

18 October 2019

Remote Area Tax Concessions and Payments study
Productivity Commission
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Dear Committee Secretary,

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RE: Remote Area Tax Concessions and Payments Draft Report

Thank you for the opportunity to make a further submission to this inquiry.

Regional Development Australia (RDA) Tasmania is a not-for-profit organisation that has a formal partnership between the Australian Government, Tasmanian Government, and the Local Government Association of Tasmania (LGAT). Regional Development Australia (RDA) is an Australian Government initiative established to encourage partnership between all levels of government to enhance the growth and development of Australia's regional communities. For more information our projects and activities please visit our website: <https://www.rdatasmania.org.au/>

Following are some local responses to the recommendations in the Draft Report.

DRAFT RECOMMENDATION 5.1 ABOLISH ZONE AND OVERSEAS FORCES TAX OFFSETS The Australian Government should abolish the zone tax offset and the overseas forces tax offset.

RDA Tasmania supports this recommendation for Zone B, but not for Zone B – Special Areas that in Tasmania are the Furneaux Groups of Islands and King Island. Island communities face high costs for transport along with limited services and product availability. If Zone Tax Offsets are abolished for island residents, consideration should be given to increased support for local airports, transport and local service provision such as health and digital connectivity.

DRAFT RECOMMENDATION 6.1 ADJUST RAA BOUNDARIES The Australian Government should revise section 14 of the Social Security Act 1991 (Cth) to align the remote area allowance geographical boundaries with the Australian Bureau of Statistics remoteness classification for very remote and remote areas.

RDA Tasmania supports this recommendation.

DRAFT RECOMMENDATION 6.2 REVIEW RAA PAYMENT RATES PERIODICALLY The Australian Government should revise payment rates for the remote area allowance (RAA) following the completion of this study. Thereafter, the Department of Social Services should review the RAA periodically. These reviews should:

- revise RAA payment rates, taking into account changes in living-cost differentials between remote and non-remote areas
- report on RAA annual outlays and recipient numbers
- consider any issues associated with administering the RAA. The reviews should be made public.

RDA Tasmania supports this recommendation.

DRAFT RECOMMENDATION 8.1 TIGHTEN TAX 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))
- remove the provision that extends the concession to additional areas for 'certain regional employers' (section 140(1A)).

The employer provided remote area accommodation exemption provides assistance to employers trying to attract skilled talent to remote areas. Many mining companies provide accommodation to employees as an incentive to attract new and skilled staff to remote areas such as Tasmania's west coast. For instance, West Coast Village near Zeehan is owned by Bluestone Mines Tasmania, a joint venture that owns and operates the Renison Tin Mine, the largest operating tin mine in Australia.

It is noted that in some regions of Australia, higher-income employees can significantly benefit from these provisions. Rather than an across the board 50 per cent reduction, consideration could be given to a cap on benefits available, if this can be done in a way that does not significantly increase the compliance burden.

While RDA Tasmania supports amending the provisions for 'customary' housing and 'certain regional employers', there is a concern that fly-in-fly-out (FIFO) or drive-in-drive-out (DIDO) workforce Living Away from Home Allowance provisions (section 31A of the FBTAA) remain unaltered and that these may become more attractive or cheaper. A move towards use of FIFO or DIDO workers at the expense of attracting new residents will have the economic impact of diverting the employee's income away from the local community to their place of residence, most often a highly populated urban area.

Given the current policy focus of minimising the strains of population growth in large urban areas and fostering vibrant and attractive regional communities, RDA Tasmania encourages regulatory triggers that support incentives to live and work in remote communities in preference to a FIFO or DIDO workforce.

FBT administration and claims can be complex and onerous; it can penalise employers (and therefore employees) at the highest marginal tax rate, regardless of the employee's individual tax rate. There may be better ways to support employees moving to remote areas for work that do not disadvantage local employees, in which case a move from FBT concessions could be supported.

DRAFT RECOMMENDATION 8.2 REMOVE CONCESSION 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).

RDA Tasmania does not support this recommendation. 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 lesser capacity for smaller business to provide their own housing, the removal of this provision could disadvantage smaller business in favour of large corporations. Furthermore, employees whose preference is to secure their own housing due to wanting either a permanent move or housing independence from their employer, should not be discouraged from making a permanent move to a remote areas.

Again, if there is a better mechanism that could replace this concession, such as a one-off financial benefit to move to a remote area for work that does not have adverse impacts, then RDA Tasmania could be in support given that FBT administration can be complex and onerous.

DRAFT RECOMMENDATION 8.3 TIGHTEN TAX TREATMENT OF OTHER GOODS AND SERVICES 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).

RDA Tasmania supports these changes on the understanding that they compare positively to FIFO or DIDO benefits. That is, there should be a preference for employees re-locating and living in remote communities wherever possible in preference for FIFO or DIDO workers, due to the impacts on urban population pressures; the impacts on FIFO and DIDO workers and families of this form of employment; and the community and social benefits than can be gained from new and skilled workers and potentially their families moving to more remote communities.

Any proposed reforms should consider a transitional period when changing the legislation. For instance, employers may have made a significant investment in purchasing a house that may be hard to sell due to the remote location and employees who relocated with salary packaged housing benefits would have factored in existing tax concessions and payments.

RDA Tasmania supports this inquiry into remote area tax payments and concessions and would be happy to provide more information or advice on request.

Yours faithfully

Craig Perkins
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Director of Regional Development