

11 October 2019

Jonathan Coppel
Presiding Commissioner
Remote Area Tax Concessions and Payments study
Productivity Commission
GPO Box 1428
Canberra City ACT 2601

Dear Commissioner

Feedback on the Productivity Commission Draft Report: Remote Area Tax Concessions and Payments Review

On behalf of the Kimberley Regional Group, we are providing this submission on the Productivity Commissions Remote Area Tax Concessions and Payments Review.

The Kimberley Regional Group (KRG) comprises the Shire of Broome, the Shire of Halls Creek, the Shire of Derby West Kimberley and the Shire of Wyndham East Kimberley. Covering some 423,517km², the region is extremely isolated and has a high level of social disadvantage amongst the 34,000 people that call the Kimberley home.

Of deep concern to the Kimberley Regional Group is the underpinning assumption of the existence of a functioning market that can readily adapt to changes in taxation arrangements. This is not the case in remote and very remote communities which suffer extreme isolation along with social and economic challenges. Significant changes to the Tax Concessions may mean services will either need to be cut or additional State and Federal government funds will need to be applied to address the gap. This would seem to be less efficient than a non-reportable tax exemption.

Attached are our comments against the Consultation Paper. Should you require any clarification please contact Debra Goostrey from the Kimberley Regional Group on 0439 380 266.

Yours sincerely

Chris Mitchell
Chair
Kimberley Zone and Kimberley Regional Group

PO BOX 653 BROOME 6725 PH: (08) 9192 8355



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.

It is acknowledged that the opportunities for regional and remote businesses and communities have improved since the introduction of the Remote Area Taxation Concessions in 1945, however consideration of the merit of a preferential taxation system should be based on the current gap between services and opportunities in highly urbanised areas and those for people and businesses living outside of those locations.

Telecommunications is an excellent benchmark for the capacity to participate equally in the new economy. From an evidentiary perspective, the Australian Bureau of Statistics General Social Survey (GSS): Summary Results, Australia, 2014 (4159.0) provides insight into the disadvantage still being experienced. Below is an extract from that Report.

“Access to communication services varies according to geography, with people in outer regional or remote Australia less likely than people in major cities to have used technology in the last three months to maintain contact with family and friends via text messaging, email, web-based chat or calls made using a video link. These differences may also reflect a reduced financial capacity to access technologies in outer regional and remote Australia due to lower household income levels in these areas” (data source Table 4).

Some examples of the telecommunications disadvantage in remote locations include:

- Single line broadband access to the entire north of Western Australia. In 2019 a damaged fibre optic cable meant that the entire northern region was without internet communications for a period of approximately 24 hours in peak tourist season. Shops, hotels, restaurants and other businesses were unable to take credit card payments creating a severe disruption and disenfranchising tourists. In various forms this occurs more frequently in regional areas due to the lack of alternatives.
- Technological Ghosting. Whilst fibre optic cable has been laid in the Kimberley, some towns such as Halls Creek have not had services reticulated which is exacerbating already disadvantaged communities – noting that the most socially disadvantaged community in Western Australia is in that location.
- Unreliable video conferencing. Whilst video conferencing is a breakthrough in reducing the need for physical proximity, there are dire consequences in the assumption that opportunity is the equivalence of reliability. “Dialling into meetings” is fraught with issues where sound and visual communications are compromised as participation is assumed to be agreement in key policy issues unless spoken against. Indeed, it can exacerbate issues when matters are raised post meeting and the opportunity for comment has closed.
- Carrier Conflict. Some of the most disadvantaged communities in the nation are forced to have mobile phones with two carriers as government contracting has

quarantined provision of services to a single provider in a region. This means no signal (apart from SOS) in various locations across the Kimberly, contingent upon whether you are with Optus or Telstra. This is in addition to the substantial "dead zones" across the region.

The GSS goes on to say:

"An important issue for people who live in outer regional and remote Australia is access to services and activities. In 2014, people aged 15 years and over living in outer regional and remote Australia were more likely than people living in major cities to experience difficulty accessing service providers. A third of people (33%) in outer regional and remote Australia had some difficulty, compared with about a quarter (23%) of people in the major cities. The main services people had difficulty accessing were doctors, dentists, telecommunication services and government services such as Centrelink.

Of those people in outer regional and remote Australia who had difficulty accessing services, nearly half (45%) said the main reason was that they were waiting too long, or that an appointment was not available at the time required, while just over a third (35%) said it was because there were no services or inadequate services in their area. People living in outer regional or remote Australia were also less likely than those in major cities to have participated in sport or recreational activities in the last 12 months. They also had lower attendance rates at cultural venues or events in the last 12 months such as movie theatres, public libraries, botanic gardens, zoos or aquariums, and museums or art galleries."

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.

Whilst the Australian population is statistically migratory, in the Kimberley there is a deep connection to country which means that people who have lived in the region for more than 40,000 years will endure significant hardship to remain in-situ.

In the Kimberley Aboriginal people constitute roughly half the population and have unbroken links to their land with 97percent of the country having native title determined.

It is important that this connection to land is understood, particularly in relation to the growth rate of the Aboriginal population and the demand for services. This means that there will be an ongoing need for key workers, including doctors, nurses, teachers and community workers to be located in some of the most challenging environments in Australia, where physical and telecommunications isolation has only improved marginally since the introduction of the Remote Area Tax Concessions in 1945 and the gap between remote and urban centres is arguably equal or greater than it was at that time.

DRAFT FINDING 2.3

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

Currently, the Kimberley region has the most expensive cost of living in the State of Western Australia (Department of Primary Industries and Regional Development, 2017), with an indexed level of 112.9 when compared to the cost of living in Perth (used as the base rate of 100). This is high compared to Peel (107.4), the Wheatbelt (101.7), the Goldfields Esperance (101.3) and has now surpassed the Pilbara (110.7).

Pilbara has a higher cost of housing at 120.6, compared to the Kimberley which had an index value of 117.8, whilst the Mid-West, Goldfields – Esperance, the Wheatbelt, South West and Great Southern all had housing index values of less than 100 (ie, lower than Perth). Household equipment (113.6) was also the highest in the Kimberley as was the Transport commodity group (which includes motor vehicles, fuel, parts and charges (106) ahead of the Pilbara (101.9), Gascoyne(101.7), South West (101.5) and the Mid-West (100.7). Transport costs in the Peel, Great Southern and Wheatbelt were all lower than Perth. Healthcare (108.1) was the second highest in the state behind the Pilbara (111.6). Some more specific examples are provided below.

- Insurance in the Kimberley is a significant cost. Residential insurance has been quoted at up to 1.5 percent of property value, with 0.8 percent common. This compares poorly to urban areas where rates can be 0.1 percent or less. Whilst cyclones are recorded in the Kimberley, the building standards mitigate this risk.
- The reliability of food is compromised, for example, food supplies were compromised for Broome during the 2018 wet season with barging of food required due to cyclone related flooding. Whilst most residents ensure appropriate supplies of tinned and long-life food is on hand, this is a disadvantage experienced in the regions when compared to major urban areas. Indeed, travellers would bring fresh milk and other produce by air from major urban centres when visiting during this period. Remote communities and businesses are even more disadvantaged, and plan on the basis of being routinely cut off for up to six weeks per annum, with major cost incurred through the required storage of diesel for energy and frozen foods.
- The diversity of product. Due to the very thin markets, products are often “ordered in” with the cost inclusive of freight, which can add between 10percent and 100percent depending upon the bulk/value ratio of the products.
- Daily commute costs may be lower in the regions however trips to get items that would be available within a 10km radius in capital cities may involve a return journey of up to 1,000km.
- Fresh foods in remote communities can be double the price of the same product in a capital city supermarket.
- The cost of flights to major urban centres creates challenges for families, particularly for parents seeking to visit their children at boarding schools or attend family

reunions/funerals. The price of a one-way economy ticket from Broome to Perth spiked to \$5,200 in 2018.

- Fuel costs are higher in the regional areas. As of Wednesday 2nd October, the cost per litre of diesel averaged 149.51 in Perth whereas in Broome the cheapest price was 163.9. In Fitzroy Crossing the cheapest diesel was 173.0. For Unleaded Petrol the comparison was 154.7 (Perth), 161.9 (Broome), 176.0 (Fitzroy Crossing).
- Remote locations are littered with abandoned cars as the cost of towage and repair is greater than the replacement value of the vehicle.

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.

Whilst it is acknowledged that some Australian's have chosen to move to regional areas for the lifestyle or economic opportunity, many remote areas including the Kimberley, struggle to attract the key workers required, including medical staff and community workers. Indeed, local governments have experienced extreme difficulty in attracting senior staff with positions receiving no suitable applicants after four or more advertising rounds with increasing remuneration packages. Feedback is the level of employee churn is very high, with 3-5 years considered a long-term tenure with a direct relationship between the remoteness of the location and the level of churn.

The reasons for people living in specific locations is not relevant in the equity discussion for very remote locations. A more reasoned approach is to identify the expected level of service that should be available to Australian citizens and the affordability of the region.

There is general acceptance that regional communities will not enjoy the same facilities and services of their metropolitan counterparts however there is an unacceptable gap between services in regional and remote areas and the services available in the major urban centres. Examples of this include:

- The lack of specialist medical services with patients needing to be transported thousands of kilometres away from family and support networks to receive treatment.
- Lack of adequate aged care facilities including dementia care.
- Lack of university opportunities outside of a narrow curricular focused on nursing.

Whilst many remote locations may be attractive from a holiday or visitation perspective and indeed may be seen as idyllic, there is a very real difference between attracting tourists and the attraction and retention of employees and their families. It is critical that decisions being made in relation to taxation do not undermine the capacity of employers, including government agencies, to attract critical workers to a region which can endure extremely harsh conditions.

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.

Whilst it is acknowledged that tax concessions are just part of a broader suite of measures, that is not a sufficient argument for dismantling the existing system.

The Federal Government has an extensive program targeting development in Northern Australia and is investing heavily in developing a diversified economy and trade links directly with our northern neighbours. Whilst it is acknowledged there is room for a more nuanced approach, the removal of taxation concessions and other support seems to be counter to the broader policy agenda of the Federal Government, State and Territory governments across the north.

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.

The Kimberley Regional Group would like to highlight the work undertaken by the Department of Regional Development in Western Australia which provides weighted analysis across regional Western Australia, based on the degree of variation to the cost of living in Perth. This is transparent and also maps detailed changes over time. Further, it indicates that distance from the capital has a material impact on the cost of living.

Regional Results – A Comparison Between 2015 and 2017

| Index numbers 2017 | | | | | | | | | |
|-----------------------------------|-----------|---------|----------|----------|--------------------------|-----------|-------|------------|-------------------|
| | KIMBERLEY | PILBARA | GASCOYNE | MID WEST | GOLDFIELDS- ESPERANCE | WHEATBELT | PEEL | SOUTH WEST | GREAT SOUTHERN |
| Overall | 112.9 | 110.7 | 109.1 | 101.2 | 101.3 | 101.7 | 97.4 | 101.6 | 100.2 |
| Basket | | | | | | | | | |
| Food | 112.4 | 110.3 | 108.5 | 106.4 | 108.7 | 104.3 | 99.5 | 100.9 | 99.9 |
| Cigarettes, tobacco, alcohol | 109.3 | 101.6 | 108.5 | 106.1 | 104.3 | 105.5 | 100.3 | 98.5 | 99.8 |
| Clothing | 102.2 | 103.7 | 111.5 | 104.4 | 99.1 | 108.4 | 97.4 | 105.0 | 104.2 |
| Housing | 117.8 | 120.6 | 111.5 | 94.8 | 96.5 | 97.0 | 93.9 | 101.4 | 96.8 |
| Household equipment and operation | 113.6 | 106.1 | 110.7 | 103.4 | 101.4 | 107.0 | 102.0 | 103.5 | 100.6 |
| Health and personal care | 108.1 | 111.6 | 107.9 | 98.5 | 109.3 | 102.0 | 99.1 | 101.7 | 107.8 |
| Transport | 106.0 | 101.9 | 101.7 | 100.7 | 100.8 | 99.5 | 96.7 | 101.5 | 99.5 |
| Recreation | 104.2 | 108.0 | 110.7 | 105.2 | 102.3 | 102.2 | 97.9 | 100.7 | 104.4 |

Regional Results – A Comparison Between 2015 and 2017

| Index numbers 2015 | | | | | | | | | |
|---------------------------------------|-----------|---------|----------|----------|--------------------------|-----------|-------|------------|-------------------|
| | KIMBERLEY | PILBARA | GASCOYNE | MID WEST | GOLDFIELDS- ESPERANCE | WHEATBELT | PEEL | SOUTH WEST | GREAT SOUTHERN |
| Overall | 115.4 | 117.5 | 112.3 | 102.9 | 103.2 | 102.3 | 98.6 | 102.2 | 100.0 |
| Basket | | | | | | | | | |
| Food | 116.6 | 117.6 | 118.1 | 106.4 | 106.4 | 107.1 | 107.7 | 112.3 | 103.8 |
| Cigarettes, tobacco, alcoholic drinks | 109.7 | 104.3 | 108.1 | 100.9 | 103.9 | 105.7 | 97.0 | 99.1 | 96.6 |
| Clothing | 120.3 | 99.0 | 130.8 | 98.2 | 105.6 | 100.4 | 103.4 | 109.0 | 104.5 |
| Housing | 115.4 | 132.2 | 112.0 | 98.4 | 94.4 | 94.2 | 94.4 | 99.2 | 94.7 |
| Household equipment and operation | 122.3 | 115.4 | 119.7 | 114.8 | 111.9 | 105.3 | 101.4 | 103.4 | 111.0 |
| Health and personal care | 112.5 | 116.9 | 108.4 | 109.9 | 108.9 | 103.7 | 98.4 | 100.7 | 91.8 |
| Transport | 110.0 | 115.6 | 107.1 | 101.7 | 107.0 | 106.1 | 95.2 | 100.5 | 96.8 |
| Recreation and education | 112.4 | 97.9 | 101.0 | 95.7 | 101.9 | 106.2 | 96.2 | 96.7 | 100.0 |

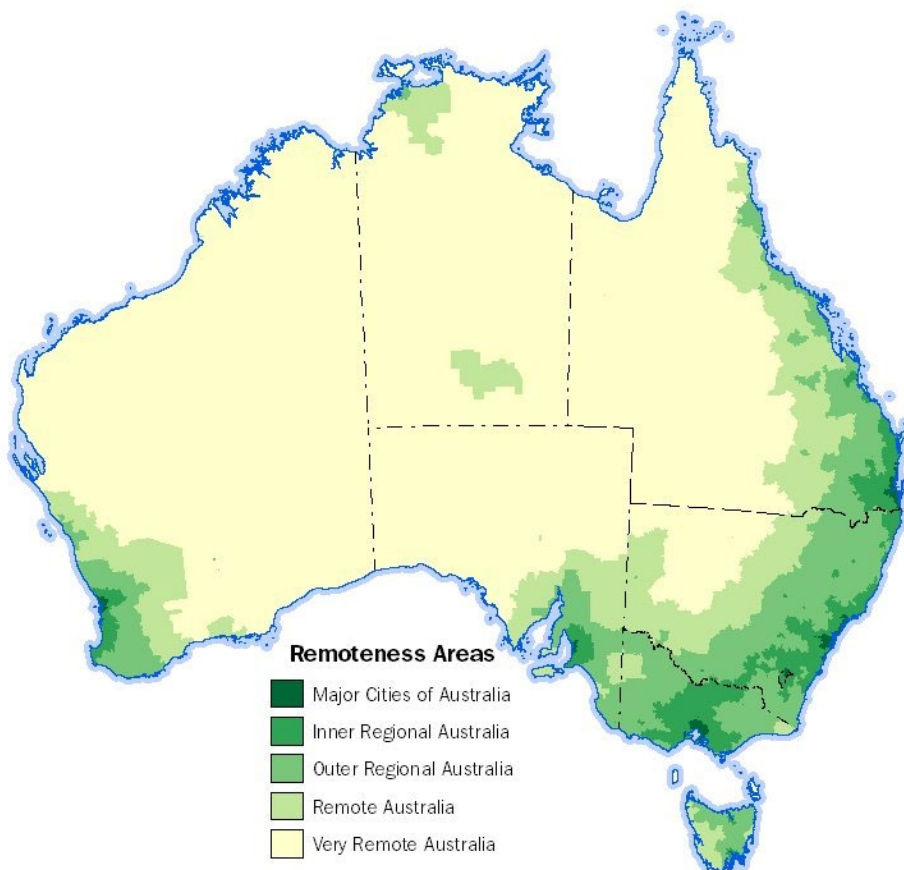
The zone tax offset

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.

Defining boundaries in line with other statistical data sets is seen as a positive outcome. The ABS remoteness boundaries are more reflective of the level of disadvantage experienced through isolation compared to the current system which sees towns such as Derby, which as a population of 3,300 people, and Bidyadanga (population 750), classified as Zone A, along with Darwin (population 132,000).

ABS Remoteness Map



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.

Eligibility

There is some merit in the argument to re-evaluate eligibility as there is a significant difference between the services in towns of 20,000 or less compared to cities of 100,000 or more. The comparison becomes starker as the size of the town decreases.

Value of the ZTO

It is noted that the ZTO has failed to keep pace with wages growth in some areas, however this does not constitute a valid reason for the abolition of the ZTO.

Whilst in and of itself the amount is too low to be an attractor, it is part of a package that may include employer housing, additional annual leave and potentially a funded annual return trip. As part of that broader package it is meaningful.

Moreover, it is the only allowance that all working regional residents receive as recognition for the challenging conditions in which they work. Whilst the high wages that have emerged through the mining boom in some areas provides reward for those in that sector, many of those employees are fly-in-fly out and are excluded from the ZTO.

There are, however, many low paid employees that value the taxation concession. Some locations within the Kimberley are classified as Special Areas including Fitzroy Crossing, Halls Creek, Kununurra and Wyndham and the \$1,173 ZTO is of significant benefit.

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.

Whilst superficially the economic rationalist argument that there is no compelling justification for a zone tax offset may have merit, it fails to look at the total costs that could accrue to the broader Australian community if insufficient key workers are attracted to the regions.

Aboriginal people have an unbroken link to country which stretches over more than 40,000 years. Whilst individuals may relocate, the community is likely to endure regardless of the hardship involved and they need access to doctors, nurses, teachers and other community workers. Although some key workers are deeply attracted to regional areas, many need to weigh up the financial implications of working in such isolated locations, particularly if they have family commitments and/or currently enjoy the benefit of a two-income household. For example, the cost of housing is 17.8% higher in the Kimberley when compared to Perth (Department of Primary Industries and Regional Development, 2017), with the gap significantly higher in some locations. The higher costs, lower amenity and poorer education and health services means that the Kimberley is at a distinct disadvantage in attracting key workers.

With insufficient services in remote areas, the gap between Aboriginal and non-Aboriginal people will continue to expand, not only exacerbating the intergenerational crisis being experienced in this region, it will have very long-term financial implications for the Federal budget.

Further, as many of the key workers are employed by Local and State Government agencies, the financial burden of additional fringe benefits is likely to lead to the need for additional (grant) funding to maintain services at an acceptable level. The efficiency of the total tax regime needs to be considered including the compliance burden, potential risk and time demands of a grant system in comparison to a foregone tax regime of the ZTO.

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.

The recommendation to abolish the ZTO is strongly rejected by the Kimberley Regional Group as a simplistic response to a complex issue. Whilst there is a valid discussion to be had in terms of the detail of offsets, to simply remove offsets is inappropriate, counterproductive and inequitable for those in some of the most remote and disadvantaged communities in Australia.

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.

Draft Finding 5.2, which advocates that “*there is no case for the Government to provide company tax offsets specifically to businesses in remote areas*” fails to recognize the broader context of the business environment in regional and remote areas. Historical infrastructure investment in less remote areas improves the viability of projects. This includes but is not limited to the need for roads that are sufficiently resilient to endure access 365 days a year and a supply chain that is efficient and fit for purpose.

That investment is only just gaining momentum in the Kimberley with the recognition of the impact of infrastructure-based-isolation of up to six weeks per annum as a result of flooding. Challenges include the impact of an under-developed logistics supply chain including ports which are hampered by unmitigated high tides and the lack of capacity for rapid bulk loading and container management at scale.

In the Kimberley, many mining ventures are undertaken by “start-ups” with well-resourced proponents a very small minority of operators. This means new projects can face significant barriers due to the cost of transport, which in some cases represents up to 75 percent of the cost of production, exacerbated by the logistics issues identified above.

Businesses including mining, agriculture and tourism, inject funds into the local economy, providing other remote businesses with the opportunity to contract work. This is extremely important when looking at Aboriginal businesses and the opportunity to close the gap of disadvantage.

In the case of the Kimberley, the Federal government is providing strong support as they recognise the longer-term economic advantages of growing resilient businesses in remote areas. NAIF funding is often sought by proponents, with grants and other opportunities explored to try to move through the initial high-risk period, including exploration and pre-feasibility studies through to the bankable feasibility and securing product sales.

The alternative is for these opportunities not be explored and developed. This could have significant implications for Australia in a global environment where rare earths and tech metals are in global demand, but the resources are in some of the most remote locations in Australia. Self-reliance and resilience in the supply of these metals, other critical minerals and hydrocarbons is essential for Australia, particularly as we face a period of geopolitical uncertainty.

Food security is also a major consideration as we move forward in a global economy which may potentially strain existing supplies.

Further, we are in a globally competitive market for investment dollars in agriculture, mining and other development, noting Australia has the third highest corporate tax rate in the world (after Costa Rica and Chile). It would seem sensible to use all our

opportunities, including tax offsets, to encourage the investment required to build our regional economies and improve our national self-sufficiency.

Long term job creation is vital in regional and remote areas and if a tax offset can support the viability of businesses enduring extremely difficult conditions, the net benefit to the broader Australian community of reducing the reliance on social welfare is likely to more than compensate those tax offsets in the longer term.

The Kimberley Regional Group agrees that governments at all levels should focus on creating successful business environments regardless of their location. Whilst not advocating for widespread application of business taxation concessions, strategic application in the start-up phase or during periods of significant innovation could help to unlock regional and remote business potential where issues such as poor infrastructure present as a significant barrier.

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.

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.

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.

Supported.

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.

Supported.

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.

Finding 7.1, “*that the use and economic effects of fringe benefits tax (FBT) remote area concessions vary,*” is of critical importance. This means that, until the roll-on impact in different locations is clearly understood, a unilateral decision to abolish or slash the level of concession could lead to unintended consequences which could require greater levels of government expenditure to fill the gap.

The Kimberley Regional Group acknowledges the need for review and potentially more targeted Fringe Benefits Tax remote area concessions, however, make the following comments:

- Reduction of the concessions will arguably impact most on local government services and may potentially reduce the funds available for other essential community programs and services, such as those supporting our youth which have an unacceptably high suicide rate and levels of incarceration at Banksia Hill Youth Detention Centre in Perth.
- Some areas could benefit from an increase rather than abolition of employee sourced housing. This would enable employers, which do not have the resources to provide housing, to attract staff into the regions for essential services.
- There needs to be a clear understanding that the larger the gap between concessions available for a local resident workforce and those available for a fly-in-fly-out workforce, the greater the potential of the latter being used for the bulk of the workforce, undermining regional employment.

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.

The Kimberley Regional Group welcomes further exploration of Fringe Benefits Tax Remote Area Concessions to address inequities, however, does not agree that the current arrangements are “overly generous”. If that were the case, there would be a magnet attraction to regional areas, yet the reverse is true with many regional and remote areas suffering population contraction with key worker roles difficult to fill. Positions may remain vacant for significant periods of time as multiple rounds of advertising are progressed until a suitable candidate can be sourced.

Caution should be applied, particularly in relation to the unintended consequences of rapid changes to policy and the potential for exacerbation of the current challenging economic conditions in some regions.

DRAFT RECOMMENDATION 8.1 TIGHTEN TAX TREATMENT OF EMPLOYER-PROVIDED HOUSING

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

There is deep concern in the Kimberley that, if the Productivity Commission's recommendation to revert the exemption for employer-provided housing (section 58ZC) to a 50 per cent concession, the consequences for Shire budgets in remote areas could be devastating. For example, the Shire of Halls Creek has estimated the change would add at least \$400,000 to the Shire's costs each year. This represents 15.6% of the estimated revenue from rates and 4.8% of the total budget including grants for the financial year ending 2020. They went on to say:

"The FBT exemption is critical for non-mining industries like local government; in many of the rural communities Local Government is the major employer. In our case the Shire of Halls Creek has 33 rental units for 58 staff. The rest live in State Housing, which is not in a position to provide additional housing when Shire needs it and it usually takes years to supply. If we need new staff, we have no choice but to provide the accommodation too. For the Shire of Halls Creek, a 50% reduction would add about \$12,000 to the cost of every employee as the real cost of rent is \$450 week. For the SoHC this would be a bill of \$400k per annum.

Adding 50% to the FBT on housing on our annual bill will be disastrous."

Noel Mason
CEO, Shire of Halls Creek

In order to sustain services, further grants would be required from either the State or Federal Government, changing the arrangement from forgone revenue to a government budget item subject to the whims of political sentiment and bringing with it significant compliance arrangements, eroding the value of the funds and increasing the grant requirements. This is an inefficient taxation arrangement.

It should be noted that private rental is not available in all locations. In Halls Creek, for example, 56percent of housing is owned by the state with a further 15 percent likely to be provided by employers. Under 8 percent is privately owned and none is let through a real estate agent. The investment market for private rentals would be shallow at best, adding to the high level of difficulty in attracting people to very remote locations.

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).

The removal of the concession for employee sourced housing is not appropriate.

Mono-owner suburbs can have significant consequences for towns where project closures create “ghost town ghettos” where streets of housing are boarded up, facilitating anti-social behaviour. By allowing the private housing market to provide options, a mosaic pattern of employee housing would be implemented, making better use of the existing housing stock, allowing employees to make housing choices appropriate to their requirements and improving integration of new residents into the existing community. Indeed, an increase to parity with employer-provided housing could be argued.

Feedback is that the concession is desirable however the structure and compliance requirements make it difficult to access.

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).

No comment.

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?

No further comment.

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?

Currently the recommendations of the Productivity Commission include the reduction in benefit to 50% for employer funded housing.

Whilst it is easy to provide feedback that the recommended concessions should remain excluded benefits, by setting a threshold it triggers the need for entities to be able to justify their decisions, as all decisions become challengeable. The Productivity Commission's Report identifies that employee sourced housing is underutilised and makes commentary of the potential link to the impact of compliance complexities.

This is an issue for remote locations where the compliance burden (whether precautionary or a requirement) cannot be mitigated over a larger workforce. This creates an additional cost for already disadvantaged communities, either directly through the rates base of local governments, or indirectly through increased fees and charges of the business.

This information request assumes implementation which the Kimberley Regional Group opposes. The Kimberley Regional Group also supports strong governance which would mean any reduction from 100percent should be clearly managed. This creates a conundrum.

It is suggested that a non-reporting, self-auditing of the requirements should be implemented rather than the burden of a reportable fringe benefit.

The Kimberley Regional Group reiterates, this change to the existing arrangements is not supported and will further disadvantage regional and remote communities.

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.

The compliance burdens will be impacted by the nature of the data required. For example, if the requirement for employer-provided-housing is the market value of that housing rental, in some locations there is no existing "market," such as in Halls Creek, where there are only 42 privately owned properties (6%) with none available on the private rental market through a real estate agent.

The direct cost model can overestimate the value of the rental return on housing in regional areas given that construction costs in those locations can be 70percent higher than in urban areas, however the existing market could not support a 5percent return on that investment in the form of rent.

As per information request 3, it is suggested that a non-reporting, self-auditing of the requirements should be implemented rather than the burden of a reportable fringe benefit.

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?

Boundaries should be linked to ABS boundaries and maintained in accordance with any changes made by the ABS.

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?

One of the fundamental considerations when examining the impact of changes to the FBT remote area concessions is the difficulty in filling existing positions and retaining staff. The more remote the location, the more difficult it is to recruit staff and the churn can be very high, in some very remote locations positions churn every 12 to 18 months.

This indicates that market capacity to absorb the reduction in benefit to employees is low, which will result in a deterioration in health services in a region which is already challenged by very high premature death rates. In Halls Creek, 80.6% of all deaths are classified as premature, with the rate in the Shire of Wyndham East Kimberley 85.7%, marginally down from the 90.3% experienced in 2013. Any moves that erode health services will require a compensatory response by Federal Government to ensure the long-term viability of services is not compromised.

Education outcomes are another area that may be compromised with these proposed changes, again requiring a compensatory response to ensure continuity of services. The compensatory response may be the proliferation of public beneficiary organisations that have higher thresholds for fringe benefits tax exemptions, funded through grants for the delivery of services. Whilst this is not inherently negative and indeed will have some positive aspects, the result will be that tax collections through FBT in remote and very remote areas will not increase and the need for grant funded services will grow.