

26 April 2019

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

Dear Sir/Madam

NORTH WEST QUEENSLAND REGIONAL ORGANISATION OF COUNCILS SUBMISSION TO PRODUCTIVITY COMMISSION ISSUES PAPER: *REMOTE AREA TAX CONCESSIONS AND PAYMENTS (MARCH 2019)*

This submission is presented on behalf of the member councils of the North West Queensland Regional Organisation of Councils (NWQROC). Members of NWQROC include the Burke, Carpentaria, Cloncurry, Flinders, McKinlay, Richmond and Etheridge Shire Councils; Doomadgee Aboriginal Shire Council and Mount Isa City Council. It is understood that individual ROC members will also make submissions to the Issues Paper.

Our Interest in this Inquiry:

The NWQROC region is situated in the North West corner of Queensland with the Northern Territory and northern coastline forming part of its border. Approximately 29,000 people reside in the region across an area that covers close to 350,000km².

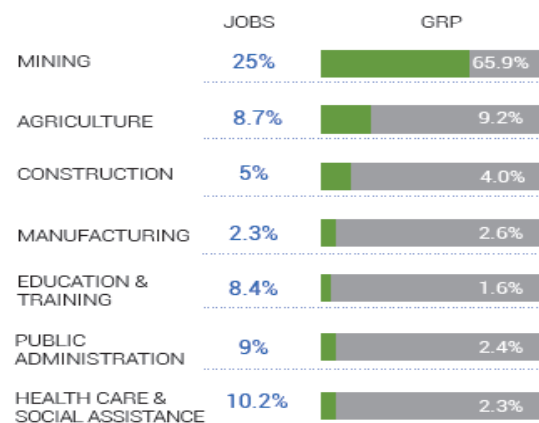
This geography forms some of the most remote parts of Australia and as a consequence the Australian Government's Remote Area Tax Concessions (Zone A, B and AB Special) are applicable across the region as noted on page 3 (2019) of the Productivity Commission's Issues Paper.

The NWQROC region contributes \$5.1 billion to gross regional product annually, with the key industries in mining, agriculture and construction. These industries contribute significantly to local employment and the prosperity of the many towns across the region as evidenced in figure 1 below.

Further, the region's products have significant flow on benefits for other regions such as Townsville, Cairns and South East Queensland through processing, port and employment linkages.

Figure 1: Key industry impact on employment and gross regional product

MAJOR INDUSTRY IMPACT



The primary purpose of the NWQROC is to **make North West Queensland a region attractive for people and businesses to live, work and invest.**

Hence, the current focus on Remote Area Tax Concessions and Payments (Zone Tax Offsets in particular) is of vital importance to supporting the NWQROC achieve its goals.

Point four (4) of the NWQROC's 2019 Federal Election Platform - *Build and sustain our productive regions with sustainable populations through immigration incentives and correct tax arrangements* – urges the parties to support a rethink of the remote area taxation system and an enlarged regional migration strategy to attract new arrivals from overseas to rural areas. In particular the ROC suggests:

A reduced rate of personal income tax or increasing the zone rebate – calculated on remoteness and/or size of population – given to genuine locals who live and raise their families locally, which would encourage growth in these areas. It provides the base on which to attract and retain workers to remote areas and importantly if it increases the regular take home pay of residential workers and families it is also likely to get spent locally – ensuring the benefit circulates around the local economy.

What Others Have Said:

As identified in the Issues Paper, Remote Area Tax Concessions were established in the 1940s and since this time have been the subject of inquiry, evaluation and public debate. This submission does not intend to respond to every 'information request' or 'question' posed in the Issues Paper, rather it attempts to capture the most salient points from the various research already undertaken as follows:

Local Government Association of Queensland – Draft Submission to current Inquiry (p.5, 2019)

The NWQROC supports the position of the LGAQ in its draft submission to the Inquiry. In particular, the NWQROC supports the LGAQ's observation that:

“Our recent history of economic development shows that remote areas experience forms of market failure and socio-economic disadvantage. Contrary to the theory, investment and labour has not autonomously flowed to remote areas of Australia to take up opportunities.....”

“Against this setting, there are calls for incentives to be extended in terms of both benefit value / level of compensation and coverage based on economic need. This view is underpinned by a shared appreciation that:

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- *Remote area populations sustain remote and regional communities and economies, which in turn make significant contributions to the national economy; and*
 - *Remote area residents and businesses incur higher costs of living, higher costs to (where possible) access essential services and higher costs in operating in remote areas”.*
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A further evaluation from a local government perspective can be found in the research commissioned by Regional Development Australia – Darling Downs and South West for the Council of Mayors Darling Downs and South-West Queensland *The Case for Reviewing Income Tax Zone Rebates (2011)* by Dr Ian Manning from the National Institute of Economic and Industry Research.

The NWQROC supports the research findings especially as they relate to ‘cost of living’ and ‘isolation and services’ respectively.

In particular the research notes state (p. 18, 2011):

“It is one thing to claim that the cost of living is higher in remote areas than in some reference area, say the metropolitan areas. It is quite another to give this monetary expression. The following observations are more or less agreed.

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- *Transport costs add to the price of widely-distributed consumers' goods in remote regions.*
 - *In small remote towns there are further additions due to diseconomies of small scale, including less than truck load shipments and/or high warehousing costs for larger shipments. Consumers can avoid these costs only at the considerable expense of driving to a larger town.*
 - *Remote area consumers are further disadvantaged by the limited range of goods and services on offer.*
 - *Housing cost differentials are more complicated – in general, the unimproved value of the underlying land is less than in metropolitan areas but the costs of construction are greater, both subdivision costs and dwelling costs.*
 - *Construction costs are particularly high in small towns which lack resident trades people, since transport and accommodation costs have to be met”.*
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And further (p.22, 2011)

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- *“Whatever the good intentions of the state governments, remote area residents bear significant service access costs which have to be met from their own pockets.*
 - *The Zone rebates can be interpreted as a contribution towards the basic mobility, e.g. car ownership, assumed by service providers.*
 - *Accessibility costs for essential services can be taken as proxy for accessibility disadvantages more generally – those which we have already considered as cost of living disadvantages or, more broadly, the costs of a minimum level of engagement with society as a whole – those costs which, in the broad social welfare literature, are called the costs of belonging”.*
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“The Cox inquiry argued that poor service accessibility and high costs of living together provided an equity argument for Zone allowances”.

This proposition is also supported by John McLaren (2016) in his paper *The Economic Development of Northern Australia: a critical review of the taxation benefits and incentives both past and present and the potential taxation options for the future.*

McLaren (p.19, 2016) concludes that:

“The north of Australia is hot in the summer and is remote from the major population centres of Australia in the south. The cost of living is higher than the costs faced by other Australian individuals

living and working in the south in major urban and regional centres. The cost of airfares to the major cities in Australia is higher than the cost of airfares to Singapore and Indonesia.

As discussed above, in order to attract individuals to live and work in the north the remote zone offset needs to be increased to take into account the cost of living in the north and the remoteness of the work environment. The climate is also an important consideration. Employers would benefit if they were not required to pay higher wages and salaries in order to attract staff. The actual cost of food and other necessary goods are higher than the prices paid by employees in the South. All politicians should be required to spend a substantial period of time living and working in the North, especially during the 'wet season' in order to see for themselves what it is actually like to live in those conditions".

Compounding the issues of cost of living and access to services is the fact that the Zone Tax Offsets have not been indexed on a regular basis. As Manning points out "The remote area tax rebate continues to be offered at rates which were last adjusted in 1993 and have therefore been significantly eroded by inflation (p. 2, 2011)". This outcome is no doubt hindering the original policy objectives of the Offsets.

Finally, and probably most critically the Australian Government's Final Report *Australia's Future Tax System* (2010) (also known as the Henry Report) under Recommendation 6 states that:

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- *To remove complexity and ensure government assistance is properly targeted, concessional offsets should be removed, rationalised, or replaced by outlays.*
 - *The zone tax offset should be reviewed. If it is to be retained, it should be based on contemporary measures of remoteness.*
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Government Inaction

Despite all the literature and indeed recommendations from the Government's own research (for example, the Henry Report), there has been little action to review Remote Area Tax Concessions – specifically the Zone Tax Offset.

This is significantly disappointing for the NWQROC because, as Manning concludes "Effective alterations to the Income Tax Zones may provide significant advantages to the ability of remote shires to attract and retain non-resource workers to their towns (p. 2, 2011)".

However, the issue is far more reaching than this, as McLaren identifies, "the Northern part of Australia will not reach its full potential without Commonwealth, State and Territory intervention in the form of tax benefits for both individuals and businesses (p.19, 2016)".

Unfortunately, it appears as Fullarton (p.46, 2016) describes "Taxation is a very political thing". His article concludes that taxation principles and policies are inextricably linked to political expediency. In this case, he suggests that inaction on the issue of remote area tax concessions is due to the low number of voters in remote Australia compared with more populated electoral divisions. He states, "it does not matter how rational the social and economic arguments may be as to the adoption of practices and

policies for raising taxation revenue by a government, the government will ultimately prioritise the political impacts of that tax policy over social and economic rationalism (p.46, 2014)".

Concluding Comments

Based on the evidence to-date and the aims contained in our 2019 Federal Election Platform, the member councils of the NWQROC advocate that at a minimum:

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- 1. Remote Area Tax Concessions and Payments – specifically the Zone Tax Offset be continued - in some form – with the aim of ensuring that the offset is returned to individuals at regular intervals rather than annually*
 - 2. Concepts such as ‘relative cost of living’ and ‘access to services’ are still relevant factors to consider in the methodology for calculating Concessions / the Zone Tax Offset*
 - 3. The rate of the Concessions / Zone Tax Offset be increased and annually indexed at an appropriate level recognising contemporary measures of ‘disadvantage’*
 - 4. The relevance of the Concession / Zone Tax Offset ‘Zones’ be reviewed in light of current census data / population settlement patterns*
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Whilst the NWQROC is encouraged by the Productivity Commission’s focus on this matter it urges the Government of the day to TAKE ACTION on the recommendations contained in the Final Report to this Inquiry.

Failure to do so will impede the development of Northern Australia, which has been a key focus for successive governments over the last decade.

Finally, as discussed with the Commission during its visit to Normanton in April, the NWQROC would be willing to be a pilot region for the application of any new Concessions / Zone Tax Offsets in order to inform its possible implementation across other parts of remote Australia.

Should you wish to discuss any aspect of the NWQROC’s submission, please contact, in the first instance, Mr Greg Hoffman PSM, Executive Officer, NWQROC .

Yours sincerely

Cr Jack Bawden
Mayor, Carpentaria Shire Council
Chair, North West Queensland Regional Organisation of Councils

References:

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