the FBT exemption is defined by legislation and is relatively small in number when viewed in the context of total number of NFP's. This group includes:

- (d) Public benevolent institutions, provided they have been endorsed as that by the ATO;
- (e) Religious bodies, but only in respect of ministers; and
- (f) State government hospitals in respect of health officers involved in the front line delivery of health.

This group is limited in number.

3.3 RFDS experience of competitive neutrality in tendering for Government contracts

During the last twelve months various parts of the RFDS have been involved in submitting tenders for the supply of aviation and aeromedical services to State Governments. The RFDS is aware that competing tenders were submitted by both for-profit organisations and other NFPs.

A summary of our recent experience, and our observations from this experience, substantiating the following summary of observations is set out in a separate commercial-in-confidence attachment to this submission.

Summary of observations

- (a) An NFP is more financially constrained when bidding against other entities, especially for-profit entities. The RFDS submits that it believes that a for-profit entity can more readily adopt a loss lead approach in order to win a tender position. A NFP will often have less financial resources available to absorb the loss during the initial period and will also have greater restrictions on its appetite / ability to do so by the operation of its constitution and objects.
- (b) Parts of the services offered by an NFP may be attractive to for-profit businesses in situations where they can select those parts that offer the greatest adaptation to a commercial enterprise. This can result in the NFP retaining the higher cost component of its services. This pressure is felt within the RFDS where in NSW for example there is both the interhospital patient transfer services and the traditional clinic / aeromedical services to the regional and remote communities of NSW.

Should the Commission wish to understand more about these recent tendering examples, the RFDS is more than happy to meet with the Commission to discuss, and to provide further detail.

4 What is the financial advantage conferred to NFPs from their access to tax concessions?

4.1 Financial advantage and other factors

When viewed in isolation, it could be argued NFPs do gain a financial advantage from tax concessions. However, as outlined in our earlier submission, we suggest that it is not appropriate to conclude that all NFPs are obtaining a net advantage (or even an unfair advantage) over their for-profit competitors due to these tax concessions.

The RFDS submits that if a balanced perspective is to be achieved, it is necessary to focus on all aspects of what is a multi-faceted issue: one aspect is the financial advantage conferred to NFPs from their access to tax concessions.

The RFDS acknowledges that the Commission's report and investigations are largely defined by the scope of its brief. However, the RFDS believes that it is necessary to consider direct financial impacts and also those factors that also have a financial impact, including:

- (a) the advantages enjoyed by for-profits which are not readily available to NFPs, such as access to capital, corporate structures which minimise commercial risks and other taxes payable, economies of scale (given NFPs are more likely to be smaller, community based operations);
- (b) the *perceived* disadvantages of working for a NFP, which these tax concessions go some way to offset (particularly in relation to attraction of labour); and
- (c) the reality that many of the FBT exemption benefits enjoyed by employees of NFPs are benefits that they *require* to perform their roles, and would need to have regardless of the FBT exemption (eg car to travel within the community, particularly in remote areas).

The RFDS submits that to only address one aspect of the issue would be to severely disadvantage NFPs, without necessarily identifying and addressing the areas where NFPs are disadvantaged (eg attraction of labour, ability to access capital, ability to minimise risk through the use of corporate structures).

Advantages available to For-Profit organisations

The RFDS submits that it believes that for-profit entities have other advantages that are not available to NFP's in relation to establishing employee remuneration, including-

- (d) A for-profit entity can offer a more flexible remuneration package that can include bonuses tied to the economic performance /value of the enterprise, a measure that is not appropriate for NFP's.
- (e) A for-profit entity can offer a more flexible remuneration package that can include employee share schemes based on the issued share capital of the enterprise – NFP's cannot offer any employee share scheme arrangements.
- (f) As a general rule, NFPs have limitations on the remuneration that can be paid to employees. These limitations are based on the expectations of

the broader community, that place salaries and wages paid to executives and other employees of NFPs under greater scrutiny and question than those paid to the for-profit counterparts.

- (g) For-profit enterprises do not have any such limitation, other than governance and shareholder restrictions applicable to the enterprise – a for-profit enterprise can structure a package as it deems necessary to attract and retain its key personnel.
- (h) For many NFP's there is a limited career path within the NFP entity due to size and management structures.
- (i) Senior personnel in many fields will find the transition from for-profit to NFP is relatively straight forward, but it is more difficult to transition back from the NFP sector to the for-profit sector.

On the question of the transitioning between NFP's and the for-profit sector, the observation by the RFDS is that this will vary depending on the profession. RFDS pilots remain attractive to the for-profit sector because of the high quality training and high standards applied within the RFDS. A similar situation applies for the medical and nursing staff being attractive to the other NFP and for-profit health providers because of their training and work experience.

However, for other employees in the general management, finance, administration, donor support and similar areas, the anecdotal evidence is that the transition from the NFP sector back to the for-profit sector can present some challenges. The time spent by those people working in the NFP sector can be viewed by for-profit employers as less relevant than if they were in the for-profit sector.

Accordingly, the FBT exemption does assist the RFDS to distinguish itself from the for-profit sector so as to try and retain these specialised persons with the RFDS. It also assists the RFDS to provide more effective remuneration to attract suitably qualified persons into the field where a return to the for-profit sector is more challenging.

Regulating the concession

Regarding the FBT concessions it is worthy to note the history and current status of the FBT concession. The Commonwealth Government introduced legislative based caps on the FBT exemption amounts, effective 1 April 2000. Further changes introduced in 2005 ensure that only those organisations appropriately endorsed can access these concessions. They are not available to one and all.

The RFDS considers that the draft recommendations regarding the proposed registrar and the office for the NFP sector will assist in ensuring that the entitlement will continue to be policed so that those who can access that concession are in accordance with the intent of the legislation.

Erosion of the real benefit of the concession

The FBT cap is the grossed up amount of the benefit, ensuring as best it can that the FBT exemption amount is a pre tax salary equivalent. Where the cap is exceeded, the effective rate of tax that applies is the top marginal rate of income tax, currently 46.5%.

These caps are not indexed, and have not changed since they were introduced in 2000. Consequently, the effect of inflation will continue to erode the purchasing value of these exemptions, reducing any competitive advantage that may be argued as being applicable to the FBT exemptions.

Summary

The RFDS submits that it is unrealistic to expect an absolute level playing field, as competition is multi-factorial. And to attempt to create a level playing field without addressing all aspects, will have significant ramifications for the NFP sector.

The example used to compare nurses working in hospitals, on the same scale, and in the same area, is an unusual one. The RFDS submits that it is unusual for the FBT exemption to be the only factor in attracting employees directly from the for-profit sector to a comparable job or position, in a directly comparable organisation, in the same geographic area.

It has been the RFDS's experience that the FBT exemption benefit operates to attract people from other sectors, or people from the same sector to move to an organisation that:

- (j) does not operate in the same geographic area (that is, it is a benefit to offset the perceived disadvantage of living in a more remote/less urban area);
- (k) does not necessarily offer the same career advancement, due to its size or scale of operations;
- (l) does not necessarily offer the same benefits, such as experience, reputation building, scale of operations, corporate discounts and memberships etc.

4.2 FBT concessions and distortions

The Commission states that:

“These FBT concessions produce a number of distortions, affecting resource allocation and changing employee behaviour.”

When considering the FBT concessions, the RFDS submits that the following should be considered:

- (a) The amount of the FBT concession is capped.
- (b) The amount of that cap has not changed since 2000, with the result that inflation is effectively reducing the real dollar value of that concession.
- (c) The individual income tax rates have reduced, with the top marginal rate of 46.5% applying at \$180,000.
- (d) The tax rate that applies to any fringe benefits provided beyond the cap is set at the top marginal rate of 46.5%, effectively penalising any person whose income is less than the top marginal rate.

- (e) The effect of the interaction of the rates is that not all of the available concession is always used per employee; they leave an amount unused in case any calculations change.
- (f) The employer is required to still calculate the amount of fringe benefits provided to each employee and to record that amount on the annual PAYG Payment Summary, a copy of which is provided to the ATO. (This reporting requirement is the same for any NFP exempted from paying FBT as it is for an employer who pays FBT).
- (g) The taxable value of the fringe benefits provided is taken into account in determining the employee's entitlement / commitment to a number of items including:
 - (i) social security benefits, such as Family Tax Benefit;
 - (ii) Child Support payments required to be made;
 - (iii) Medicare Levy Surcharge;
 - (iv) Private Health Fund Rebate entitlement; and
 - (v) Superannuation deduction entitlements.
- (h) As a consequence, the treatment for the employee of an NFP is no different to that of an employee of a for-profit entity that pays FBT.
- (i) If an employee of a for-profit receives only salary and the employee of a NFP receives a combination of fringe benefits and salary, the reporting of the fringe benefits on the PAYG Payment Summary (and therefore on the employee's income tax return) will treat each equally.
- (j) Therefore, whilst a qualifying NFP obtains the benefit of the exemption from FBT, the employee is still accountable in the same manner whether the employer from a FBT perspective is exempt, rebateable or taxable.

Consequently, the RFDS submits that the FBT exemption, limited as it is, when viewed in conjunction with the current FBT taxable value reporting requirements, does not distort employee behaviour.

Prior to the introduction of the reporting requirements in 2004, there would have been some distortion effects. The RFDS submits that with the introduction and subsequent refinement of the FBT reporting system required of all employers, this distortion is now largely removed.

4.3 Analysis of cost

The Commission states that:

“the input tax concessions can also hide the full cost of the provision of a government funded service, such as public hospitals.”

This statement would appear to be capable of application in situations where a government was fully funding on a reimbursement basis the cost of a service. If that was the case, the government would no doubt have available the information that the effect of these concessions could be estimated. It is submitted that an approximate cost would most likely satisfy this question.

The RFDS submits that this would not prove correct in situations where the government contributes to the cost, or the price paid by the government is the result of a competitive tender.

For the RFDS across Australia, various government grants contribute to the costs incurred to provide the services to the people of Australia. However approximately 15% to 20% of the costs are raised from donations, bequests and fundraising.

The RFDS considers that if the tax concessions were removed, and the government cost contributions were increased, that it would be unlikely that the status quo would be maintained. It would be more likely that some of those donations and fundraising would have to be directed to paying those taxes.

This would by necessity redirect those dollars away from the RFDS delivering services to those in need and purchasing assets to undertake that work.

4.4 Relationship with revenue

The Commission states that:

“It can be expected that those NFPs operating in competition with the for-profit sector will have sufficient revenue to pay market salaries.”

Again, this statement appears to have been made in relation to a small section of the NFP sector, one where NFPs (and governments) compete with for-profits in the provision of goods or services on a significant scale (namely hospitals and aged care).

The reality is that the majority of NFPs do not have sufficient revenue to pay full market salaries, or if required to do so could only do so at the expense of the value of the goods and services it provides to the community.

The RFDS believes that removing the benefit of the FBT exemption from NFPs generally will severely and significantly reduce the funding available.

The removal of the FBT concession will also take away the psychological advantage. At the moment the FBT concession is accessed through a salary sacrifice arrangement so when a person leaves a FBT exempt NFP they will have to change the way that they conduct their personal affairs. The requirement to make these changes can act as a barrier thereby encouraging that employee to stay with the NFP.

4.5 Employer benefit from FBT exemptions

The Commission states that, *“the FBT concessions are a benefit provided directly to employees...”* although, the Commission also acknowledges that the FBT exemption *“benefits the NFP indirectly, by allowing it to employ staff at below market salaries”*.

The RFDS as a public benevolent institution is currently able to treat as exempt those taxable fringe benefits up to \$30,000 grossed up value. The RFDS is aware that for hospitals, operated by government and by charities the exempt fringe benefits cap is limited to \$17,000.

The Commonwealth Government legislated to provide a formal structure and establish the above caps, which have remained at the same level since the legislation was introduced.

The RFDS submits that two distinct categories of fringe benefits are provided to employees namely:

- (a) work-related fringe benefits
 - (i) These are benefits that are necessarily incurred by the organisation in the conduct of its affairs.
 - (ii) An example may be housing benefits provided to employees in a remote location or the use of motor cars that are first a foremost required as a tool of trade in the conduct of their employment.
 - (iii) Generally these benefits will be provided independent of the salary negotiations for an employee whether or not the NFP is subject to FBT.
- (b) Non-work related, or salary sacrifice fringe benefits
 - (i) Benefits provided to employees as part of a salary package, including salary sacrifice.
 - (ii) An example may be a car that is primarily for the private use of the employee, the full cost of which is taken into consideration in determining his / her salary.

For the first category of benefits, the NFP enjoys a saving of FBT and it is able to reinvest this saving into its activities.

For the second category of fringe benefit, the FBT saving is traditionally shared between the NFP employer and the employee, with the NFP enjoying a saving in the cost of employment of that employee.

FBT is a tax on the employer. In salary sacrifice negotiations it is usual practice for the cost of the FBT to be taken into account. The RFDS across Australia regularly seeks professional input on the determination of salaries paid to staff and in particular senior employees. The salaries are benchmarked against those paid for what are considered by the professional advisers as equivalent in the for-profit sector.

Those calculations by the professional advisers take into account the FBT exemption in determining the equivalent market salary would be under an employer that would pay FBT. The full benefit of that exemption is taken into account – that is in determining the salary of the RFDS employee, it is the RFDS that obtains the benefit of the FBT exemption, not the employee.

In addition the RFDS applies a discount factor to the salaries paid in the private sector in determining the salary equivalents. The RFDS considers a discount on private sector salaries as philosophically appropriate for an organisation which is seeking to focus its available funds on its objects rather than its cost base.

Consequently the RFDS submits that:

- (c) For work related fringe benefits, these relate to the provision of the services by the RFDS and as a result are not at the discretion of the employee;
- (d) For salary sacrifice fringe benefits the processes adopted ensure that the benefit of the FBT exemption available is attributable to the RFDS as employer;
- (e) It is not appropriate to make a statement that all FBT benefits pass only to the benefit of employees; and
- (f) It may be possible for the Registrar to put in place measures to ensure that the benefit is retained by the employer NFP which qualifies for the FBT exemption.

4.6 High income earners and FBT

The Commission suggests that:

“FBT benefits are mainly enjoyed by high income earners...”

In response, the RFDS submits:

- (a) This statement will not be applicable for work-related fringe benefits. Work related benefits will be provided to those employees because of operational reasons. Benefits such as remote area housing, motor vehicles in remote locations.
- (b) The reporting requirements ensure that all employees regardless of income are required to include the taxable value of the fringe benefits received even though the NFP may be exempt from paying FBT on those benefits.
- (c) The fringe benefits tax rate is the top marginal rate namely 46.5% . For income tax purposes this rate applies to income above \$180,000. As the personal income tax rates have been reduced, and the FBT rate has stayed at the top marginal rate the attractiveness of fringe benefits to most employees has diminished.

Consequently the RFDS submits that fringe benefits will be less attractive to those persons earning less than the top marginal rate.

As the point at which the top marginal rate applies has been extended the numbers of persons who will find fringe benefits attractive has diminished to be those earning above that rate.

Accordingly, it is submitted that it is the effect of the tax rate changes, and not that the FBT exemption is somehow favouring only those on high incomes.

4.7 Payroll tax

Payroll tax is a state based tax, payable by employers on salaries and wages paid to its employees. The State governments have been working towards some consistency in the legislation base across Australia.

As part of this harmonisation, matters like the definition of wages have been made consistent, often extending the base and extent of payroll tax in that State.

For example in changes effective 1 July 2008 in Queensland, payments to contractors are now included as wages and subject to payroll tax.

Payroll tax is a tax on the employer. Therefore if the payroll tax exemption is removed, the tax payable will be a direct impost on the NFP. The removal of the payroll tax concession will place NFPs at a substantial disadvantage to the for-profit sector.

The for-profit sector has a number of remuneration advantages that lower payroll tax and are not available to NFPs:

- (a) A for-profit entity can offer a more flexible remuneration package that can include bonuses tied to the economic performance / value of the enterprise, a measure that is not appropriate for NFPs.
- (b) A for-profit entity can offer a more flexible remuneration package that can include employee share schemes based on the issued share capital of the enterprise – NFP's cannot offer any employee share scheme arrangements.
- (c) Companies with associated persons can draw dividend income and forego salary.
- (d) Similarly trusts can distribute income to those who are beneficiaries.
- (e) Individuals who are partners in partnership can earn a partnership income that is not subject to payroll tax.

At the time of the introduction of the Goods and Services tax, Payroll Tax was identified as one of the taxes that should be removed. Many commentators suggest that it is regressive and counter productive as it increases taxes on those businesses that employ more people.

5 How dependent are NFPs on these concessions as a indirect source of funding?

The Commission concluded:

“Any changes to these concessional benefits would need careful transitional arrangement as the benefits to NFPs including hospitals are substantial and ‘phasing’ arrangements would be necessary to reduce sudden shocks or impacts”.

As discussed above, the RFDS submits that NFPs depend significantly on these concessions, particularly the payroll tax concession for a number of reasons, including:

- (a) To allow the NFP to pay market comparable salaries but at a reduced outlay;
- (b) To assist the NFP to overcome perceived disadvantages of working for a NFP;
- (c) To redress other areas in which NFPs are disadvantaged compared to their for-profit competitors eg capital raising, corporate governance and economies of scale; and

- (d) To direct resources that would otherwise be used to pay payroll tax to deliver the services that the NFP is delivering.

Some real examples highlight this point:

- (e) The RFDS estimates that based on wages paid in the 2009 financial year, the removal of the payroll tax concession would result in payment of payroll tax in the order of \$4.74 million dollars. (This does not include any analysis of contractor payments that may also be included in deemed wages for payroll tax purposes and the costs of administration of the payroll tax liability.)
- (f) A new King Air B200 aircraft ready to be fitted with the medical equipment costs US\$5.4m. The requirement to pay payroll tax will effectively remove the ability to purchase one King Air B200 aircraft **each year** and will restrict the ability of the RFDS to maintain and expand its health services
- (g) Government may argue that contributions will be increased to compensate the additional impost. However RFDS experience on this is that the increase in funding does not compensate fully.
- (h) The RFDS relies on donations, bequests and fundraising to allow the RFDS to meet the costs of delivering the health services to regional rural and remote Australia, removing the concessions would mean some of these funds would need to be redirected to pay the taxes.
- (i) A lot of the fundraising activities are done by small communities and groups, often other NFP's, meaning it will be difficult for the RFDS to source funds from these sources to pay for the loss of the tax exemptions.
- (j) The Boards of the RFDS are very cognisant of the support from so many organisations and will often reflect on the fact that the donations flow from the efforts of many and often from a lot of small function and activities. As a reality check the Boards often relate expenditure to the number of lamingtons or sausages that it would take to replace those funds. Premier Anna Bligh used these words when she launched a new RFDS Queensland aircraft in May 2008, where the entire A\$7 million cost of that aircraft came from donations.

Accordingly, removing these benefits would have a significant and substantial effect on the RFDS and no doubt other NFPs, not only in a purely financial sense, but also in the way the organisations are structured and operated.

The RFDS submits, that the removal of these tax concessions / benefits will negatively impact on the resources available to deliver services to the people of Australia

6 Do input tax concessions distort the mix of inputs for NFPs?

The availability of any input tax concessions are not taken into account in reaching business case decisions by the RFDS.

Decisions are based on commercial analysis and business principles. Tax concessions are not separately identified or pursued.

Existing examples include:

- (a) In Queensland the RFDS operates a current fleet of 14 aircraft, each with a medical fit out. Each week the RFDS in Queensland is required to transport health professionals to regional and remote communities to undertake clinics. Historically these were transported on passenger style aircraft operated by charter operators.

The limited selection of charter operators, their restricted availability and standard of aircraft raised some concerns.

The RFDS in Queensland chose to purchase two aircraft, Cessna Caravans with a passenger configuration and to employ pilots so that it can manage the quality and availability of this resource.

The RFDS in Queensland made this decision on the basis of safety and operational efficiency. Total cost under each scenario was compared as part of the business case.

However, at no stage was the availability of any tax concessions considered as a factor in reaching the decision. That decision was based on safety and operational efficiency grounds.

The RFDS in Queensland suspects that some of the charter operators were of a small operation size and may not have needed to be registered for payroll tax, but has no information in this regard.

- (b) In Queensland, the RFDS operates two main aircraft types – three Pilatus PC12's and eleven Beechcraft King Air. B200'

For at least the last two decades, maintenance of these aircraft is undertaken by external contractors, the main one in Brisbane being Hawker Pacific. This contractor would be subject to payroll tax and FBT on benefits provided to employees.

The decision to outsource the maintenance of the aircraft is based on quality of work and other operational issues such as response time.

At no stage have the tax concessions that might be available if the RFDS in Queensland operated an internally managed maintenance facility been considered or discussed. The maintenance is focused on safety and other business issues that are appropriate.

- (c) In other RFDS operations, maintenance is undertaken by both RFDS employees and by external contractors. The decision to bring part of the maintenance function inside the organisation was based on the availability of (or rather lack of) external maintenance organisations supporting the aircraft types in use.

Again this decision was based on safety and operational issues without the tax concessions being a driving issue.

Consequently the RFDS submits that the tax concessions do not of themselves impact on the allocation of resources or capital. Those decisions are made on

commercial business cases where the factors involved are of far greater significance than the availability of any tax concessions.

7 Income tax concessions

The RFDS agrees with the Commission's conclusion that the income tax exemptions "*are unlikely to significantly distort resource allocation*", as the desire to maximise profit is substantially the same whether the organisation is for-profit or not-for-profit.