

# Remote Area Tax Concessions and Payments

NT Opposition Position

October 2019

This is the Northern Territory Opposition's response to some of the key findings of the Productivity Commission's Draft Report of the inquiry into 'Remote Area Tax Concessions and Payments'.

The Territory Opposition welcomes the opportunity to participate in the inquiry into Remote Area Tax Concessions and Payments.

## Zone Tax Offsets (ZTO)

- Darwin and Alice Springs fall into Ordinary Zone A: \$338 a year base rate, plus 50 per cent of applicable dependant rebates.
- All other areas in the Territory are eligible for a Zone Tax Offset (ZTO) called Special areas: \$1173 a year base rate, plus 50 per cent of applicable dependant rebates.

ZTO rates have not increased since 1993-94, and the value of the offset to claimants has fallen significantly in real terms.<sup>1</sup>

According to the Bureau of Statistics consumer price index, today's prices in 2019 are 88.41% higher than average prices throughout 1993.

In other words, AU\$338 in 1993 is equivalent in purchasing power to about AU\$636.81 in 2019, a difference of AU\$298.81 over 26 years.

Instead of abolishing the Zone Tax Allowance, as is being proposed by the Productivity Commission in the Draft Report, the Territory Opposition believe that ZTO should be linked to inflation to maintain the real value of the offset. This is consistent with a position of seeking to develop Northern Australia as outlined in the White Paper on Northern Australia called 'OUR NORTH, OUR FUTURE'<sup>2</sup>.

It is important for the Productivity Commission to acknowledge that, as the Territory Opposition has long argued, regional economies of Northern Australia behave more like small open developing economies and not developed significantly diversified economies. As such different ideological and policy settings are appropriate and necessary when seeking to successfully build momentum for developing the North.

The Territory believe that the ZTO should support regional economic development, including by encouraging people to relocate to particular areas. The Territory Opposition disagree with the finding of the PC that,

---

<sup>1</sup> <https://www.pc.gov.au/inquiries/current/remote-tax/draft/remote-tax-draft-factsheet1-zto.pdf>

<sup>2</sup> <https://www.industry.gov.au/sites/g/files/net3906/f/June%202018/document/pdf/nawp-fullreport.pdf>

*“A tax offset is not well suited for encouraging people to move to particular areas. The employment opportunities, liveability and amenities available in particular places play an important part in where people decide to live and work.”*

The Territory Opposition believe that incentives are key to economic decision making and that positive incentives such as the ZTO are effective, efficient, certain, and fair. If there are no supports for regional areas, then the inherent advantages in developed metropolitan areas as outlined by the PC such as amenities, facilities, transport links etc. will be further entrenched and compounded.

There must be incentives for business to operate in, and locate to, regional and remote areas. Using existing administrative structures provides a low cost, efficient and certain option for government.

Additionally, the Territory Opposition believes that there must be consideration given to a zone that aligns with and supports employment and development on Aboriginal land as per the Aboriginal Land Rights (Northern Territory) Act 1976<sup>3</sup>. There must be a clear, competitive incentive to work, live and invest on Aboriginal land.

### Remote Area Allowance (RAA)

All of the Northern Territory is eligible for the RAA. The Territory Opposition welcome the fact that the PC finding that the RAA has a legitimate role in helping income support recipients meet some of the higher costs associated with living in remote areas. Unlike most ZTO recipients, RAA recipients face barriers to mobility and do not benefit from remote area wage premiums

However, the Territory Opposition, as with the ZTO above, does not support any reclassification of Darwin as ‘not remote’. The challenges present in Darwin today are real, persistent and expensive when compared with other areas of Australia.

Furthermore, the Territory Opposition disagree with the proposition put forward by the PC that,

*“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”.*

As a community it is clear that a strong Northern Australia (economically, strategically, and socially) supports and ensures a strong Australia. The Territory Opposition believe that the PC has not fully or holistically considered the importance of the geopolitical and strategic significance of the North, and due consideration must be given to long term implications of a narrow view of the national interest.

### Fringe Benefits Tax Remote Area Concessions

The Territory Opposition is calling for no change to the existing arrangements, and if any change must be considered then it should be one that supports and enhances the concessions on offer to employers in regional areas. In the Territory it is often the case that employers have operational

---

<sup>3</sup> <https://www.legislation.gov.au/Details/C2016C00111>

reasons to provide goods and services (such as housing) to employees, and in these cases it would be inequitable to apply the full rate of the Fringe Benefits Tax (FBT).

### Challenges/Opportunities

The Northern Territory is a small developing economy. It is an economy with rich mineral resources but very significant geographical challenges. There are a number of challenges unique to the Northern Territory, and the Territory Opposition would like to restate these at this time, namely Indigenous disadvantage (Closing the Gap), remoteness and Developing the North agenda.

The current remote area tax concessions and payments has served the States and Territories well for many decades and the case to change has yet to be demonstrated or proven. In addition, critics of the current model have failed to provide a workable alternative. The Territory Opposition query and further reject the assumptions underpinning some of the PC's key recommendations such as reclassification of Darwin as not remote and the abolition of the Zone Tax Offset.

Ensuring the long run viability and sustainability of the NT is very dependent on the ability of the jurisdiction to attract and maintain population numbers. This is projected to have fallen by 0.7 in financial year 2018/19<sup>4</sup>.

### The economic picture

The broad economic landscape of the Northern Territory at the present time (October 2019) indicates that there are significant structural issues present. 'Bouncing back' or returning to long term average economic and population growth rates will not be easy or automatic. A new, more subdued normal may occur.

Budget 19/20 details a non-financial public sector budget deficit at \$1.1 billion, and with no clear pathway to surplus, the issue of deficit and debt is very timely and serious. Budget deficits and a declining population demonstrate that there is a need for economic reform in the Northern Territory. There is a significant risk that in the absence of tangible progress on economic reform, the NT will experience declines in real per person income and subsequent erosion in our standard of living.

Indeed, the efficacy of tax relief versus increasing the tax burden is well supported by economists and politicians beyond partisan ideological tags. For example in 1963 US President John F Kennedy said " It is a paradoxical truth that tax rates are too high today and

---

<sup>4</sup> [https://budget.nt.gov.au/\\_data/assets/pdf\\_file/0005/689522/2019-20-BP2-book.pdf](https://budget.nt.gov.au/_data/assets/pdf_file/0005/689522/2019-20-BP2-book.pdf)

tax revenues are too low and the soundest way to raise the revenues in the long run is to cut the rates now”.

At a time when the Northern Territory needs greater investment and job creation, reducing tax offsets, in effect increasing tax burden, will only make the situation harder for families and businesses. Raising taxes will drive people away, not attract them. We have seen population growth go backwards in the Territory year on year for the last three years.

## The NT – retail

An important point to make is that the ZTO should not be viewed solely as a measure to attract a worker to a location in Northern Australia. It must also be considered that it has a real impact on a consumer effective demand i.e. it increases their purchasing power. Any decrease to the current ZTO will logically have a direct and commensurate effect on retail spending in the area currently eligible for ZTO.

The Territory economy at the present time has some very serious economic, and fiscal challenges. In fact from Budget 2017 to Budget 2019 there are 7882 fewer Territorians at work<sup>5</sup>. Any measure or proposal that will effectively take money out of the pockets of Territorians is rejected by the Territory Opposition. This should be viewed in the context that since Budget 2017, Territory Labor’s first Budget, Territorians have seen:

- The construction sector halved
- Residential property prices drop more than 25%
- No major projects or cranes on the horizon
- Lowest level of business confidence in the country as confirmed by Commsec and Sensis
- Northern Territory bankruptcies up 67% in the last year alone
- Retail trade growth down since Labor came to government

## Looking further afield

The Territory Opposition commend the Federal Coalition Government for tasking the PC to inquire into this important matter. Additionally we further recognise the body of work conducted by the PC. However, the Territory Opposition would like see further inclusion and consideration given to international case studies and benchmarking of best practice.

## Conclusion

In short the Territory Opposition reject the suggestion by the PC in the Draft Report that remote area tax concessions and payments are outdated, inequitable and poorly designed. We do not believe that they should be rationalised and reconfigured to reflect contemporary Australia.

---

<sup>5</sup> <https://business.nt.gov.au/business-and-economic-data/economy/economy-snapshot>

Furthermore, we reject the PC's finding that Darwin is not remote. And similarly do not agree with the finding that there is no evidence to suggest that the Zone Tax Offsets currently affect where people choose to live or work.

We further believe that case to retain and/or increase the current arrangements is best made by submission from a member of the public contained in the Draft report itself:

*“Long hours in cars to get anywhere; high airfares; fuel prices; food prices; costly housing; high insurance costs; liquor restrictions in some of the very remote regions; poor roads that bash their cars to pieces; high education costs of kids having to be sent away to schools; medical services where the Flying Doctor works day and night; lack of entertainment and access to major events such as concerts, grand finals and the like. Things may have improved from the days of telegraph lines and the weekly mail truck but the difference between city, town and bush remains – and the cyclones, droughts and floods keep coming. (Malcolm Ainsworth, sub. 10, p. 1)”<sup>6</sup>*

Importantly, more than the financial impact abolition of the ZTO or RAA would have on those who currently receive benefit from these measures, there is the symbolic message it would send to those looking to migrate to ‘the North’. One could argue, as does the Territory Opposition, that any diminution of the current arrangements is a clear demonstration that there is no intention of developing the North. Essentially, it would be a sign that official Australia is walking away from the people in the Bush.

The Territory Opposition will continue to push for greater incentives for people to live, work, and invest in the Territory.

---

<sup>6</sup> <https://www.pc.gov.au/inquiries/current/remote-tax/draft/remote-tax-draft.pdf>