



Shire of **EAST
Pilbara**
AUSTRALIA'S LARGEST SHIRE

SHIRE OF EAST PILBARA

RESPONSE TO PRODUCTIVITY COMMISSION DRAFT REPORT

REMOTE AREA TAX CONCESSIONS AND PAYMENTS

SUBMITTED ONLINE | 11 OCTOBER 2019



Australian Government Productivity Commission Remote Area Tax Concessions and Payments

The below is the Shire of East Pilbara's response into the draft report by the Productivity Commission's Inquiry into Remote Area Tax Concessions and Payments. It should be noted that the Shire of East Pilbara has also been engaging with the Town of Port Hedland and Shire of Ashburton and that a collective response of these three (3) Local Governments will also be submitted as a regional response.

The Shire welcomes the Productivity Commissions review into these matters and appreciates the opportunity to provide comment prior to this matter being considered by the Federal Government.

Issue

Response to the proposed changes in the draft Productivity Commission Report, Inquiry into Remote Area Tax Concessions and Payments.

- The Shire of East Pilbara notes the Productivity Commission (PC) draft recommendations to Government on remote area tax concessions and payments strongly opposes the proposed recommendations in the draft report Inquiry into Remote Area Tax Concessions and Payments.
- The Shire of East Pilbara does agree there is some case for reform based on the comments in the report, however holds an alternative view on how this can be achieved.
- Instead of the PC recommendations being adopted in the final report, the Shire calls on the PC to reconsider the draft recommendations, and submits that the PC should instead consider the following alternate recommendations:

Recommendations:

- 1. The definition of remote and very remote should be redrafted, and all recommendations are reconsidered in light of the new definitions.*
- 2. The ZTO should remain in place, and be indexed to an appropriate level. Revised definitions of remote and very remote should be applied to this concession.*
- 3. Fringe benefits tax remote area concessions should remain at current levels. The 'customary' provision (s58ZC(2)(d)(iii)) enabling the provision of employer-provided housing should be retained.*

Alternate recommendation 3. Should it not be acceptable for the PC to leave fringe benefits tax remote area concessions at current levels as per Recommendation 3 above, the following alternate recommendation is proposed:

- 3. (Alternate) Any structural reform of fringe benefits tax remote area concessions, should be limited to revising the definitions of remote and very remote, and the application of the revised definitions to this group of concessions. The 'customary' provision (s58ZC(2)(d)(iii)) enabling the provision of employer-provided housing should be retained.*
- The PC requested feedback and evidence on the impact of the proposed changes, as some of the data was not available to assess the impact of the policy change. The Shire of East Pilbara has provided some available data to this submission, and has also provided data to a regional submission from Local Government.

Background

Federal Government Position and Recommendations:

- The Productivity Commission was tasked by the Government to assess the effectiveness of remote area tax concessions and payments.
- The draft recommendations released in September 2019 are for sweeping changes to Australia's remote area tax concessions and payments including;
 - Abolishing the zone tax offset (ZTO) completely.
 - Review, with a view to increase the remote area allowance (RAA) which applies to recipients of welfare.
 - Tighten tax treatment of employer provided housing including:
 - Apply a 50% fringe benefits tax (FBT) for employer provided remote housing.
 - Remove the ability to provide housing because it is customary (s58ZC(2)(d)(iii)).
 - Remove the 50% fringe benefits tax (FBT) for employee sourced housing where housing assistance including mortgage and rent assistance are paid.
 - Of note, is the proposal that FIFO remains exempt.
 - Remove concessions related to other goods and services such as holiday transport, some meals, and residential fuel concessions.
- The PC view is that the proposed changes will make the system better targeted and fairer.
- The PC is also of the view there is market compensation for the cost of living in the regions, and regional living is largely a matter of choice based either on higher remuneration, or personal attachment to an area.
- The PC is unable to fully assess the monetary value and impact of the proposed changes as employer-provided housing is not reportable at the moment (fully-exempt).
- Additional compliance implications and costs to implement the proposal were noted, however the PC considered the value in revenue raised offset the compliance costs to businesses.
- The PC estimated that the proposed changes ZTO and housing exemption is equal to a \$368m in tax revenue Australia-wide (\$153m ZTO, up to \$215m 50% housing FBT assuming no change in employer provided housing).
- The stated position of the PC in the report is that “ultimately regions need to be self-sustaining” It acknowledges the increased cost, but states businesses have commercial incentives, and make decisions where expected returns exceed costs risk – there is no basis for Government to subsidise this process.
- The report acknowledges there is a possibility of a negative impact, and reduced capacity for service delivery from local government and not for profits is mentioned – however this impact has not been addressed in the recommendations.
- The report acknowledges that one of the highest regions which relies on employer provided housing is the Pilbara, however the position is that employer provided housing

(and by inference - therefore the impact of the proposed change) is small compared to the economic output of the region.

- Many high quality submissions to the draft report stated that in order to attract individuals to live and work in the North, exemptions should stay, and the remote zone offset should be increased to take into account the cost of living, the remoteness of the work environment and the climate.
- Several previous Government Reports including the Pivot North Report (2014) have proposed various tax and government concessions to encourage regional development or living in the North. The PC report considers that regional federal building funds, and other state and federal regional development initiatives meet this policy obligation, so this does not have to be achieved with policy initiatives at an individual level such as the ZTO or FBT concessions.

The Financial Impact of the Proposal for Newman and the Pilbara:

In terms of the direct financial impact of the proposal, the below figures have been extrapolated using the PC data. The estimates are highly conservative, and the real impact in the Pilbara, and particularly Newman is likely to be higher than the estimated figures.

- The Federal Government will raise additional revenue of around \$40m from the Pilbara with these changes, and \$5.4m from Newman and it's residents.
- The PC report states a Zone A (Ordinary) is an average claim of \$511 (\$388 plus 50% dependant loading).
 - For Newman, this is \$1.28m of ZTO offset that can no longer be claimed by Newman residents (using an extrapolation of current total population applied to the 2016 census work profiles of full and part-time workers). Please note that the Shire of East Pilbara estimates the population of Newman to be approximately 5,000.
 - Pilbara-wide, this figure is loosely estimated at \$18.3m using the same approach.
- Apply a 50% fringe benefits tax (FBT) for employer provided remote housing.
 - For Newman this could be a \$5.1m impact for the town This is a conservative estimates based on: PC figures of \$3,666 per home, with a 50% concession on \$300p.w. rent, estimation of 1400 homes this is applicable to in Newman This figure is conservative as should the 'customary' exemption also be removed, this would remove the exemption completely from many Newman employer provided residences, and this figure could easily double.
 - Based on the PC estimation of over 3,000 employer provided houses in the Pilbara (at \$300pw) the impact on the region is at least \$10m, and more likely to be approximately \$25m (the Pilbara has higher rents, and well over 3k of employer provided houses). Again, this could also be impacted by the removal of the 'customary' exemption.
- The report acknowledges the housing changes may impact on the ability for LGA's to provide services. With the current number of houses provided by the Shire, the cost of providing housing would increase by a minimum of \$490,464 per annum, and possibly higher (refer table below). If services were cut to meet this cost - this is equal to almost half of the municipal funds taken to run the Newman recreation centre per annum, or if it

was funded with a rate rise, it is equal to approximately a 4% rise in rates, and likely a reduction in the social investment partnership with companies like BHP as large rate payers, due to the increase rates.

- Removing the 50% for employee sourced housing has not been extrapolated due to its narrow use and limited figures in the report, however employee sourced housing is a good policy alternative where there is pressure on employer provided housing stock. Removing this would limit the ability for service agencies to use this option to recruit flexibly. Recruitment and retention in Local Government in the regions needs to be as flexible as possible, with annual staff turnover hovering between 23 and 44% for the Shire of East Pilbara over the last 5 financial years. Our understanding is that other Local Governments in the region have similar turnover rates.
- The figures for increasing the remote area allowance (RAA) which applies to recipients of welfare have not been provided in a way that can be extrapolated.

Comment

Zone Tax Offset:

- The Shire of East Pilbara agrees that the current ZTO is ineffectual and probably an administrative burden due to the costs to administer being more than the intended benefit. However, this is largely due to the ZTO not being indexed.
- The amount of \$338, plus dependants loading (as applicable in the East Pilbara) is unlikely to change the decision about where a person lives, however it is relative to the income of a taxpayer, the higher the amount the more relative worth to someone on a low income.
- Despite the PC assertion living in the regions is largely a matter of choice, and people are sufficiently financially compensated for the cost of living, there is evidence this is not always the case in the north of WA. The Department of Regional Development Living in the Regions Report was last conducted in 2016, and shows that significant motivators for people moving away from the North of Western Australia include the cost of living (Pilbara 58% and Kimberly 67%) and moving away from the region to access cheaper housing (Pilbara 40% and Kimberly 47%). These figures have reduced from 2013, but are still high relative to other regions.
- Multiple reports have recommended an increase in the ZTO, rather than the policy position of the PC to abolish it completely. Why has an increase to the ZTO not been considered? The PC report dismisses it as a low value initiative, but for a family living in the regions, it is of value. It represents a return flight to a medical appointments, or back to Perth to see family.

Proposed FBT changes related to housing:

- For Local Government, health services, and many not for profit agencies in the regions, providing houses is essential to provide services – as often wages in these industries do not allow for employees to afford the rents in the private rental market in the towns they live in, particularly in the mining region. Services like this have limited ability to meet increased costs, and the removal of the FBT concession may result in a reduction in services delivered in the region. This was specifically acknowledged by the PC in report as a risk that warrants further policy consideration, but was not built into the recommendations.
- Will push and possibly further support larger companies to look at the FIFO model and possibly also encourage existing housing stock to be potentially boarded-up.
- Smaller companies who rely on project cash flow are then disincentivised from providing housing allowances and therefore pushing these companies into a FIFO model of operation.
- The Shire of East Pilbara has concerns with the removal of ‘customary’ in relation to the provision of housing (s58ZC(2)(d)(iii)). This would actually mean that the Shire would not qualify for any concession on FBT at either 50% or 100%. It may be unlikely that the Shire meets the criteria for concession for Newman town site (eg. Temporary isolated accommodation, operational). The impact of this change is widespread and the ripples will be felt across sectors of business within the Pilbara.
- The Shire of East Pilbara, through a partnership arrangement with BHP, also provides GP/Medical houses for visiting practitioners as the region is unable to attract a permanent residential GP. These houses are leased (subsidised) and this provision would then be subjected to FBT and would potentially affect the already deficient health service for Newman.
- The Shire of East Pilbara firmly believes that the definition of ‘remote’ should be reassessed utilising a number of parameters and not just lines on a map. This is an opportunity for Government to demonstrate a contemporary Policy position as opposed to an arbitrary one size fits all approach.

- The below table outlines the possible financial implications for the Shire of East Pilbara if concessions and/or 'customary' application on housing is removed.

	2019	2019	2019
Residential fuel invoices paid	97,803.00	97,803.00	97,803.00
Amount subject to FBT (concession 50%)	48,901.50	48,901.50	48,901.50
FBT Paid	47,810.70	47,810.70	47,810.70
Rent Estimates at \$350/\$450 and \$1,000/week with employee paying \$100.	Estimate @\$250/week rent	Estimate @\$350/week rent	Estimate @\$900/week rent
Number of Staff Residences	86	86	86
Estimated rental value P.A	1,118,000.00	1,565,200.00	4,024,800.00
Current FBT payable	0	0	0
Estimated FBT payable 100%	980,928.73	1,373,300.22	3,531,343.42
Estimated FBT payable 50% concession	490,464.36	686,650.11	1,765,671.71

- It is not unrealistic to predict rents in remote communities to increase in line with demand, whilst the Shire believes that we will not go back to unrealistic rents of the mining boom that were in the order of \$2,500/week it could be feasible to predict rental increase up to a \$1,000/week in the future. We are currently experiencing expansion in construction in the mining sector and over the past 6-12 months there has been a number of occasions whereby all temporary accommodation and hire cars in Newman have been booked for many weeks at a time.

Key Points: Shire of East Pilbara Response:

- The Shire of East Pilbara notes the Productivity Commission (PC) draft recommendations to Government on remote area tax concessions and payments strongly opposes the proposed recommendations in the draft report Inquiry into Remote Area Tax Concessions and Payments.
- The Shire of East Pilbara does agree there is some case for reform based on the comments in the report, however holds an alternative view on how this can be achieved.
- Instead of the PC recommendations being adopted in the final report, the Shire calls on the PC to reconsider the initial recommendations in the draft report, and instead consider the following alternate recommendations:

1. *The definition of remote and very remote should be redrafted, and all recommendations are reconsidered in light of the new definitions.*

The PC view is that it is appropriate to withdraw some concessions altogether rather than risk redrawing boundaries, and therefore concession eligibility too widely. The Shire of East Pilbara firmly believes that the definition of remote should be reassessed utilising a number of parameters and not just lines on a map. This is an opportunity for Government to demonstrate a contemporary Policy position as opposed to an arbitrary one size fits all approach.

2. *The ZTO should remain in place, and is indexed to an appropriate level. Revised definitions of remote and very remote should be applied to this concession.*

The PC holds a view regional development goals are best achieved by Government investment such as building funds, rather than individual tax concessions. The Shire of East Pilbara has a view that the two are not mutually exclusive, and that in addition to regional investment, more needs to be done to attract and retain individuals to work in remote regional areas to support the sustainability of our regions.

The Shire refers to research such as the DPIRD Living in the Regions Report as evidence that the cost of living and housing affordability are key motivators for people moving away from the north of Western Australia.

An appropriately indexed ZTO, in conjunction with a redefinition of remote and very remote, is one way of addressing this. Similar to the PC recommendation for determining an appropriate amount for the RAA, financial modelling should be used to determine a ZTO amount suitable for living in the regions in 2019, and into the future.

3. *Fringe benefits tax remote area concessions should remain at current levels.*

If this recommendation is not accepted, any structural reform of fringe benefits tax remote area concessions should be limited to revising the definitions of remote and very remote, and applying the revised definitions to this group of concessions.

The 'customary' provision (s58ZC(2)(d)(iii)) enabling the provision of employer-provided housing should be retained.

The PC report acknowledges the big ticket item in this group of concessions is employer related housing. The Shire of East Pilbara holds a view that the PC recommendation of withdrawing the exemption related to customary provision of housing, compounded by the change from exempt to a 50% concession, has the potential to decimate some regional communities by;

- Reduce services delivered by Local Government and not for profits that are reliant on both the 'customary' definition, and FBT exempt status to deliver services. The PC recognises this risk in the report, however did not consider this risk in it's draft policy recommendations. The draft recommendations should be reconsidered based on this risk.
- In the Pilbara in particular, it would incentivise both larger companies and smaller businesses to implement a FIFO model, rather than a residential workforce, as the PC report recommends the FIFO exemptions remain in place. This incentive to move to a FIFO model will have a negative impact on the vibrancy and liveability of our towns, and undermine many of the regional development policy initiatives aimed at encouraging residential workforces.
- It has the potential to disadvantage specific recruitment demographics which are currently recruited locally from within the regions, but still require housing provided to be supported to enter work. These specific groups include young people living in the regions undertaking apprenticeships, and aboriginal people moving within the region to service hubs for work.

Should structural reform of this group of concessions be warranted, this should only be contemplated with a redefinition of remote and very remote, rather than a withdrawal of the concession.

The Shire of East Pilbara would welcome the opportunity for further discussion on this matter with the productivity commission prior to the final report being delivered and again appreciates the opportunity to comment and share our views of this report and inquiry.

Yours faithfully

Jeremy Edwards
Chief Executive Officer