

11th October 2019

Remote Area Tax Concessions and Payments Study
Productivity Commission
GPO Box 1428
Canberra City ACT 2601

Dear Sir/Madam

NORTH WEST QUEENSLAND REGIONAL ORGANISATION OF COUNCILS SUBMISSION TO PRODUCTIVITY COMMISSION DRAFT REPORT: REMOTE AREA TAX CONCESSIONS AND PAYMENTS (October 2019)

In response to the Productivity Commission's Issues Paper (March 2019) on this matter, the North West Queensland Regional Organisation of Councils (NWQROC) recommended that:

1. Remote Area Tax Concessions and Payments – specifically the Zone Tax Offset (ZTO) be continued - in some form – with the aim of ensuring that the offset is returned to individuals at regular intervals rather than annually
2. Concepts such as 'relative cost of living' and 'access to services' are still relevant factors to consider in the methodology for calculating Concessions / the Zone Tax Offset
3. The rate of the Concessions / Zone Tax Offset be increased and annually indexed at an appropriate level recognising contemporary measures of 'disadvantage'
4. The relevance of the Concession / Zone Tax Offset 'Zones' be reviewed in light of current census data / population settlement patterns

Based on our review of the 98 initial submissions received on the Issues Paper, it appears that the position of the NWQROC is shared by many individuals and organisations such as the National Farmers Federation (NFF), Agforce, the Local Government Association of Queensland (LGAQ), the Western Australia Local Government Association (WALGA) and the Local Government Association of the Northern Territory.

The Draft Report (p. 158) acknowledges this convergence of views across stakeholders and states that "Most participants who commented on the ZTO argued for its continuation in some form". **Hence, the NWQROC is hugely disappointed with the Commission's DRAFT RECOMMENDATION 5.1: ABOLISH ZONE AND OVERSEAS FORCES TAX OFFSETS.**

The Commission has acknowledged the empirical challenge in evaluating both the ZTO and the Remote Area Allowance (RAA) and highlights on page 55 of its Draft Report that "A challenge for this study has been the dearth of relevant and readily available data and previous analysis of the measures. Even where data can be assembled, accurately gauging the effects of the measures is not straightforward. The value of the ZTO and RAA is now quite small and their beneficiaries are dispersed over wide areas, making it difficult to disentangle their effects from other factors and to assess their local impacts".

The Commission also notes on page 171 of its Draft Report that “Repealing the ZTO would also put to bed the risk that the offset may be invalid under the Australian Constitution”. Yet, the LGAQ’s submission (p. 5) on the Issues Paper highlights that “Some commentators suggest that the ‘Constitutional validity’ question that is raised from time to time is a matter that has been dealt with in other policies, with at least one observer suggesting the issue is raised as a distraction: ‘if it was a genuine concern, then s79A of the Income Tax Assessment Act 1936 has been unconstitutional since 1945’”.

From the NWQROC’s perspective, Draft Recommendation 5.1 seems to completely ignore the views of the vast majority of stakeholders; is founded on poor quality and limited data; and overstates the ‘constitutional’ risk associated with this matter. In light of no other alternative being offered as a potential substitute for the ZTO, this section of the Commission’s Draft Report seems to lack any form of policy rigour.

The NWQROC is also disappointed and frustrated that the Commission’s Draft Report further seeks to discredit the ZTO against regional economic development parameters and states that “Ultimately, regions need to be self-sustaining (Draft Report, p. 17)”. Whilst no member of the NWQROC would argue against this goal, the reality is very different. Such a statement seems naïve on behalf of the Commission and fails to acknowledge the levels of financial support provided by both the Australian and State / Territory Governments in recognition that many regions across Australia, especially remote regions will unlikely be self-sustaining based on current Federation frameworks and institutional arrangements. The Australian Government’s Program of Financial Assistance Grants to councils is one such example. It aims to promote equality among regions, and to ensure adequate services and the development of resources at local and regional levels in recognition that many regions won’t be self-sustaining.

With the above noted, the NWQROC does agree with many aspects of the Commission’s Findings. These include:

DRAFT FINDING 2.1

The broader context for remote area tax concessions has changed considerably since their introduction in 1945. Technological advances have helped lessen the hardships of life in remote parts of Australia. Some areas once considered isolated, such as Cairns and Darwin which are now home to international airports and populations exceeding 100 000 people, can no longer reasonably be considered remote.

DRAFT FINDING 2.3

There is some evidence that the cost of living increases with remoteness.

DRAFT FINDING 2.4

Although life in remote Australia has a unique set of challenges, many Australians choose to live there because of the pace and quality of remote life, or because of close personal or cultural attachments to places or to communities. Others move to remote areas in pursuit of economic opportunity.

DRAFT FINDING 3.1

Remote area tax concessions and payments form just one small part of the broad suite of measures put in place by all levels of government to support individuals, businesses and communities and to facilitate development in regional and remote Australia.

DRAFT FINDING 4.1

The remoteness areas published by the Australian Bureau of Statistics would be a more suitable basis for defining zone tax offset boundaries. They are widely used, including by State governments and the

Commonwealth Grants Commission, and are updated after each census using a transparent and well-understood methodology.

DRAFT FINDING 4.2

The zone tax offset (ZTO) is flawed* and outdated.

- Eligibility has not kept up with change in remote Australia, and nearly half of ZTO claimants live in large coastal regional centres.
- Inflation and growth in wages have substantially eroded the value of the ZTO. The economic and employment impacts of the concession are likely to be small, and there is no evidence to suggest that the ZTO currently affects where people choose to live and work.

**Note: the NWQROC does not believe the ZTO is flawed.*

In summary, whilst the NWQROC understands that the current ZTO does not necessarily meet its intended policy objective (currently), we propose that this is due to outdated measures associated with the definition of remoteness, population figures and cost of living indices in remote areas. The fact that these measures have not regularly been updated (as highlighted on page 4 of the Commission's Draft Report) is more a failing of Government than the framework of zonal tax offsets.

As such, the NWQROC strongly urges the Commission to reconsider its recommendation to abolish zone and overseas forces tax offsets. To proceed would blatantly ignore the overwhelming views of most stakeholders who 1). understand the issues firsthand, and 2). have taken the time to contribute to the Commission's investigations.

At best, rather than outright reject the ZTO, the Commission should offer a contemporary alternative that addresses the challenges of living in and growing and developing rural and remote communities – which are so fundamentally important to Australia's overall prosperity.

Should you wish to discuss any aspect of the NWQROC's submission, please contact, in the first instance, Mr Greg Hoffman PSM, Executive Officer, NWQROC

Yours sincerely

Cr Jack Bawden
Mayor, Carpentaria Shire Council
Chair, North West Queensland Regional Organisation of Councils