

Australian Government Productivity Commission
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To whom it may concern

Remote Area Tax Concessions and Payments

Below is feedback from the City of Karratha in relation to the Draft Report into Remote Area Tax Concessions and Payments.

Overview

The City of Karratha (the City) welcomes the Productivity Commissions (PC) review on this matter and appreciates the opportunity to make comment prior to the formal report and/or formal consideration by the Federal Government.

The City agrees that the current systems of tax concessions for remote areas are outdated and that there are substantial grounds for review. The City does not agree with the premise in the Draft Report that Tax Concessions for regional and remote Australians are not appropriate and *that 'ultimately, regions need to be self-sustaining.'* In many instances, particularly in resource rich regions, regional businesses and tax payers contribute substantially more tax dollars than they receive and are already well and truly self-sustaining from a nett tax position.

In the interest of improving national productivity, efforts should be made to ensure that economic growth in regional areas is reasonably smooth and efficient. The tyranny of distance, government centralisation and difficulty of accessing workforces sometimes makes that endeavour difficult. Taxation benefits are an appropriate tool to assist in supporting individuals and businesses who are helping to grow national productivity.

The report notes that *there is some evidence that the cost of living increases with remoteness and that 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.* We agree with these statements and believe that the Federal Government taxation regime should continue to support the sustainable growth of regional and remote areas. Economic growth in regional and remote Australia is good for the Nation and should be encouraged.

Zone Tax

The City agrees with the PC statement that *the ZTO payment is now a modest sum for most recipients and is likely to have minimal economic impact.* It also notes that the total claims made against the ZTO are relatively modest at approximately \$153Mpa. This represents a very, very small component of the Federal Government total annual revenue take of over \$505.5B.

The City agrees that, if the ZTO is to be retained, eligibility requirements should be tightened so only those individuals who are meaningfully disadvantaged through living remotely should access the benefits.

The City is supportive of:

Reducing the number of ZTO zoned areas, utilising the ABS categories of Remote and Very Remote as the basis for eligibility, noting that this would reduce the number of eligible claimants down by approximately 75%. If this were to occur, the City would contend that the benefits available to the eligible residents in Remote and Very Remote areas should be increased to make the ZTO benefit more relevant/meaningful;

or

Possibly eliminating the ZTO altogether as recommended within the report on the proviso that targeted tax concessions are made available to support regional living, particularly in those areas where economic productivity could be improved through the attraction and retention of additional workforces. Several remote and very remote locations experience low levels of unemployment and labour shortages. A more targeted taxation regime could assist in solving these issues, which in turn would lead to a higher level of national productivity. This option is discussed further in the FBT component of this submission.

Remote Area Allowance (RAA)

The City notes that the RAA has a real and potential meaningful benefit to the most disadvantaged Australians living in remote and regional Australia. At a cost of \$44Mpa, the impact on the Federal Government budget from this scheme is negligible.

The City supports the PC's recommendation that the Federal Government should revise and align the remote area allowance geographical boundaries with the Australian Bureau of Statistics remoteness classification for *very remote* and *remote* areas. This would increase the number of individuals who would be eligible for RAA payment but would have an insignificant impact on the overall Federal Budget. The City also supports the PC's recommendation that payment rates for the RAA should be periodically reviewed.

Fringe Benefits Tax (FBT)

While more significant than the ZTO and the RAA, the FBT total concessions payable are relatively inconsequential in the context of the Federal Budget representing less than 0.1% of total Australian Government revenues, even assuming the maximum FBT claim of \$560Mpa has been granted across all FBT exemption areas. The PC report data indicates that number could be as low as 0.04% as the exact value of FBT concessions claimed is not clear.

Given the lack of data available on this matter, the uncertainty of the value of concessions and the lack of clarity on the likely impacts of changing the FBT concession eligibility criteria, changing taxation policy at this point in time could potentially have unintended consequences. The City asserts that changing policy without clear data is not good public policy making. No changes should be recommended or made until the financial and social impacts of the changes on the government, businesses and individuals are clearly understood.

The City notes that the FBT concessions have the highest rate of utilisation in the Pilbara in Western Australia, and the Central Highlands and Bowen Basin in Queensland. These particular areas are highly productive areas of the nation that, whilst growing and having strong economic outlooks, face continuing challenges in attracting and retaining employees. Should FBT benefits be removed or significantly lessened (as is proposed in the PC report) existing challenges in attracting workforces to these areas will be exacerbated. This will have a flow on impact on business cost, business productivity and in turn will impact on Australia's competitiveness in global markets. Given this, the City strongly opposes any significant reductions to the FBT benefits available in truly remote and regional areas.

The PC report states that “*it is unlikely that the changes in existing exemptions will have significant impacts on the viability of resource projects in the Region*” (Pilbara). While that may be accurate for the mega-resource projects that exist in the Pilbara and/or are proposed to be built, it is not correct for the local, smaller business and resource industry support services within the District. The modifications of FBT rules as proposed would have a material impact on several Pilbara based businesses.

The City makes the following submissions regarding the specifics of the PC’s report and recommendations relating to FBT concessions:

Boundaries: Given that 97% of Australia’s land mass falls within the eligible boundaries for FBT concessions, the City supports a review of FBT boundaries. The City contends that the *RAA boundaries* or the *ABS remoteness areas* would be more appropriate than the current arrangement. Those boundaries would reduce the total quantum of FBT concessions available and would focus concessions on areas that are truly regional and/or remote.

Employer Provided Housing: The City strongly disagrees with the recommendation that concessions for employer provided housing should be wound back from 100% to 50%. Attracting and retaining skilled staff is a critical issue in many remote and regional areas. In the Pilbara of WA there are over 1000 jobs currently available with difficulties being experienced in attracting workforces, particularly skilled and experienced workers. The use of employer provided housing is a critical component of attracting appropriate, skilled staff to undertake roles in many regional areas by a variety of businesses – big and small. The reduction of this benefit would increase the cost of doing business and consequentially make regional areas less productive. This would be a poor outcome for towns, regions and the national economy.

By way of example, the City of Karratha owns approximately 55 houses that are used for staff accommodation. This accommodation is provided at a reduced rental rate to attract and retain qualified staff. Reducing the FBT concessions available to the City would increase the City’s costs substantially and therefore reduce our capacity to deliver services and facilities. This in turn makes the town less liveable/attractive hence making it harder to attract workforces. It should be noted that not all City staff are provided houses with only skilled, professional and/or difficult to obtain skillsets being offered City provided housing. This currently represent less than 15% of the total City workforce. Similar local examples are available where employers provide housing in a range of industries including retail, hospitality, tourism, supply and logistics, transport and many other fields. The PC’s report insinuates that the FBT employer provided housing concession is primarily accessed by large businesses. The City contends that this is not the case in areas where there is labour shortage like the Pilbara.

Employee Sourced Housing: The City notes the partial concessions on employee-sourced housing are narrowly used and that 50% per cent concession is much less generous than the full exemption on employer-provided housing. The City strongly opposes the removal of the 50% concession as it would create a significant disincentive to buy property and reside in regional areas. This is a particular concern to areas where there is already labour shortages like the Pilbara, Goldfields and the Bowen Basin. The PC report indicates that these areas are accessing the concessions at a greater rate than other locations. The removal of the concession would provide greater incentives for FIFO workforces than regionally-based workforces as, under the recommendations of the PC report, concessions for FIFO workforces would remain largely untouched.

Contrary to the PC recommendations, the City believes that the employee-provided housing should be extended to 100% (the same as currently available for employer-provided housing.)

This would reduce the compliance costs and encourage regional migration to areas where there are jobs and opportunities.

Housing (Other): Currently no FBT allowance is available where an employer pays an allowance in lieu of provision of housing. This provision creates an imbalance whereby individuals and employers who have the ability to purchase property have the capacity to access taxation concessions, but those that do not have that ability (ie. very small businesses and lower paid individuals) get no housing related FBT concession benefits. The Federal Government should consider making housing allowances paid to employees in regional/remote areas FBT exempt. These allowances should be:

- Capped, so as to minimise the misuse of the concession as 'remuneration in kind'
- Relative to market conditions, so as to ensure that the allowance is fair and reasonable. (ie Allowance being proportional/relative to market conditions with areas of high residential rental amounts being eligible for greater FBT exempt allowances than those where residential rents are lower.)
- Regularly reviewed, so as to maintain relativity with prevailing local housing market conditions

The City notes that this proposed provision would potentially increase the costs to the Federal Government but, if done in conjunction with other modifications taxation policy such as elimination of the ZTO, reducing the geographical areas in which FBT concessions are available and other 'tweaks' to FBT policy, the provision could potentially be delivered at cost neutral or cost negative to the government.

Other Concessions (Fuel and holiday transport). It is noted that the use of other FBT remote area concessions is minimal, in part because they provide limited tax savings and are overly complex with high compliance costs. Given this, the City supports either making the concessions simpler to access (less compliance) or scrapping the concessions altogether in favour of higher levels of more simple taxation concessions, such as housing allowance concessions.

In relation to potentially making the other FBT concessions simpler, the City argues that capped employer-provided tax free allowances to employees for fuel and holiday transport could be used as an alternative to current methods of accessing the FBT concessions. As with the proposal for housing allowances in remote areas to have FBT concessions (listed above), appropriate controls would need to be put in place to ensure that allowances were not being paid in lieu of standard remuneration.

An alternative or addition to the provision concessions for fuel and holiday transport is potentially allowing for the provision of a child care allowance as an FBT concession. In remote/regional areas where there is low unemployment and high level of job availability there is often an element of unemployment of partners of the primary income earner due to either an inability to access childcare or the high cost of accessing childcare making it uneconomical for the partner to access full-time employment. Providing FBT concessions on childcare would stimulate the child care industry in regional areas, assist in alleviating labour shortages and increase regional productivity.

FIFO: Temporary accommodation, meals and transport for FIFO workforces are currently FBT exempt. The PC report states that *'the Commission is not proposing changes to the existing concessions for FIFO arrangements.'* Having said that, the report found that FBT concessions for fly-in fly-out workers, while widely used, are likely to have only a minor influence on decisions to maintain a FIFO workforce. Given this, the rationale for not supporting changes to FIFO FBT arrangements is not clear?

The City's position is that FIFO is a necessary component of the employment mix particularly for large construction projects, major maintenance shutdowns and for very remote mining operations. While acknowledging this, FIFO work practices are being used by companies for operational purposes when there is suitable alternate accommodation available with regional communities.

Companies and individuals are routinely arguing that FIFO or residential employment is an employee's choice. There are clearly some instances where the employee (or the company) is choosing FIFO over a residually based employment and are accessing Federal Government provided FBT benefits out of choice rather than remoteness or necessity. Given the relatively inconsequential impact of the FBT concessions on the decision-making process for large scale projects that typically use FIFO workforces, it seems odd that there are currently no recommendations from the PC to change FBT rules pertaining to FIFO.

The City is of the view that FBT concessions available to FIFO workforces should be abolished.

Summary

In summary, the City:

Supports the review of remote area tax concessions and payments.

Believes that changes should be made to ensure that concessions and payments are made to only those residents living in remote and very remote areas.

Believes that proposed changes to FBT concessions would have a material impact on businesses and individuals in areas like the Pilbara.

Considers changing policy (particularly cutting benefits) in the absence of a clear understanding of the financial and social impacts of the proposed policy changes is poor practice.

Believes that there is an opportunity to modify FBT concessions to make them more targeted and administratively efficient.

Does not support the retention of FBT benefits for FIFO workforces.

The City would welcome the opportunity further discuss this matter with the Productivity Commission prior to the Final Report being delivered

Yours faithfully

Chris Adams
CHIEF EXECUTIVE OFFICER

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