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THE EFFECTS OF INFLATION AND TAXATION ON ORTHODONTIC PRACTICE IN AUSTRALIA

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The decline in the birthrate and the increasing number of orthodontists in Australia will adversely affect orthodontic practice, although not as badly as in the U.S.A. The danger to the American orthodontist's future is a relative population decline. With taxation he is in a much better position than his Australian counterpart. On an income of $30,000 the Australian orthodontist pays $13,122 tax, the American pays $7,880, i.e. 40% less. On an income of $47,205 the Australian orthodontist pays $24,276 tax, the American pays $15,662, i.e. 35.5% less. Therefore, although the likelihood of running out of patients rapidly is not of the same concern in Australia as in the U.S.A., the overall picture for the future of orthodontics in Australia, from a financial standpoint, seems far gloomier than in the U.S.A.

The factor working most against professional men in Australia is excessive taxation, combined with high inflation. The effects of this on an orthodontist with a taxable income of $30,000 have been analysed over a five year period where fees are raised 12% per annum to match an inflation rate of 12%. The results are shown in Table 1.

Table 1. The effects of inflation and taxation on income where fees are raised by 12% per annum from a starting figure of $30,000.

Income	Tax	Additional Provisional Tax Assessment	Total Tax	Nett Income
30,000	13,122		13,122	16,878
33,600	15,454	2,332	17,786	15,814
37,632	18,090	2,696	20,786	16,846
42,148	20,997	2,907	23,904	18,151
47,205	24,276	3,279	27,555	19,650
52,869	27,960	3,684	31,644	21,225

Over five years of increasing fees by 12% per annum, the orthodontist has earned an extra $63,454 and of this has paid $56,065 in tax, leaving a nett gain of $7,389, i.e. $1,478 per year average. Over five years his income has risen an average of 4.8% per year compound—a total of 25.7%.

During the five year period, total increase in the cost of living at 12% compounding is 76%. The purchasing power of the orthodontist's nett income after tax has dropped by 28.6%, i.e. his real income has dropped by almost one third. This is not a hypothetical situation, for in the period of time from June, 1971, to June, 1976, the total increase in the cost of living was 82%, in other words, $182 in 1976 would buy what $100 would have bought in 1971.

The conclusion to be drawn from this is that an increase in fees commensurate with the inflation rate will leave the professional man's income reducing annually, bringing it closer to the average weekly earnings nationwide. One is reluctantly forced to the conclusion that with the present tax scales it is impossible for anyone paying tax on personally earned income to keep pace with the erosion of his annual purchasing power. To try to do so would involve an increase in fees far beyond what the public would be able to pay. It is equally impossible for the orthodontist to compensate adequately by increasing his work output, for again increased income is gobbled up by bureaucracy.

Unless a radical reduction occurs in the tax scales, the professional man in Australia is headed for a rapid decline in his standard of living. It is not hard to visualise widespread sales of homes to meet taxation commitments, in order to maintain standards of living in other directions. The only alternative is that of deriving a source of income not taxed as personal exertion.

It is little wonder then that professional men, once the major financial commitments of educating the family are accounted for, reduce their working hours, with a resultant reduction in staff, in order to keep their income at an average level. This, in the long run, must contribute to unemployment, lack of service to the community and if inflation continues, the stage is set for an ever increasing number of professionals, such as dentists, orthodontists, etc., to enter a salaried, superannuated public service where the pressure of work is low and they can be at the receiving end of the product of high taxation, rather than having to fund it. The self employed professional man is so disadvantaged, compared with other occupations in private enterprise in Australia today, that taxation in his case can be considered as amoral and a table from a recent issue of Rydge's magazine, (Table 2), shows how much better off is a man in business, compared with a self employed professional man.

Table 2. Tax Payable – $50,000 level.

	Total Tax Payable	Average rate of Tax Payable (%)
Sole Trader	$25,912	52
Private Company	$17,735	35
Partnership	$19,648	39
Trust	$11,395	23

Despite this, it is nevertheless essential that the Australian orthodontist increase fees at a level equal to that of the inflation rate. This is most equitably done by applying the formula used successfully for many years by the New South Wales Branch of the A.D.A., i.e. percentage increase of C.P.I. plus percentage increase of A.W.E., divided by 2. Since overheads in dentistry are about 50%, the C.P.I. adjustment covers overheads and the A.W.E. adjustment brings the orthodontist's income into line with the increase of the rest of the population. As demonstrated by McDonald of the Victorian Branch of the A.S.O., fee increases should be applied quarterly when the Australian Bureau of Statistics publishes fresh statistics on C.P.I. and A.W.E. Fee increases applied annually will only increase the decline in the orthodontist's income. Doing this will not give the professional man an increase in income able to cope with inflation, but it does at least enable him to cope with the increases in the cost of running his practice.

The fact emerges from all this that fee increases ultimately benefit mainly the staff of the professional man and those who supply him with goods, materials and services. His fee increases enable him to meet their ever increasing demands whilst leaving his own income, after taxation, marginally improved. The likelihood of the taxation rates in Australia being reduced to any appreciable extent, whereby the professional man will be treated more fairly, seems very remote and it is a matter of regret that all professional men in Australia are not united in one body, whereby a concerted refusal to pay taxation above a fair and morally reasonable level would inevitably be successful.

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