



Welcome

Welcome to our first issue for 2011, and a special greeting to the many new subscribers who have signed up since the last edition.

We've been producing this publication now for over a decade and as always, we strive to bring you accounting-related information that's relevant to the very specific needs of the medical profession.

Jarrod Bramble
PARTNER

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The sensitive issue of old equipment

Is old equipment costing you money? A recent announcement by the Minister for Health and Ageing, the Hon Nicola Roxon, in respect to proposed new capital sensitivity rules makes that a question well worth considering.

By way of background, 'capital sensitivity' is a term introduced by the Commonwealth Government in 1997 in which equipment for CT services that was more than ten years old attracted only 50% of the Medicare Benefit.

This aim was to minimise the risk of equipment being run down and to encourage practices to modernise their equipment.

Where they currently apply only to CT and angiography equipment that is more than ten years old, it is now proposed to extend the capital sensitivity rules to all diagnostic imaging equipment.

From 1 July 2011 these 50% rebate reductions will be extended to services provided on equipment across all other modalities in the Diagnostic Imaging Services Table (DIST) of the Medicare Benefits Schedule that exceed the following equipment life age limits:

- Ultrasound – 10 years
- Nuclear medicine – 10 years
- Magnetic resonance imaging – 10 years
- Mammography – 10 years
- OPG – 15 years
- Fluoroscopy – 15 years
- Diagnostic radiology – 15 years

Providers will be able to extend the life of equipment by a further five years if the equipment undergoes an upgrade that is certified by the equipment supplier as providing equipment that is equivalent in quality to new equipment available for purchase in Australia at the time of the upgrade. Diagnostic imaging providers will be required to retain records that attest to upgrades and enable matching of Medicare funded services to the use of particular equipment in the practice.

So what does this mean for your practice?

Put simply, your older equipment could be quite literally be costing you money. If your equipment is over the age limits you will miss out on 50% of the usual Medicare rebate amount that you would otherwise be entitled to, resulting in a reduction of income to the practice if you bulk bill.

You therefore need to consider whether to persist with, upgrade or replace entirely the equipment that is over the age limits.

In making this business decision a cost benefit analysis is required to compare the associated cost involved with the upgrades and replace (including depreciation and financing costs) to the Medicare rebate amount to be received.

For an assessment of how the new capital sensitivity rules will affect you and to access our cost benefit analysis tools, contact Cutcher & Neale 1800 988 522.





Powering practice performance through benchmarking

Jarrold Bramble will deploy his expertise to help create the Australian Medical Benchmarks (AMB), a landmark project aimed at improving the financial performance of medical practices across the country.

The AMB is a not-for-profit collaboration between the RACGP and the Australian Association of Practice Managers (AAPM). Practice data submitted by participating practices will be 'crunched' then compiled into a practical tool that will allow practice managers and owners to measure their financial performance against other practices, both in their region and nationally.

'Benchmarking in this sector has been carried out before,' says Jarrod. 'However previous attempts took a pretty shallow snapshot of the financial workings of a practice, so the resulting data was not contemporaneous and not particularly meaningful for longer term strategic planning. And planning based on valid data,' he says, 'is the key to success.'

Many practices currently use internal KPIs to measure practice performance. While this is of value, Jarrod believes there are some concerns. 'Internal KPIs mean that effectively you're measuring your performance against yourself. It doesn't really help you assess how you're travelling against best-practice. Benchmarking will allow you to compare performance to a national industry standard.'

Jarrold believes that Cutcher & Neale's experience in the sector will prove invaluable in the process of developing the AMB and the value of the final product.

'Our firm has been involved with medical practitioners for almost 60 years,' Jarrod explains. 'We understand the complexities of running a practice and know what it takes to do so successfully.'

The combined expertise of the partners in this project ensures that the AMB will be a vital tool for anyone looking to run a profitable, successful practice.

For more information on how your practice can participate in the project, please contact the AAPM on 1800 196 000 or email headoffice@aapm.org.au

How to measure the effectiveness of your Practice Nurses



Doctors are not unlike some accountants.

“Come on!” I hear you say in disbelief. But consider this – like accountants, doctors have two key variables in determining their income.

The first is time, commonly referred to as ‘average consultation/procedure time’.

The second is how much they can charge for their time i.e. ‘average consultation/procedure fee’. In very simple terms, a doctor’s financial return can be determined by the financial formula time x time cost.

The fee is influenced by a number of factors including regulatory bodies, market forces and political pressure. Given these pressures there may be little scope or desire to alter the fee.

So if the first variable is fixed, how then do doctors alter the time variable of the financial formula?

The answer from a purely financial perspective is that doctors need to leverage the time they spend with patients without impacting on patient care and ensure as many administrative tasks as possible are delegated to support staff.

Financially successful practices understand the financial formula concept and often implement systems and processes to leverage their doctor time. This can include the use of practice nurses. But how do you ensure that you are really obtaining efficiency and financial benefit with a practice nurse?

A useful tool for measuring the effectiveness of practice nurses is a simple breakeven analysis.

Assuming the practice employs a Registered Nurse (Level 4, Grade 3) at \$30.65 per hour, the break evens in terms of the number of consultations based on average consultation fee are as follows:

Average consult fee	Extra consults to breakeven		
	+ 1	+ 2	+ 3
\$34/consult			
\$42/consult			
\$60/consult			

For a Practice with an average consultation fee of \$34.00, each additional consultation (assuming a 40% service fee that is to cover administration and nursing expenses), yields an extra \$13.60 of income. These practices therefore need to ensure that they see an extra three patients per hour to generate \$40.80 of extra income to cover approximately \$30.60 per hour cost of the nurse.

A practice that has an average consultation fee of \$42.00 or higher need only see an extra two consultation per hour (again assuming a 40% service fee) to generate sufficient income to cover the hourly cost of the nurse.

Are you measuring the effectiveness of your Practice Nurses? If not, give Stuart Chan a call to discuss.

Upcoming AMA (NSW) events



As a Preferred Partner of the AMA (NSW), Cutcher & Neale will be involved in a wide range of Member activities this year.

Coming up soon... “Structuring your practice – get it right and reap the rewards”

Venue: AMA House, Ground Floor, AMA (NSW)

Conference Centre, 69 Christie Street, St Leonards NSW

In this easy-to-follow presentation, Jarrod Bramble will show you how to create a highly tax-efficient structure that builds your wealth and protects your assets.

For more information and to register your interest contact Pete de Jong on 02 4928 8500 or email pete.dejong@cutcher.com.au

May

- 7 April 2011 monthly payroll tax due
- 15 Income tax return lodgement for all other entities not required earlier. Payment for companies and superannuation funds. Payment for other entities is due as per the notice of assessment.
- 21 Monthly Activity Statement – April 2011.
- 26 Quarterly Activity Statement – tax agent lodgement.
- 28 FBT Return – lodgement and payment.

June

- 5 Income tax return for individuals, partnerships and trusts with a lodgement end date of 15 May due for lodgement and payment
- 7 May 2011 monthly payroll tax due
- 21 Monthly Activity Statement – May 2011

Do I buy or lease my practice premises?

The majority of doctors starting out in private practice will lease their rooms rather than seek to purchase their own rooms. The reason we often hear is “for cashflow purposes” or the uncertainty thereof. This is a valid reason however the purchase of doctors rooms are often overlooked as an effective wealth creation strategy. Here’s why.

Capital Appreciation

A doctor renting rooms over a 20 year period could pay as much as \$2.48 million in rent. The same property, if purchased (worth about \$750,000, assuming a 10% rent yield, capital growth of about 5% p.a. and an interest cost of about 8%) could generate wealth in excess of \$1.98 million as shown below.

	Leasing	Owning
Rent	\$2,479,000	Nil
Interest Paid	Nil	\$817,000
Capital Gain	Nil	\$1,239,000
(Potential) Wealth Created	Nil	\$1,989,000

It’s obvious that there is potential to generate significant wealth in a practice property and with the capital gains tax concessions currently available the tax on any capital gains may be reduced to nil where the rooms are used by the doctor in carrying on his medical business.

Of course, the usual property selection considerations need to be taken into account including building condition, location, floor plan, rental yield, access to public transport and ease of parking etc.

Ability to use your Superannuation

Rather than purchase the rooms in their own or spouse’s name, doctors with Self Managed Superannuation Funds may be able to have their superfund purchase the rooms, utilising the money in their superannuation fund and/or borrowing additional funds. They may then lease the rooms directly from their superannuation fund. The doctor will get a tax deduction on the lease payments (generally at 46.5%) but the rental income will only be taxed at a concessional rate of 15% (or potentially a zero tax rate when in pension phase). Who better to pay rent to, than to yourself!

There are many advantages to buying your own rooms (outside or inside super) but you need to seek expert advice.

If you are interested in more detailed projections in line with our case study above, please contact Belinda Williams at Cutcher & Neale.

Would you prefer to receive this newsletter via email?

Simply contact Vicki in our Marketing department on 1800 988 522 or cnmail@cutcher.com.au with your name and email details.



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