

28 October 2019



Mr Jonathan Coppel  
Commissioner  
Remote Area Tax Concessions and Payments  
Productivity Commission  
Level 12, 530 Collins Street  
Melbourne VIC 3000

Dear Commissioner Coppel

The National Farmers' Federation welcomes the opportunity to respond to the Productivity Commission's draft report on its inquiry 'Remote Area Tax Concessions and Payments'.

The NFF has previously called for a review of the current suite of regional and rural assistance tax incentives, including, but not limited to, Fringe Benefits Tax (FBT) concessions and exemptions and zonal tax rebates to ensure the needs of regional and rural communities are being served. As such, we particularly welcome this review.

We preface our responses to the specific recommendations of the report by outlining some of the principles which we believe should underpin taxation of the agricultural industry.

1. Agriculture as an income generating sector continues to contribute to funding the efficient delivery of public services and infrastructure that contribute to reasonable living standards for all Australians, including those in regional, rural and remote areas.
2. The taxation system should be equitable, as simple as possible, transparent and be designed to be fair across social levels, generations and states/territories.
3. The taxation system should be efficient (as should government spending) with compliance/business structuring costs minimised as much as possible.

**Draft Recommendation 5.1: Abolish zone and overseas forces tax offsets.**

In our first submission to this inquiry we argued that standards of living remain demonstrably lower for rural, regional and remote Australians compared to their urban counterparts. We argued that cost of living is not an accurate proxy for standard of living.

As evidence of these lower living standards we pointed to the fact that

*“Australians living in rural and remote areas tend to have shorter lives, higher levels of disease and injury and poorer access to and use of health services compared to people living in metropolitan areas. Poorer health outcomes in rural and remote areas may be due to a*

*range of factors, including a level of disadvantage related to education and employment opportunities, incomes and access to health services<sup>1</sup>.”*

Isolation remains a problem in these areas and has a proven impact on mental and general health<sup>2</sup>. Many roads remain unsealed, plane travel is limited and expensive and internet and telecommunications services are unreliable.

These points are supported by some of the evidence laid out in the Commission’s draft report:

1. Long hours in the car to get anywhere;
2. High fuel prices;
3. High food prices (29% higher than Darwin in remote parts of the Northern Territory);
4. High housing costs;
5. High education costs of children having to be sent away to boarding school;
6. Lack of entertainment and access to major events;
7. Ongoing droughts and floods.

We note the Commission’s point that ‘Higher wages in the zones across a wide skill spectrum suggests that the market compensates workers, at least to some extent, for the disadvantages of remote living’ and that this leaves the ZTO without a compelling rationale. As is evident in the data provided to support this point, this wage differential is negligible in the case of agricultural workers (figure 3, panel E). We would also query the success of this market-derived compensation, given that job vacancies in regions grew by 20 per cent from 2016 to 2018, compared to just 10 per cent in our largest cities during the same period<sup>3</sup>.

It is for these reasons that we believe a compelling rationale for providing the ZTO to the agricultural industry still exists – to promote equity in the taxation system by compensating for the lower standard of living in remote areas.

We agree with the Commission that the geographic boundaries for eligibility should be redrawn and the offset amount indexed to inflation so that compensation is meaningful and better targeted. Limiting the offset to industries without a significant wage differential between zones would ensure it only compensates those workers who are not compensated by the labour market.

### **Draft Recommendation 8.1: Tighten tax treatment of employer provided housing.**

Feedback we have received from primary producers suggests that in many cases remote area concessions and exemptions on FBT are important to the viability of their enterprises. Many farmers informed us that they provide housing assistance for their employees because the area has insufficient alternative accommodation. Recent findings from ABARES corroborate this<sup>4</sup>. Many farmers indicated to us that these concessions/exemptions are important in helping them attract and retain employees. The Commission makes this same point in its draft report: concessions tend to increase employment by reducing labour costs.

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<sup>1</sup> <https://www.aihw.gov.au/reports/rural-health/rural-remote-health/contents/rural-health>

<sup>2</sup> Black, Roberts, Li-Leng (2012) Depression in rural adolescents: relationships with gender and availability of mental health services, *Rural and Remote Health*, 12: 2092

<sup>3</sup> <http://www.regionalaustralia.org.au/home/regional-australia-suffers-rising-workforce-shortage/>

<sup>4</sup> ABARES 2019 ‘Demand for farm workers: ABARES farm survey results 2018’, p. 27

The NFF considers that the full exemption on employee-housing should be retained for the following key reasons.

1. FBT remote area employee-housing exemptions are considered by those who use them to aid their ability to attract and retain staff. Lack of accommodation is one of the key challenges to recruiting an adequate harvest labour force.
2. Government data indicate that the workforce in rural Australia as a percentage of the total workforce has been in steady decline<sup>5</sup>. There was estimated to be approximately 20 000 vacancies for agricultural workers in 2018<sup>6</sup>. However, this figure is based only on online job advertisements. The fact that many farmers use atypical methods – such as social media, personal contact and third parties – to fill job vacancies<sup>7</sup> suggests that the actual number of vacancies is much higher.

We note the Commission’s point that equitable FBT treatment, including the rate of concession, depends on: whether there is an operational reason for the employer to provide the good or service; and, whether the good or service privately benefits the employee.

Feedback received from farmers indicates that the provision of housing to employees is indeed an operational requirement. The nature of farm work and the inherent ‘remoteness’ of farms means that often no suitable housing alternatives exist.

We also question whether the provision of such housing privately benefits the employee. Many farm workers are seasonal workers, meaning that they are required to live on-farm for only several weeks or months each year. In the vegetable industry, around half of farms reported that their peak labour need lasted for less than 6 months. In the fruit and nut industries, around half of all farmers reported that their peak labour need lasted for less than two months<sup>8</sup>. Much pastoral work is also seasonal. There are no mortgages or tenancy agreements which we know of that allow a resident to cease making mortgage or rental payments for a few weeks/months each year while they relocate to on-farm accommodation for work. In these cases the employee is receiving no private benefits because s/he must still pay the costs associated with her/his usual place residence from after tax income. In short, we believe that the provision of on-farm employee-housing satisfies the Commission’s criteria of a fringe benefit which deserves a full exemption.

The NFF considers that removal of this concession would negatively impact on the profitability and, therefore, viability of farming businesses in these regions. The draft report predicts that

*‘some employers would continue to provide housing, and pay FBT on that housing, but might reduce employee wages in order to recoup some of the extra tax payments ... Other employers might cease to provide housing and instead increase employee wages.’*

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<sup>5</sup><http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/by%20Subject/1301.0~2012~Main%20Features~Employee%20in%20Australian%20Industry~241>

<sup>6</sup> Department of Employment, Skills, Small and Family Business, 2019b Online Vacancy Report, Labour Market Information Portal.

<sup>7</sup> ABARES 2019 ‘Demand for farm workers: ABARES farm survey results 2018’, p. 23

<sup>8</sup> ABARES 2019 ‘Demand for farm workers: ABARES farm survey results 2018’, p. 8

As already discussed, on-farm accommodation for workers is often a necessity rather than a choice. The feedback we have received indicates that ceasing to provide employee housing is simply not an option for most farm businesses. This leaves a reduction in wages as the likely consequence. Downwards pressure on wages will make it more difficult to attract workers to an industry already struggling to find sufficient labour. ABS data indicate that the past two decades have seen significant structural change in the agricultural workforce, the result of which has been greater exposure of the industry to the labour market<sup>9</sup>. The most recent ABARES report on farm labour concludes that ‘competitive wages and conditions are needed to attract and retain skilled workers<sup>10</sup>’. The reduced ability to attract workers would also have ramifications for the Seasonal Worker Programme.

Downwards pressure on wages in the agricultural sector will have economy-wide impact. Given that the cost of wages in Australia is already high relative to many countries<sup>11</sup>, any increases to labour costs, and the subsequent need to increase the cost of products to cover that cost increase, will reduce the competitiveness of Australian agricultural exports in international markets.<sup>12</sup>

The additional compliance burden associated with the move from an exemption to a partial concession would, as the Commission acknowledges, have a disproportionate effect on smaller employers. As of June 2018, 61.36 per cent of farm businesses in Australia had an annual turnover of less than \$200 000<sup>13</sup>. Agriculture is an industry in which the majority of participants are small, family-run enterprises. These are the people on whom the added compliance costs would most heavily fall. We consider this to be further grounds for retaining the full exemption.

### **Draft Recommendation 8.3: Tighten tax treatment of other goods and services.**

For employees living in on-farm accommodation, residential fuel and meals are an operational requirement. Vehicles which require fuel are the only practical mode of transport for these workers. Moreover, the use of vehicles is necessary for many types of farm work. Workers often have no source of food apart from whatever is provided to them by their employers. Shops are rarely close. Any changes to the tax treatment of meals and residential fuel should take into consideration that these are often an operational requirement for agricultural employees.

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<sup>9</sup> ABS 2019a, Labour Force, Australia, Detailed, Quarterly, May 2019, Table EQ05 Employed persons by Industry division (ANZSIC) and Status in employment of main job, February 1991 onwards, cat. no. 6291.0.55.003.

<sup>10</sup> ABARES 2019 ‘Demand for farm workers: ABARES farm survey results 2018’, p. x

<sup>11</sup> The Conference Board 2018, International Comparisons of Hourly Compensation Costs in Manufacturing, 2016 - Summary Tables.

<sup>12</sup> In fact, the farm wage bill is increasing. Recent changes as part of the Fair Work Commission’s four yearly review of modern awards have increased the overtime paid to casual employees in the horticultural sector (<https://www.fwc.gov.au/documents/decisionssigned/html/2019fwcfb2108.htm>)

<sup>13</sup> Australian Bureau of Statistics, 2019, *Counts of Australian Businesses, including Entries and Exits, Jun 2014 to Jun 2018*, cat. no. 8165.0

## **Information Request 5**

We acknowledge the risks associated with geographic boundaries outlined in the draft report. If boundaries are drawn too broadly, they risk giving concessional treatment to employers whose circumstances do not meet the public policy goal intended by the concession. If they are drawn too narrowly, they risk excluding employers who must provide services to their employees out of necessity.

For these reasons, we support geographic restrictions being removed altogether. Any business which meets the eligibility criteria for the concession – in the case of housing, that its provision is a necessity – should be eligible for the concession, regardless of its remoteness.

Should you have any questions with regard to this submission, please do not hesitate to contact Dr Prudence Gordon, General Manger Trade and Economics

Yours sincerely

**TONY MAHAR**  
**CEO**