

Submission to the Productivity Commission's Review of Remote Area Tax Concessions and Payments

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Introduction

The Australian population patterns are oriented to the six major coastal cities. Since White settlement, the uneven population arrangement has always been thus; but the percentage increase in city populations has accelerated since 1981 while non-metropolitan populations have progressively decreased. In 2016, 89% of Australia's population lived in urban areas (Australian Bureau of Statistics, 2018see). There are numerous reasons for the increasing shift to cities and the trends are not limited to the Australian experience; it is a global phenomenon (Carson, Rasmussen, Ensign, Huskey, & Taylor, 2011). In Australia, the rapid shift of rural, regional and remote populations to the cities was hastened by the introduction of neo-liberal policy frameworks and market-oriented reforms in the 1980s (Tonts, 2005; Tonts & Haslam McKenzie, 2005).

Australia's rural, regional and remote regions are important for both production and extraction. The agriculture and mining sectors are technically very sophisticated, with capital investment, taking advantage of strong governance and regulatory controls (Martinus, 2018). The workforce is well paid and productive but relatively modest in size for both sectors despite the scales of operation and the levels of outputs, contributing to complex geographies shaped by international demand and global engagement.

Much of Australia's resource wealth is located in remote areas, long distances from regional and urban centres where the labour supply and the workforce generally tends to be concentrated. This is particularly evident in Western Australia. Despite the strong, primary industry-based regional economy and Western Australia's vast size, the state has a small population of about 2.6 million people, 82% of whom live in the Greater Perth area, including the peri-urban Peel region (Australian Bureau of Statistics, 2017). Neo-liberal policy settings had significant impacts on the mostly small rural, regional and remote communities as businesses sought efficiency measures and services and the provision of infrastructure were either centralised or withdrawn all together (Tonts & Haslam McKenzie, 2005), inducing population shifts to bigger centres.

Few remote communities in Australia have maintained strong population growth trends over the last 50 years. Mining communities during commodity boom periods are the exception when resources companies are prepared to pay significantly higher wages to attract a workforce. However, as observed in the most recent mining boom (2001-2014), many of the mining towns were ill-equipped to accommodate the demand for housing, services or infrastructure despite multiple reports and warnings that there was a shortage of developable land in and around mining communities (Haslam McKenzie, 2019). Company-sponsored long distance commuting arrangements (including fly-in/fly-out, drive-in/drive-out, bus-in/bus-out and various other transport practices) enable employees to exercise choice regarding their home base while working in a well-paid, but arduous industry in often climatically challenging conditions.

The Role of Remote Area Tax Arrangements

It has been well documented that the Australian tax arrangements are complex and complicated in practice. As documented in the Issues Paper (Productivity Commission, 2019) remote tax deductions

were introduced in 1945 and there have been additions and variations to the arrangements since, although the compensatory value has not kept abreast of the cost of living. The main justification for remote tax deductions was to compensate residents for the relatively high living costs, isolation and challenging climatic conditions in remote areas. None of those conditions have changed in the first two decades of the 21st century.

The cost of living remains significantly higher in remote locations. The Western Australian Regional Price Index (RPI) (Department of Primary Industries and Regional Development, 2017) compares the cost of a common basket of goods and services at a number of regional locations to the Perth metropolitan region. It shows the increased prices of goods and services relative to Perth for regional locations, and that the variability has been consistently higher for remote locations since the RPI commenced reporting in 1998. During the mining boom, the overall cost of living in the Pilbara was 37% higher than that of Perth and in the Kimberley it was 20% more expensive (Department of Regional Development and Lands, 2011), a powerful reason for people not to move to the remotest regions, particularly as services were well short of those offered in the city. While the difference in cost of living between Perth and the regions has narrowed considerably since the frenetic mining boom (Department of Primary Industries and Regional Development, 2017), the Kimberley and Pilbara regions remain the most expensive places to live in Western Australia.

The remote tax deductions have not kept pace with the increase in cost of living. The Zone Tax Offset does not come close to compensating for the increased cost of living in remote locations, especially if residents are required to access specialist services not available locally, from Perth or other centres outside the region. It would seem that incentives are still largely required in order to attract people to live in remote locations.

The Fringe Benefits Tax (FBT) has been targeted by some community development commentators in remote locations, particularly communities where mining is the dominant industry sector, as the basis for inequity. They argue that FBT encourages mining companies to offer long distance commuting arrangements rather than invest in local towns and communities, thereby compromising local 'liveability' (Haslam McKenzie, 2016; Tonts, Haslam McKenzie, & Plummer, 2016).

In a neo-liberal policy environment it appears contradictory to impose differential tax arrangements through the provisions for remote area FBT exemptions. FBT exemptions should therefore be applied to legitimate costs of doing business regardless of location and the employer status. Housing and accommodation especially in remote areas are not treated equally as highlighted by the business operators and peak industry organisations operating in remote areas. The current FBT residential housing rules encourage employer-owned or employer-leased accommodation over employee-sourced rental accommodation where the rent is reimbursed by the employer. The current FBT housing exemption for remote communities should be extended to all rental accommodation for residential employees regardless of whether the employer leases the accommodation and provides it to the employee or the employee leases it and is reimbursed by the employer.

Addressing this anomaly would likely appease community leaders and regional development specialists who work hard to ensure that remote *host* communities grow their resident population and the local business community that services it.

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