

# Tasmanian Government Submission to the Productivity Commission's Draft Report into Remote Area Tax Concessions and Payments

October 2019

## Key Messages

- The Tasmanian Government is a supporter of mechanisms that benefit regional and remote communities.
- Costs in relation to essential services, telecommunications and transport are higher in Tasmanian regional and remote areas than in most parts of Australia.
- Collaboration across all levels of government is required to respond to the challenges of Tasmania's ageing population and skills shortages in regional and remote areas.
- Compensating for the significant disadvantages faced by individuals and businesses residing in regional and remote areas remains a relevant justification for remote area concessions and payments.
- As the value of the Zone Tax Offset (ZTO) and the Regional Area Allowance (RAA) has declined in real terms, they are unlikely in their current form to be achieving their present policy objectives.
- Abolition of the ZTO would have a negative impact upon those current eligible Tasmanian regions, particularly those on King Island and the Fumeaux Group of Islands. The Tasmanian Government does not support any action that would harm these communities.
- Harmonising definitions of 'regional', 'rural' and 'remote' is a sensible step, and the Tasmanian Government supports the recommendation to align RAA and Australian Bureau of Statistics (ABS) boundaries.
- Implementation of any changes to the existing system must be managed through a staged approach to ensure that recipients in remote communities are not disadvantaged.
- Direct implementation of the recommendations on fringe benefits tax (FBT) arrangements for remote areas would result in increased FBT financial liabilities for a range of essential Tasmanian public services.

## Overview

The Tasmanian Government welcomes the opportunity to provide comments on the Productivity Commission's draft report on Remote Area Tax Concessions and Payments (September 2019). Tasmania's economic growth is among the strongest in the nation, and the Government's Strategic Growth agenda works to ensure that this growth reaches regional and remote areas and benefits all Tasmanians. It is within this context that the Government supports the concept of remote area concessions and payments as a means to address the disparity in living and operating conditions in regional and remote areas.

Compensating for the significant disadvantages faced by individuals and businesses residing in regional and remote areas remains a relevant justification for remote area concessions and payments and, in a revised form, they can retain relevance as a policy lever to incentivise development of regional and remote Australia.

Activities in Tasmania's regional and remote areas make a significant contribution to Tasmania's Gross State Product. However, our comparatively low population base, dispersed communities and ageing population presents challenges in terms of living and doing business in these areas that require the ongoing attention of all levels of government. These challenges include higher costs of living, barriers to market access, thin markets, longer commutes, and skills and labour shortages.

The Tasmanian Government supports the Productivity Commission's proposed design principles for the tax and transfer system: equity, efficiency and simplicity. These principles provide a sensible foundation for the study and for examining alternative mechanisms to achieve the policy goal. However, we note the importance of ensuring that any reform of the present system – as proposed in the draft report – is carefully planned, and the implementation of changes avoid adversely affecting vulnerable communities or essential services.

Any decisions in relation to the reform of remote area concessions and payments must complement existing policy efforts across all levels of government to develop regional economies, and grow the populations of regional and remote areas.

To continue Tasmania's growth trajectory, a range of mechanisms will be required to deliver the skills and expertise that our economy requires. An ageing population presents challenges in responding to and addressing skills shortages, with the State's prime working age cohort predicted to decline very soon – despite recent and projected population growth – as an increasing percentage of the community reaches retirement age.<sup>1</sup> This trend is exacerbated in rural and remote areas, which must be factored into any consideration of policy actions to both mitigate hardships, and to ensure access to services in remote area living.

While there is limited quantitative data on the impact of the Zone Tax Offset (ZTO) and Regional Area Allowance (RAA) in Tasmania, the decline in the relative value of the concessions in real terms means that they are unlikely to be having an impact on mobility decisions or sufficiently compensating for hardships, as originally intended. The Tasmanian Government believes that any reform in relation to these mechanisms should consider appropriately indexing increases in line with costs of living.

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<sup>1</sup> The Tasmanian Department of Treasury and Finance recently revised population projections for Tasmania's Local Government Areas for 25 years (2017 to 2042). See: <https://www.treasury.tas.gov.au/economy/economic-data/2019-population-projections-for-tasmania-and-its-local-government-areas>

It is clear that amendments are required to ensure that the ZTO and the RAA address existing equity issues. Current eligibility anomalies that mean certain individuals with relatively low economic capacities are out of scope for either of these incentives.

However, the Tasmanian Government challenges the conclusion of Draft Finding 5.1, which suggests that there is no compelling justification for a ZTO in contemporary Australia. This recommendation appears to be in conflict with a range of existing Australian Government programs and policies that support Australians in regional, rural and remote communities. Moreover, there is a host of initiatives at all levels of government designed to incentivise regional development, the existence of which remain a relevant justification for retaining and increasing remote concessions in some form. For example, incentivising population growth in regional and remote areas remains a cornerstone of the Australian Government's *Planning for Australia's Future Population* framework, which includes initiatives like *Regional Deals* (a decentralisation agenda) and *Roads of Strategic Importance* (infrastructure investments).<sup>2</sup> A revitalised or renewed approach to remote area tax concessions and payments would logically fit within this strategic approach.

In implementing any changes to the existing concessions and payments, it will be important to plan a staged approach, through grandfathering or similar transitional arrangement, to ensure that current recipients in remote communities are not disadvantaged through the redesign of the schemes. In particular, given the lack of clarity as to the quantum of the FBT remote area concession, careful consideration must be given to the impact on businesses to reduce any unintended consequences.

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<sup>2</sup> Australian Government (2019), *Planning for Australia's Future Population*, <https://www.pmc.gov.au/sites/default/files/publications/planning-for-australias-future-population.pdf>.

## Response to Recommendations

### Draft recommendation 5.1 - Abolish Zone and Overseas Forces Tax Offsets

The abolition of the ZTO will have a significant negative impact upon those current eligible Tasmanian regions. For example, the estimate of median wage from the 2016 Census in Special Areas is considerably below the Tasmanian and Australian median.<sup>3</sup> In this context, the abolition to the ZTO would translate to a reduction of \$1,173 per year – or 3.17 per cent of the median personal income – to a claimant without dependent children living on Flinders Island. The impact would be even more significant for those earning less than the median.

Given the remoteness of King Island and the Furneaux Group of Islands – with the concomitant increased costs of living – it is likely that ZTO claims are injected back into the local economy. The abolition on the ZTO without an adequate replacement would result in less money being spent locally, negatively affecting local businesses and increasing hardship to local community members. The impact on both personal income and business turnover would compound the challenge of finding appropriately skilled people to live in these areas.

The Tasmanian Government does not support this recommendation.

### Draft recommendation 6.1 - Adjust RAA boundaries

The proposal to adjust the RAA boundaries to align with ABS remote and very remote areas is sensible and ensures that modern definitions are taken into consideration when determining the level of additional assistance provided to those income support recipients that face higher costs of living. For Tasmania, this would result in recipients in a greater number of remote areas being entitled to the RAA.

The Tasmanian Government supports this recommendation.

### Draft recommendation 6.2 - Review RAA payment rates periodically

As the draft report highlights, RAA payment rates have not kept pace with inflation (or income growth), thereby eroding its real value. Considering the intent of the RAA payment is to assist income support recipients to meet some of the higher costs associated with living in remote areas, it is appropriate to ensure that the RAA keeps pace with the increases in the costs of living.

While the Consumer Price Index (CPI) may be a useful indexation measure, it is unlikely to align with either the cost increases in remote and very remote areas, or the expenditure pattern of those living in remote and very remote areas. For example, those living in remote and very remote areas may need to travel greater distances, resulting in a higher share of income spent on fuel and associated transportation costs. The transportation component of the CPI is often quite volatile and can contribute significantly to changes in the CPI. Greater relative expenditure on transportation by those living in remote and very remote areas would therefore result in a greater impact from higher costs than the CPI suggests for those living in capital cities, with fewer or no options for substitution to public transport. These factors would need to be incorporated into any review mechanism.

The Tasmanian Government supports this recommendation.

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<sup>3</sup> The median estimate of personal income for Flinders (Tas.) LGA was \$36 994 and King Island LGA was \$42 590. This contrasts with a Tasmanian median of \$44 135 and Australian median of \$48 413. Source: Australian Bureau of Statistics, [1410.0 – Data by Region, 2013–18](#).

### **Draft recommendation 8.1 - Tighten tax treatment of employer-provided housing**

A range of essential Tasmanian Government agencies currently provide housing and accommodation support for professionals residing and working in rural and remote areas. We note that services designated under the “certain regional employers” exemption includes public hospitals, services exclusively performed in, or in connection with, hospitals, public ambulance services and police services. Under this exemption, the whole of Tasmania is considered remote under the existing definition for the purposes of section 58ZC and section 140(1A), enlarging the impact of change on Tasmania.

While Tasmanian Government departments are unable to quantify the impact of the proposed at this point, indications are that amendments to the tax treatment of employer provided housing would result in increased FBT financial liabilities across a range of departments, which could be more appropriately directed to providing front line services to vulnerable community members. Moreover, the current concession structure performs a vital function in attracting and retaining professionals in remote area communities.

The Tasmanian Government does not support this recommendation.

### **Draft recommendation 8.2 - Remove concession for employee-sourced housing**

As noted above, removing the concession for employee-sourced housing would likely make the recruitment of skilled workers into remote areas more difficult.

The Tasmanian Government does not support this recommendation.

### **Draft recommendation 8.3 - Tighten tax treatment of other goods and services**

In both public services and private industry, Tasmania has historically faced difficulty in recruiting and retaining suitably skilled and qualified workers. Additional supports – such as those referenced in draft recommendation 8.3 – are important instruments for employers to meet their workforce needs. For example, multiple Tasmanian Government departments use remote area holiday transport fringe benefits and fuel concessions for employees who were required to reside in remote areas. In some cases, these benefits are enshrined in industrial awards. Indeed, this is a recognised recruitment and retention strategy. Initial analyses by departments indicate that the implementation of these recommendations would negatively impact the budget of essential government services.

The Tasmanian Government does not support the recommendation to limit access to the residential fuel concession for use in conjunction with employer provided housing; remove the residential fuel concession for use in conjunction with employee sourced housing; or remove the holiday transport concession.

The Tasmanian Government does support the recommendation relating to limiting access to the exemption that currently applies to meals for primary production employees; and to removing the definition limiting the exemption to meals ‘ready for consumption’.

## Response to Information Requests

### Information Request 1

The draft report contains some estimates of the cost of living in different parts of Australia that illustrates that costs are generally higher in remote and very remote areas. It may be that those agencies already tasked with the collection of data or examination of pricing issues (such as the ABS and Australian Competition and Consumer Commission) are better placed to provide additional information on this issue.

The Real Estate Institute of Australia produces estimates of house prices and rents across Australia, with the Real Estate Institute of Tasmania producing detailed suburb and Local Government Area (LGA) level data for Tasmania. However, given the very small size of the remote and very remote areas in Tasmania, these data are unlikely to provide any meaningful insights into housing costs in LGAs such as King Island or Flinders, due to infrequent sales and a very small sample.

The Tasmanian Government recognises the higher cost of living in the Bass Strait Islands and provides a range of concessions that benefit residents on the Islands, in addition to other broader concessions. Concessions provided by state and territory governments may provide insight into identified cost of living differences for remote and very remote areas. Currently, the Tasmanian Government provides concessions such as:

- The Bass Strait Islands Community Service Obligation (CSO), through Hydro Tasmania, provides for the supply of electricity to customers on the Bass Strait Islands at subsidised rates. In 2018–19, the CSO was valued at \$10.2 million.
- The Tasmanian Ports Corporation Pty Ltd (TasPorts) operates the Bass Island Line, a weekly freight shipping service between Geelong in Victoria, Grassy on King Island and mainland Tasmania.
- The Bass Strait Islands air travel concession provides a 50 per cent rebate on the cost of one return trip to northern Tasmania per financial year for age pensioners living on Bass Strait Islands subject to certain eligibility criteria.

### Information Requests 3 and 4

The Tasmanian Government's preference is that the revised remote area concessions be considered 'excluded' benefits, as a number of departments are providing housing for core operational purposes in areas where there are severe limitations on rental options. If 'reportable', concession changes would create a notable compliance burden for little value, with the flow on effect negatively affecting the ability to attract and retain qualified professionals in remote areas.

### Information Request 5

As noted above, the Tasmanian Government supports the proposal to adjust the RAA boundaries to align with ABS remote and very remote areas.

## Information Request 6

As noted in the Tasmanian Government's response to draft recommendations 8.1, 8.2 and 8.3, changes to FBT remote area concessions – most notably for housing – would affect the provision of key public services in remote areas. Many of these benefits will continue on the basis that they are set in the relevant Awards or Industrial Agreements, irrespective of any FBT implications, with the proposed changes likely to result in increased FBT liabilities to a range of government agencies that would be more appropriately directed to providing front line services.

Moreover, it is likely that changes would further increase the difficulty that the State has in attracting and retaining essential workers in regional and remote areas. This would be particularly felt in the provision of health services, where there is significant evidence that regional public health employers are required to provide not only higher salaries,<sup>4</sup> but also additional inducements to recruit and retain medical professionals.<sup>5</sup>

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<sup>4</sup> See Table 5.5: Table 5.5: Average salaries FTE staff, public hospital services, states and territories, 2016–17, Australian Institute of Health and Welfare (2018), *Hospital resources 2016–17: Australian hospital statistics*. Health services series no. 86. Cat. no. HSE 205. Canberra: AIHW, p 65.

<sup>5</sup> Australian Medical Association (2017), *AMA Position Statement – Rural Workforce Initiatives 2017*, p 2. (<https://ama.com.au/sites/default/files/documents/AMA%20Position%20Statement%20on%20Rural%20Workforce%20Initiatives.pdf>)