



Queensland Government Submission

**Productivity Commission Draft Report – Remote Area Tax
Concessions and Payments**

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Key points

- The Queensland Government welcomes the opportunity to make a submission to the Productivity Commission's Inquiry to help ensure remote area tax concessions and payments are fit-for-purpose in a 21st century Australia, and are working for the benefit of all Australians and regions.
- Queensland's regional and remote areas are critical contributors to both the State and National economies. Continuing rapid changes domestically and globally are presenting a range of challenges and opportunities.
- Further, Queensland's regional and remote areas have a range of specific characteristics that should be considered in any discussion of potential changes to remote area tax concessions and payments, including in terms of population size, proximity to markets, connectivity and socio-economic status.
- In addition, regional Queensland economies have a relatively higher proportion of employment in industries such as mining, agriculture, manufacturing and tourism. Businesses associated with these industries and the related supply chain tend to have a greater reliance on incentives such as the remote area tax concession and payments to attract and retain staff.
- Given these considerations, it is vital that governments at all levels do what they can to support regions to prosper into the future and drive more inclusive growth and development. For its part, the Queensland Government has and continues to take substantial action to build stronger regional economies and create secure, well-paid jobs for our communities.
- While the Draft Report asserts that subnational governments should have primary responsibility for regional development, the 2017 Transitioning Regional Economies Inquiry highlighted that the Australian Government has a role to play in policy settings that have broad application across regions; recommended that responsibility for successful Australian Government programs should be transferred to states (including funding); and that the Australian Government should work in collaboration with all tiers of government.
- The Draft Report includes a number of recommendations that, if implemented, will have direct and material impacts on many residents of regional and remote Queensland. Furthermore, state agencies that rely directly or indirectly on remote area concessions and payments would have a reduced capacity to attract and retain sufficient staff to deliver services to the standard expected and deserved by regional Queenslanders. Specifically:

Zone Tax Offset (ZTO)

- It is important that the ZTO be viewed in the context of the overall tax burden on regional taxpayers, many of whom do not have access to the same level of amenity as those in metropolitan areas.
- The ZTO can make a material difference in the lives of Queenslanders and their families, particularly those who are experiencing disadvantage, including in regional centres such as Cairns, Townsville and Mackay. There would be strong merit in further exploring the potential to modernise ZTO boundaries, as opposed to abolishing it. Options could also be explored to enhance the targeting of the ZTO and minimise adverse financial impacts on regional Queensland taxpayers.
- The abolishment of the ZTO would reduce the incomes of the 288,000 Queensland taxpayers by about \$55 million per annum. Of these claimants, 163,000 reside in Cairns, Townsville and Mackay amounting to \$20 million per annum for these regional households.

Remote Area Allowance (RAA)

- Alignment of RAA zones with remoteness areas appears to have strong merit, and would have a real impact on the quality of life of residents in remote areas, including many indigenous residents, who currently receive no RAA support to cope with the higher costs of living in remote areas. However, it is important to understand the impacts on any regions who would lose eligibility for the RAA, and consider options to minimise adverse financial impacts on individuals before any changes are made.
- Revisions to the rate of payment should ideally focus on an adjustment to account for the decline in real value of the RAA over time as a priority, with further adjustments to account for changes in other factors such as the availability of other allowances and supports.

Fringe Benefits Tax (FBT) remote area concessions

- Worker attraction is a key issue for Queensland employers, and the availability of a skilled workforce has been identified as a critical prerequisite to business investment.
- Given Queensland's decentralised population and vast geographic area, the Queensland Government provides a substantial level of public services across a wide array of remote and regional areas. In doing so, agencies rely on FBT concessions to facilitate operational necessities and attract workers.
- Many of the proposed recommendations, while aimed at simplifying the FBT concessions regime, effectively result in cost shifting to employers and state governments rather than simplification.

- Given the expectation that there is a continuing role for the Commonwealth in supporting regions, there would be merit in exploring potential options to progress reforms and achieve simplification while preserving the value of remote area FBT concessions.
- The proposed reforms to the ZTO and Fringe Benefits Tax would result in a substantial and detrimental impact on the income of many workers, including public sector employees providing essential services in remote areas.
- Preliminary analysis indicates:
 - health workers in various zones across the State could be up to almost \$15,000 per annum (and potentially significantly more in some cases) worse off given the combined impacts of the proposed abolition of the zone tax offset and changes to the fringe benefits tax; and
 - a police officer with two dependents located within a special area under the ZTO guidelines, who currently receives employer benefits of housing and holiday transport, could be around \$8,300 worse off per annum under these reforms.



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Introduction

Appropriately designed taxation settings and concessions are important policy levers available to governments to promote regional development and to mitigate some of the inherent challenges faced by workers and families in our vital regional communities. The Queensland Government supports the intent of the Productivity Commission inquiry to ensure that current arrangements around remote area tax concessions and payments are fit-for-purpose in a 21st century Australia, and are working for the benefit of all Australians and regions.

Queensland's regions are critical contributors not just to the economic performance of State of Queensland, but also the performance of the national economy. Supporting economic activity and employment in our regions is key to maintaining Australia's prosperity going forward, and all governments have a role to play.

The Palaszczuk Government recognises the critical role regional economies play in driving sustainable growth, creating jobs and increasing prosperity across the State. Central to the Government's economic plan is providing all Queenslanders with appropriate support and transformative infrastructure, including improved connectivity of all communities, and the provision of essential services to communities across the State. The Government's Advancing Queensland's Region initiative is helping identify and address the key priorities facing regional areas and create opportunities to strengthen regional economies and services.

Given the ongoing changing domestic and international economic landscape, impacted by major factors such as rapid technological advancements, ageing population and climate change, regions are likely to face a range of challenges and opportunities. Further, the current global uncertainty is also weighing on business and consumer confidence, investment and consumption which is constraining regional jobs and wage growth as well as progress more broadly. Therefore, it is important that government's policy objectives consider short, medium and long-term impacts not just in terms of efficiency but also equitable outcomes to drive a more inclusive growth and development.

Withdrawing support from regions purely on efficiency grounds at this time when the regions are facing challenges may lead to sub-optimal outcomes and counter-act broader policy objectives of supporting build thriving regions. Further, withdrawal of support could place an additional burden on key regional industries such as agriculture, manufacturing, mining and tourism, and businesses associated with their supply chains. These industries tend to rely on remote area tax concessions and payments for operational reasons and to attract and retain workers.

The proposal to abolish the Zone Tax Offset (ZTO) would also lead to a reduction in the after-tax income for state employees (e.g. teachers, police, nurses and health practitioners) working in those zones. The proposed changes to the Fringe Benefits Tax (FBT) remote area concessions would have a direct impact on state agencies delivering services to the remote regions of Queensland in the form of an increased FBT liability for state agencies. State employees able to access to an FBT Exemption Cap may face changes to the composition of benefits able to be packaged under the FBT cap. As a general premise, the proposed changes will increase the challenge of attracting and retaining qualified staff and state service delivery in remote areas.

The Draft Report includes several recommendations that will have direct and material impacts on many residents of regional and remote Queensland. The Queensland Government welcomes the opportunity to make a submission to this inquiry to provide context around Queensland's regional and remote areas, and to highlight some of the issues arising from the Draft Report and recommendations as relevant to Queensland.

Queensland's regional economic characteristics and conditions

Queensland's regional economies, like most other regional economies, continue to transition, underpinned by changes in economic structure, population and demography. Further the State's regional economies are reasonably different in terms of key industries, population size, proximity to markets, connectivity and socio-economic status. Policy design and implementation needs to consider these unique socioeconomic characteristics across different regions.

Regions outside of South East Queensland (SEQ) account for approximately one-third of the State's total economic output and are home to around 28 per cent of the State's growing population. Mining and agriculture account for just under 40 per cent of regional output, and so conditions within these industries, along with those in the tourism sector, are key drivers of economic outcomes in regional Queensland.

Further, Queensland's regions are home to a relatively high proportion of Aboriginal and Torres Strait Islander residents, who at the time of the 2016 Census accounted for around 10 per cent of the total population outside of SEQ, compared with less than 3 per cent in SEQ, 3 per cent in New South Wales and 1 per cent in Victoria. This is an important consideration when it comes to understanding how best to support regions, as Aboriginal and Torres Strait Islander peoples can face additional challenges in accessing opportunities to participate in the economy.

More broadly, regional economic conditions in Queensland have been improving in recent years, although outcomes have been uneven across (and within) regions, with ongoing challenges facing Queensland-Outback and Townsville in particular. Further, many of Queensland's regions are also still recovering from the devastating economic and social impacts of the drought, North Queensland Floods in February and the recent bushfires.

In the key regional centres of Mackay, Townsville and Cairns which currently lie within ZTO Zone B (ordinary), economic conditions remain mixed. Sluggish global economic conditions affecting demand for resources is weighing on conditions in Mackay and Townsville, while the lower Australian dollar is helping support the tourism industry in Cairns.

Queensland – Outback's economy is closely linked with metals mining (around Mount Isa and Weipa) and agriculture (primarily beef), while gas developments are also supporting the south west. The region continues to face challenging conditions, including those presented by a declining population, typically persistent dry conditions and a narrow industry base.

Regional Queensland is expected to continue to face challenging conditions, including from ongoing drought, low livestock numbers, depleting mineral deposits and a deterioration in the global economic outlook more broadly. However, long-term opportunities exist in the production of high-quality food, diverse holiday destinations and rising demand from fast growing Asia.

Socio-economic disadvantage

Socio-economic disadvantage compounds the challenges posed by broader economic and social factors, as disadvantaged populations have a diminished capacity to adapt to economic disruption or social change. As such, persons facing socio-economic disadvantage rely heavily on public services and government support to work through challenges and build a better future for themselves and their families.

Many of Queensland's regions and remote areas face significant socio-economic disadvantage. At the time of the 2016 Census, seven of the 10 most disadvantaged LGAs nationally, based on the ABS' Index of Relative Socio-Economic Advantage and Disadvantage (IRSAD), were in Queensland.

Queensland's regions also display relatively high variation in the extent of the socio-economic disadvantage that they face, particularly when compared with other east coast states. For example, Queensland's LGAs that include remote or very remote areas range from 504 to 1,064 on the ABS's Index of Relative Socio-economic Disadvantage (IRSD), compared with 757 to 991 in New South Wales and 935 to 1,044 in Victoria. Further, based on 2016 census data there is a much larger population of people living in remote and very remote areas in Queensland (around 124,000) than in New South Wales (35,000) and Victoria (3,000).

As highlighted in the Draft Report, many recipients of the RAA are located within areas of the highest socio-economic disadvantage. This is also true for many persons living in ZTO zones. Nearly half of Queenslanders (47%) living in the ZTO zones are in the bottom third of the IRSD. Additionally, only 10% of the population in ZTO zones in Queensland are in the top third of the IRSD distribution.

The depth, variability and number of persons experiencing socio-economic disadvantage in Queensland's regions underscores the need to consider any changes to remote area concessions and supports extremely carefully to avoid adverse outcomes and unintended consequences.

Costs of living in regional areas

The Queensland Government notes the analysis of costs of living in regional and remote areas contained in the Draft Report, and the overall conclusion that 'the data suggest that some living cost pressures are inherent to remoteness'.

Cost of living is an important issue for regional Queenslanders, with cost pressures having a significant impact on the standard of living of families and individuals. As such, it is critical that any future policy recommendations based in-full or in-part on analysis of costs of living take full consideration of any interpretive issues and data limitations.

In particular, care should be taken to not place an overreliance on regional price indices, since, and as evident in the Draft Report, these price indices can mask substantial price differentials between composites of the consumption basket.

For example, based on the 2015 *Index of retail prices in Queensland regional centres*, released by the Queensland Government Statistician's Office, the All items index shows that Weipa was 26.4 per cent above the Brisbane base region. In part, this overall price differential can be attributed to the housing index, recreation index and food index which shows that Weipa was 78.3 per cent, 28.4 per cent and 23.6 per cent, respectively above the Brisbane base region. Many other indices at the group level (e.g. clothing and footwear, health, transportation) are comparable to the Brisbane base region.

Therefore, to better understand why the overall retail prices are greater in one location than another location, it is important to look at the underlying components that make up the overall index.

Further, the Queensland Government would highlight the following points on the usage of the 2015 *Index of retail prices in Queensland regional centres* release, as outlined in the explanatory notes (emphasis in bold):

- differences in price levels shown in the index should be regarded as indicative rather than absolute
- differences in overall costs that result from differences in consumption patterns between localities are not reflected in the index numbers
- the appropriateness of the items and weights used will vary from centre to centre
- the information is collected at one point in time, and the relativities represented by the indexes are subject to seasonal and other influences on price levels in different centres at different points in time.

The emphasised points above are particularly important to consider when interpreting regional price indices for the purposes of informing policy recommendations. As highlighted in the Draft Report, the nature of life in regional and remote areas can necessitate a significantly higher/lower reliance on certain goods and services.

Insurance affordability is another key issue facing some regional economies, particularly in north Queensland. The Australian Competition and Consumer Commission's (ACCC) Northern Australia Insurance Inquiry has found that home, contents and strata premiums are, on average, considerably higher in northern Australia than the rest of Australia and have increased more in recent years. For example, the study found that combined home and contents insurance products in north Queensland was \$2400 compared with \$1300 on average in the rest of Australia. Further, between 2007-08 and 2017-18, the premiums rose by 77 per cent in real terms in north Queensland compared with 50 per cent for rest of Australia.

The central importance of cost of living pressures to residents of regional and remote areas warrants additional close consideration of cost of living data and usage limitations, including the issues discussed above. The Queensland Government looks forward to reviewing the expanded cost of living analysis intended for inclusion in the Final Report.

Queensland Government's support for building stronger regional economies

The Queensland Government has taken substantial steps to build stronger regional economies and create secure, well-paid jobs for our communities, including through a range of significant capital investments and other announcements in the 2019-20 State Budget.

Around 60 per cent of the Government's \$12.9 billion capital works program in 2019-20 will be delivered in regions outside the Greater Brisbane area, directly supporting 25,500 jobs. In recognition of the importance of infrastructure in supporting regional liveability, employment and productivity, the Palaszczuk Government has budgeted more than \$36 billion to fund capital projects in regions outside Greater Brisbane over the five years to 2019-20.

The Government's capital investment in transformative regional infrastructure is being enhanced through key programs like the \$515 million Building our Regions and the \$600 million Works for Queensland programs supporting regional councils to undertake job-creating maintenance and minor infrastructure projects, backing local jobs.

To ensure all Queenslanders have access to world-class services no matter where they live, the Palaszczuk Government has undertaken record investments in health, education and training services, and in the justice system.

For example, the \$100m *Advancing rural and remote education in Queensland state schools* action plan, released by the Minister for Education in October 2018, sets the direction for supporting students, families, teachers and school leaders in rural and remote areas through 21 priority actions. Through the action plan, an investment of \$31.1 million over four years is being made to deliver four Rural and Remote Centres for Learning and Wellbeing. The Centres support the professional learning of school leaders and teachers and provide wellbeing support to staff, students and their families in rural and remote areas of Queensland.

The Government is also taking steps to promote employment growth in the regions. The 2019-20 Budget introduced a 1 per cent discount on the payroll tax rate applicable for employers located outside South East Queensland, as part of a \$885 million package of payroll tax initiatives, making it easier for regional businesses to invest, grow and employ Queenslanders across all our regions. Some 2,700 regional businesses will have a payroll tax rate up to 20 per cent lower than their previous rate.

Employment is further supported through Back to Work, including a \$305 million regional component, which give regional employers the confidence they need to take on eligible workers. The initiative has assisted more than 16,000 regional jobseekers since inception, representing funding of almost \$158 million provided to over 7,100 employers.

To support growth of key existing and growth industries across regional economies, the Government has a range of well-targeted initiatives to drive sustainable private sector investment. The \$175 million Jobs and Regional Growth Fund is assisting businesses and projects that generate ongoing economic development and employment

opportunities in regional Queensland. The fund supports projects from a variety of sectors in our regions, including agriculture, resources, tourism, manufacturing and construction.

In addition to the \$755 million Advance Queensland program to foster innovation across Queensland businesses, industries and workforce, investments in new emerging industries such as Hydrogen and Biofuels will help build regional comparative strengths that will drive regional economic growth, promote economic diversification and grow jobs now and in the future. To support the North West Minerals Province unlock its potential, an additional \$110 million in funding has been provided to attract investment and deliver jobs in key sectors such as resources, agriculture, tourism, as well as related supply chain business opportunities. Manufacturing Hubs are also being established in Townsville, Cairns and Rockhampton to boost manufacturing productivity, innovation and competitiveness.

The Government is also making substantial investments in developing workforce capability in regional economies, through the \$420 million Skilling Queenslanders for Work (SQW) initiative to help Queenslanders enter and stay in the workforce. The SQW has a strong focus on improving participation amongst disadvantaged groups. More recently announced innovative initiatives such as Free Apprenticeships for Under 21s, and Micro-Credentialing and Higher Level Apprenticeship pilots will provide modern and flexible pathways to address current, emerging and future skills and training needs.

The Queensland Government is also committed to improving life outcomes for the 220,000 Aboriginal and Torres Strait Islander peoples that call Queensland home, including almost 40,000 of whom who live in remote and very remote areas, by increasing their self-determination and economic participation. The Local Thriving Communities reform will move decision making closer to communities and allow them to make decisions about the way services are delivered. This will be achieved through a co-design approach to implementation of the reform, with the Queensland Government acting as an enabler to support communities in delivering their priorities.

The Government has invested \$228.3 million to improve housing for remote and discrete Aboriginal and Torres Strait Islander communities, including the Remote Home Ownership Program, which is designed to enhance pathways to home ownership within these communities.

The Government also continues to implement the Queensland Indigenous Procurement Policy which is working towards a three per cent target for Government procurement with Aboriginal and Torres Strait Islander businesses. In 2017-18, 427 Aboriginal and Torres Strait Islander businesses secured \$305 million in Government procurement spend, up from \$26 million spent with 52 Aboriginal and Torres Strait Islander businesses in 2012–13.

The Palaszczuk Government remains committed to rebuilding regional communities impacted by the North Queensland floods and other recent natural disasters. Key elements of the Government's investment, which have focused on improving existing infrastructure to improve the resilience of the State's communities (with partial funding provided by the Australian Government), include:

- a \$242 million disaster funding package following the North and Far North Queensland Monsoon Trough
- ongoing funding as part of the Queensland Government's \$110 million commitment for extraordinary recovery and reconstruction projects following Severe Tropical Cyclone Debbie
- supporting drought-affected communities through continuation of the Drought Assistance Package by providing up to \$74.6 million over four years.

The Queensland Government will continue to build on these commitments to ensure Queensland's regions can face challenges head on, take advantage of opportunities and thrive into the future. After finalisation of the recently released Draft North Queensland Regional Plan, all Queensland regions will be covered by regional plans. These plans are based on extensive research and consultation with regional stakeholders, and provide strategic direction to land use and infrastructure.

In addition, the Advancing Queensland's Regions initiative will build on community consultations over the past four years to identify and address key priorities facing regional areas. This will be achieved through holding quarterly regional community forums, establishing Department of the Premier and Cabinet additional offices in Maryborough and Rockhampton, and by establishing a new Office for Rural and Regional Queensland. These actions will ensure regions are front of mind in decision making and give residents of regional areas greater access to Government. This focus on the regions ties in with the Government's ongoing commitment to be a responsive government that delivers for all Queenslanders.

Respective roles for all levels of governments in regional development

The Draft Report references the finding from the 2017 *Transitioning Regional Economies Inquiry* (TRE Inquiry) that primary responsibility for regional policy should lie with subnational governments, and that the Australian Government's role should instead be minor and closely aligned with State and Territory Governments.

The Queensland Government notes that the TRE Inquiry also found that '[o]ver recent years successive Australian governments encroached more into regional policies that should have remained with the states and territories. It is time for this trend to be reversed'. However, if the Australian Government were to unilaterally retreat from regional development policy, then this would leave a sizeable funding gap to be covered by already fiscally-constrained subnational governments and further exacerbate the excessive vertical fiscal imbalance.

As such, any withdrawal by the Australian Government should be accompanied by an appropriate compensatory transfer of funding to state and territory governments to ensure that regional development policy is adequately resourced. This would also be in keeping with the TRE Inquiry finding that, for discretionary regional programs with significant net benefits, 'the Australian Government should transfer responsibility to the relevant states and territories'.

Furthermore, the TRE Inquiry also left a role for the Australian Government in regional development through policy settings that have 'broad application across the regions', including 'the built-in distribution of funds across regions'. The concessions and payments reviewed under this current study could quite easily meet these criteria.

Clearly, even if the split of regional development responsibilities posed in the TRE Inquiry was to be accepted, all levels of Government still have a role to play in enhancing regional prosperity. The TRE Inquiry was clear that the Australian Government should work 'effectively in collaboration with all tiers of government'. Therefore, the Queensland Government encourages the Australian Government to discuss any future intentions to adjust remote area concessions and payments with State and Territory governments, including through appropriate intergovernmental forums, at the earliest opportunity.

The Australian Government itself has a stated commitment to develop Northern Australia. The Office of Northern Australia's *Northern Australia agenda* states 'we are ensuring the north is an even more attractive place to live and do business.' The draft recommendations to abolish the ZTO and tighten FBT concessions would appear to be at odds with this commitment.

Implementing the Draft Recommendations would reduce incentives for employees to take up postings in regional and remote areas and will further increase competition with employers in other areas where costs of living are lower. As growing industries demand skilled workers and the public sector requires a fixed workforce to deliver essential services, employers are likely to compensate for the decrease in benefits through increased remuneration to ensure vacancies are filled.

As a result of this, the Australian Government would receive additional benefits from income tax due the higher wages paid by employers in addition to receiving the revenues previously offset. These benefits would be at the expense of Queensland businesses and the Queensland Government agencies.

Specific comments on in-scope measures

As outlined in this submission, there are a range of factors, circumstances and issues—including the unique characteristics of Queensland and its regional and remote areas—which need to be taken into account in any discussion of changes to remote area tax concessions and payments.

The findings and recommendations outlined in the Draft Report, if accepted and implemented by the Australian Government, would have real consequences for many thousands of Queensland residents and businesses across the regions. Furthermore, State agencies with responsibilities to deliver services in regional and remote communities necessarily rely on a mix of incentives to attract and retain appropriately skilled and qualified staff to those communities. These include:

- monetary incentives (e.g. cash allowances, ZTO);
- fringe benefits incentives (e.g. subsidised housing, relocation expenses, professional development);
- work-related incentives (e.g. tenure, additional leave provisions); and
- professional benefits (e.g. greater autonomy; greater opportunity for a leadership role; working with more diverse stakeholders).

Agencies have indicated that without the range of incentives provided to employees in regional and remote areas, there are several locations that would experience challenges in attracting staff. In other words, these benefits are not an optional extra but are an essential requirement for services to be delivered in these areas.

In light of these issues, the Queensland Government welcomes the opportunity to provide its views on the findings and recommendations included in the Draft Report pertaining to the ZTO, the RAA and FBT concessions. The following sections highlight some of the key issues as they relate to the proposed changes to these concessions and payments and the implications for the ongoing development and prosperity of Queensland's regions.

Zone Tax Offset

The Queensland Government notes the following draft recommendation relating to the ZTO:

DRAFT RECOMMENDATION 5.1 ABOLISH ZONE AND OVERSEAS FORCES TAX OFFSETS

The Australian Government should abolish the ZTO and the overseas forces tax offset.

Key issues and implications

It is noted this recommendation is made on the basis that the ZTO, and by extension the Overseas Forces Tax Offset (OFTO) is *'ineffective and poorly targeted, and there is no compelling, contemporary justification for it to continue'*.

As discussed earlier, Queensland's regions are facing a variety of challenges, and there remains a role for the Australian Government to play in supporting regional areas to capitalise on available economic opportunities—particularly given its commitment to develop Northern Australia.

The Queensland Government is already working to support North Queensland, including Cairns, Townsville and Mackay, and Outback Queensland to overcome economic headwinds and social challenges while making the most of available opportunities. The Australian Government should continue to support these efforts, not only for the benefit of North Queensland, but to maintain Australia's economic base and ensure its prosperity going forward.

While the Draft Report concludes the ZTO is *'ineffective'*, this will be partially due to the ZTO not being adjusted over time and the consequent low rate of payment in real terms (e.g. \$133 on average in Ordinary Zone B). Some taxpayers can claim a larger rebate than the base rebate (e.g. \$57 in Zone B) due to the dependant loading. Regardless, for many Queenslanders this can still make a material difference in their own and their families' quality of life.

Further, it is important that the ZTO be viewed in the context of the overall tax burden on regional taxpayers, many of whom do not have access to the same level of amenity as those in metropolitan areas. For example, taxpayers who respond to Australian Government incentives by purchasing private health insurance may not be able to readily access the same level of service as those living in large city centres. Therefore, while the ZTO may seem like a relatively small benefit in some cases compared with the total incomes of recipients, it contributes to lowering the overall tax burden of regional taxpayers who can often also face more difficulty or cost in accessing public and private services compared with people in larger population centres.

The abolishment of the ZTO would reduce the incomes of the 288,000 Queensland taxpayers by about \$55 million per annum. Of these claimants, 163,000 reside in Cairns, Townsville and Mackay amounting to \$20 million per annum for these regional households.

The Draft Report explores the option of reducing the number of zoned areas from three to two, with the two areas based on the ABS categories of 'remote' and very remote' areas. Further, the Draft Report indicates that if the payments for 'remote' and 'very remote' areas were aligned with the current rates for Ordinary Zone A (\$511) and special areas (\$1,146) respectively, this measure would have a nationwide cost of \$160 million per year, similar to its current cost of \$153 million.

Based on 2016 Census data, it is estimated that around 55,000 Queensland residents live in 'remote' and 'very remote' areas. This means around 233,000 fewer Queensland taxpayers, primarily from Cairns, Townsville and Mackay, would be eligible to claim the ZTO when compared with current boundaries. If the payments for 'remote' and 'very remote' areas were aligned with current rates for Zone A (ordinary) and Zone A/B (special), respectively, this change would reduce total ZTO receipts to Queensland taxpayers by around \$15 million (from \$55 million per year currently to about \$40 million per year).

Other options to enhance the targeting of the ZTO could also be explored, such as options to implement means testing to ensure assistance is provided to those who most need it to offset the cost of living pressures in regional and remote areas, or the potential to implement transitional measures (such as grandfathering) to reduce the risk of generating economic hardship.

Further, although the abolition of the ZTO would directly impact individuals located in the zone areas, there are likely to be significant impacts to government agencies and Queensland businesses. Employees that have lost the ZTO would seek to be compensated to ensure they were no worse off, most likely through an increase in remuneration.

This would not only shift the costs of the ZTO from the Australian Government to Queensland, but will result in additional income tax revenue to the Australian Government from the higher taxable remuneration to employees.

Remote Area Allowance

The Queensland Government notes the following draft recommendations relating to the RAA:

DRAFT RECOMMENDATION 6.1 ADJUST RAA BOUNDARIES

The Australian Government should revise section 14 of the Social Security Act 1991 (Cth) to align the remote area allowance geographical boundaries with the Australian Bureau of Statistics remoteness classification for very remote and remote areas.

DRAFT RECOMMENDATION 6.2 REVIEW RAA PAYMENT RATES PERIODICALLY

The Australian Government should revise payment rates for the remote area allowance (RAA) following the completion of this study. Thereafter, the Department of Social Services should review the RAA periodically. These reviews should:

- revise RAA payment rates, taking into account changes in living-cost differentials between remote and non-remote areas
- report on RAA annual outlays and recipient numbers
- consider any issues associated with administering the RAA.

The reviews should be made public.

Key issues and implications

The Queensland Government agrees there is a policy rationale for the RAA to address cost of living differences affecting income support recipients living in remote Australia.

Acknowledging that there are many residents of remote Queensland who—despite facing cost of living pressures—are not eligible for the RAA, the Queensland Government considers there is strong merit to Draft Recommendation 6.1 to align the geographical boundaries of the RAA with the ABS 'remote' and 'very remote' remoteness classifications. Adoption of this recommendation by the Australian Government would have a real impact on the quality of life of residents who currently receive no RAA support to cope with the higher costs of living in remote areas.

The alignment of the boundaries for the RAA for the ABS 'remote' and 'very remote' areas is estimated to increase the number of current Queensland recipients (as at September Quarter 2018) from about 13,000 persons to around 20,000 persons.

The Commission estimated that over 60 per cent of Australian RAA recipients are Indigenous Australians. While no actual data was available on the number of Queensland Indigenous RAA recipients, it is estimated based on 2016 Census data it could be around 10,000 persons. The proposed new RAA boundary could increase the number of Indigenous Queenslanders that are RAA recipients by another 1,000 persons.

However, before such a change was adopted, it is important the impacts on regions who would lose eligibility for the RAA are fully understood, and that appropriate consideration is given to options to mitigate any negative impacts.

The Queensland Government also considers there is merit in Draft Recommendation 6.2 to revise the RAA payment rate following completion of the PC study, with periodic reviews after this. As highlighted in the Draft Report, the value of the RAA has declined in real terms since the last significant adjustment in 1993, and if it were indexed on the same basis as income support pensions, the benefit to recipients would be substantially higher.

Ideally, an initial adjustment to the RAA to account for this decline in real value would be pursued as a priority. Any further changes to the rate of the RAA to account for changes in other factors over time, such as the availability of other allowances and supports, should be considered subsequent to this initial adjustment.

Fringe Benefits Tax remote area concessions

The Queensland Government notes the following draft recommendations relating to the FBT concessions:

DRAFT RECOMMENDATION 8.1 TIGHTEN TAX TREATMENT OF EMPLOYER-PROVIDED HOUSING

The Australian Government should amend the *Fringe Benefits Tax Assessment Act 1986* (Cth) to change the tax treatment of employer-provided housing. Specifically, it should:

- revert the exemption for employer-provided housing (section 58ZC) to a 50 per cent concession (as it was prior to 2000)
- remove the provision that enables employers to claim the concession because it is 'customary' to provide housing (section 58ZC(2)(d)(iii))
- remove the provision that extends the concession to additional areas for 'certain regional employers' (section 140(1A)).

DRAFT RECOMMENDATION 8.2 REMOVE CONCESSION FOR EMPLOYEE-SOURCED HOUSING

The Australian Government should amend the *Fringe Benefits Tax Assessment Act 1986* (Cth) to remove the 50 per cent concession on employee-sourced housing (section 60).

DRAFT RECOMMENDATION 8.3 TIGHTEN TAX TREATMENT OF OTHER GOODS AND SERVICES

The Australian Government should amend the *Fringe Benefits Tax Assessment Act 1986* (Cth) to change the tax treatment of residential fuel, meals for primary production employees, and holiday transport provided by employers in remote areas. Specifically, it should:

- limit access to the residential fuel concession for use in conjunction with employer-provided housing (section 59(1)) to instances where there is an operational requirement for the employer to provide residential fuel
- remove the residential fuel concession for use in conjunction with employee-sourced housing (section 59(2) and (3))
- limit access to the exemption that currently applies to meals for primary production employees (section 58ZD) to instances where there is an operational requirement for the employer to provide these meals
- remove the definition limiting the exemption to meals 'ready for consumption', as it leads to ambiguity and difficulty in implementation
- remove the holiday transport concession (section 60A and section 61).

Key issues and implications

The Queensland Department of Education's confidential response to the PC's Issues Paper set out key facts informing the scale of potential issues for that state agency including that around 210,000 students are currently enrolled, more than 60% of all Queensland state schools are located in, and over 18,000 full-time equivalent teachers work in, regional and remote areas. The response identified key issues affecting the focus on attracting, retaining and developing the expertise of its teaching professionals. It is recommended the PC refer back to that confidential response as part of considering submissions on the PC's Draft Report.

The Queensland Government is supportive of the continued development of an effective, efficient and fair tax system. Australia's FBT regime, including exemptions and concessions, is an important integrity measure helping to ensure Australia's tax system works for all Australians.

This includes ensuring that regional employers are not disadvantaged in their ability to attract and retain a suitably skilled workforce, given the challenges that can come with living in a regional or remote area. As PC consultations show, regional employers place significant value on FBT concessions, particularly housing concessions, to attract workers.

Worker attraction is a key issue for Queensland employers. The inability of businesses to access suitably skilled workers was identified as one of the primary impediments to business investment by the *Report on the inquiry into impediments to business investment* by the House of Representatives Standing Committee on Economics.

Further, the Draft Report notes that some local governments highlighted that FBT concessions were critical to their ability to provide services (i.e. hire employees) in a budget-constrained environment. This is not just true for local governments, but also state governments. Given Queensland's status as Australia's most decentralised mainland state and its vast geographic area, the Queensland Government provides a substantial level of public services across a wide array of remote and regional areas. Queensland Government agencies often support regional workers through the provision of housing and other support mechanisms, reflecting operational necessities and the challenges in attracting workers. This is currently supported by the availability of FBT concessions.

The Queensland Government understands the PC's attempt to simplify the regime for remote FBT concessions but consider that the proposed recommendations will result in cost shifting rather than simplification. The compliance effort required to identify, record and value currently exempt benefits and allocate them to employees is expected to be significant.

The PC recommendations to remove or reduce fringe benefit concessions will not only shift the associated costs from the Australian Government to Queensland, but could also negatively impact the financial position of individual employees.

Additionally, various independent reviews of government service provision have highlighted the difficulties associated with providing services in these areas, and that staff recruitment and retention are key challenges. The *Gonski 2.0* report found that schools in 'rural and remote and low socio-economic status areas, also report difficulties filling vacancies and attracting high-quality teachers' and Halsey's *Independent Review into Regional, Rural and Remote Education* found that 'attracting and retaining teachers for regional, rural and remote schools continues to be one of the most persistent challenges on the education agenda'.

These proposed fringe benefits tax reforms, combined with the proposed abolition of the Zone Tax Offset, would result in a substantial and detrimental impact on the income of many workers, particularly public sector employees providing essential services in remote areas, as highlighted in the illustrative example below.

The remote area FBT concessions are a major factor for attracting and retaining government employees such as teachers, nurses, allied health or operational administrative staff, many of whom are not in highly paid positions. At this time, there is an inability to gauge the direct impact of proposed changes on attracting and retaining professionals and other staff in rural and remote locations.

The proposed reforms bring the prospect of diminished incentives for employees to take up postings in regional and remote areas. This in turn has direct implications on the Queensland Government's ability to provide key services such as education, health and public safety in these areas. For example, there would be an impact on all categories of state health services employees in regional and remote areas that are provided with accommodation and/or given accommodation rental assistance.

Removal of the extended remote area housing exemption would have a significant impact on relevant employees within hospital, ambulance and police services. Adding a change from exempt to concessional for remote area housing would affect several thousand exempt housing fringe benefits that would be concessional at best, and fully subject to FBT at worst.

In some areas, e.g. Thursday Island, there is no capacity for increased housing stock, so there is no capacity for private residential housing thus the need for ongoing employer supplied accommodation or subsidised accommodation is essential. Some state agency locations, e.g. Torres Strait and Cape York, require employer-provided housing for employees and are reliant on Government Employee Housing as there is essentially not a housing rental market in some very remote areas.

Given the higher cost of living in remote areas, it is likely that employees will seek employer-compensation to address the loss of remote area FBT concessions. The income tax liability of the compensatory measures is also likely to result in increased income tax revenue to the Australian Government. A further consideration adding complexity involves rural and remote assistance incentives that might be recognised as part of industrial provisions.

Where employees benefit from an FBT Exemption Cap such as in some health agencies, the changes could reduce or eliminate the extent of benefit items that can be packaged under the cap (e.g. a concessional rather than exempt employer-provided housing would need to be charged against the cap). More generally the proposed change might increase the reportable fringe benefits amounts and this could potentially affect employees' income tests for various Commonwealth benefits and concessions.

Illustrative examples: Potential impact on public sector employees

Preliminary analysis indicates that a police officer with two dependents located within a special area under the Zone Tax Offset guidelines, who currently receives employer benefits of housing and holiday transport, could be around \$8,300 worse off per annum if the ZTO was abolished and the increased Fringe Benefit Tax liability on these benefits was recovered from employees.

Table 1: Estimated potential impacts for police officer

Zone Tax Offset	\$1,502
Employer provided housing ^{1,2}	\$6,250
Holiday transport ³	\$570
Total impact	\$8,322

1. Employee would already be paying a nominal rent amount to the agency, so this amount is in addition.
2. An average based on estimated aggregate impact. Impact will range from nil to significantly higher than the amount disclosed above depending on individual circumstances. Furthermore, this cost could be double if the employer- provided housing fell outside any revised remote area boundaries into a non-remote area.
3. An average based on estimated aggregate impact.

Table 2: Estimated potential impacts for health workers

	Mt Isa (Zone A)	Cairns (Zone B)	Weipa (Special Area)
Zone Tax Offset	\$667	\$189	\$1,502
Employer provided housing ^{1,2,3}	\$6,519	\$7,834	\$12,260
Remote Area training transport ⁴	Nil	Nil	\$997
Total impact	\$7,186	\$8,023	\$14,759

1. Employee would already be paying a nominal rent amount to the agency, so this amount is in addition.
2. An average based on estimated aggregate impact. Impact will range from nil to significantly higher than the amount disclosed above depending on individual circumstances. Furthermore, this indicative cost could be double if the employer- provided housing fell outside any revised remote area boundaries into a non-remote area.
3. These amounts include provision for the loss of the \$17,000 cap which would otherwise have been used to participate in salary sacrifice arrangements.
4. Remote area holiday transport is only provided to staff working in certain towns and for the use in gaining further professional development.

Additionally, the employees would see an increase in Reportable Fringe Benefit Amounts. While these amounts don't necessarily affect the employee's assessable income or the standard Medicare Levy, they are included in the income tests for a range of Commonwealth Government benefits and obligations such as the employee's Medicare Levy Surcharge (if applicable), Private Health Insurance Rebate percentage, Family Tax Benefit, Child Care Benefit, and eligibility for the Commonwealth's co-contribution for personal superannuation contributions.

From a government agency perspective, the PC view that employers may offset their additional FBT obligations by reducing employee remuneration is not supported. The services provided are important and remuneration should remain commensurate with the value of the work performed in delivering these services. Any negative impact on employees will need to be addressed via the employer, in addition to the direct impact of higher FBT payments.

Given the expectation that there is a continuing role for the Commonwealth in supporting regions, the PC should explore options to progress reforms while preserving the value of remote area FBT concessions. This would recognise the disproportionate impacts of changes advocated by the PC on regional and remote areas at the local level.