



The Hon Josh Frydenberg MP  
Treasurer of the Commonwealth of Australia  
Productivity Commission  
GPO Box 1428  
Canberra City ACT 2601

10 October 2019

Dear Sir

**Submission - Productivity Commission Draft Report – Remote Area Tax Concessions and Payments**

1. PricewaterhouseCoopers (**PwC**) welcomes the opportunity to provide feedback with respect to the Productivity Commission’s draft report released for comment in September 2019, titled “Remote Area Tax Concessions and Payments – Productivity Draft Report” (**Draft Report**), which was prepared in response to Treasury’s request to undertake a study into the zone tax offset and related remote area tax concessions and payments.
2. In this submission we focus primarily on the key technical and industry issues we have observed in advising clients on the FBT remote area concessions currently available under the *Fringe Benefits Tax Assessment Act 1986* (**FBTAA**). In doing so, our submission voices our endorsement of several draft findings and recommendations published by the Productivity Commission, but also our concerns, particularly where the Commission has proceeded to suggest that a number of concessions currently in place should be reduced or removed all together.

**Overall Feedback**

3. The Productivity Commission’s brief was to examine the operation and impacts of the zone tax offset and related remote area tax concessions and payments, and provide recommendations on the appropriate form and function of such assistance into the future.
4. In our view, this requires a detailed understanding of the needs of remote area communities and employers, together with the employees performing work in those locations, many of whom experience significant disruption and disadvantages due to the lack of infrastructure and associated higher costs. The Draft Report’s findings and resultant conclusions appear to significantly discount and, in a number of cases, disregard these factors which compromises the Productivity Commission’s ability to provide balanced recommendations on the appropriate form and function of government concessions.
5. In particular, our observation is that the approach adopted by the Productivity Commission in assessing the utility of FBT remote area concessions had a primary focus on tax equality and neutrality of the Australian taxpayer base, instead of a balanced assessment of the specific needs of those who are unfairly disadvantaged from living in such regions. It also gives little attention to

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the needs of the Australian economy in incentivising workers to relocate (permanently or temporarily) to remote and regional areas, particularly in an era of increasing overpopulation in our established metropolitan bases. In our view, it is the latter that should primarily drive the Productivity Commission’s Draft Report recommendations, rather than a focus on the loss of tax revenue.

The FBT remote area concessions are not meant to be tax equitable and achieve neutrality for all employees and employers. The purpose of the concessions should be, primarily and without doubt, to help those living in a remote area (or wishing to move to a remote area) via tax concessions where it is in the best interest of Australian society. Diluting the concessions to combat so called ‘excessive forgone tax revenue’ – a theme referenced throughout the report - raises doubt over whether the Productivity Commission has applied the right lens to the analysis, having led the analysis seemingly with a primary focus on revenue.

6. The Commission has noted two views on the policy intent of the FBT remote area concessions:

*“Views differ on whether the policy intent of the FBT remote area concessions is to provide equitable tax treatment where employers have operational requirements to provide particular goods and services to employees, or to promote regional development by giving employers greater financial capacity to attract and retain employees, or both.”*

Whilst we appreciate that the views on policy objectives of the FBT remote area concessions can differ, the entire focus of the findings, and consequential recommendations, is skewed towards the former view, i.e. watering down concessions to ensure equitable tax treatment on the basis that the driver of such benefits is predominantly operational requirements. There is no consideration on regional and remote development, which in our view should actually be the paramount concern – specifically, because of the tax equity and revenue focus, shaping policy on the alternate view would naturally run in contradiction.

7. We contend that the Productivity Commission’s findings and recommendations have, therefore been incorrectly focused and shaped. As a result, the majority (if not all) of the recommendations provided in the Draft Report require reconsideration.
8. We have addressed the relevant draft findings, recommendations and information requests in turn below.

### ***Draft Finding 2.3***

The use and economic effects of fringe benefits tax (FBT) remote area concessions vary.

- The exemption for employer-provided housing (used as a usual place of residence) can provide significant value at the employee level, particularly for higher-income employees, and could cost as much as \$430 million per year in forgone FBT revenue nationally. Usage is concentrated in certain areas — such as the Pilbara in Western Australia, and the Central Highlands and Bowen Basin in Queensland — and in industries such as mining, agriculture, and public services (including hospitals, police, and local government).

- The partial concessions on employee-sourced housing are narrowly used. The 50 per cent concession is much less generous than the full exemption on employer-provided housing, and the compliance burdens are higher.
- Use of other FBT remote area concessions (on residential fuel, meals for primary production employees and holiday transport) is minimal, in part because they provide limited tax savings and are overly complex with high compliance costs.
- FBT concessions for fly-in fly-out workers, while widely used, are likely to have only a minor influence on decisions to maintain a fly-in fly-out workforce.

9. Whilst we agree that employer-provided housing can provide value at the employee level (as it should, to help achieve the goal of closing the gap between urban and remote employers and employees, as well promoting regional development), we query the validity in claiming that the FBT remote area concessions cost as much as \$430 million per year.

From consultation with our client base, we have not been able to identify any evidence to support this claim, particularly given relevant employer-provided housing is not reportable or identifiable on FBT returns. This may, for example, be a data extrapolation from a sample analysis; the risk of basing policy reversals on such limited diagnostics is that it ignores the reality and struggles of those living in a remote area (and for that matter, attracting employers and employees to such regions).

10. We also disagree with a tangential conclusion made at page 27 of the Draft Report Overview, which we believe is an assumption regarding the use and economic impact of the FBT remote area concessions:

*"[FBT remote area concessions] tend to draw resources away from other regions (or industries in the same region) that cannot access them"*

In our view, this conclusion does not stand to reason. Living in remote areas is, as one can imagine, a relative disadvantage in terms of infrastructure, social resources, etc. Incentivising mobilisation through the concessions is to neutralise these disadvantages, rather than to draw away talent.

11. To emphasize our point, the Sydney Morning Herald recently reported on research undertaken by the International Monetary Fund. The researchers found the gap between the rich and poor was growing between regions, with both financial as well as social repercussions:

*"Rising disparities means that poorer regions in advanced economies are no longer catching up to the rich as fast as they used to," they said.*

*"On average, people in lagging regions are worse off when it comes to health, with higher infant mortality and lower life expectancy."<sup>1</sup>*

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<sup>1</sup> <https://www.smh.com.au/politics/federal/gap-between-rich-and-poor-parts-of-australia-some-of-largest-in-world-20191010-p52zbl.html>

The article also referenced previous studies, such as those undertaken by the SGS Economics and Planning, which last year found almost two-thirds of GDP growth over the previous 12 months had come from Sydney, Melbourne and Brisbane. The International Monetary Fund also stated that “lagging regions across the world were more likely to have unfavourable demographics compared with richer ones, fewer university-educated residents and higher unemployment rates.”

12. We request the Productivity Commission revisits these relevant conclusions through tangible data (which is documented then through the final report), as otherwise, this may lead to policy initiatives based on assumptions that lend themselves to an end conclusion.
13. Furthermore, page 27 of the Draft Report Overview makes the following assumption regarding the FBT remote area concessions:

*“The value of these other concessions is uncertain, but could be in the range of \$30-\$130 million for residential fuel, meals for primary production employees, and holiday transport collectively.”*

Again, there does not appear to be any evidence to support this value range. Leading with a potential loss of tax revenue that is currently unknown and unquantified, which provides though an eye-catching headline number, has the potential to misdirect the analysis. In our view, this has occurred here.

Instead of challenging the complex eligibility requirements of the FBT remote area concessions, including in particular the threshold question regarding what constitutes a “remote” area, the Productivity Commission has instead focused predominantly on the tax/revenue outcome. We propose that the Final Report address the problem of the overly complex law, whilst designing a framework that ensures appropriate incentivisation for migration to regional Australia; again, addressing the threshold query regarding what constitutes eligible areas for concessional benefits is the key.

#### ***Draft Finding 7.2***

Fringe benefits tax remote area concessions help to address inequities inherent in the FBT regime, but they are not fit for purpose. The current concessions are overly generous and complex, thereby creating other inequities.

14. We agree that the FBT remote area concessions are not fit for purpose. However, we respectfully disagree that the concessions are ‘overly generous’. The Productivity Commission have based this conclusion on the fact that the FBT remote area concessions ‘cover most of the Australian landmass, including parts of Victoria’. This is misleading as it discounts the fact that the vast majority of the Australian population live in urban areas and cities. Naturally the majority of the Australian landmass is remote. This should not be a factor in determining the relative ‘generosity’ of the FBT remote area concessions.
15. Furthermore, the term ‘overly generous’ is subjective. Generosity would indicate that those who can apply remote area concessions are, as a result, better off than those who can’t. There is no underlying analysis or evidence provided by the Productivity Commission to support this. In fact,

the evidence provided by others – as per the Draft Report consultations already published by individuals living in a remote area – indicates the opposite. In particular, a singular financial focus, discounting the hardships (socially and in terms of infrastructure), misses the reason as to why such concessions exist.

16. Whilst we agree that the ability for employees to utilise the concessions in less remote and higher average income places such as Cairns and Byron Bay has led to inequalities, as previously noted, we contend that this is due to the out of date remote area boundaries, rather than the availability of the FBT remote area concessions itself.

We have outlined in our initial submission, as well as Information Request 5 below, ways to improve the current eligibility criteria, including this threshold query regarding what constitutes remote areas. In our view, the Productivity Commission should focus on addressing the boundary inequalities in the first instance, and can then assess whether any inequalities still exist with the current concessions.

#### ***Draft Recommendation 8.1 – Tighten Treatment of Employer Provided Housing***

The Australian Government should amend the Fringe Benefits Tax Assessment Act 1986 (Cth) to change the tax treatment of employer-provided housing. Specifically, it should:

- revert the exemption for employer-provided housing (section 58ZC) to a 50 per cent concession (as it was prior to 2000);
- remove the provision that enables employers to claim the concession because it is ‘customary’ to provide housing (section 58ZC(2)(d)(iii)); and
- remove the provision that extends the concession to additional areas for ‘certain regional employers’ (section 14O(1A)).

#### ***Reversion of the exemption to a 50 per cent concession***

17. We consider that the scaling of a full exemption to a 50 per concession will have unintended negative consequences for both employers and employees. We have received the following testimonial from one of our not-for-profit Aboriginal Health clients, which demonstrates the challenges faced by the business in terms of staff attraction and retention, should the exemption be halved:

*“What does not seem to be recognised by the Productivity Commission is the reality of recruitment in remote Australia (specifically, the wider Broken Hill region). Almost any specialist or highly qualified position (for example, GPs, psychologist, clinical nurse consultant) requires incentives such as housing or housing assistance to entice applicants away from the safety and security of a metropolitan location. Once we get them here, it is the importance of our Aboriginal health work which will keep them engaged, however in order to attract them we have to offer reasonable housing and flexibility.”*

*While Broken Hill housing costs may not be as expensive as in the city, it is a given that this is required to attract quality applicants. A review of any GP recruitment site will confirm this for areas outside of metropolitan Australia. In fact in many rural, regional and remote communities, if we do not provide housing, there is no other housing available to offer a new staff member either for sale or to rent.*

*A recent example of this was in Balranald NSW (population 1343 people), an isolated community on the NSW/Vic border: no houses were available to buy or rent, thereby making recruitment of a nurse to a new position very difficult. Problems have also been witnessed in Wilcannia, eventually requiring us to build an additional 5 units for staff.*

*Where new staff move to one of our service locations, they are immediately vying for housing with others in a very limited market. For example, Broken Hill was hit by a hail storm in Nov 2016 and has had roofing teams camped in rental accommodation all over town ever since. With an already squeezed rental market, this invariably leaves the poorest rental accommodation which can often impact whether or not new staff will stay."*

18. This testimonial, in conjunction with a number of others already received by the Productivity Commission, evidences how detrimental the reduction of the concession would be in remote regions. In justifying the reduction, the Productivity Commission states that 'by allowing a 50 per cent concession would still provide a cost savings compared with paying accommodation from after tax income'. This statement further reinforces the revenue focused lens of the Draft Report, at the expense of the struggles faced by employers and employees in regional areas. The need to incentivise and draw skilled workers to regional Australia address multi-faceted concerns, including regional need, metropolitan over-population, etc.
19. Given the Productivity Commission's driver of achieving an 'equitable outcome', we cannot see how halving the concession achieves this goal. The only way this goal is achieved is if 'equity' is only tax and financial related, with no other relevant considerations.
20. In light of testimonials like the above, we do not understand how the Productivity Commission has drawn the conclusion that converting the housing exemption to a 50% concession will not have significant impact:

*"As such, it is unlikely that changes to the existing exemption will have significant impacts on the viability of resource projects in the region."*

21. A testimonial from another one of our clients demonstrates how the reduction to a 50% concession will have significant impacts on existent resource projects in the region they operate within:

*"(our) operations are heavily invested in regional communities with crew depots and ... maintenance facilities located in Bowen, Sarina, Coppabella, Nebo and Gracemere. To service the ... demands of our customers, (we) operate 24 hours a day, 7 days a week. The mining locations such as Coppabella and Nebo (are) very difficult in (terms of) recruiting locals or attract(ing) outsiders to come and live in these areas. The purpose of the FBT remote area concessions (are) to attract employees and retain employees in these locations... the provisions allow us to compete for talent with (the) mining industry in remote areas."*

22. We request the Productivity Commission re-evaluates the economic effects of the proposed recommendations, and gives further consideration to the numerous testimonials which stress the importance of the exemption. It would be a disappointing outcome to ignore the feedback highlighting the exemption's importance, with a blinkered focus on negating 'excessive forgone tax revenue'.

*Removal of the customary requirement*

23. We commend the Productivity Commission for removing the 'customary' eligibility requirement, as this currently provides unnecessary complication with little policy justification, and has the potential to provide certain industries or employers with an unfair advantage.
24. Despite this, the Draft Report also recommends the Government 'tighten eligibility rules', by way of only allowing use of the concessions where this is a 'operational requirement'. This recommendation appears to contradict the above advantage.
25. Whilst it is unclear how legislative requirements will be imposed to restrict the exemption to an operational requirement, we consider such an imposition will work against the Productivity Commission's overall simplification focus. As such, we request the Productivity Commission removes the 'operational requirement' of housing when making its final recommendations.

*Certain Regional Employers*

26. The rationale behind the recommendation of repealing the concession for 'certain regional employers' appears to be fundamentally flawed. The Productivity Commission have relied on the following logic in determining that the FBT concessions 'are not well suited' for regional development:
  - *"Businesses typically have commercial incentives to invest in projects if the expected returns exceed the costs and risks. There is no basis for governments to subsidise this process by offering FBT concessions for remote areas.*
  - *State and Territory governments carry primary responsibility for regional development, and each jurisdiction will have its own challenges and priorities.*
  - *A broadly-applied tax concession is unlikely to be a cost-effective approach to incentivise employees or employers to move to or invest in specific regions in a way that aligns with these priorities. Furthermore, the boundaries — which encompass 97 per cent of Australia's landmass — are too broad to target regional development."*
27. Given the importance of incentivising regional development with the current challenges around urban congestion (as discussed at length in our initial submission, and, relevantly, is a major political focus in both the Liberal and Labor policy paradigm), we disagree that there is 'no basis for government to subsidise this process.' The opposite is true. The Government has the power to shape society and ensure Australia is well equipped for the future. It is surprising that the Productivity Commission is disregarding the regional problem. In fact, the only recommendation made for regional development was to *limit* accessibility to concessions, instead of targeting them to promote growth.

28. We also question why only State and Territory governments have the responsibility for regional development? The Federal Government has a role in, and an opportunity to, influence our population matrix into the future and actually change the current overload on 3% of our landmass.
29. The article published by the Sydney Morning Herald also referenced the International Monetary Fund findings that Australia was ranked 4<sup>th</sup> out of the world's most developed nations in terms of the gap between well-off regions and those that are struggling, with the richest areas - including parts of Sydney and Melbourne - at least twice as well off than poor areas such as regional Queensland, Western Australia and the Northern Territory. Further, the article stated:  
  
*“Australia has one of the biggest gaps between its richest cities and poorest regions in the developed world with warnings it could worsen without direct assistance from state and federal governments.”*
30. The International Monetary Fund also stated ‘governments could consider specific financial support to lagging communities including programs to enable worker relocation.’ Given this, we also question why the Productivity Commission claims that only State and Territory governments have the responsibility for regional development. This is neglectful in our view, as the Federal Government has a great opportunity to influence our population matrix into the future and actually change the current overload on 3% of our landmass.
31. We agree that a ‘broadly-applied tax concession’ may not be appropriate. However, no alternatives or suggestions are considered or assessed by the Productivity Commission, other than to reduce concessions to achieve tax equality – further thought leadership is required. Further, stating that current boundaries are too broad is easily fixed through readjustment, which is discussed at Information Request 5. Concluding the boundaries are too broad because they encompass 97 per cent of Australia is a fallacy, as the vast majority of Australia’s population lies within cities.
32. As such, we request the Productivity Commission re-evaluates the sole recommendation provided on regional development before making its final recommendation to Government.

***Draft Recommendation 8.2 - Remove Concessions for Employee-Sourced Housing***

The Australian Government should amend the Fringe Benefits Tax Assessment Act 1986 (Cth) to remove the 50 per cent concession on employee-sourced housing (section 60).

33. We disagree with the Productivity Commission’s draft recommendation to remove the 50 per cent concession on employee-sourced housing. The following rationale is provided in the Draft Report:  
  
*“These partial concessions do not satisfy the condition that there is an operational requirement for employers to provide the assistance. They are premised on employees having secured their own housing; if employees are able to secure their own housing, such assistance is substitutable with wage income.”*
34. This conclusion discounts the circumstances where employers are unable to provide housing, due to high costs or limited availability in the area. The Productivity Commission itself admits ‘smaller businesses are less likely to provide housing. This (in part) reflects the financial risk associated



with owning properties if an employee vacates the property.’ Given the consistent theme of ‘equity’, it would seem unfair to remove the employee-sourced concession when smaller business, through the report’s self-admission, do not have the financial ability to provide their own housing.

35. Furthermore, the removal ignores employees whose preference is to secure their own housing, due to wanting either a permanent move or housing independence from their employer (including potentially the flexibility to move once established in the area). Such circumstances should not be disregarded, given permanent moves to remote areas are uncommon and can be an effective avenue for facilitating remote area development.

***Draft Recommendation 8.3 – Tighten Tax Treatment of Other Goods and Services Concessions***

The Australian Government should amend the Fringe Benefits Tax Assessment Act 1986 (Cth) to change the tax treatment of residential fuel, meals for primary production employees, and holiday transport provided by employers in remote areas. Specifically, it should:

- limit access to the residential fuel concession for use in conjunction with employer-provided housing (section 59(1)) to instances where there is an operational requirement for the employer to provide residential fuel
- remove the residential fuel concession for use in conjunction with employee-sourced housing (section 59(2) and (3))
- limit access to the exemption that currently applies to meals for primary production employees (section 58ZD) to instances where there is an operational requirement for the employer to provide these meals
- remove the definition limiting the exemption to meals ‘ready for consumption’, as it leads to ambiguity and difficulty in implementation
- remove the holiday transport concession (section 60A and section 61).

37. In justifying the removal of the fuel and holiday transport concessions, the Productivity Commission has concluded that these ‘are expected to have only limited effect, as the concessions are narrowly used and are low in value.’ As no evidence is provided on how the alleged narrow use is determined, we question how this conclusion is made? Again, this may lead to a dilution of the concessions due a primary focus on tax neutrality.
38. Unfortunately, the narrow focus on this point provides little by way of understanding or analysis of how the FBT remote area concessions may be beneficial. As evidenced by the testimonial below from one of our not-for-profit aboriginal health clients, the holiday transport concession can be a necessary tool to operate a business:

*We have often gone to great lengths to recruit the right people into positions. For example, GPs with good English – we have recruited from the UK previously; Nurses with Child and Family specialty qualifications – we have recruited from NZ. In both instances, we had been*



*unsuccessful recruiting within Australia. In both instances, we committed to supporting these clinicians to return home after a few years of service with a return airfare. With the contest to recruit qualified staff intense, our ability to offer incentives such as these is critical to our ability to attract and retain the right staff to be able to operate our business. This expense is balanced against the cost and time constraints of growing our own clinicians, which may take many years.*

*Given the paucity of tax concessions available to a business such as ours operating in remote Australia, it would surely seem reasonable to support the work that we do (in an area where other businesses are not feverishly setting up in opposition!) so that the business of Closing The Gap gets done.*

39. While we acknowledge the Productivity Commission's view that as there is no operational requirement, we hope the Productivity Commission looks beyond revenue raising procedures and, instead, at how the benefit can positively impact disadvantaged communities by raising the profile and calibre of their workforce (and by association the entire economic and social infrastructure).

#### **Information Request 2**

The Commission invites feedback on its estimates of the utilisation of the FBT concessions. Are the Commission's assumptions plausible? If not, what alternative assumptions should apply? Are there other data that could assist in gauging the use of FBT concessions?

40. In regard to the utilisation of FBT remote area concessions, our initial submission expressed that across our entire client base nationally, PwC have witnessed lower than expected take-up of the FBT remote area concessions. While this observation may have been a contributor to the Productivity Commission concluding that utilisation of FBT remote area concessions is low and, therefore limited in value, we contend that the low take up is primarily due to complexities of the current law and the rigid eligibility.
41. As such, we request the Productivity Commission addresses these complexities in the final report. Simplification of the benefits does not mean removing the benefits all together, but simplifying qualifying requirements to allow more employers and employees to access the concessions to deliver the support that the government deems appropriate based on the needs of remote and regional areas.

#### **Information Request 3**

Should the revised remote area concessions be considered 'reportable' or 'excluded' benefits? Are there additional compliance burdens from allocating these benefits to individual employees that justify excluding them? Are there any other factors that should be considered in implementing these changes?

42. We do not recommend the revised FBT remote areas concessions be considered 'reportable', particularly where the Productivity Commission seeks to achieve an equitable FBT treatment



across all employees and employers. Employees will be worse off, given the ability for reportable benefits to negatively impact means tested liabilities. This does not seem fair given other employer provided housing, such as certain FIFO benefits and LAFHA (for the first year 12 months), are not reportable on an employee's payment summary. Implementing a reportable requirement will only increase the gap between urban and remote area employees.

#### *Information Request 4*

The Commission invites further information on the compliance burdens that could arise from this change in the FBT treatment of employer-provided housing, and on what could be done to reduce these burdens while addressing equity concerns.

44. The Productivity Commission itself has already recognised the increased compliance burden that would likely result by reducing the employer-provided housing exemption to a partial concession:

*... requir[ing] employers to submit FBT returns, which they could formerly have avoided when using exemptions. Determining the value of housing provided to employees could also be a challenge, particularly in the absence of a housing market.*

45. In the absence of a housing market, determining a market value may be difficult, particularly in instances where employer-provided housing is granted in light of limited housing availability within the remote area. A restricted market may force employers to obtain independent valuations. The valuer's role and qualification factors will need to be clearly defined within the FBT Act, to ensure the integrity of the tax system. We also question whether the valuation report is required to be updated every year, to reflect housing prices, or can be utilised for an extended period. Ultimately, these valuation costs will be additional expense of the employer.
46. In light of these challenges, it is disappointing to see the Productivity Commission is accepting of these additional compliance costs for employers, especially given the commentary and testimonials regarding the incentivisation necessity of these concessions. In this regard, even with a sole revenue focus, in our view, the cost-benefit analysis cannot viably be accepted to exist for small employers, particularly given the proposed reduction of the employer-providing housing exemption to a 50 per cent concession thereby necessitating valuations and returns.
47. On a separate note, should the proposed recommendations take effect, we request that transitional rules be instated. Many of our clients who utilise the employer-provided housing exemption have clauses entrenched in their Enterprise Agreements, and as such, any changes may take years to be updated.

#### *Information Request 5*

How often should the FBT remote area boundaries be updated? Should the FBT remote area boundaries be decoupled from the ZTO boundaries? If so, how? Can the other eligibility rules for remote area concessions be improved sufficiently to make geographical boundaries redundant?

48. Given the Productivity Commission’s focus on an addressing the inequalities inherent in the FBT regime, we were surprised that no recommendations were provided to modernise the remote area boundaries. As the Productivity Commission has made extensive commentary on the fact that the remote area boundaries extend across 97% of the land mass of Australia and apply to the wrong regions, the simplest way to address this inequality would be to refresh the boundaries.

49. Our initial submission contained the following suggestions to reset the boundaries:

*“... we submit that the remote area definition must look beyond just population data, and also consider aspects of relative ‘connectiveness’ to wider Australia. Issues faced by these regions include higher fuel consumption and therefore costs (for example, individuals who have to travel large distances to their local supermarket) and higher airfare prices (due to small airports with limited routes, or even no local runways). Thought must also be given to towns that have a high population due to unprecedented circumstances, such as the mining boom, but lack adequate accommodation and public facilities, as well as low availability of social opportunities, such as music and sporting events.*

*We acknowledge that broadening the remote area scope beyond population data will require some subjective analysis, however we strongly believe that this will lead to the most equitable outcome. We propose applying zones to delineate between subjectively assessed urban and remote areas. Postcodes appear to be the most appropriate approach, as this would ensure housing in the same town is treated identically. We suggest creating a list of urban areas by postcode, and allowing all other postcodes to fall out of the urban area and therefore to be considered remote. Crucially, this list would need to be updated within certain time frames (such as five year intervals) to observe the relative change in remoteness of areas overtime. This would also reduce inequitable outcomes in remote areas that encounter population decline.”*

50. Given the limited consideration applied by the Productivity Commission to update the current remote area thresholds, we request the Productivity Commission reconsider our recommendations, including that of having regularly refreshed zones based on post codes.

#### **Information Request 6**

What impacts would the proposed changes to FBT remote area concessions (particularly for housing) have on the provision of key public services, such as health services, in remote areas?

51. As evidenced by testimonials provided earlier, the proposed changes to the FBT remote area concessions would have an adverse effect on hiring and retention rates for employees who work in public services.

52. Whilst the Productivity Commission has focused on recouping ‘excessive forgone tax revenue’, there has been a distinct lack of consideration of the economic effects of reducing the FBT remote area concessions. It is not difficult to see how employers will be unable to compete with the higher labour costs offered by metro counterparts, and employees will be discouraged from relocating. This will create a public service shortage, which in turn will elevate service prices and further extend the gap between the remote and the urban.



53. Furthermore, as evidenced in the earlier testimonial, if employers are unable to provide housing to employees due to the proposed reduction to a 50% concession, there is a heightened risk that suitable accommodation will not be accessible. For example, for a health provider, if doctors and nurses have nowhere to live, or have to pay rent to live inferior accommodation (due to limited availability), it is unlikely they will move to the remote areas.
54. As such, a clear re-evaluation of the recommendations formulated in the Draft Report is required in order to avoid a public service shortage in remote Australia.

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PwC would welcome the opportunity to provide further input throughout the process of formulating the final report, and would be pleased to discuss our submission with you in further detail.

Yours sincerely

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