

Remote Area Tax Concessions and Payments
Productivity Commission
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CANBERRA, ACT 2601

Online: www.pc.gov.au/remote-tax

Submission to the Australian Government on Remote Area Tax Concessions and Payments, April 2019.

PVW Partners welcomes the opportunity to make a submission to the Productivity Commission Issues Paper on Remote Area Tax Concessions and Payments.

Introduction:

PVW Partners is a locally owned and operated Townsville-based firm providing taxation and business advisory solutions for every stage of business growth and development. We believe in the potential of Australia's regional communities and regionally based businesses to make a strong contribution to the national economy and are proud of the role we play in the growth journey for many Northern Queensland family owned businesses.

Our firm advises over 550 privately owned businesses and family groups, with the bulk of those clients impacted in one way or another (and in varying degrees) by Remote Area Tax Concessions and Payments.

PVW Partners argues that the Productivity Commission Issues Paper provides a real opportunity for changes to the current system to promote:

- The development of Northern Australia;
- Grass roots economic stimulus;
- Growth for sustainable communities, thereby easing the pressure on capital cities;
- The public service decentralisation agenda of all sides of politics; and
- A new wave of decentralisation for our larger corporate groups.

PVW Partners would like to see the Zone Offset Tax re-scoped to provide meaningful assistance which better targets the various groups within the special zone.

These ideas were among key themes discussed at the Productivity Commission Round Table which was held in Townsville on the 4th of April 2019. It was a fruitful discussion and we thank the Commission for its time and effort in hosting this event in Northern Australia.

Background:

The Zone Tax Offset (ZTO) was originally established in 1945, based on uncongenial climatic conditions, isolation and a relatively high cost of living. The zones of 2019 largely reflect the original design of some 70 years ago, not withstanding the demographic and infrastructure changes which have occurred over recent decades.

Regional Australians Growing Regional Australia

PVW Partners does not believe the design of this mechanism has adequately evolved to reflect varying degrees of demographic, infrastructure and cost-of-living change occurring in Northern Australia.

The ZTO represented around a third of an individual's wage in 1945. Today, with the ZTO sitting at just \$57 for individuals in Zone B, the relevance and meaningful assistance element has been all but lost. Whilst we do not consider this to be an appropriate outcome, ultimately it could be scrapped tomorrow and there are very few people who would notice the difference to their hip pocket.

PVW Partners advocates that there is enormous scope and opportunity to revise the Remote Area Tax Concessions and Payments policy to ensure it achieves its true intent.

Response to Productivity Commission Issues Paper:

1. What you consider to be the policy objectives of the ZTO, FBT remote area tax concessions and Remote Area Allowance.

The objectives of the ZTO around uncongenial climatic conditions, isolation and a relatively high cost of living are all as relevant today as they were in 1945, if not more so.

The divide between city and country has broadened over the decades and it is now, more than ever, difficult to attract and retain people in Northern Australia. High cost of living pressures include, but are certainly not limited to, electricity prices due to market monopoly, groceries, insurance, travel (such as airfares and fuel), medical care and school fees (especially boarding fees necessary for those living in our most remote regions).

PVW Partners believes equality should be key in the policy objectives. Currently taxpayers in Northern Australia pay the same rate of tax but do not receive or have access to the same level of infrastructure and services as our capital city counterparts.

To attract and retain population in Northern Australia, a key necessity for the retention of sustainable communities, regional economies need:

- Enabling infrastructure and catalytic projects;
- Aligned government (local, state and federal) policies to facilitate the above; and
- Progressive policy settings (include Remote Area Tax Concessions and Payments) to enable the private sector to invest in and grow local economies for job creation.

With the right reform, the Remote Area Tax Concessions and Payments policy has a strong role to play in economic decision making for individual and their families. That can include where to live, levels of education, jobs, business and economic investment in a particular region. Enabling our regions to attract, grow and retain population is a key to the future economic success of the many communities across Northern Australia.

2. Whether these remote area tax concessions and payments are delivering on their policy objectives (including any quotative evidence).

With the policy currently delivering just \$57 annually to many people across Northern Australia in Zone B, PVW Partners does not believe the concession or payments meet the objectives. The policy in its current form fails to provide real or meaningful assistance to thousands of people.

As outlined in the Remote Area Tax Concessions and Payments Productivity Commission Issues Paper, inflation has eroded the real value of the ZTO and Remote Area Assistance (RAA) to the point where it is worth less than one per cent of average after-tax income today. It does not adequately reflect varying degrees of demographic, infrastructure and cost of living changes occurring across Northern Australia.

3. Whether the ZTO, FBT remote area tax concessions or RAA should be kept.

PVW Partners strongly encourages the Productivity Commission to revise and index the ZTO, FBT and RAA, to encourage more Australians to move to and make their permanent base in, rural and remote parts of the nation including Northern Australia.

Ayr, Charters Towers, Ingham and Townsville (and adjoining areas) all fall within “Zone B” for Zone Tax Offset purposes – an individual living in Zone B has a Zone Tax Offset entitlement starting at \$57 per annum. The Palm Isles Group falls within “Special Zone B” for Zone Tax Offset purposes – an individual living in Special Zone B has a Zone Tax Offset entitlement starting at \$1,173 per annum.

These amounts have not changed since 1993 – arguably it is long passed the time at which they should be reviewed to ensure they continue to deliver on their original purpose.

The ZTO is a non-refundable tax offset and hence only of value to individuals that generate taxable income that gives rise to an income tax liability of an amount at least equal to their ZTO entitlement. However, despite revisions to numerous other tax offsets since 1993 (e.g., the seniors tax offset, low income tax offset and, more recently, the low and middle income tax offset) which have positively assisted all individuals in Australia that pay income tax, no specific additional positive assistance has been provided to the individuals residing in regional Australia.

Life in Northern Australia can be challenging with the ‘tyranny of distance’ imposing limited access to essential and emergency services, while often offering inadequate transport infrastructure, fewer educational options and diminished employment opportunities. Access to the full suite of Commonwealth taxpayer-funded services, and to the lifestyle and recreational pursuits that many Australians take for granted, is for many an aspiration, not a reality.

PVW Partners argues that the case to review and expand the existing Remote Area Tax Payments and Concession is strong.

One need only look at examples like the Alaskan model that has been running for over 40 years (and counting) to see incentive programs can be highly effective in combating those challenges.

Receiving its first funds in 1977 and paying its first dividend in 1982, the Alaskan Government established the independent Alaska Permanent Fund Corporation to put a portion of Alaska's oil profits into a permanent fund (at least 25% of Alaska's annual resource royalties are allocated to the Fund), whereby a portion of the earnings is sent to every registered Alaskan, via the Permanent Fund Dividend Division, regardless of age or income, who has lived in the state for more than a year and is not a convicted felon.

This dividend acts as an encouragement mechanism for people to move to Alaska and stay there for extended periods of time. It is a hugely popular policy which sees Alaskan's paid anywhere from \$1,000 to \$2,000 per person (\$4,000 to \$8,000 for a family of four) per annum, and the majority of Alaska's roughly 740,000 residents receive it. Research suggests the model is a successful incentive for business owners and individuals alike.

The Alaska Permanent Fund Corporation is a sovereign wealth fund for the state of Alaska, with the longer-term residents of Alaska being a potential beneficiary of that fund. Given the resource wealth of many parts of regional Australia it is entirely conceivable that a similar model could be implemented for the benefit, in part, of the longer-term residents of regional Australia. Arguably this could be similarly effective to the potential of an appropriately measured ZTO and far more transparent, more removed from political manipulation and more sustainable than past programs like "Royalties for the Regions" as have existed from time to time.

PVW Partners also advocates for a change in the current policy in Australia to incorporate businesses as well as individuals. For regional centres like Mackay, Townsville and Cairns to remain competitive and attractive places to do business, more needs to be done in the form of enabling policies.

An example of this could be the attraction of graduates who possess in demand skills to the regions by forgiving their HELP debts, similar to programs already initiated to get medical graduates out into rural and remote regions.

PVW Partners supports the ZTO, FBT and RAA incentives as being important in supporting regional economies. We advocate that they should not only be kept but also be broadened, to ensure they provide relevant and meaningful assistance.

4. The anticipated benefits, costs and implementation issues associated with proposed reform options.

The potential benefits arising from meaningful reform options are limitless. PVW Partners has outlined what it believes to be the core benefits below:

- A geographically spread national population would allow for the pressures to be taken off capital cities in areas such as transport, housing, hospitals, schools and other infrastructure. This would allow for the creation of sustainable communities across Australia, including Northern Australia.
- Investment in the regions provides a higher rate of return than further investment in the capital cities which sees diminished returns in investments as recently witnessed with the demolition of stadiums in New South Wales.

- Supports the Federal Government agenda to decentralise Government Departments and move portions of them to rural and remote regions of Australia (with a similar impetus created for Australia's larger corporates to decentralise their activities).
- Tool to encourage migration, thereby creating business, economic and jobs growth across rural and regional Australia.
- Grass root economic stimulus means more cash in the hands of taxpayers in regional cities to spend in their local economies.

As a base case, it seems equitable that the ZTO at least be indexed in line with inflation (with varying views from past submissions to Treasury as to whether that indexation should start from 1945, 1993 or some other date).

Conclusion:

As both a regional business itself and in representing its clients from across Northern Australia, PVW Partners strongly supports the provision of meaningful tax incentives for individuals and businesses who live in regional and remote areas of Northern Australia.

With a more targeted scope and the potential to explore reasonable alternatives like the Alaskan model, the policy provides enormous opportunity to help to deliver strong rural and regional economies for the future.

Should you have any queries or wish to discuss any aspect of this submission, please contact Carl Valentine .

Your sincerely,

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