

18 October 2019

Mr Michael Brennan  
Chair, Productivity Commission  
GPO Box 1428  
Canberra City ACT 2601

**RE: Request for feedback on DRAFT Report on Remote Area Tax Concessions and Payments**

Dear Mr Brennan,

I am writing to provide UnitingCare Queensland's feedback on the Productivity Commission's Draft Report on Remote Area Tax Concessions and Payments (**The Draft Report**) dated August 2019.

As the largest private not-for-profit provider of aged care and community services in remote areas of Queensland and the Northern Territory, we believe UnitingCare Queensland brings a unique and valuable perspective on the recommendations outlined in your report.

Should you have any queries in relation to the content of our feedback, please do not hesitate to contact me directly.

Kind regards,

Matthew Cuming  
Director Corporate Affairs  
UnitingCare Queensland

## About UnitingCare

UnitingCare is a group of charities that support people of all ages and care needs to enable them to live life in all its fullness. Each charity operates under its own ABN and is registered with the Australian Charities and Not-for-Profits Commission as a Public Benevolent Institution (**PBI**). The charities of UnitingCare are: UnitingCare Queensland (**UCQ**), UnitingCare Community (**UCC**), Blue Care, UnitingCare Health (**UCH**) comprising The Wesley Hospital, St Andrew's War Memorial Hospital, Buderim Private Hospital and St Stephen's Hospital; and Australian Regional and Remote Community Services Limited (**ARRCS**). UnitingCare is an agency of the Uniting Church in Queensland and provides health and community services across Queensland (UCQ, UCC, UCH & Blue Care) and the Northern Territory through ARRCS.

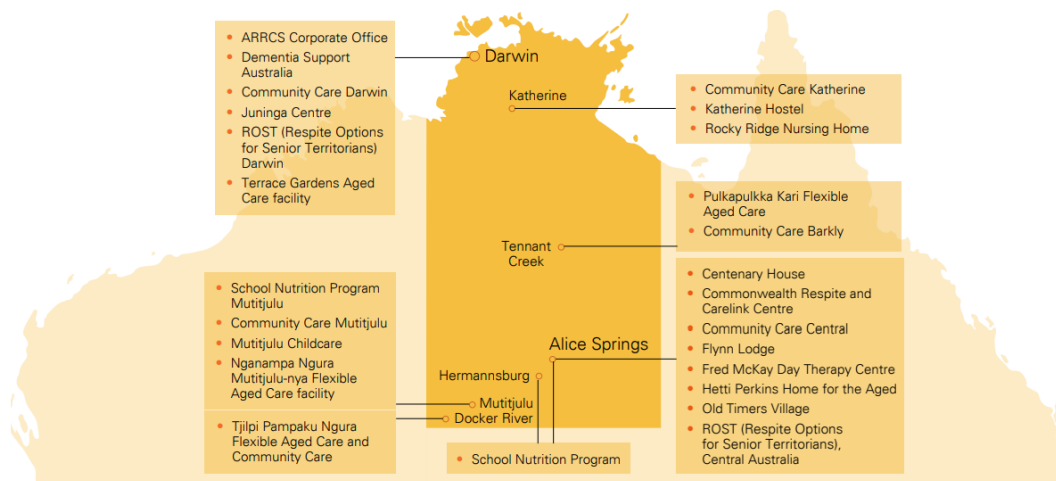
UnitingCare is one of the largest employers in Queensland with over 17,000 employees and 9,400 volunteers who care for and support people from all walks of life, including older people, people living with disability, children, families, and Aboriginal and Torres Strait Islander people.

We deliver our aged care services across Queensland and the Northern Territory through the following entities and brands:

- UnitingCare;
- Blue Care; and
- Australian Regional and Remote Community Services (ARRCS).

## About ARRCS

ARRCS services people and communities in remote geographies of the Northern Territory where other aged care and community service organisations cannot afford or choose not to go:



More than 2,900 people in the Northern Territory receive care from ARRCS annually, from the very young to the elderly. In 2018, our 718 ARRCS employees travelled over 893,000 kilometres in a fleet of 50 vehicles caring for remote communities.

## Concerns re: proposals within the Draft Report

UnitingCare Queensland and its group of charities are supportive of a taxation system that rests upon the principles of equity, efficiency, simplicity, sustainability, and policy consistency.

While we are supportive of many of the proposed measures outlined in the Productivity Commission's Draft Report, some give us cause for concern on the basis that they do not consider the impact on at-risk groups living in remote areas and not-for-profit organisations and their employees delivering aged care and community services in remote areas of Queensland and the Northern Territory.

### **1. Impact on the people we are called to serve**

#### ***Zone Tax Offset***

Abolishing the Zone Tax Offset (ZTO) as proposed in the Draft Report will deny eligible tax payers additional refunds in their tax returns. As the Productivity Commission will be aware, the ZTO was originally designed to compensate residents for the disadvantage of living in remote areas and to support regional economic development by encouraging people to relocate to designated areas.

Our clients and their families living in remote areas would be immediately impacted should this proposed change come into effect. This would place increased financial burden on people who are already in financial stress and rely upon these funds to support their general cost of living, including many of the aged care and community services that UnitingCare Queensland provides.

#### ***Remote Area Allowance***

The Remote Area Allowance (RAA) is an income support supplement received by people on Newstart, Disability, and Aged Pensions. Most of the people receiving this supplement, one in five people, live in the Northern Territory.

The proposed changes to the Remote Area Allowance include updating the boundaries, which would exclude 25,000 people in Darwin. This could have a flow on-impact to the people we serve in this geography, given the high proportion of concessional clients we support and the responsibilities that may fall on Elders to share their income with family members who experience a reduction in income support.

We do note however that the Productivity Commission recognises in its draft report that the RAA has a legitimate role in helping income support recipients meet costs associated with living in remote areas and is recommending an immediate review of rates, which have not increased in 20 years, along with periodical reviews. We welcome and support this recommendation.

*Continued overleaf*

## **Recommendation on the ZTO and RAA**

UnitingCare Queensland requests that the Zone Tax Offset not be abolished, or if it is abolished, that the Productivity Commission recommend the introduction of commensurate measures to compensate financially impacted, low income ZTO eligible taxpayers accordingly.

Commensurate measures could include new rules, allowing refunds of any excess offsets/rebates where the individual's tax liability is zero and implementing a maximum income threshold cut-off where more financially secure taxpayers are unable to access the remote area offset.

UnitingCare requests that the city of Darwin continue to be included in the RAA regardless of whether the RAA is re-zoned in line with ABS boundary criteria

## **2. Impact on not-for-profit providers and employees of aged care and community services**

As the Productivity Commission is aware, a housing fringe benefit arises where an employee is provided with the right to use a unit of accommodation as their usual place of residence. Accommodation provided in a remote area is referred to as a Remote Area Housing Benefit.

Remote Area Housing Benefits are exempt from Fringe Benefits Tax (FBT). Per the Australian Taxation Office (ATO) a remote area is a location that is not in – or adjacent to – an eligible urban area. The ATO publishes two lists of remote areas per State and Territory. 'List 2' is used by certain regional employers, List 1 is used by all other employers. A 'certain regional employer' includes a 'charitable institution', which includes both our ARRCS and Blue Care aged care organisations.

### ***Employee-sourced remote area housing***

Employees who currently source and pay for their own housing are able to salary sacrifice 100% of their related expenses, e.g. rent or mortgage interest. Currently, 50% of these expenses are exempt from FBT, with the other 50% included in their normal salary packaging arrangements. This 50% exemption results in increased take home pay for the employee in remote areas.

Removal of the 50% FBT exemption as proposed in the Draft Report will result in less take home pay for our remote aged care and community service employees who currently access a salary-sacrifice benefit for employee-sourced remote area housing.

We are concerned that this adverse impact on our employees will lessen our ability to attract and retain appropriately skilled and experienced employees into remote geographies within an aged care and community services sector already under significant financial and operational stress.

### **Example of a typical ARRCS employee**

'Karen' (pseudonym) is an aged care employee living and working in Darwin, (currently a remote area per List 2). Karen pays rent of \$400 per week (\$20,800 p.a.) and salary sacrifices this rent as part of her arrangement as an employee with a Public Benevolent Institution (PBI). Karen earns \$45,000 p.a. As an employee of a concessionally taxed PBI (e.g. ARRCS) she is allowed to salary sacrifice \$15,900 of her salary. In addition, because Karen lives in a remote area she can salary sacrifice a further 50% of her salary for rent expenses. The financial advantage to Karen is \$38 per week, as follows:

	Remote Area Exemption Included	Remote Area Exemption Removed	Increased Take Home Pay
Annual Salary	45,000	45,000	
Less Salary Sacrifice expenses			
- 50% Rent	10,400	-	
- General Living Expenses	15,900	15,900	
Taxable income	18,700	29,100	
Tax thereon	95	2,071	
Net Income	18,605	27,029	
<b>Net Take Home Pay</b>			
Net after tax income	18,605	27,029	
Rent paid	10,400	-	
General Living Expenses	15,900	15,900	
Annual Take Home Pay	44,905	42,929	\$ 1,976.00
Weekly Take Home Pay	\$ 863.56	\$ 825.56	\$ 38.00

### ***Employer Provided Housing***

Currently, where accommodation has been provided free of charge to an employee of our ARRCS organisation, and the area is classified as a remote area (List 2), the accommodation provided by ARRCS is 100 percent exempt from FBT. Furthermore, all areas in the Northern Territory are classified as 'remote' in this context. ARRCS currently provides accommodation for employees at the following locations in the Northern Territory:

<b>Name</b>	<b>Service Type</b>	<b>Location</b>
Old Timers Village	Residential Aged Care Home	Alice Springs, NT
Hetti Perkins Home	Residential Aged Care Home	Alice Springs, NT
Flynn Lodge	Residential Aged Care Home	Alice Springs, NT
Pulkaulkka Kari	Flexible Aged Care Home	Tennant Creek, NT
Tjilpi Pampaku Ngura	Flexible Aged Care Home	Docker River, NT
Katherine Hostel	Residential Aged Care Home	Katherine, NT
Rocky Ridge	Residential Aged Care Home	Katherine, NT

The proposed changes to Employer Provided Housing included in the Draft Report include:

- Removal of the 'certain regional employers' list; *and*
- A reduction in the FBT exemption for employer provided housing in designated remote areas from 100% to 50%.

These proposed changes, if implemented, would have two major adverse impacts on our organisation and employees:

1. Cities and towns currently exempt under the 'certain regional employer' list would no longer qualify as a remote area and our provision of housing to employees in these areas would attract FBT at 100%. These cities/towns include:

**In the Northern Territory:** Darwin

**In Queensland:** Bundaberg, Cairns, Caloundra, Gladstone, Mackay, Maroochydore-Mooloolaba, Maryborough, Rockhampton, Toowoomba, and Townsville

2. All areas classified as non-remote would attract FBT at 50 percent. This would be an immediate significant increase in cost to ARRCS in all areas where housing is provided free of charge to employees.

While FBT may only be applied against 50% of the calculated value of the housing benefit provided, the FBT rate is equivalent to the top marginal income tax rate (47%). The imposition of this tax would discourage the provision of housing in remote areas as an incentive to attract employees. Additionally, where employees have operational reasons to provide housing to employees (e.g. due to the extreme remoteness of the workplace) then the employer would need to absorb this additional cost.

As the Productivity Commission may be aware, the attraction and retention of employees in the regional and remote aged care sector is already incredibly fraught for providers.

Blue Care and ARRCS are not-for-profit aged care providers operating in a sector which recent industry performance data has shown is under significant financial stress; 47 percent of residential aged care facilities are currently running at a loss, and 67 percent of regional and remote facilities are currently running at a loss<sup>1</sup>.

In addition, Aged Care Financing Authority (ACFA) data released in July 2019 shows that residential aged care providers are experiencing a 5.3 percent increase in expenses each year, compared to their income, which is only increasing by 1.7 percent annually<sup>2</sup>. The funds simply do not exist for providers operating in regional and remote areas to increase wages or benefits to attract and retain appropriately skilled employees to these geographies. Removal of existing benefits will only serve to compound this.

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<sup>1</sup> [StewartBrown Aged Care Financial Performance Survey \(March 2019\)](#)

<sup>2</sup> [ACFA Annual Report on funding and financing of the aged care sector \(2019\)](#)

### **Recommendation on employee-sourced and employer-provided housing**

UnitingCare requests that the Productivity Commission recommend in its final report that Public Benevolent Institution providers of aged care and community services be exempt from the Productivity Commission's proposed changes to both employee-sourced remote area housing, and employer-provided housing (remote area benefit), as outlined above.

UnitingCare Queensland, Blue Care and ARRCs thank the Productivity Commission for the opportunity to provide feedback on the Draft Report and welcome the opportunity to engage in future discussion and consultation as the Commission's work in this area continues.

**-END OF SUBMISSION-**

For further information, please contact:

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