

Australian Government  
Productivity Commission's Draft  
Report on Remote Area Tax  
Concessions and Payments,  
August 2019



Torres Shire  
Council  
Submission

## EXECUTIVE SUMMARY

Torres Shire Council (hereafter referred to as “Council”) appreciates the opportunity to respond to the Australian Government Productivity Commission’s Draft Report on *Remote Area Tax Concessions and Payments*. The Draft Report contains some erroneous assumptions that Council seeks to disabuse.

The comment that “Everyone faces a range of advantages and disadvantages in where they live and will typically locate themselves in the area, they value most highly” is Eurocentric. The peoples of the Torres Strait, having already been impacted by past racist policies of forced relocations, live in the Torres Strait, not because of some sort of mass preference migration, but because we belong here and have done so well before Europe existed. Council fundamentally refutes the proposition that “There is no general role for Government to compensate taxpayers for the disadvantages of life in particular areas. Higher wages in the zones across a wide skill spectrum suggests (sic) that the market compensates workers, at least to some extent, for the disadvantages of remote living” and does so reference to relevant ABS statistics.

These statistics confirm the accuracy of the Productivity Commission’s observation that “There are also marked divergences in both income and employment outcomes between Indigenous and non-Indigenous Australians, and the gap widens as remoteness increases”.

Whilst acknowledging advances since 1945 (when tax concessions for “isolated areas” were first introduced) the tyranny of distance continues to negatively impact on our communities. To illustrate this point – there is only one commercial shipping company (*Sea Swift*), based in Cairns that operates a fleet of cargo and other vessels servicing the freight and, to a lesser extent, passenger needs of the Torres Strait and the Cape York Peninsula.

Unless and until these factors are properly addressed, and the current financial cost to our communities and the economic disincentive to our region are overcome, it would be cruel to arbitrarily remove any remote areas allowance (RAA) to the impoverished peoples of our Shire. The price of food, goods and services are subject to mark-ups of 50-70% (and in many cases up to 100->500%). To illustrate - a block of UHD milk that costs \$1.00 in Cairns costs as much

as \$4.50 in our Shire (> 400%) and a luxury such as a block of chocolate costs \$2.00 in Cairns and as much as \$10.50 in Torres Shire (>500%).

Council supports the principle that the level of RAA should be adjusted to consider the differences in prices between remote and non-remote areas as recommended in the draft report.

Whilst noting that taxation has been used for many years by Australian governments of both persuasions as a fiscal device to redress income disequilibrium, Council agrees with the Draft Report's observation that the current design of the ZTO is now outdated and ineffective in terms of delivering the intended social outcomes recommended in the 1981 Cox review.

Council agrees that ill-designed taxation, especially when it does not meet its intended purpose is a blunt and obsolete instrument. In the event that the ZTO is abolished, Council is keen to see a functioning RAA remain. Council believes that the policy direction should be aimed at economic development to which the annual \$150M budget savings associated with the removal of the ZTO could be directed. Providing tax incentives for indigenous-owned businesses, start-ups and more broadly indigenous business development are supported by Council. Council would be very keen to be part of a dialogue in fashioning such an initiative to help realise the Goals and Objective of the Torres Strait and Northern Peninsula Area Regional Plan. In the event that the ZTO is abolished, Council is keen to see a functioning RAA remain.

The transition to Torres Strait Islander peoples being the owners of businesses/capital/providers of employment and not simply the source of "labour supply" is the direction sought by Council. This approach, rather than the maintenance of meaningless and paltry annual payments that entrench welfare dependence and poverty, meets Council's aspirations for our Shire and our Region. In this regard, Council opposes Draft Finding 5.2.

Council supports the Draft Report's recommendation that remoteness be defined by reference to those areas published by the Australian Bureau of Statistics Tax Offset Boundaries as the appropriate proposed Appendix reference (inclusive of all "Torres Strait Islands"). Once this amendment is approved, Council supports the removal of nebulous statutory terms such as those included in s140 (1A) and s58ZC (2) (d) (iii) and referenced in Table 2 of the Draft

Report<sup>1</sup>. Council supports a biennial updating of the FBR remote area boundaries in response to Information Request 5.

Council notes that if the FBT treatment for employer-provided housing is reduced by half, this will result in a number of compliance issues/burdens, including:

- more administrative effort/paperwork;
- an increase on the employee's Medicare Levy;
- a possible impact on Family Tax Benefit; and
- a further stressor for recruitment to our region in a tightly constrained labour market

Council notes that one area that is missing in this Draft Report is an examination of the Fuel Excise. Council raised this matter with the then Prime Minister in 2015, with a commitment that it would be investigated at that time. Years have passed and no examination has occurred. A proper examination of the Fuel Excise, in the context of Remote Area Tax Payments, is long overdue. Council recommends that this matter is examined by the Australian Productivity Commission.

Council seeks that the Australian Government's Productivity Commission has regard to this submission in preparing its final report.

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<sup>1</sup> Ibid p. 36

## **Introduction**

The **Shire of Torres** is a local government area located in Far North Queensland covering large sections of the Torres Strait Islands and the northern tip of Cape York Peninsula north of 11°S latitude. It holds two distinctions—it is the northernmost Local Government Area in Australia, and is the only one to abut an international border – it is at one point just 73 kilometres (45 miles) from Papua New Guinea. It is administered from Thursday Island.

Torres Shire Council (hereafter referred to as “Council”) appreciates the opportunity to respond to the Australian Government Productivity Commission Draft Report on *Remote Area Tax Concessions and Payments* as follows:

## **Eurocentric Bias**

The Draft Report suggests that where people live is a lifestyle choice as well as because of “strong personal or cultural connection” to a “place”<sup>2</sup>. The Torres Shire consists of Waibene, Ngurupai, Gealug, Muwai, Muralag, Palilug and areas of the Northern Peninsula of Cape York. The Torres Strait is made up of more than a hundred islands, traditionally known as Zenadth Kes and occupies the sea country between two mainland areas: Australia (Koey Dhawdhay) and PNG (Moegi Dhawdhay). The sea country is the traditional Native Land and Waters of Guda Maluyligal, Maluyligal, Kulkaigal, Kemer Kemer Meriam, Kaiwalagal - the seafaring nations of Zenadth Kes. Two dialects are spoken within three groups of islands, predominantly by the ‘creole’ languages. These dialects are Kala Lagau Ya and Meriam. Zenadth Kes was governed by Kod Systems, an ancient form of governing structure, prior to colonisation. The peoples of the Shire are First Nations peoples who have title over this “place” and have lived in this “place” well before colonisation. In this context, it is insulting to suggest that location is somehow discretionary, however benignly expressed.

This observation is pertinent when considering the commentary around the zone tax offset allowance (ZTO). The comment that “Everyone faces a range of advantages and disadvantages in where they live and will typically locate themselves in the area, they value most highly”<sup>3</sup>. Council advises the Commission that such a comment is profoundly Eurocentric and consequently, inappropriate. The peoples of the Torres Strait, having already been impacted by

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<sup>2</sup> Australian Government Productivity Commission Draft Report, *Remote Tax Concessions and Payments*, August 2019, p. 2

<sup>3</sup> *Ibid*, p. 17

past racist policies of forced relocations, live in the Torres Strait, not because of some sort of mass migratory preference, but because we belong here and have done as First Australian well before Europe even existed.

### **Disadvantage**

Council fundamentally refutes the proposition that “There is no general role for Government to compensate taxpayers for the disadvantages of life in particular areas. Higher wages in the zones across a wide skill spectrum suggests (sic) that the market compensates workers, at least to some extent, for the disadvantages of remote living”<sup>4</sup>. Statistics from our LGA do not support this observation<sup>5</sup>:

- In the Torres Shire LGA 29.0% of households with Aboriginal and/or Torres Strait Islander persons were overcrowded (far in excess of the national figure of between 4-24%) and 5.2% of non-Indigenous households were overcrowded compared with the Queensland rate where 10.5% of households with Aboriginal and/or Torres Strait Islander persons were overcrowded and 2.7% of non-Indigenous households were overcrowded. These statistics reveal that overcrowding in the Torres Shire is thrice that applying to indigenous Queensland households and twice that applying to non-indigenous Queensland households.
- Approximately 80% of our LGA is Aboriginal and Torres Strait Islander.
- 9.8% of households with Aboriginal and/or Torres Strait Islander persons in the Torres Shire earn \$500-\$649 per week – the highest concentration of household incomes; whereas 15.2% of non-Indigenous households earn between \$2,000-\$2,499 per week – the highest statistical concentration for non-indigenous households. These statistics confirm the accuracy of the Productivity Commission’s observation that “There are also marked divergences in both income and employment outcomes between Indigenous and non-Indigenous Australians, and the gap widens as remoteness increases”<sup>6</sup>.
- The ABS data applying to disadvantage reveal that in the Torres Shire LGA:
  - 0.0% of Aboriginal and Torres Strait Islander people are in the least disadvantaged quintile; and

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<sup>4</sup> Ibid, p. 2

<sup>5</sup> Queensland Government Statistician’s Office. Queensland Treasury, Queensland Regional Profiles, Custom Report, 12 April 2019.

<sup>6</sup> Ibid, p. 8

- 44.7% of Aboriginal and Torres Strait Islander people are in the most disadvantaged quintile; and
- The State of Queensland profile is vastly different, where ABS data reveal that:
  - 20.0% of Aboriginal and Torres Strait Islander people in the least disadvantaged quintile; and
  - 20.0% of Aboriginal and Torres Strait Islander people are in the most disadvantaged quintile.
- These statistics reveal that more than twice the number of people who are most disadvantaged reside in the Shire’s local government area compared to the rest of Queensland<sup>7</sup>.

### **Tyranny of Distance**

Whilst acknowledging advances since 1945 (when tax concessions for “isolated areas” were first introduced) the tyranny of distance continues to negatively impact on our communities. To illustrate this point: There is only one commercial shipping company (*Sea Swift*), based in Cairns that operates a fleet of cargo and other vessels servicing the freight and, to a lesser extent, passenger needs of the Torres Strait and the Cape York Peninsula. All sea freight services for the ports of Horn Island, Thursday Island and the outer Torres Strait Island communities (OTSI) are provided by this company. Two main line haul vessels depart Cairns once each week to deliver cargo to Horn Island, Thursday Island and Bamaga. Subject to weather conditions and capacity, freight movements, ex-Cairns, are normally able to be completed within seven days to even the OTSI, and within four days to the Port Kennedy area. There is an inherent lack of competition on what is essentially a niche route.

It is self-evident that there are considerable benefits associated with a regular coastal sea freight service that would provide flow-on economic benefits to the region. Furthermore, a commercially- operated coastal shipping service that achieves interoperability between freight modes and reduces supply chain costs to the region’s businesses and residents could have positive impacts on the region’s economy.

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<sup>7</sup> ABS 2033.0.55.001 Census of Population and Housing: Socio-Economic Indexes for Areas (SEIFA), Australia, 2016, (Queensland Treasury derived)

This monopoly and the absence of a regulated competitive intrastate shipping industry are a terrible break on our economic development and profoundly compounds the terrible cost-of-living experienced by our communities, reducing prosperity and good health in our region.

Unless and until these factors are properly addressed, and the current financial cost to our communities are overcome, it would be cruel to arbitrarily remove any remote areas allowance (RAA) to the impoverished peoples of our Shire. The price of food, goods and services are subject to mark-ups of 50-70% (and in many cases up to 100->500%). To illustrate - a packet of UHD milk that costs \$1.00 in Cairns costs as much as \$4.50 in our Shire (> 400% price increase) and a luxury item such as a block of chocolate costs \$2.00 in Cairns and as much as \$10.50 in Torres Shire (>500% price increase).

Council supports the principle that the level of RAA should be adjusted to consider the differences in prices between remote and non-remote areas as recommended in the draft report<sup>8</sup> Council opposes Draft Finding 1 and its related recommendation 5.1 regarding the RAA. Council supports Draft Recommendations 6.1. and 6.2 in the terms of this submission.

Whilst noting that taxation has been used for many years by Australian governments of both persuasions as a fiscal device to redress income disequilibrium, Council agrees with the Draft Report's observation that the current design of the ZTO is now outdated and ineffective in terms of delivering the intended social outcomes recommended in the 1981 Cox review. Council concurs that ill-designed taxation, especially when it does not meet its intended purpose, is a blunt and obsolete instrument.

In the event that the ZTO is abolished, Council is keen to see a functioning RAA remain. Council believes that the policy direction should be aimed at economic development to which the annual \$150M budget savings associated with the removal of the ZTO could be directed. Providing tax incentives for indigenous-owned businesses, start-ups and more broadly indigenous business development is supported by Council. Council would be very keen to be part of a dialogue in fashioning such an initiative to help realise the Goals and Objective of the Torres Strait and Northern Peninsula Area Regional Plan. The transition to Torres Strait Islander peoples being the owners of business/capital/provides of employment and not simply

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<sup>8</sup>ibid, p23



the source of “labour supply” is the direction sought by Council. This approach, rather than the maintenance of meaningless and paltry annual payments that entrench welfare dependence and poverty, meets Council’s aspirations for our Shire and our Region. In this regard, Council opposes Draft Finding 5.2.

### **FBT and Concessions**

Council notes the draft report’s observation so far as it applies to employer-provided housing that “Reducing tax savings from the (FBT) concession and removing the additional areas for ‘certain regional employers’ could nonetheless affect service delivery, especially where service delivery agencies are budget-constrained and have limited revenue-raising options. This may be true of local government...The potential loss of capacity to deliver services that could result from these changes to FBT concessions needs to be duly considered”<sup>9</sup>. This observation is also true for state and federal government employers. Council concurs with this observation and seeks that it is not just considered but that it informs the Commission’s final report such that the full concession remains for our region. Further, Council supports the inclusion of the regions (not the regional employers) be noted in an Appendix to the legislation.

In this regard, Council supports the Draft Report’s recommendation that remoteness be defined by reference to those areas published by the Australian Bureau of Statistics Tax Offset Boundaries<sup>10</sup> as the appropriate proposed Appendix reference (inclusive of all “Torres Strait Islands”). Once this amendment is approved, Council supports the removal of nebulous statutory terms such as those included in s140 (1A) and s58ZC (2) (d) (iii) and referenced in Table 2 of the Draft Report<sup>11</sup>. Council supports a biennial updating of the FBR remote area boundaries in response to Information Request 5.

Regarding the information request 1 noted on page 38 of the Draft Report, Council has found the Regional Profiles from the Queensland Government’s Statistician’s Office of Queensland Treasury extremely helpful. Please note Appendix 1 of this submission regarding Information Request 1.

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<sup>9</sup>Ibid p. 34

<sup>10</sup> Ibid p. 38

<sup>11</sup> Ibid p. 36

In response to Information Request 4, if the FBT treatment for employer-provided housing is reduced by half, this will result in a number of compliance issues/burdens, including:

- more administrative effort/paperwork;
- an increase on the employee's Medicare Levy;
- a possible impact on Family Tax Benefit; and
- a further stressor for recruitment to our region in a tightly constrained labour market

### **Fuel Excise**

Council notes that one area that is missing in this Draft Report is an examination of the Fuel Excise. Council raised this matter with the then Prime Minister in 2015, with a commitment that it would be investigated at that time. Years have passed and no examination has occurred. A proper examination of the Fuel Excise, in the context of Remote Area Tax Payments, is long overdue. Council recommends that this matter is examined by the Australian Productivity Commission.

Council seeks that the Australian Government's Productivity Commission has regard to this submission in preparing its final report.

Dalassa Yorkston

**Chief Executive Officer**

**ANNEXURE 1**

**REGIONAL HOUSING PROFILES**