



Department of  
**Primary Industries and  
Regional Development**

# **GOVERNMENT OF WESTERN AUSTRALIA'S RESPONSE TO THE PRODUCTIVITY COMMISSION: DRAFT REPORT INTO THE REVIEW OF REMOTE AREA TAX CONCESSIONS AND PAYMENTS**

**OCTOBER 2019**

## Contents

<b>1. Executive Summary .....</b>	<b>1</b>
<b>2. Comments On Draft Findings And Recommendations.....</b>	<b>3</b>
Draft Finding 2.1 .....	3
Draft Finding 2.2 .....	3
Draft Finding 2.3 .....	3
Draft Finding 2.4 .....	5
Draft Finding 3.1 .....	5
Draft Finding 4.1 .....	5
Draft Finding 4.2 .....	5
Draft Finding 5.1 .....	6
Draft Recommendation 5.1 - Abolish Zone And Overseas Forces Tax Offsets.....	6
Draft Finding 5.2 .....	7
Draft Finding 6.1 .....	7
Draft Recommendation 6.1 - Adjust RAA Boundaries .....	7
Draft Finding 6.2 .....	7
Draft Recommendation 6.2 - Review RAA Payment Rates Periodically.....	8
Draft Finding 7. 1 .....	8
Draft Finding 7.2 .....	8
Draft Recommendation 8.1 - Tighten Tax Treatment Of Employer-Provided Housing.....	9
Draft Recommendation 8.2 - Remove Concession For Employee-Sourced Housing .....	10
Draft Recommendation 8.3 - Tighten Tax Treatment Of Other Goods And Services.....	10
<b>3. Information Requested .....</b>	<b>11</b>
Information Request 1 .....	11
Information Request 2 .....	11
Information Request 3 .....	12
Information Request 4 .....	12
Information Request 5 .....	13
Information Request 6 .....	14

## 1. Executive Summary

This response addresses the main issues identified by the Productivity Commission (Commission) in its Draft Report of August 2019. Please also refer to the Government of Western Australia's (WA) submission to the Issues Paper, and discussions with the Commission, in May 2019.

The Government of WA is very concerned that removing concessions to Fringe Benefits Tax (FBT) is contrary to the policy objective of supporting regional development. It would be expected to adversely impact wages and employment decisions and reduce incentives for employer investment in remote areas. Addressing the disadvantages of remoteness and the benefits generally of encouraging population and productivity growth in our regional areas are as important today as when the concessions were introduced. The tax concessions play a significant role in stimulating growth in regional Australia. Any cessation of this support may have far-reaching adverse consequences.

The Commonwealth Government has a key role in regional development including in relation to infrastructure and removing impediments to economic development. The FBT concessions provide very effective support for these objectives and the Commission's analysis supports the conclusion that this occurs at a relatively low cost when compared to many other regional initiatives. The Commission has not suggested alternatives that could do this more effectively, nor how the withdrawal of this cash-flow from the regions could be repatriated. Conversely, adopting the recommendations would involve significant cost and disadvantages, much of which would be borne by individuals rather than employers. In particular, withdrawing concessional tax treatment for individuals could adversely alter their economic position and financial health, creating personal hardship and potentially impacting their decisions to live and work in regional Australia.

The Commission's draft recommendations do not sufficiently acknowledge that regional growth plays an important role in economic production as an enabler to the majority of Australian export industries.<sup>1</sup> The Commonwealth remote area concessions can deliver a worthwhile national economic benefit, provided they are well targeted and of meaningful value to those who would benefit from them. Concessions that stimulate employer investment in infrastructure directly relieve government of some of this burden. Improving social conditions also indirectly promotes population growth and stimulates the development of infrastructure.

The Government of WA supports the objective of ensuring the Zone Tax Offset (ZTO), the FBT remote area concessions and the Remote Area Allowance (Commonwealth remote area concessions) have clear policy objectives and assist regional development. This is particularly vital in light of the State's Our Priorities: Sharing Prosperity target of creating 30,000 regional jobs by 2023-24.

However, the case for change has not been sufficiently prosecuted and given the concerns outlined above, the Government of WA urges the Commission to reconsider its recommendations regarding the removal of FBT concessions and ZTOs. Considerable costs, disadvantages and disincentives would arise, with a material adverse impact on regional communities and significant industries. Indeed, the

Government of WA considers that the Commission should investigate extending FBT concessions to provide greater support and assistance.

Any consideration of adopting the FBT recommendations must also take into account the impact on current recipients, including those with commitments to long-term mortgages based on existing salary-sacrifice arrangements. Changes to the FBT concessions could result in severe adverse economic conditions for these recipients.

If the FBT recommendations are adopted, consideration should be given to grandfathering current recipients to protect individuals in existing salary sacrifice arrangements, including long term mortgages, from unplanned adverse consequences.

The Government of WA also has concerns that, although the Commission has made strong draft recommendations, it is doing so using an evidence base that is still under development (see Information Requests). WA has provided data in its response to improve this evidence base.

More detailed comments and responses are provided herein.

## 2. Comments on Draft Findings and Recommendations

The Government of Western Australia makes the following comments in response to the Commission's draft findings.

### **The broader context**

#### **DRAFT FINDING 2.1**

*"The broader context for remote area tax concessions has changed considerably since their introduction in 1945. Technological advances have helped lessen the hardships of life in remote parts of Australia. Some areas once considered isolated, such as Cairns and Darwin which are now home to international airports and populations exceeding 100 000 people, can no longer reasonably be considered remote."*

**Response:** Agree

#### **DRAFT FINDING 2.2**

*"Among the 2 per cent of Australians who live in remote areas, Indigenous Australians constitute 28 per cent of the population. There are large differences in income and employment outcomes between the Indigenous and the non-Indigenous population. Indigenous Australians in remote areas are also significantly less likely to relocate compared with their non-Indigenous counterparts."*

**Response:** Agree

#### **DRAFT FINDING 2.3**

*"There is some evidence that the cost of living increases with remoteness."*

**Response:** We do not agree that there is "some" evidence. The evidence in this regard is considerable. There is clear evidence that the cost of living in regional areas is higher than in the metropolitan areas.

WA prepares a Regional Price Index (RPI) biennially comparing the cost of a common basket of goods and services at a number of regional locations to the Perth metropolitan region (noting that this data was provided as part of WA's submission).

The RPI is used as one component for calculating the District Allowance for public sector employees in regional Western Australia and by the private sector to assist in setting regional wages and salaries.

The most recently published RPI (2017) evidences the increased cost of goods and services in regional locations relative to Perth, with the highest prices in the most remote areas being the Kimberley, Pilbara and Gascoyne regions. For example, the RPI shows that housing costs (e.g. rates, rents, utilities) in the Pilbara region are around 20.6 per cent higher compared with Perth. This equates to an additional annual expense of \$4,329.<sup>2</sup>

The cost of housing is an element with significant weighting in the index (22.7 per cent of expenditure in the 17<sup>th</sup> series CPI weighting pattern introduced in the December quarter 2017).<sup>3</sup>

The lower cost of housing in some regional areas can offset the higher costs in other categories of expenditure. However, it is important to recognise the differences in the underlying data sets. For example, there are fewer new dwellings constructed by owner-occupiers in regional areas as the cost is often prohibitive, with the result that the quality of accommodation may not be comparable to the equivalent in the city data set.

The remote areas in the north of Western Australia also suffer from the danger, cost and inconvenience of the annual cyclone season, which runs from mid-December to April. The Pilbara coast experiences more cyclones than any other part of Australia.<sup>4</sup>

It is noteworthy that the Commonwealth Grants Commission (CGC) recognises that the cost of providing State services increases with remoteness.<sup>5</sup> It redistributes a substantial amount of GST between the States as a result.

The CGC has previously measured the cost of remoteness for schools and police, using the Australian Bureau of Statistics (ABS) definitions of remoteness. The CGC assessed the following costs per unit of service, relative to major cities.

	<b>Inner Regional</b>	<b>Outer Regional</b>	<b>Remote</b>	<b>Very Remote</b>
Schools	+3.7%	+17.9%	+57.1%	+67.9%
Police	+7.3%	+24.8%	+31.7%	+60.7%

These relative costs reflect national average experience, as measured by Australian Curriculum, Assessment and Reporting Authority data and State-provided police data. The CGC is currently considering updating these costs and collecting data for more services.

Although the schools and police data show substantial increases in costs from remoteness, the CGC allowances are still generally inadequate for Western Australia, because the impact of distance is truncated, and additional costs are not recognised for very small communities, harsh environments and varying remoteness within the 'remote' and 'very remote' classifications. For example, the methods currently assume remote and very remote locations in Tasmania attract the same higher costs as remote and very remote locations in Western Australia.

Western Australia also suffers a comparatively smaller population across a considerably larger geographical footprint than other States, and is very isolated from other capital cities.

Even with additional incentives in place to counter the harshness of living in remote areas of Western Australia, it remains difficult for business and government agencies to attract workers. For example, in 2017-18, 19 per cent of agency nursing requests from the Western Australian Country Health Service went unfilled.

As well as the additional costs described above, the CGC also allows for diseconomies of scale in remote areas. For example, when taking account of all regional costs, including demand for services, Western Australian Police data from June 2019 shows

that the overall rate of crime per 100,000 residents in the Kimberley is more than 360 per cent greater than Perth. The Pilbara overall rate of crime is 20 per cent higher than the Perth rate. Higher numbers of sworn officers would therefore be required to police these areas to the same standard as the Perth metropolitan area.<sup>6</sup>

The cost of regional airfares is also a significant consideration to the cost of living outside of Australia's capital cities, as evidenced by recent Parliamentary inquiries.<sup>7</sup>

#### **DRAFT FINDING 2.4**

*“Although life in remote Australia has a unique set of challenges, many Australians choose to live there because of the pace and quality of remote life, or because of close personal or cultural attachments to places or to communities. Others move to remote areas in pursuit of economic opportunity.”*

**Response:** Agree

#### **DRAFT FINDING 3.1**

*“Remote area tax concessions and payments form just one small part of the broad suite of measures put in place by all levels of government to support individuals, businesses and communities and to facilitate development in regional and remote Australia.”*

**Response:** It would be preferable to more accurately quantify this. Further comments are made in relation to Information Request 1 below.

---

### **The Zone Tax Offset**

#### **DRAFT FINDING 4.1**

*“The remoteness areas published by the Australian Bureau of Statistics would be a more suitable basis for defining zone tax offset boundaries. They are widely used, including by State governments and the Commonwealth Grants Commission, and are updated after each census using a transparent and well-understood methodology.”*

**Response:** Agree in-principle, however areas currently not classified as remote or very remote by the ABS but that are completely surrounded by remote or very remote areas should also be eligible as costs in these areas are, in general, higher than in other non-remote areas (see Information Request 5).

#### **DRAFT FINDING 4.2**

*“The zone tax offset (ZTO) is flawed and outdated.*

- *Eligibility has not kept up with change in remote Australia, and nearly half of ZTO claimants live in large coastal regional centres.*
- *Inflation and growth in wages have substantially eroded the value of the ZTO. The economic and employment impacts of the concession are likely to be small, and there is no evidence to suggest that the ZTO currently affects where people choose to live and work.”*

**Response:** We agree eligibility has not kept up with change in remote Australia. While it is also acknowledged the economic and employment impacts of the concession are likely to be small, the purpose of the ZTO is to address the higher tax that residents may need to pay due to wages reflecting the cost disadvantages that arise in remote Australia.

#### **DRAFT FINDING 5.1**

*“There is no compelling justification for a zone tax offset in contemporary Australia. Higher living costs or other aspects of life in remote areas do not warrant compensation from other taxpayers. Australians face a range of advantages and disadvantages in where they live, and will typically locate in the area they value most highly.*

*Communities likewise grow or shrink based on their advantages and disadvantages. Attempts by governments to artificially create an advantage for a remote community, or attract people to live in high cost areas through tax concessions, typically result in net losses to the broader Australian community.”*

**Response:** We disagree. Regional development has always been considered a valid national policy objective, with benefits to the broader population from the support this provides to important industries. Cross-subsidisation is a facet of every part of the tax transfer system and does not negate the appropriateness of supporting a valid and relevant policy.

#### **DRAFT RECOMMENDATION 5.1 - ABOLISH ZONE AND OVERSEAS FORCES TAX OFFSETS**

*“The Australian Government should abolish the zone tax offset and the overseas forces tax offset.”*

**Response:** We disagree. There remain good policy reasons to provide assistance with the additional costs of remoteness and it is appropriate for individuals to be directly compensated without relying on their employer.

In explaining why the ZTO is not justified, the Commission compares the principle of compensating for additional costs with the idea of a tax concession for expensive urban areas like inner Sydney, which clearly would not be supported. This is not a reasonable comparison. The employment opportunities, lifestyle and access to public and private facilities in an expensive urban area make these areas highly sought after and this competition increases the cost of property. This is quite different to unavoidable increases in the essential costs of living in remote areas, particularly when a family house in a remote regional location could cost up to almost double the price of an equivalent house in the Perth metropolitan area.<sup>8</sup>

The level of compensation should be more than nominal to genuinely support decisions about living and working in remote areas. It should also be more appropriately targeted to reflect the underlying objectives.

Means testing may also be appropriate to ensure assistance is directed to those most in need. It may be appropriate to limit eligibility to those on certain tax bands, e.g. certain other income tax concessions are limited to those earning under \$180,000.



We would support revising the eligibility for the ZTO to more appropriately reflect the regions now considered remote. Considerations for defining what is “remote” are discussed further below under Information Request 5, including consideration of using the ABS’s approach.

#### **DRAFT FINDING 5.2**

*“There is no case for the Government to provide company tax offsets specifically to businesses in remote areas. Governments should focus on creating successful business environments regardless of their location.”*

**Response:** We disagree. Regional policy development remains a valid and appropriate national policy objective. However rather than introducing additional complexity via a new corporate tax mechanism, it would be more effective to extend the existing concessions and reduce their complexity.

---

### **The Remote Area Allowance**

#### **DRAFT FINDING 6.1**

*“Notable characteristics of the profile of remote area allowance recipients include that:*

- *most reside in very remote and remote areas of Australia (as defined by the Australian Bureau of Statistics)*
- *the majority are located in the Northern Territory, with one-in-five Northern Territorians over the age of 15 years in receipt of the payment*
- *half are located within areas of the highest socio-economic disadvantage*
- *almost 65 per cent of recipients are Indigenous Australians*
- *just over half have been in receipt of an income support payment for over five years.”*

**Response:** Agree

#### **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.”*

**Response:** Agree in-principle, however areas currently not classified as remote or very remote by the ABS but that are completely surrounded by remote or very remote areas should also be eligible as costs in these areas are, in general, higher than in other non-remote areas.

#### **DRAFT FINDING 6.2**

*“There is a rationale for a remote area allowance to address cost of living differences affecting income support recipients in remote Australia.”*

**Response:** Agree

### **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.”*

**Response:** Agree

---

### **Fringe Benefits Tax remote area concessions**

#### **DRAFT FINDING 7. 1**

*“The use and economic effects of fringe benefits tax (FBT) remote area concessions vary.*

- The exemption for employer-provided housing (used as a usual place of residence) can provide significant value at the employee level, particularly for higher-income employees, and could cost as much as \$430 million per year in forgone FBT revenue nationally. Usage is concentrated in certain areas — such as the Pilbara in Western Australia, and the Central Highlands and Bowen Basin in Queensland — and in industries such as mining, agriculture, and public services (including hospitals, police, and local government).*
- The partial concessions on employee-sourced housing are narrowly used. The 50 per cent concession is much less generous than the full exemption on employer-provided housing, and the compliance burdens are higher.*
- Use of other FBT remote area concessions (on residential fuel, meals for primary production employees and holiday transport) is minimal, in part because they provide limited tax savings and are overly complex with high compliance costs.*
- FBT concessions for fly-in fly-out workers, while widely used, are likely to have only a minor influence on decisions to maintain a fly-in fly-out workforce.”*

**Response:** Agree, noting the estimated cost of \$430 million in foregone FBT revenue is the higher end of the range estimated by the Commission and could be much lower at \$210 million. We have provided comments on the methodology which could further affect these estimates (see Information Request 2).

We also note the significant economic and social contributions of the mining, agriculture and public services industries, and the important role played by FIFO in WA.

#### **DRAFT FINDING 7.2**

*“Fringe benefits tax remote area concessions help to address inequities inherent in the FBT regime, but they are not fit for purpose. The current concessions are overly generous and complex, thereby creating other inequities.”*

**Response:** We agree the provisions are overly complex. We do not agree they are overly generous and not fit for purpose. This conclusion appears to be based on the value individual employees may derive. This should not be considered without taking into account the reasons it is appropriate to provide this assistance.

Furthermore, the concessions do not merely address inequities in the FBT arrangements. Given that regional development is a valid policy objective, it is consistent to have targeted assistance that encourages the development of infrastructure and helps attract talent in areas where there are severe shortages.

Concessions for employer-provided housing encourage investment in housing stock and can influence the property market for the benefit of an entire community.

There are also very significant concerns with the flow-on consequences on individuals and communities if existing concessions were removed or substantially reduced. As most of the benefit of the concessions flows through to individuals through salary sacrifice arrangements, individuals would also bear most of the cost unless the organisation increases the employees' income to compensate or the cost is met by the employer.

Consideration must also be paid to cyclical fluctuations in regional economies that are reliant on mining, and the affects this has on employment, business confidence, and local housing stock and prices (for example, over 65 per cent of dwellings in the Pilbara are rented properties). Current FBT concessions play a crucial role in helping dampen the impacts of these cycles.

At a time when there are already increasing concerns about skill shortages in mining and related industries, creating additional disincentives to work in remote areas is of concern. This could adversely affect remote local communities, including through negatively influencing property markets.

#### **DRAFT RECOMMENDATION 8.1 - TIGHTEN TAX TREATMENT OF EMPLOYER-PROVIDED HOUSING**

*“The Australian Government should amend the Fringe Benefits Tax Assessment Act 1986 (Commonwealth) 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)).”*

**Response:** We strongly disagree. It remains an appropriate national policy direction for employers to be incentivised to contribute to regional development, to encourage investment and decisions that must be made on a larger scale.

The remote area housing concessions encourage employers to develop housing ownership schemes that can increase the supply of housing by providing assistance

with deposits, mortgage funding, interest and rent reimbursements. Introducing a partial concession with additional conditions that minimise the scope to apply the concession would also increase complexity and compliance costs. This would significantly reduce the incentive to invest.

The Government of WA also uses current FBT concessions to assist providing housing for staff in remote areas. Reverting to 50 per cent concession for employer-provided housing would directly worsen the State's finances by tens of millions of dollars.

We strongly support the retention of the existing exemption in its current form.

#### **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)."*

**Response:** We strongly disagree. Incentivising housing apart from that owned or leased by an employer is equally necessary in remote areas. This allows for the potential that some employers, particularly smaller employers, cannot take on the additional cost or risk of investing in housing or the financial liability of a lease. Employees of these employers should not be disadvantaged.

While it would be preferred to reduce complexity and the costs of administration by making such housing assistance exempt from FBT, at a minimum the 50 per cent concessions should be retained.

#### **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)."*

**Response:** We disagree. These targeted concessions help to level the playing field in attracting and retaining talent in remote areas. They also address some of the specific disadvantages of increased cost of services and travel when on leave.

As these disadvantages do not arise in more highly populated areas, it should be acknowledged that there is a connection to the employee's work in the remote area. That is, they should not be regarded as entirely "private" expenses in the way they may otherwise be.

---

### 3. Information Requested

Please note that WA has procured EY Consultants to provide specialist advice on the appropriateness and effectiveness of current remote area tax concessions and payments, some of which is included below.

#### INFORMATION REQUEST 1

*"The Commission is seeking data (to augment the data used in this draft report) capable of supporting a comparison of the cost of living in different parts of Australia, particularly in relation to housing costs."*

**Response:** Please refer to WA's submission to the Commission's Issues Paper which included detailed information from the State's Regional Price Index, and EY's report Understanding the Financial Incentives for Fly-In, Fly-Out Versus Residential Workforces in the Pilbara.

#### INFORMATION REQUEST 2

*"The Commission invites feedback on its estimates of the utilisation of the FBT concessions. Are the Commission's assumptions plausible? If not, what alternative assumptions should apply? Are there other data that could assist in gauging the use of FBT concessions?"*

**Response:** The draft report states the results of the Commission's questionnaire to mining and agricultural businesses and local governments was used, together with case studies. 67 responses were received. Estimates of the number of employer-provided houses were based on 2016 ABS Census data. Surveys assessed the number of employees receiving remote area housing, where dwellings were located and why they were provided. In assessing the validity of the assumptions, it would be useful if a copy of the questionnaire was made available.

The methodology to exclude FIFO (temporary accommodation) should be considered in more detail. The assumption of two weeks on and two weeks off, plus six week's annual and sick leave, results in adjusting the number of FIFO workers by a factor of 0.44 to reflect the proportion of time spent on site. A further adjustment is made for shared accommodation.

The 0.44 factor overestimates off periods, with a factor of 0.6-0.7 being more realistic. Rotations of 3 weeks on, 1 week off, 6 weeks on 2 weeks off and 28 days on, 10 days off are more prevalent. Many industrial agreements permit annual leave provisions to be met via the payment of additional leave during off rotations, thereby not reducing the time spent on site for annual leave and sick leave may also arise while on site. Applying a higher factor would result in a higher number of employer-provided dwellings to FIFO and DIDO workers and hence a lower number to residential employees. This in turn would reduce the estimated cost of FBT foregone.

The Commission could seek to survey a sample of remote area employers and obtain actual data drawn from FBT returns ensuring the appropriate distinctions are made between the different categories of assistance (temporary/FIFO and permanent/residential). An extrapolation based on this more detailed and specific data would still require assumptions but would provide additional validation.

The valuation assumptions may also require consideration. The Commission uses an average market value of \$125 to \$200 per week (\$6,500 to \$10,400 per year).

The potential to survey agencies of State Governments should also be noted in order to seek more data. The Government of WA currently has thousands of employees in the regions residing in Government-owned dwellings. This (and other jurisdictions workforces) could prove a useful data source for further enquiries.

### **INFORMATION REQUEST 3**

*“Should the revised remote area concessions be considered ‘reportable’ or ‘excluded’ benefits? Are there additional compliance burdens from allocating these benefits to individual employees that justify excluding them? Are there any other factors that should be considered in implementing these changes?”*

**Response:** Remote area benefits should remain excluded (non-reportable) benefits. Their primary purpose is not to remunerate or reward employees but to counter some of the specific difficulties relating to working in a remote area. It is not appropriate for individuals to bear additional obligations such as FEE-HELP, Medicare Levy Surcharge or Child Support when the basis for the assistance is that it addresses additional costs and disadvantages.

### **INFORMATION REQUEST 4**

*“The Commission invites further information on the compliance burdens that could arise from this change in the FBT treatment of employer-provided housing, and on what could be done to reduce these burdens while addressing equity concerns.”  
[Referring to Draft Recommendation 8.3]*

**Response:** There are practical concerns with changing from an exemption to a concession. To arrive at a taxable value, costs will be incurred in undertaking valuations which have not historically been required. In some areas where there is little rental market there are significant practical difficulties in reaching a valuation.

An alternative may be to provide a deemed safe harbour valuation, though substantial analysis would be required to arrive at an appropriate figure or range of figures if varying by location.

Determining whether the requirement that it is “necessary” to provide accommodation can be met also adds complexity and cost. Being customary in the industry is an appropriate and less cumbersome test to apply. It will only be customary in an industry for housing assistance to be provided when this is an operational necessity. Removing the ground of being customary will clearly add to compliance burdens. If this occurs, clear guidance will need to be provided.

Similarly, the proposed revised concessions which would be limited to applying when there is an operational requirement would be difficult to apply in practice. The circumstances in which an operational requirement will be taken to exist will need to be clarified.

It is important to acknowledge the impact on individuals as well as employers. While employers meet the cost of FBT, this is often passed on to employees via salary sacrifice arrangements where this provides a better overall tax outcome to employees. The existing remote area concessions extend to mortgage interest and purchase assistance and the ability to salary sacrifice such expenses is likely to have influenced many individuals who have entered such arrangements.

Withdrawing concessional treatment could change the economic viability of a mortgage and create significant personal hardship. As highlighted above, indigenous and socio-economically disadvantaged individuals are disproportionately represented in remote and regional areas.

It is therefore essential that grandfathering is provided if the concessions are removed or reduced. At a minimum, any existing arrangements (rental agreements, mortgages and employer-provided housing for which there is an existing agreement) should remain eligible for concessional treatment.

A further alternative for the Commission to investigate may be to cap the total value of assistance an individual may receive in each category (e.g. housing, transport, utilities), to address the concerns of overly generous treatment and disproportionate benefit to high income earners.

#### **INFORMATION REQUEST 5**

*“How often should the FBT remote area boundaries be updated? Should the FBT remote area boundaries be decoupled from the ZTO boundaries? If so, how? Can the other eligibility rules for remote area concessions be improved sufficiently to make geographical boundaries redundant?”*

**Response:** To provide certainty for business investment and permit for long term decision making, planning and budgeting, it is necessary that the boundaries remain stable for a longer term period, ideally of up to twenty to thirty years.

It is helpful to establish clear boundaries between remote and non-remote areas. If adopting the ABS remoteness areas as the framework, we suggest towns classified as outer regional areas which are effectively surrounded by remote areas, should also be classified as remote for FBT purposes – Kalgoorlie being an excellent example. This is to ensure clarity from a planning perspective and avoid confusion where isolated towns have a different classification to the surrounding area. It also reflects the fact that such towns suffer the disadvantages of distance and isolation, despite having a slightly higher population base.

Any change from the existing definition would involve a period of adjustment and a reasonable transitional period should be allowed in acknowledgement of this. Given its isolation, Kalgoorlie’s eligibility for FBT concessions should not change.

## INFORMATION REQUEST 6

*“What impacts would the proposed changes to FBT remote area concessions (particularly for housing) have on the provision of key public services, such as health services, in remote areas?”*

**Response:** Please refer to WA’s response to Draft Recommendation 8.1.

---

<sup>1</sup> Appendix 1, p11, Government of WA May 2019 Submission to the Productivity Commission Review of Remote Areas Tax Concessions and Payments

<sup>2</sup> Assumes full wage is spent on the Consumer Price Index (CPI) basket of goods and services. Calculated based on the Perth CPI weight of 23 per cent for housing costs and the ABS Ordinary Full Time Adult Weekly Earnings for Western Australia of \$91,369 in November 2018.

<sup>3</sup> Australian Bureau of Statistics 2019, *6461.0 – Consumer Price Index: Concepts, Sources and Methods, 2018*, available at:

<<http://www.abs.gov.au/ausstats/abs@.nsf/Latestproducts/6461.0Main%20Features82018?opendocument&tabname=Summary&prodno=6461.0&issue=2018&num=&view=>>

<sup>4</sup> <http://www.bom.gov.au/cyclone/history/wa/roebourne.shtml>

<sup>5</sup> Commonwealth Grants Commission History of Regional Cost Assessment, <https://www.cgc.gov.au/sites/g/files/net5366/f/documents/Fiscal%20Equalisation/History%20of%20Selected%20Assessments/Fiscal%20Equalisation%20-%20History%20of%20the%20Regional%20Costs%20of%20the%20Regional%20Costs%20Assessment.docx>

<sup>6</sup> WA Police Force Monthly Crime Statistics, June 2019

<file:///C:/Users/gwood/Downloads/WA%20Police%20Force%20YTD%20Crime.pdf>

<sup>7</sup> Parliamentary Economics and Industry Standing Committee, Inquiry into regional airfares in Western Australia, 2017, <https://www.mediastatements.wa.gov.au/Pages/McGowan/2018/04/Regional-airfare-inquiry-recommendations-supported.aspx>

The Senate The Rural and Regional Affairs and Transport References Committee, 2019, <https://www.abc.net.au/news/2019-06-11/airline-price-gouging-airfare-tickets-cost-cabotage-charges/11197798>

<sup>8</sup> Note article refers to Fitzroy Valley as the example for remote,

<https://www.watoday.com.au/national/western-australia/wa-needs-remote-housing-national-infrastructure-body-wa-coroner-on-same-page-20190214-p50xwz.html>