

3 May 2019

Remote Area Tax Concessions and Payments Review
Productivity Commission
GPO Box 1428
Canberra City ACT 2601

By email: www.pc.gov.au/remote-tax

Dear Commissioner

Remote Area Tax Concessions and Payments issue paper

Chartered Accountants Australia and New Zealand (CAANZ) welcomes the opportunity to contribute to the Productivity Commission's study into the zone tax offset and related remote area tax concessions and payments.

The remit of the Productivity Commission's review of remote area tax concessions and payments is wide. It is to consider the economic and employment impacts of the remote area concessions, whether the objective of the remote area concessions is still valid, whether those objective are being met, whether there are better alternative mechanisms to meet these objectives if they are still valid, if businesses should be provided with similar support and how the remote area concessions operate.

Our submission focuses on the last aspect of this remit, namely, if it is decided to retain the remote area tax concessions, how the operation of the remote area tax concessions can be improved to ensure that its objective has a better chance of being achieved.

Executive summary

Our regional members in Queensland have a strong interest in this topic and have contributed to previous discussions regarding the operation of the remote area tax concessions. To improve the focus of the remote area tax concessions so that revenue savings can be redirected to regional economic development, they have contributed the following ideas to improve the operation of these provisions:

- Zone boundaries. The current zone boundaries do not reflect regional changes. There are also different boundaries for different purposes. Modernisation of the boundaries requires a different definition. Consideration should be given to adopting the Australian Bureau of Statistics Accessibility/Remoteness Index. Using this index for multiple purposes could reduce compliance costs for both taxpayers and government.
- Increasing and indexing the quantum of the zone tax offset. The last nominal value increase to the zone tax offset was in 1993. It is sorely in need of upwards revision. As noted in the issues paper "no one will move to Cairns for a carton of beer a year". To prevent such erosion occurring in the future, the zone tax offset should also be indexed.
- Graduating the amount of the zone tax offset to reflect degree of residency. Another idea that has been suggested by our membership is to increase the amount of the zone tax offset

according to the length of residency within the zone. This is to provide incentives to stay in the region.

Zone boundaries

Targeting northern Australia is a simplistic approach. As noted in the issues paper around two thirds of tax zone offset claimants live in the largest four regional cities in northern Australia. Given the changes in population, and social and economic infrastructure that have occurred since 1965 when the zones were last changed, it is questionable whether such large regional centres should have access to the tax zone offset – particularly when some small towns that are genuinely remote are not included in any zone area.

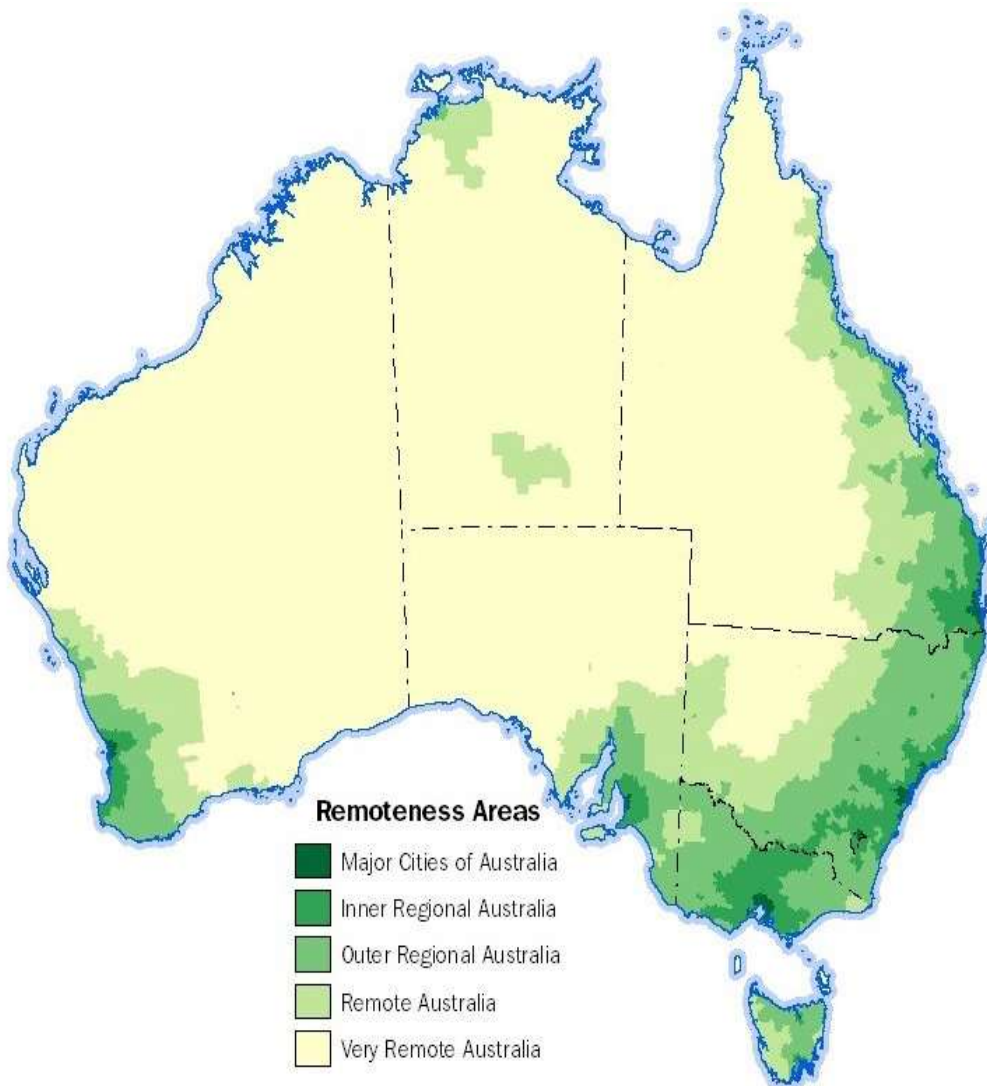
What is required is a more nuanced approach based on objective criteria regarding social and economic disadvantage. The [Australian Bureau of Statistics Accessibility/Remoteness Index of Australia](#) has been suggested as an alternative way to determine eligibility for the remote area concessions.

This index divides Australia into 5 classes of remoteness on the basis of a measure of relative access to services. It is updated every five years – which also happens to align with a recommendation of the Cox inquiry¹. On the next page is the latest map of the index which was updated in 2016.

By adopting a definition that is updated periodically based on objective criteria, the tax zone offset can be kept current with social and economic developments and help ensure that its objectives are being met. It may also reduce the complexity of determining what zone a taxpayer is located in and eradicate the need to go through the complex processes that are currently required in determining the shortest practicable surface route which are outlined in Taxation Ruling 94/27.

The detailed information contained in the remoteness index and the differing levels of remoteness can be used to assist with fringe benefits tax (FBT) as well if remote area fringe benefits categories are to be retained. Currently the FBT provisions operate on three criteria – namely what zone you are in, how far you are from an urban centre of 14,000 or more and how far you are from an urban centre of 130,000 or more. By adopting the Remoteness Index just one reference could be required, reducing complexity for taxpayers and tax agents whilst simultaneously improving the ability to target these concessions.

¹ P. Cox, S. Burston, A. Kerr and G. Slater Report of the Public Inquiry into Income Tax Zone Allowances, AGPS, June 1981



Increase and index of the tax zone offset

The rebate amounts have remained unchanged since 1993. Inflation has eroded the nominal value of the tax zone offset and as a consequence it has become more difficult for the offset to counter the disadvantages of living in a remote area.

Contemporaneously with the increase in the quantum of the tax zone offset, a commitment should be made to index the offset – preferably by reference to CPI.

Gradation of payments for permanency

In 2015, the tax zone offset was amended to exclude fly in and fly out workers from accessing it. To further encourage permanent residency in remote regional communities our members suggest that consideration be given to increasing the amount of the allowance as a person's length of residency increases.

Regional development programs

Should the review recommend that the tax zone offsets be scrapped, then our members have expressed a strong preference for those savings to be directed to funding regional development programs.

Direct funding based on objective published criteria² is generally seen by CAANZ as the most transparent method of support and has the advantage of not becoming entrenched in Australia's long list of tax expenditures. This direct funding would be particularly useful for business and could take the form of:

- investment in economic and social infrastructure such as better transport and hospitals or
- grants for businesses undertaking eligible activities in specified regional areas – especially ones that generate jobs or
- assistance for businesses experiencing particular difficulties due to climate change or natural disasters. Our members have discussed with us concerns about their regional clients who need to *re/locate* their business or place of employment due to climate change and the financial burden that they face. This is likely to be a growing concern. The Productivity Commission may wish to consider how such regional businesses could be assisted.

It is noted that the Trump administration in the United States of America has recently created opportunity zones as part of the Tax Cuts and Jobs Act initiatives³ which offer tax concessions for eligible investment into the opportunity zone and tax exempt "opportunity zone bonds" to encourage investment in a particular region in the period immediately following a natural disaster⁴. It is unclear whether these measures will produce the desired policy outcomes.

² The use of objective criteria for identifying eligibility for such assistance is of course vital, lest the concessions be seen as some sort of pork-barrelling initiative and /or gamed by those not meant to benefit

³ For details, refer the US Treasury website: <https://www.irs.gov/newsroom/treasury-irs-issue-proposed-regulations-on-new-opportunity-zone-tax-incentive>

⁴ Refer for example to the opportunity bond tax concessions created for Gulf states affected by hurricanes: <https://www.irs.gov/tax-exempt-bonds/gulf-opportunity-zone-act-of-2005-pl-109-135>

Forgiving HELP debts

Our members also support proposals to reduce the HELP debt of essential professionals, such as doctors and nurses, that are required in regional communities but regional communities have difficulty in attracting.

Such HELP debt relief should be tied to other relevant programs, with consistent eligibility criteria⁵.

Should you wish to discuss any of our comments please call my colleague Susan Franks

Yours sincerely

Michael Croker
Tax Leader - Australia
Chartered Accountants Australia and New Zealand

⁵ For example, HELP debt relief for doctors should be tied to the General Practice Rural Incentives Program (GPRIP) - refer http://www.health.gov.au/internet/main/publishing.nsf/Content/general_practice_rural_incentives_programme

Appendix A

Chartered Accountants Australia and New Zealand

CA ANZ is made up of over 120,000 diverse, talented and financially astute professionals who utilise their skills every day to make a difference for businesses the world over.

Members of CA ANZ are known for professional integrity, principled judgment and financial discipline, and a forward-looking approach to business.

We focus on the education and lifelong learning of members and engage in advocacy and thought leadership in areas that impact the economy and domestic and international capital markets.

We are represented on the Board of the International Federation of Accountants and are connected globally through the 800,000-strong Global Accounting Alliance, and Chartered Accountants Worldwide, which brings together leading Institutes in Australia, England and Wales, Ireland, New Zealand, Scotland and South Africa to support and promote over 320,000 Chartered Accountants in more than 180 countries.