



Remote Area Tax Concessions and Payments Study

Productivity Commission
GPO Box 1428
Canberra City ACT 2601

Submission to the Productivity Commission's Inquiry into Remote Area Tax Concessions and Payments

8 November 2019

Dear Commissioners

The Australian Government has requested the Productivity Commission examine the operation and impacts of the zone tax offset and related remote area tax concessions and payments.

Aurizon is a top 50 ASX-listed company and Australia's largest rail freight operator. Aurizon provides a range of transport and logistics services in Australia. Aurizon also owns and operates the 2,670 km of rail track (the Central Queensland Coal Network (CQCN)) connecting the coal mines of Central Queensland to their export facilities on the coast.

Approximately 80% of Aurizon's 4,800 employees live and work in regional areas and Aurizon contributes to these communities through providing employment opportunities and contracting local providers and suppliers. Approximately 17% of Aurizon's employees are located in remote areas (as defined for tax purposes), with the remaining 63% of Aurizon's regional employees being located in non-remote regional centres (such as Rockhampton). Incentivising employees to remain living and working in regional communities is critical to the broader operations of Aurizon. This is evidenced by Aurizon's long-held policy of providing employee housing assistance in remote areas.

As a large regional employer, Aurizon is making this submission to assist the Productivity Commission with assessing the operation of the Fringe Benefits Tax (FBT) concessions for remote area housing.

Executive Summary

Aurizon's submission is premised on the following key points:

- Employer-provided remote area housing is considered a valuable addition to a regional employee's remuneration package and therefore helps businesses like Aurizon to attract and retain skilled people who are critical to our daily operations;

- Aurizon's assessment is that the negative impacts of the proposed changes on regional communities would be significant and should be given further consideration by the Productivity Commission with respect to the likely costs and benefits of the proposals;
- Alternative approaches, such as offering additional salary and wages, is less desirable due to the high compliance burden and market-driven difficulties associated with determining employee-specific levels of financial support. This approach also presents a real risk of generating inequitable remuneration outcomes across the company; and
- If the proposed changes were to be adopted, Aurizon suggests that the associated compliance burden could be reduced where possible through the use of annually published market value rates by the ATO for valuation purposes. Further, a transitional period of not less than 12 months should also be considered to manage the financial impact on affected employers, employees and the communities in which they operate. The length of this transitional period should reflect current housing market conditions in these areas, the limited availability of local, skilled resources and the associated compliance costs.

Remote Area Housing

Aurizon's Business Rationale for Providing Housing Assistance in Remote Areas

As Aurizon's business is predominately based in Central Queensland, Aurizon provides subsidised rent for employer-owned housing and other similar assistance to employees. This assistance is provided for the following reasons:

- The lack of available housing supply in locations where employees are required to reside due to remote work locations;
- The lack of choice regarding housing supply in locations where employees are required to reside due to remote work locations;
- The rentals in some remote locations are, at times, high due to limited supply resulting in housing in these locations being unaffordable for employees without assistance from employers;
- The rental markets in remote areas can be highly volatile depending on the economic outlook for the industries operating in these areas (e.g. mining and agriculture), thereby reducing certainty for employees in obtaining affordable housing; and
- To reduce complexity and uncertainty for our current and future employees in planning their working career.

To support our employees' taking up permanent residence in the regional communities in which they reside and work, over the last few years Aurizon has made available to employees the option of being able to purchase, at a discount, the Aurizon-owned housing in which the employee resides. Aurizon continues to make available ongoing assistance in respect of employee-provided housing to these employees.

Potential Impacts: Aurizon and the Communities in which it Operates

Aurizon considers that the ability to provide employer-provided housing and assistance to employees in respect of employee-provided housing (under the current FBT rules) is an important feature of the remuneration package for current employees. Employer-provided housing also assists Aurizon in attracting and retaining new employees into remote areas. Where the exemption / concessions are reduced or removed or the 'customary in the industry' requirement for remote area housing was removed, we expect that it would be more difficult for Aurizon to attract employees to work in the regional locations and make it more difficult for employees to source affordable housing in these areas.

These effects would be likely to occur because private sector employers would be deterred from continuing to invest in the provision of housing, leading to a reduction in the future supply of houses in small regional and remote communities. The likelihood of reduced private sector provision of housing could also be expected to have a negative impact on businesses in regional and remote areas that supply goods and services for the maintenance of employer-provided housing.

Similarly, to the extent that the removal or reduction of the remote area concessions leads to an increased reliance on a FIFO/DIDO-based model to resource regional roles, this is likely to negatively impact the accessibility and affordability of infrastructure and public services in these communities and therefore, the economic viability of regional communities.

For these reasons, Aurizon is supportive of continued assistance to individuals and employers through the tax system that has the effect of encouraging employees to take up permanent residency in regional areas. This affords greater certainty in planning for the future – namely, the medium to long-term planning of infrastructure and critical service delivery to regional areas; employers' long-term regional workforce management planning and employees' long-term career planning.

The Alternative is Not Desirable

As noted in the draft report, Aurizon could provide employees with additional salary and wages from which the employee could source their own accommodation using their after-tax income. This option is less desirable for the following reasons:

- There would be a high compliance burden in determining the amount required to be paid to each employee for housing assistance (Aurizon would need to actively monitor the market rent in each location and determine the additional amount paid on an individual employee basis);
- The volatility of the rental market in regional areas makes it difficult to incorporate compensation for housing as a component of a fixed remuneration package; and
- The payment of additional salary and wages would not be seen by employees (in both remote and non-remote areas) as being fair and equitable.

Proposed Changes: Relevant Considerations

Aurizon considers that the proposed changes would adversely impact on employees, the regional communities in which our employees reside and work and would result in an increased compliance burden and costs for our business. Accordingly, in the event that some or all of the proposed changes proceed, we respectfully request that the following aspects be further considered:

The Compliance Burden is Significant

In the absence of the existing remote area housing exemptions/concessions, the compliance burden for Aurizon as an employer will increase significantly as independent market valuations will be required to substantiate market-based inputs into the fringe benefit valuation calculation. Across a housing portfolio of circa. 200 occupied properties of varying size, type and location, this will be a costly and cumbersome annual exercise, especially when one considers the volatility of the housing market in regional areas.

We suggest this compliance burden may be addressed through the publication by the ATO of annual 'reasonable' market rental rates for each remote area (by property size and type). Employers would have the option of using either the ATO published rates or their own market valuation to determine the taxable value of the benefit.

A Transitional Period is Required

Should the changes proceed as currently proposed, a transitional period (minimum of 12 months) is strongly recommended. This should be designed to enable employees, employers and the remote area communities in which they reside, work and operate the opportunity to plan for the change in financial circumstances arising from the proposed change in law. The length of the transitional period should properly reflect the difficulties associated with divesting of housing in these remote areas and accessing local, skilled resources in these communities, along with the compliance burdens associated with the transition (refer above).

Aurizon has provided employer-provided housing for many years (commencing during the period of government ownership and continuing following privatisation) and the employees affected by the proposed changes are typically long-standing employees who will require ample opportunity for significant engagement and consultation with Aurizon in order to understand the changes and their impact.

Further Information

Should you have any questions in relation to our submission, please do not hesitate to contact us.

Kind regards

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