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Remote Area Tax Concessions and Payments
Productivity Commission
GPO Box 1428, Canberra City, ACT 2601

Online: www.pc.gov.au/remote-tax

Dear Sir/ Madam

Remote Area Tax Concessions and Payments Issues Paper

CPA Australia represents the diverse interests of 164,000 members working in 150 countries and regions around the world. We make this submission on behalf of our members and in the broader public interest.

CPA Australia supports the government's policies to maintain and grow sustainable populations and economies in remote Australia. Significant efforts have been made across all levels of government to implement a range of policies to support regional and remote Australia, however evaluation of the outcomes of this work remains limited.

In this context, CPA Australia argues that direct payments should align with contemporary policy objectives and be of sufficient value to impact the recipient and their community. The basis of the zone tax offset and remote area allowance payments should be re-evaluated given the improvements in technology, infrastructure and amenity. It may be more effective and efficient to replace these payments with an alternative payment or to divert the funding to existing programs and grants.

On the issues raised in the consultation paper, CPA Australia submits that:

1. The definition of remote areas is aligned across measures and references a methodology such as the Australian Statistical Geography Standard.
2. Fringe benefits tax provisions are retained where they maintain integrity with other provisions such as individual income tax.
3. Consideration be given to the relevance of the zone tax offset and remote area allowance in contemporary Australia, whether they should continue to be made through the tax system and whether these payments should be unified and increased, or repealed and replaced with an alternative policy to support regional Australia. Regarding design principles, CPA Australia prefers

that direct transfer payments not be made through the tax system nor administered by the Australian Taxation Office as this adds unnecessary complexity.

4. Alternative policies that promote higher salaries or improved job opportunities are sought to attract and retain the right talent in remote areas, rather than HELP debt forgiveness.

CPA Australia's comments on the questions raised on the remote area tax concessions and payments in the issues paper are in the enclosed Attachment.

If you have any queries do not hesitate to contact Gavan Ord, Manager Business and Investment Policy at CPA Australia .

Yours sincerely

Dr Gary Pflugrath CPA
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CPA Australia

Encl.

Remote Area Tax Concessions and Payments

CPA Australia supports policies that support the sustainability of Australia's remote and rural areas and is of the view that the government's commitment to maintaining a viable and socio-economically healthy population across the country is an important policy platform.

There is a wide range of mechanisms by which support to regional and remote Australia can be provided and this review of remote area tax concessions and payments needs to be placed in this context.

Having said that, Carson, et al (2010) found that the factors that motivate individuals to locate to rural and remote areas were distinct from urban areas due to lifestyle preferences and attitudes toward the value of their job or their financial ambitions - factors not necessarily linked to government policy.

This was recognised in the [*Our North, Our Future White Paper*](#) (Australian Government, 2015), which stated:

"Governments' role is to create successful business environments, not successful businesses. This is best achieved through prudent economic policies, the right infrastructure to get things moving, regulation that minimises costs on business, a workforce with the right skills, and basic research necessary for business to identify opportunities in the north" (p.2).

Research on tax incentives and employment, while not directly comparable to the remote area tax concessions and payments, suggests that there is minimal to no evidence that such policies are effective over the long-term (Ranchhod & Finn, 2016; Kala, 2000; Jensen, 2017; Billings, 2009).

The Grattan Institute (2019) notes the agglomeration benefits of urban environments and observes that industry subsidies or relocation efforts have not been effective historically.

Against these outcomes, the use of tax concessions and payments to individuals to support living costs in remote areas is likely of marginal relevance to these contemporary discussions where the focus is on population growth, economic development, private investment and engaged communities.

Further, as identified in the Issues Paper, the original reasons for the policy have been somewhat mitigated by improvements in technology, infrastructure and amenities. The very high cost of property in urban areas has also reduced the difference in overall living costs.

It is important to note that CPA Australia's public practitioner members in regional Australia have also advised that the current government incentives are important in supporting the employment of tertiary educated and highly qualified staff. This is because their firm's revenue bases are usually smaller due to lower average incomes of the residents, and so their ability to attract staff from metropolitan areas is partially dependent on these incentives. Members also have made the point strongly that the current incentive amounts are insufficient as they were established many years ago and have never been indexed.

We submit the following recommendations for consideration and provide responses to a number of questions posed in the Issues Paper.

In relation to fringe benefits tax, CPA Australia recommends:

- Retaining the FBT concessions and exemptions where they maintain integrity with other tax provisions (e.g. deductibility of work-related expenses) and expenditure is required for the employee to perform his/her duties.
- Aligning the definition of remote areas with the ABS Australian Statistical Geography Standard and removing the 1981 Census reference point in the legislation.
- Reviewing the policy intent of the 'certain regional employers' provisions with a view to removing this classification on the basis of equity and efficiency.
- Collecting data from employers using the FBT concessions to update Tax Expenditures estimates in relation to these provisions.

In relation to the zone tax offset and remote area allowance, CPA Australia recommends:

- Re-evaluating the validity of the policy intent in the context of contemporary government policy and the basis of the payments (e.g. remoteness, climatic conditions).
- Replacing the zone tax offset with a direct transfer payment from an agency other than the Australian Taxation Office to reduce unnecessary complexity in the tax system.
- If retained:
 - Replacing the Zone A, Zone B and special area definitions with the remote and very remote areas according to the ABS Australian Statistical Geography Standard. - Merging the ZTO and RAA into a single direct transfer payment to ensure equitable outcomes based on existing policy intent and to reduce the complexity of the tax system.
 - Increasing the value of ZTO and RAA to match current prices.
- If replaced or changed:
 - Align to broader regional Australia development policy outcomes and better target intended recipients.
 - Assess new policies against the existing framework of programs and grants to target gaps.
 - Ensure any payments are of sufficient value to impact the resident or the community.

Additionally, CPA Australia recommends:

- Government policies to attract employees to remote areas, focused on improving salaries and opportunities of the talent required, rather than HELP debt forgiveness, as the talent required may be highly experienced and therefore may not have a HELP debt.

- Maintaining a federal government policy focus on sustaining communities and building opportunities in regional and remote Australia through effective programs, payments and grants.

Options for revising current arrangements

1. What you consider to be the policy objectives of the ZTO, FBT remote area tax concessions and Remote Area Allowance, respectively, and
2. Whether these remote area tax concessions and payments are delivering on their policy objectives (including any quantitative evidence)

Fringe benefits tax (FBT)

The *Fringe Benefits Tax Assessment Bill* was introduced in 1986 to apply tax to the value of benefits provided to an employee or an employee's associates (typically, the employee's spouse or children) by an employer in respect of the employee's employment activities¹.

A range of exemptions and concessions were included to acknowledge the nature of certain employees' employment or to limit tax on reasonable amounts expended to compensate for additional expenses or disadvantages suffered by the employee for having to live away from their home in order to perform duties for their employer.

To that end, the FBT concessions were not intended as incentives to encourage remote area employment, but rather were an acknowledgement that particular forms of employment would necessitate certain costs which were not a 'benefit' to the employee but would have otherwise been taxable under the *Fringe Benefits Tax Assessment Act 1986*² (*FBTAA*).

Fringe benefits tax – remote areas

The FBT provisions specific to remote areas are contained in the *FBTAA* and are mainly related to housing. The definition of a remote area is determined by the population as at the 1981 Census, its classification for the zone tax offset and a number of distance-population parameters. There is a separate provision for certain regional employers which gives greater concessions to these entities – public services/government, charities and hospitals.

The use of 1981 Census data to define remote areas does not acknowledge the 66 per cent Australian population growth since that time³ or improvements in transport and technological infrastructure, nor does it align with statistical methodologies such as the ABS's Australian Statistical Geography Standard.

¹ [Explanatory Memoranda Fringe Benefits Tax Assessment Bill 1986](#), Commonwealth of Australia

² <https://www.legislation.gov.au/Details/C2014C00048>

³ ABS, Table 1, [3101.0 - Australian Demographic Statistics, Sep 2018](#), March 2019

While the ATO is currently reviewing its published list of remote areas⁴, it is bound by the definitions contained within the legislation which are not aligned with contemporary statistical boundaries.

Further, the provision for 'certain regional employers' creates a subsidy favouring public servants, health professionals and charity workers in areas which would otherwise not be classified as remote. This includes all of the Northern Territory and Tasmania which now have inner regional populations of 148,000 and 359,000 respectively. Feedback from members indicates that this may make it more challenging for local employers to compete for employees in their remote or regional areas within the Northern Territory and Tasmania.

Fringe benefits tax – remote areas and fly-in, fly-out

The most visible examples of fly-in, fly-out (FIFO) employment are in mining where the decision to offer FIFO employment arrangements is driven by the need for workers to operate in locations where there is an insufficient supply of appropriate local labour. Other dominant industry examples include healthcare and government services. The comparatively high levels of remuneration are a primary incentive for workers, especially for those who may not find comparable wages given their level of skills and education (Misan & Rudnik, 2015), with employers funding the cost of travel and accommodation without the imposition of fringe benefits tax.

The itinerant nature of parts of the remote area workforce suggests that employees will generally not intend to relocate permanently and that employers facilitate their presence in remote areas by providing suitable accommodation and transport. When there is the predictable downturn in economic activity (e.g. fall in iron ore prices or the mine is exhausted), these workers will naturally shift to other locations to pursue alternative employment.

The remote area housing benefit FBT exemption applies to employer-provided accommodation in remote areas, regardless of whether the employee is a FIFO or regular employee. The travel to and from the place of employment is also an exempt residual fringe benefit .

While it could be argued that there is a disincentive for employees to seek permanent accommodation in remote areas due to the difference between the remote area housing benefits (full exemption) and housing assistance (50 per cent reduction in taxable value), subsection 58ZC(2)(d) is intended to restrict the exemption to those employees who are unlikely to remain or be able to find suitable accommodation.

The FBT provisions related to living away from home allowances fringe benefits for FIFO and drive-in, drive-out (DIDO) workers are not constrained by remote area definitions (sections 31A and 31E, *Fringe Benefits Tax Assessment Act 1986*). The taxable value provisions allow reduction of the fringe benefit to be reduced by any exempt accommodation and/or food component.

The House of Representatives Standing Committee on Regional Australia found that “*the subsidisation of FIFO/DIDO work practices through taxation concessions to mining corporations distorts the capacity*

⁴ ATO, [Do your employees live in a remote area?](#), 3 December 2018

of workers to make the choice to live and work in regional communities and in fact encourages the practice” (2013, p. vii)⁵.

While presented as a subsidy, the FBT concessions and exemptions reduce or eliminate the fringe benefits tax burden on corporations in relation to their labour costs where accommodation and travel are necessary for employees to perform their role. The fact that industries such as mining, charities, public services and health appear to be the largest beneficiaries reflects the reality that these entities are those that operate on a large scale in remote areas and that are generally forced to bring employees who normally reside in urban areas.

Depending on the circumstances, if the amounts were paid to the employee as part of their remuneration instead, they may be deductible given the work-related nature of the expenses thereby negating any impact on government revenue⁶.

While the economic benefits of these employment models to the remote area and its community in the long-term are arguable, the FBT provisions (or changes thereto) are unlikely to drive changes in investment or labour choices.

Zone tax offset and remote area allowance

The zone tax offset was introduced to recognise the disadvantages that residents in certain parts of Australia were subjected to because of the uncongenial climatic conditions, isolation and high cost of living in comparison with other parts of Australia. The remote area allowance was introduced to ensure that those on government transfer payments also received the same benefits.

These payments were not intended to address issues of disadvantage or need, but rather the presumption that living in remote areas would be permanently more costly and inconvenient.

However, some state governments monitor regional prices using various methods and there is some indication that price differentials are not as significant as might be assumed. For example, in Queensland, only Weipa (Special area A) had a substantially higher cost of living than Brisbane while Zone B areas such as Charters Towers, Ayr, Bowen and Longreach are more than 5 per cent lower⁷. In Western Australia, the Kimberley, Pilbara and Gascoyne had substantially higher overall prices but transport costs were broadly similar across the state⁸. Further, improvements in transport and technology means that climactic and distance impacts are not so large.

⁵ House of Representatives Select Committee on Regional Development and Decentralisation, [Regions at the Ready: Investing in Australia's Future](#), Canberra, 2018

⁶ For example see [Mining site employees: work-related expenses](#), ATO, June 2018

⁷ P.4, Queensland Government Statistician's Office, [Index of retail prices in Queensland regional centres 2015](#), Government of Queensland, 2016;

⁸ Department of Primary Industries and Regional Development, [Regional Price Index 2017](#), Government of Western Australia, 2018

A detailed analysis may also find that there are certain areas currently excluded from these payments where the costs of living or geographic distance impacts are commensurate with regions covered under Zones A and B.

As the price differential between remote and urban area costs decreases and the costs of urban living become increasingly difficult for those on low incomes, the policy basis of the programs may no longer be justified.

3. Whether the ZTO, FBT remote area tax concessions or RAA should be kept

Fringe benefits tax

The FBT remote area tax concessions should be kept, however data should be obtained from beneficiaries of the concession to determine the actual tax expenditure value and ensure compliance with the rules, given the current large order of magnitude estimates. The remote area definitions should be updated with a more rigorous statistical methodology, replacing the 1981 Census reference point.

Zone tax offset and remote area allowance

The ZTO and RAA cost approximately \$200 million per annum and are paid on the basis of remote area conditions commonly experienced 70 years ago. Significant improvements in standards of living and remote area accessibility bring into question the relevance of these payments today, and there may be a reasonable argument that the payments be repealed and replaced with an alternative policy which is more aligned with contemporary government policy.

If the ZTO is to be retained, we recommend that it be removed from the tax system and instead paid as a direct transfer payment similar to the RAA; and that the payment not be administered by the ATO. This would reduce unnecessary complexity in the tax system.

4. Ways to redesign the ZTO, FBT remote area tax concessions and Remote Area Allowance (collectively or individually) so they are more efficient, equitable and simple

Fringe benefits tax

Any redesign of the existing FBT provisions should be considered in the context of the regime being an integrity measure to ensure employers do not provide benefit to employees that would otherwise be taxable in their hands. Where the FBT tax concessions are a 'carve-out' on the basis that the amounts would be otherwise deductible by the employee, then there is no basis for alteration.

Where the FBT concession or exemption is made available in order to facilitate employment or business investment where it would otherwise not occur, then the provisions should be assessed in the context of the government's policy on regional and remote areas.

Zone tax offset and remote area allowance

The contemporary messages related to regional and rural Australia tend to reflect a focus on economic investment and community cohesion, rather than overcoming historical obstacles of geography and

climate. Therefore, remote area assistance programs should be evaluated in the current context which would likely require a redetermination of the established tax offset and remote area allowance zones with variables such as income, consumer prices, investment and employment given more weight.

Updating the design of existing payments

Given the identical intent of the zone tax offset and remote area allowance, they should cover the same geographic areas and provide the same financial amount. The current settings do not achieve this.

Parity between the remote area allowance and zone tax offset requires consideration of:

- the elimination of the Zone B zone tax offset of \$57 per year,
- merging the Zone A and special areas into a single zone tax offset category, and
- aligning the Zone A definitions for the remote area allowance and zone tax offset.

The zone categories should be revised based on statistical methods such as the ABS's Australian Statistical Geography Standard and should align with zone and area definitions used in other parts of tax legislation and preferably across federal legislation.

5. The anticipated benefits, costs and implementation issues associated with proposed reform options.

The costs of any reform will be dependent on the final design of the payments and there is limited publicly available data on the current costs.

Fringe benefits tax

CPA Australia suggests that further data be collected on the FBT concessions and exemptions to assess the cost of any changes to these provisions, adjusting for amounts that would be deductible if paid by the employee and compensated through salary or allowance payments. The costing should also include the potential for reduced business investment or employment should the FBT provisions be changed.

ZTO and RAA payments

Direct payments would cost \$623 million assuming a scenario where:

- a single payment replaces the ZTO and RAA,
- adjusted to March 2019 CPI Index value, and
 - Zone A payment made to remote residents per the Australian Statistical Geography Standard, and
 - Special area payment made to very remote residents per the Australian Statistical Geography Standard.

Recipients of Zone B payments will lose \$57 per annum while some current Zone A residents may no longer fall under the updated definitions. There may be some movement between Special Area and Zone A definitions for some residents.

The benefits would include more targeted payments of increased value to residents in statistically identified remote and very remote areas.

Alternative variations include restricting the payment to residents in very remote areas given the improvements in cost and quality of living in remote areas, or to shift the policy focus towards support for low-income residents and restrict payments to those receiving social security or who earn below a particular income amount.

Specific questions

- **Should the ZTO special area boundaries be redrawn to reflect contemporary settlement patterns?**

Yes. Further, the boundaries for all Zone Tax Offset areas should be redrawn and aligned with the Remote Area Allowance areas. A methodology such as that used by the ABS⁹ would identify around 500,000 residents living in remote and very remote Australia in 2017-18¹⁰.

If the ABS definition of 'remote' is used, the number of recipients would be reduced by around 100,000¹¹ and would enable the value of the payments to be increased.

- **Are there criteria that would help better target assistance in line with whatever objectives are deemed appropriate for remote area support?**

Contemporary objectives of investment, employment and community cohesion do not necessarily align with the original intent of the zone tax offset and remote area allowance.

The direct payments to residents arguably support spending on goods and services in the area, enabling a higher level of economic activity than would otherwise occur. It also provides a subsidy for travel and other fixed costs that arise with residing in remote locations.

However, evidence to justify the need for such payment and its effectiveness in achieving those goals is limited.

There are also a range of other government programs and grants that support the broader regional development objectives.

Criteria that could be considered include:

- Direct payments should target gaps in the existing funding framework across federal, state and local government.
- Payments should be targeted at those for whom it will have the greatest effect.
- The value of payments should be sufficient to have a positive effect on either the resident or his/her community.
- **Should larger regional centres continue to be included in the arrangements?**

Possibly. Again, depending on the intent of government policy, it may remain beneficial to maintain payments to residents in larger regional centres. However, there may be limited evidence to support

⁹ See the Accessibility and Remoteness Index of Australia in the Australian Statistical Geography Standard. ABS, [1270.0.55.005 - Australian Statistical Geography Standard \(ASGS\): Volume 5 - Remoteness Structure, July 2016](#), 16 March 2018

¹⁰ ABS, [3218.0 - Regional Population Growth, Australia, 2017-18](#), 27 March 2019

¹¹ Approximate current number is 487,000 zone tax offset and 105,000 remote area allowance claimants. P.4, Productivity Commission, Remote Area Tax Concessions and Payments Issues Paper

retaining this policy if the basis of this is comparative cost of living given the equal or lower costs in these centres compared to urban areas.

- **Should the payment levels be changed, indexed, and/or means tested?**

In nominal terms, the current payment levels amounts are very small, especially the Zone B payment which is negligible. The rate and mechanism by which increases might be calculated will depend on the purpose, design and value of future payments.

- **Given that the RAA was introduced as a companion payment to the ZTO, should eligibility and payment rates be amended to address eligibility anomalies between ZTO and RAA?**

Yes. If retained, the value of the payment to recipient should be the same regardless of whether it is claimed via the zone tax offset or the remote area allowance.

- **Is there scope to rationalise the three arrangements into one payment for people in remote areas?**

Partly. The zone tax offset and remote area allowance can be rationalised into a single transfer payment to people in remote areas. This enables efficient administration, consistent outcomes and reduces tax complexity.

The FBT provisions are fundamentally different and are not a payment to people living in remote areas per se. These should be considered separately and viewed as integrity measures rather than a direct transfer.

- **Should businesses in remote areas be provided with ZTO-like support?**

State governments have established regional development programs to address infrastructure and business investment objectives, albeit with limited evaluation of outcomes and mixed views on their success.

The Federal government provides a range of grants, services and employer assistance programs to support business and capital investment in regional areas. There are also regional visas available for sponsored migration.

There are also specific programs and forms of assistance for those involved in agriculture and primary production which are predominantly located in remote and rural areas.

These are in addition to local government, small business and industry-specific concessions already available to incentivise Australian businesses.

It is more worthwhile to provide additional funding to effective models and programs in operation. Therefore, a comprehensive review of all regional assistance programs, their cost and effectiveness should be undertaken before recommending another tax concession or transfer payment in lieu of enhancing existing policies.

- **Are there alternative mechanisms to more directly support Australians residing in specified geographic areas?**

The tendency of governments to implement policy via tax expenditures, rather than through departmental spending, creates a complex and opaque tax system with limited ability to evaluate outcomes or monitor the impact on government revenue over time.

The cost to government of such concessions reduces the opportunity to provide alternative incentives to live in regional communities which would more directly support government goals such as cohesive communities, developing capabilities, improving infrastructure and private investment.

It is CPA Australia's preference that remote area programs are delivered through direct spending rather than tax expenditures, enabling flexibility and adaptability. Where the government wishes to provide income support to remote area residents, this should be done through the transfer system as a single payment.

- **Would the forgone revenue and expenditure from the tax concessions and payments be better allocated to State and Territory governments to provide additional funding for their regional development programs?**

The report *Regions at the Ready: Investing in Australia's Future* (2018) found:

Collaborative investment – by the three tiers of government, private sector and community groups – and improving the amenity of rural and regional towns is needed to attract and retain people in regional areas. (p.xxvi).

There was also strong emphasis on the role of the Regional Development Authority in developing strategies and facilitating appropriate investment in regional areas. As such, a multi-tiered approach to remote and regional development should be considered and the expenditure should not necessarily simply default to State and Territory governments.

However, successful implementation requires a singular policy direction around which governments can build sensible fiscal policies to appropriately incentivise, support and evaluate defined outcomes. There is the risk that a costly patchwork of incentives and grants may not lead to the desired results.

- **Should the Government seek to attract graduates possessing in-demand skills to regional areas by forgiving their HELP debts?**

No. A policy such as HELP debt forgiveness distorts the labour market by increasing supply of graduates with recently accrued tertiary education debts, but who may not have the professional experience or skill levels required to build human capital in regional areas.

As such, regional areas do not – as a rule – require recently graduated employees but rather need those with experience, tested skills and a commitment to the community, often linked to their personal lifestyle choices.

To attract talented, experienced and high-quality employees, government policy should focus on policies that promote increasing salaries, facilitate movement of labour between urban and regional areas, and improve local services and amenities.

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