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Abstract

The remote area tax concession was introduced in 1945 'in recognition of the disadvantages to which residents of prescribed areas are subjected to due to inhospitable climatic conditions, isolation and high cost of living in comparison to other parts of Australia.'¹ In 1984 and 1986 this allowance was extended to include Remote Area Allowance and FBT Remote Area Concessions respectively.

There have been calls for the offset to be increased in line with inflation and in line with any expected outcomes of such a concession.

The current annual offset is \$338 for Zone A, \$57 for Zone B and \$1,173 for very remote classified communities across the region

There have also been calls for the Zone allowance to be rescinded due to its inequality to other States and, by definition, to its unconstitutionality. However, this stems from tax law interpretations and, as the zone allowance is deemed to be an offset rather than a tax, it is likely to be open to a different consideration.²

Over the years there have been many inquiries, one review and calls for change to these zone rebates.

It has been argued that conditions in remote areas have improved greatly since 1945. Better roads and other transport corridors have opened up communities to markets and services previously not available, reducing much of the costs on which the allowance was originally based.

On the other hand, the rebate has steadily gone backwards. In 1945, the Zone B Allowance stood at £40 (\$85). It is now \$57, despite reviews by successive governments.

The last major review, the Henry review 2010, recommended that 'the zone tax offset, if it is to be retained, should be based on contemporary measures of remoteness.'³

Introduction

The Productivity Commission study will focus on the effectiveness of the Zone Tax Offset; Fringe Benefit Tax; Remote Area Allowance.

It seeks information on the: - Need; Relevance; Equity; Efficiency and Simplicity of the current system and its benefits with relation to: -

- Employment and Economy of the region
- Retention of the Offset, its Objectives and Justifications

¹ Income Tax Assessment Act 1936

² Robert L Deutsch, Australian Tax Handbook (Thomson Reuters 2008)

³ Ken Henry et al, Australia's Future Tax System, Final Report (May 2010)

Regional Issues

- A zone B offset of \$57 per annum is unlikely to stimulate a rush of people to the region. If the intent of the offsets is to attract residents; to stimulate the economy and to offer compensation for the disadvantages associated with rural and remote living, then the current system is clearly inadequate. As has been said, a carton of beer is unlikely to entice people to uproot and relocate to the region at their own expense.
- The Zone offsets have been greatly eroded over time through inflation and changing family structures, with little support from successive Governments to redress the balance.
- There are many high costs associated with rural living, in particular: - Freight; Access to health services, treatments and transportation.

Effective Economic Stimulus

It is hard to see how the current system can contribute successfully to future economic stimulus plans for the region, unless as part of a wider stimulus package to: -

- Enhance the current system of zonal offsets
- Encourage business relocation to the region
- Encourage start-up businesses
- Attract workers and graduates to the region

Recommendations

- The zonal A & B offsets be simplified by realignment or amalgamation and increased to, say, 1% of gross income
- Setting up of Economic Enterprise Zones in each Shire, with 75% tax concessions in the first five years to new businesses to the zone.
- 50% concession on Private Health Care
- 25% tax concessions to existing businesses to promote retention.
- 25% reduction in HECS debts to attract tertiary qualified residents

Conclusion

The current system of zone offsets could be extremely effective as part of a well-thought out and presented package. The halving of taxes; Promotion of new businesses; Increases to tax offsets and Attracting graduates to the region are all integral strategies for powering the region into a strong and sustainable economic future.