

18 October 2019

Mr Jonathan Coppel &  
Mr Paul Lindwall  
Productivity Commission  
Remote Area Tax Concessions and Payments Study  
GPO Box 1428  
CANBERRA CITY ACT 2601

Dear Mr Coppel and Mr Lindwall,

### **Productivity Commission Draft Report: Remote Area Tax Concessions and Payments**

Snowy Hydro Limited (“Snowy Hydro”) has a long and proud history as an Australian company. The construction of the Snowy Mountains Hydro-electric Scheme is a well documented part of our nation’s history and we are a great example of Australian innovation and ingenuity. This year marks 70 years since the ceremonial first blast was fired at Adaminaby to mark the commencement of a hydro-electric construction project that would become known as one of the world’s modern engineering marvels.

As the largest employer in the Snowy Mountains region employing over 550 people predominantly in remote areas through the region, we welcome the opportunity to provide input and a submission to the Productivity Commission’s draft report into remote area tax concession and payments.

### **Submission Scope**

The scope of the Productivity Commission’s review and draft findings relate to:

- The Zone Tax Offset;
- Remote Area Allowance; and
- Fringe Benefits Tax (“FBT”) Remote Area Concessions.

Snowy Hydro’s submission will focus on the FBT Remote Area Concessions and how any proposed restrictions to those concessions will negatively impact on the regions and communities that we support.

### **Draft Recommendations**

The Productivity Commission’s recommendations in relation to the FBT Remote Area Concessions are as follows:

### *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)).

### *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).

### *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).

## **Overview**

Snowy Hydro's largest asset is the above mentioned Snowy Mountains hydro-electricity power scheme located in Australia's southern alpine regions of New South Wales.

The Scheme diverts the headwaters of the Snowy, Eucumbene and Murrumbidgee Rivers westward through the Great Dividing Range, releasing water into the Murray and Murrumbidgee Rivers. This long-term water regulation is designed to counteract the effects of severe drought sequences and raise productivity in the Murray Darling Basin. As a result, water from the Scheme underwrites the production of approximately \$3 billion worth of agricultural products every year.

While the diversion of water for irrigation was always the original vision of the Scheme, by directing the water through the scheme's 16 major dams, 9 power stations and 145 km of interconnected tunnels and pipelines and 80 km of aqueducts, the Scheme can generate large amounts of peak-load electricity to meet the daily fluctuating demands for power in eastern Australia.

In addition to the scheme's existing 4,100MW electricity generating capacity, the company has commenced working on the Snowy 2.0 expansion of the scheme which, when completed, will add 2,000MW to the scheme's capacity.

All assets that form part of the existing Snowy Mountains hydro-electricity scheme and the Snowy 2.0 expansion are wholly within areas designated as a "remote area" for FBT purposes.

The nature of the company's asset base in the Snowy Mountains (i.e. dams, power stations and tunnels) are designed to be long term assets, which require substantial on-site staff to work and maintain these assets. As such, approximately 80% to 85% of Snowy Hydro's 550 plus staff members, reside and work in these remote areas, including staff based at the company's registered office in Cooma, which is also a remote area for FBT purposes.

One of the company's most significant and on-going challenges is the need and ability to attract, train and retain qualified and skilled employees to live and work in the remote areas in which the company has its assets.

### **Housing: Financial Impact**

In order to attract and retain staff, the company provides many of its employees with modern, well maintained, fit-for-purpose and permanent style housing in the remote areas in which it operates. In many of the small townships in which the company's employees reside, Snowy Hydro is the largest provider and owner/head lessee of residential property. Snowy Hydro's operations do not lend itself to transitory employees, and as such the company does not provide dormitory or hostel type arrangements to its employees.

When applicable, Snowy Hydro will utilise the concessions available in the FBT legislation regarding remote area housing. Should these concessions be removed or their financial benefit materially reduced, the cost of providing housing will increase. Regardless of whether that cost is borne by Snowy Hydro or passed on to its employees, the increased cost of housing will have an impact on the company.

To the extent increases in costs are borne by Snowy Hydro, then this will lead to a re-assessment of the viability and costing of providing housing to employees on the current basis. In addition to the financial impact on any decision regarding ongoing housing viability, social impacts of any such decision are also extremely critical in communities where Snowy Hydro provides housing (discussed below).

Similarly, if any additional housing-related costs flowing from the Productivity Commission's review are passed onto employees, then employees will re-assess the viability of continuing to work and live in the remote areas in which the company operates.

Snowy Hydro's asset base and operations in the Snowy Mountains are clearly not mobile, nor are those assets able to be operated and maintained by automated infrastructure or technology. This year the company celebrates 70 years since construction on the scheme commenced, and these assets will continue to operate for many more decades, and the Snowy 2.0 expansion will have a similar (if not longer) useful life. These long term assets must be operated and maintained by highly skilled, local and permanent staff members, who reside in communities close to the assets. An itinerant work base cannot sustain the company's operations and assets in the manner required.

Any decision which negatively affects the company's ability to attract and retain staff close to its assets, will detrimentally impact on the company's ability to manage its operations in a timely, cost effective, efficient and safe manner.

### **Housing: Social Impact**

Any adverse impacts on social structures in communities regarding housing will affect not only the ability to attract and retain staff, but may lead to negative social impacts.

In many of the regions in which the company provides housing, it is the largest (or one of the largest) suppliers of housing. If, for example, due to an increase in housing costs there is a long term reduction in housing occupancy levels, the type of housing provided in townships or a change in population profile away from permanent residents to transitory lessees, then such changes may permanently alter a township's community and economy in negative and unintended ways.

These townships have delicate ecosystems of supply and demand for a limited, but necessary, range of available goods and services provided by small local businesses. Negative impacts caused from permanent shifts in housing costs, may impact on the demand and supply of those goods and services and may have "knock-on" implications for those businesses in the form of higher costs, closure of those business and increases in the regions' unemployment levels.

As a company we are very much aware of businesses within the regions in which the company operates which have simply shut their doors, with those services no longer being offered and the landlord unable to attract any new tenants

Such consequences leads to an erosion of social and community networks in these townships, and which the company believes is contrary to the government's sustainable social and economic long term policy objectives for regional Australia. Barricaded and empty shop fronts in remote townships, and the associated economic and social environment surrounding such towns, do not promote these areas as attractive communities in which to live, work and raise a family.

## **Housing: Infrastructure Impact**

Remote areas generally do not have access to the same quality or availability of infrastructure and services that are available in urban areas. Snowy Hydro accepts this is a known factor when its employees move or relocate to townships within the region in which its assets are located and its employees reside.

These infrastructure services and options include medical, education, technology and transport facilities. While it is accepted that there will be restricted access and offering of these services in remote areas, what is not acceptable is that such services will not be maintained or upgraded due to a perceived fall in demand as a result of fewer permanent residents living in these remote areas, stemming from increased housing costs.

Such a reduction in available infrastructure services will have a self-fulfilling effect in making these remote areas less attractive for families to establish their homes, and further exacerbating the problem. This will increase current inequities between regional and urban communities.

## **Extension of Remote Area FBT Concessions**

Snowy Hydro has been investing in these remote area communities for over 70 years. As mentioned above, our intention is to build skilled, resilient and sustainable long term communities which in addition to supporting the company's business operations is also reflective of the government's regional development policies.

The company's activities in building skilled and resilient communities continues notwithstanding that such expenditure is often seen as subject to FBT, whereas, from the company's perspective, these activities should be characterised as investments in building such communities and should not attract FBT when incurred in remote areas. Examples include the following:

- **Training and Cadetships:** In order to invest in the local community and seek to build a deep pool of skilled resources in remote areas, Snowy Hydro offers engineering cadetships to the University of Wollongong for high school students who reside in remote areas in which the company operates.

As part of the cadetship, successful applicants will be supported by way of a housing benefit while living away from their remote area homes and living and studying at Wollongong (not a remote area). In addition, the company reimburses the students' university fees. As part of the arrangement the cadets will be required to work in Snowy Hydro's operations during the summer university vacation months, and for a period of time upon completion of their studies.

It is uncertain whether the successful applicants would otherwise have been able to attend university if not for the Snowy Hydro's cadetships. In addition, if these

students were not supported by Snowy Hydro, then it is likely that upon completion of their studies they would seek employment opportunities in metropolitan centres as there would be no incentive or commitment to return to the remote areas where the company operates.

Regardless however, the provision of housing benefits (while at Wollongong) and the reimbursement of university fees generate an FBT liability for the company.

Clearly the company understands that such costs come within the existing FBT regime, however such an outcome is in conflict with the government's overarching regional development policies and the need to retain a skilled workforce and to aid in developing these regions.

In addition, these "benefits" are included as a Reportable Fringe Benefit Amount and are shown on the cadets' Income Statements. This has detrimental impacts on the cadets' abilities to fully access government services to which they should be entitled;

- **Health and Wellbeing:** While the profile of the Snowy Hydro workforce is changing, it is however predominantly a male workforce. It is both the company's experience and it is well documented that a predominantly male workforce, particularly in close knit remote areas with limited access to health and complementary health services, are unlikely to reach out for health and wellbeing support when required.

The company invests heavily in programs and service providers in this area, and while such costs attract FBT, Snowy Hydro does not see this as a "fringe benefit" that should be subject to tax.

While the circumstances that create such an environment and the lack of available service providers are reflective of known conditions within remote areas, however that does not eliminate the need for the company to advance and support the physical, mental and emotional health and wellbeing of all its employees living and working in harsh and remote climates. We do not see this as a "fringe benefit" but rather as the company acting in a humane, caring and supportive manner.

The company offers a wide range of services to promote and support a holistic health and wellbeing environment and lifestyle for its remote area employees. These services would not otherwise be available to employees in remote areas. While current FBT exemptions exist (for example, for work-related preventative health care and work-related counselling), these FBT exemptions do not cover the gaps in service offerings that exist in remote areas and which the company provides.

The FBT regime was introduced to discourage the use of non-income remuneration as a means of lowering rates of personal income tax. It is difficult to conceive how, for example, the application of FBT to company-provided health support and ancillary services in its various forms (which do not qualify under existing FBT exemptions and concessions) are consistent with this objective. There are, in fact, strong grounds to

suggest that this type of investment, in all its forms, across all areas of remote Australia should be encouraged through the tax system as a form of corporate social responsibility, given its broader societal benefits.

### **FBT Complexity**

We note that the Productivity Commission's draft report makes frequent references to the current complexity within the FBT legislation. In 2018, Snowy Hydro participated in the Board of Taxation's review of FBT Compliance Costs, and as such the company would welcome the opportunity to participate in further industry engagement with the objective of reducing both FBT complexity and compliance costs.

### **Conclusion**

In summary, Snowy Hydro is not supportive of the draft findings to restrict or remove the current FBT concessions in relation to Housing Benefits, but rather would like to see an extension of FBT concessions for "benefits" associated with employees who permanently reside in remote areas.

The company would also welcome the opportunity for further engagement on the reduction of FBT complexity and compliance costs.

We would be pleased to further discuss our submission with you.

Yours sincerely,

Gabrielle Curtin  
**Group Executive - Safety, People and Services**

