

18 April 2019

Remote Area Tax Concessions and Payments

Productivity Commission
GPO Box 1428
Canberra City ACT 2601

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

Dear Sir / Madam

Submission in response to the Productivity Commission's Issues Paper, *Remote Area Tax Concessions and Payments* (March 2019)

We refer to the Productivity Commission's Issues Paper, *Remote Area Tax Concessions and Payments* dated March 2019 (Issues Paper).

Executive Summary

The resort operators of Hamilton Island, Hamilton Island Enterprises Limited (ACN 009 946 909) ("HIE") welcome the opportunity to make this submission in response to the Issues Paper, as part of the Productivity Commission's Inquiry into Australia's zone tax offset and related remote area tax concessions and payments (Inquiry).

By way of summary:

- HIE supports an examination of Remote Area Tax Concessions and Payments in accordance with the framework outlined in the Issues Paper.
- The Zone Tax Offset and Remote Area Allowance are not relevant to HIE and therefore we are not in a position to comment on them.
- Subject to the changes proposed in this submission in relation to remote area concessions for residential fuel, in our opinion, the FBT remote area concessions operate as intended and it would be inherently unfair for taxpayer's such as HIE, which has invested heavily on the basis that these concessions are available and would continue to be available, if such concessions were to be arbitrarily removed.
- There is a need to support investment in and development of remote areas in Australia, for the benefit of both the communities that live and work in such areas and the businesses that provide employment and generate wealth for those communities and for Australia.
- Situated approximately 22kms off the coast of far north Queensland, Hamilton Island is remote. The Island is not only a major integrated tourist resort but also a self-contained conurbation with its own public utility services such as roads, power, waste disposal, water,

sewerage and communications, together with emergency services. With the exception of privately owned residences, all of the other facilities and services are constructed and maintained at HIE's expense. HIE has spent more than \$600 million on developing and improving Hamilton Island in the past decade.

- HIE employ over 1,000 employees on Hamilton Island and is the biggest single employer in the region, providing significant benefit to the local economy. HIE requires its frontline staff to live on Island, due to a lack of suitable transport options to commute to and from the mainland each day.
- The majority of staff living on Hamilton Island are on a wage of less than \$50,000. To the maximum extent available, HIE subsidises the cost of providing accommodation and essential services through the application of the fringe benefits tax ("FBT") remote area concessions. In 1986, these remote area concessions were introduced to lessen the impact of the then new FBT on business operations in remote locations for very valid reasons. The removal of such concessions will have the same impact on remote areas which was of such a concern when such concessions were introduced.
- HIE does not consider that the provision of subsidised accommodation or essential services constitutes a fringe benefit. The FBT remote area concessions ensure that our staff are not penalised for the various and significant disadvantages of living and working on Hamilton Island, and assists us to actively encourage individuals to move to, live and work on the Island so that we can continue to operate an integrated tourism resort for the benefit of the Whitsunday region and Australia.
- The FBT concession for remote area residential fuel, specifically electricity and gas, is of little benefit and is unworkable in practice given the ATO's guidance for application of the concession. Accordingly, it is submitted the wording relating to the concession be amended to reflect the intention of the concession, vis 50% of the market value of the residential fuel provided is tax exempt.

Background to Hamilton Island - The uniqueness of the Whitsunday Region

To provide context to our responses addressing each of the specific information requests in the Issues Paper, an understanding is required of the uniqueness of Hamilton Island and the Whitsunday region.

The Whitsunday region is recognised as one of the major tourist destinations in Australia. Its main features are easy access to the Great Barrier Reef (approximately 50 kilometres offshore) together with the island national parks, numerous beaches, coral reefs and sheltered waterways. Hamilton Island is the most developed resort in the Whitsundays, with other tourist resorts being located on Lindeman Island and South Molle Island (both currently non-operational), Hayman Island (closed for refurbishment), Daydream Island and Long Island.

Location and Getting There

The Whitsunday Group of Islands is located approximately 1,100 kilometres north of Brisbane and 100 kilometres north of Mackay in the heart of the World Heritage Listed Great Barrier Reef Marine Park. The Whitsunday region includes the coastal towns of Airlie Beach, Cannonvale, Bowen and Proserpine as well as about 80 Islands in the Whitsunday Passage.

Air access is provided to the area by Hamilton Island airport, located on Hamilton Island, and Whitsunday airport, situated 15 kilometres south of Proserpine. Flight times from the four major source destinations are as follows:

- Cairns – 1 hour 25 minutes
- Brisbane – 1 hour 45 minutes
- Sydney – 2 hours 30 minutes
- Melbourne – 3 hours 25 minutes

Visitors who fly in to Whitsunday airport then have a 45 minute bus or taxi ride to Shute Harbour or 25 minute bus or taxi ride to Port of Airlie.

Road access is provided by the Bruce Highway, which is 36 kilometres west of Shute Harbour. Distances to Mackay and Townsville, the closest major centres are 150 kilometres and 314 kilometres respectively. Distance by road to Brisbane is approximately 1,100 kilometres.

A ferry service currently operates from Port of Airlie to Daydream Island and Hamilton Island (approximately 1 hour to Hamilton island) and also from Shute Harbour to Hamilton Island (35 minutes). The last ferry leaves Hamilton Island at 5:10pm for Airlie Beach and 5:35pm for Shute Harbour. There is only one ferry operator in the region being Cruise Whitsundays.

Tourist Resort and Self-contained Conurbation

Hamilton Island is not only a major integrated tourist resort but also a self-contained conurbation with its own public utility services such as roads, power, waste disposal, water, sewerage and communications, together with emergency services. With the exception of privately owned residences, all of the other facilities and services are constructed and maintained at HIE's expense. HIE has spent more than \$600 million on developing and improving Hamilton Island in the past decade.

Key features include:

- the resort precinct which includes hotel and condominium accommodation, together with food and beverage outlets and convention centre;
- the Hamilton Marina precinct which includes wharves, jetties, marina berths, IGA supermarket, retail shops, restaurants and the Yacht Club;
- Hamilton Airport precinct which includes aviation facilities and passenger terminal, used by domestic carriers Virgin, Qantas and Jetstar;
- residential precincts to accommodate the more than 900 staff who reside on the Island;
- qualia, a world-renowned luxury boutique gated resort;
- 18 hole championship golf course on neighbouring Dent Island;
- an undersea submarine cable that reticulates electricity from the mainland;
- a power station housing six diesel generators which reticulates power around the Island by a number of strategically placed transformers;

- a reticulated LPG gas system;
- a conventional DAFF water treatment process which filters water stored in the Island's four dams;
- a desalination plant which converts water pumped from the ocean into a purified form;
- a sewerage treatment plant; and
- a garbage and recycling centre.

Contribution of Tourism to the Local Whitsunday Economy

According to the latest REMPPLAN data incorporating Australian Bureau of Statistics (ABS) 2016 Census Place of Work Employment Data, 2015 / 2016 National Input Output Tables and June 2017 Gross State Product, tourism is the most important industry to Whitsunday Shire. According to their data:

- Tourism contributes \$312.9 million or 13.43% of the total value of the local economy;
- Tourism is also responsible for directly employing around 2,944 or 18.6% of the Whitsunday Shire's total workforce; and
- The tourism industry's total output is \$709.7 million or 13.8% of total output.

What it is Like to Live and Work on Hamilton Island

Hamilton Island is committed to being the most highly recommended island experience for couples, families, businesses, homeowners and staff. It can only achieve these goals by providing an outstanding 24/7 guest experience. This requires a highly motivated and competent island based workforce.

With successful marketing campaigns such as "Best Job in the World", it is simplistic to believe that it is easy to attract and retain staff to work in a tropical paradise. Who wouldn't want to move from congested living in a capital city such as Sydney where the cost of living is so high?

When they first come to Hamilton Island, many of the workers are unskilled, and provide services such as housekeeping and food and beverage service. The reason they are willing to live and work on Hamilton Island is because of:

- the significant investment HIE has made in providing different, affordable accommodation options to staff;
- support to obtain TAFE qualifications through the HIE run "Robert Oatley College"; and
- the numerous activities and facilities provided on week nights and weekends, such as trivia nights at the staff bar, sporting activities and a staff gym.

Hamilton Island is a self-funded community. It is unlike Sydney where there are a number of activity operators and choice of services, provided by either third-party operators or various level of Government.

To recruit and retain staff, living on Hamilton Island has to be affordable. There is no easily identified market value for many of the services provided to staff because the economics of providing many of these services by a third party on Hamilton Island is not viable.

How Does HIE pass on the FBT Remote Area Concessions?

HIE has a current Employee Collective Agreement with staff. The minimum award wages set under this agreement do not take into account any adjustment for cost of living as it is not fair and reasonable to do so, given different personal circumstances for each employee.

As free accommodation cannot be provided as part of the wage determination, it needs to be passed on under a salary sacrifice arrangement. An example case study as to how this works is set out in Appendix A ("Case Study"). HIE is subject to income tax at a rate of 30% on all amounts received under the salary sacrifice arrangement.

Productivity Commission – Specific Information Requests

Each specific information request raised in the Issues Paper has been addressed in Attachment 1, both generally and specifically to its business operations and staff. It is noted that as HIE does not consider either the Zone Tax Offset or the Remote Area Allowance in its current operations to be relevant to its ability to recruit or retain staff, no comments have been made concerning either of these payments.

Conclusions

We thank the Productivity Commission for the opportunity to provide comments on the Issues Paper.

As explained, HIE considers the current FBT remote area concessions around accommodation (including associated costs of electricity, gas and water) to be necessary and well targeted, meeting good policy of equity, efficiency and simplicity where the employer is required to provide the accommodation and related services.

The Issues Paper states that different policy rationales have been proposed (at times, simultaneously) to justify Australian Government support to the specified regions, vis:

- *Equity*: to compensate residents of remote areas for the various disadvantages of living in those areas. These were originally conceived of as uncongenial climatic conditions, isolation or higher costs of living; an alternative basis for comparison may be the level of access to public services.
- *Regional development*: to actively encourage individuals to move to and work in remote regions. This includes historical justifications (an imperative to develop northern Australia's resources, and to populate the north to shore up national security) and contemporary arguments (decentralisation).
- *Industry-specific assistance*: to support industries located in remote areas by mitigating the higher costs of doing business (for example, freight).

The continuation of the FBT remote area concessions for Hamilton Island is justified under each of the above headings, vis:

- *Equity:* to compensate HIE staff for the various disadvantages of living on Hamilton Island due to uncongenial climatic conditions, isolation and higher costs of living and a lack of access to public services.
- *Regional development:* to actively encourage individuals to move to and work in remote regions. In the case of Hamilton Island, competition for staff is high. The ability of Hamilton Island to continue to be the economic driving force of the Whitsunday region is dependent on its reputation for high quality facilities and services. A highly trained and stable workforce is a prerequisite. Hamilton Island's ability to provide reasonably priced accommodation and facilities to staff is vital for it to maintain and keep this human resource.
- *Industry-specific assistance:* Hamilton Island suffers significantly because it is remote. It is required to supply accommodation, infrastructure and significant other services to the Island for guests, residents and staff. These services come at considerable cost. HIE's costs of doing business (for example, freight) are also significantly higher because of its location.

Finally, and as noted in the summary on page 1 of this submission, it would be inherently unfair for taxpayer's such as HIE, who have invested heavily on the basis that these concessions are available and would continue to be available, if the FBT remote area concessions were to be arbitrarily removed.

Yours sincerely
Andrew Oatley
Executive Chairman
Hamilton Island Enterprises Limited