

9 May 2019



Mr Jonathan Coppel
Commissioner
Remote Area Tax Concessions and Payments
Productivity Commission
Level 12, 530 Collins Street
Melbourne VIC 3000

Dear Commissioner Coppel

The National Farmers' Federation (NFF) welcomes the opportunity to make a submission to the Productivity Commission's study into 'Remote Area Tax Concessions and Payments'.

The NFF has previously called for a review of the current suite of regional and rural assistance tax incentives, including, but not limited to, Fringe Benefits Tax (FBT) concessions and exemptions and zonal tax rebates to ensure the needs of regional and rural communities are being served. As such, we particularly welcome this review.

Of the terms of reference the Commission has been asked to study, the NFF submission specifically addresses:

1. whether the zone tax offset, and FBT remote area concessions are delivering on their policy objectives;
2. whether those objectives remain appropriate in a contemporary Australia;
3. the operation of the zone tax offset and FBT remote area concessions in terms of the levels of assistance provided, indexation and the boundaries of eligible areas and prescribed zones;
4. whether businesses in remote areas should be provided with similar support; and,
5. whether there are alternative mechanisms to better provide this support to Australians residing in specified geographic areas.

The NFF's response to these specific questions is located within the NFF's broader view on the positive role taxation policy should play in facilitating the growth of, investment in, and international competitiveness of, the Australian agricultural sector.

This view recognises that agriculture is an income generating sector that contributes to employment and funding the delivery of public services and infrastructure that support reasonable living standards for all Australians. These living standards should be equally enjoyed by people living in regional, rural and remote areas. It also recognises that 93 per cent of Australia's domestic food supply is grown in Australia. Australian farmers, as such, are critical to the wellbeing of the Australian population. Australian farmers are also stewards of 51 per cent of Australia's landmass. Enabling farmers to operate successful farming businesses supports their role as environmental stewards that benefits the country as a whole.

In considering possible amendments to Remote Area Tax Concessions and Payments, the NFF would argue that the principle of equity, one of the three key design principles for the tax and transfer system, warrants the agricultural sector and rural communities receiving special consideration in the taxation system. This consideration is warranted in light of the many financial and lifestyle challenges associated with living in rural areas and working in the agricultural industry.

Our overall recommendations are that the ZTO and FBT tax concessions be retained and increased to provide meaningful compensation for the challenges of living in remote areas. We also recommend that the objectives of these policies be expanded to include incentivising people to work in rural and remote regions of Australia.

1) Does the zone tax offset, and fringe benefits tax remote area concessions deliver on their policy objectives

The original objective of the current arrangements, as identified in the PC's issues paper, was 'to compensate people for the relatively high living costs, isolation and uncongenial climate in remote Australia'.

The NFF argues the objectives of the ZTO should be amended to better incorporate equity considerations and that policy objectives should be expanded to incentivise people to work and live in rural areas. The policy fails to meet its policy objectives in that current ZTO concessions inadequately compensate people living in remote areas.

With regard to the FBT concessions and their expansion in 2000, one of the objectives for these concessions was to 'make it easier for employers to attract and retain staff in remote areas'¹. The NFF argues the current FBT concessions continue to support this objective.

With regard to the ZTO, the very small financial concessions eligible tax payers receive under this program cannot be considered meaningful compensation. Putting the payments in context, and based on the PC's calculation of the ZTO annual base payments, an annual ZTO payment of \$338 to an eligible tax payer in Zone A would not cover the living expenses for one week of the average household in 2015-16².

Another example of the compensatory impact of this payment could be understood in terms of the extent to which the payment enables access to city-based services. An average 65 litre tank of diesel (in a regional location) is \$98³ which will allow travel in a regional area of approximately 683 kilometres⁴. This payment would allow someone living in zone A in Queensland who wanted to travel to Brisbane to make it less than half way once. Someone living in Zone B in NSW would be able to make it about two-thirds of the way to Sydney once.

¹ Minister for Financial Services, Second Reading Speech, *A New Tax System (Fringe Benefits) Bill 2000*, 9 March 2000.

² ABS, 6530.0 - Average Weekly Household Spending, Australia 2015-16 (<http://www.abs.gov.au/ausstats/abs@.nsf/mf/6530.0>).

³ ACCC, Report on the Australian Petroleum Market June Quarter 2018. <https://www.accc.gov.au/system/files/Report%20on%20the%20Australian%20petroleum%20market%20June%20quarter%202018.pdf>

⁴ Bureau of Infrastructure, Transport and Regional Economic, Fuel Economy of Australian Passenger Vehicles – a regional perspective, 2017, https://www.bitre.gov.au/publications/2017/files/is_091.pdf

While it is clear the value of the ZTO to eligible tax payers does not represent meaningful compensation, the conditions that were originally identified as requiring government-funded compensation remain though are measured based on misleading criteria. The conditions experienced by people living in remote areas identified as justifying compensation are: cost of living; isolation; and uncongenial climate.

Cost of living:

The NFF notes the 2016 Census found that that weekly median personal income for small towns (\$557 per week) was less than that for large towns (\$600) and major cities (\$696)⁵. While the ABS identifies those living in small and medium towns on average earn less than those in large towns, it also finds that the cost of living in a major Australian city is higher, on average, than living outside the city⁶. While this finding does not consider the costs of living in a very remote region, it would suggest that there is no longer a policy rationale for compensating people living in remote areas for higher living costs. The NFF argues that cost of living is not an accurate measure for comparing standards of living, and that equity considerations justify continuation on the ZTO and FBT concessions.

What the ABS survey does not measure is the extent to which people living in remote, as well as rural and regional areas, need to travel to major cities to shop for household and personal goods, and access medical, education, recreation, government and personal care services⁷. Anecdotal evidence suggests that lower expenditure on a number of these items is not because these goods and services are necessarily less expensive in remote and regional areas, but because they are not available to the same extent as they are in metropolitan areas. That is, people living in rural and remote areas do not spend income on these goods and services because they have less access to them. This conclusion would suggest that while the cost of living may be less in rural and remote areas, the standard of living, when measured according to access to goods and services, is lower in these areas.

Considering equity is one of the key design principles underpinning the taxation system, we would argue compensation remains warranted due to the reduced access people living in rural and remote areas have to the kinds of goods and services available to people living in cities. The impact of lack of access is evident in statistics on health outcomes for those living in rural and remote areas. As recognised by the Australian Institute of Health and Welfare:

“Australians living in rural and remote areas tend to have shorter lives, higher levels of disease and injury and poorer access to and use of health services compared to people living in metropolitan areas. Poorer health outcomes in rural and remote areas may be due to a range of factors, including a level of disadvantage related to education and employment opportunities, income and access to health services.”⁸

Isolation:

The NFF also argues isolation remains a real issue for people living in remote and many rural areas. While modern technology has enabled access to web-based telecommunications, skype cannot replace in-person engagement. Accounts of the particular kinds of interpersonal

⁵ ABS, 2901.0 - Census of Population and Housing: Census Dictionary, Census Dictionary, 2016.

⁶ [ABS, 6530.0 - Average Weekly Household Spending, Australia 2015-16](http://www.abs.gov.au/ausstats/abs@.nsf/Latestproducts/6530.0Main%20Features82015-16?opendocument&tabname=Summary&prodno=6530.0&issue=2015-16&num=&view=)
(<http://www.abs.gov.au/ausstats/abs@.nsf/Latestproducts/6530.0Main%20Features82015-16?opendocument&tabname=Summary&prodno=6530.0&issue=2015-16&num=&view=>

⁷ <http://insight.regionalaustralia.org.au/>

⁸ <https://www.aihw.gov.au/reports/rural-health/rural-remote-health/contents/access-to-health-services>

relationships that exist in small rural communities highlight both the potentially positive and negative impacts of those relationships⁹. Similarly, isolation from support and other kinds of personal and community services, has been shown to impact on the mental and general health outcomes of people living in remote areas¹⁰.

Isolation is a common characteristic of many types of employment in rural and remote areas. Driving a harvester for days at a time, fencing, travelling to farm businesses in advisory roles, can all involve significant periods of time without the company of others. Isolation also limits employment opportunities, another significant equity factor that should be considered in any study of the effectiveness of the ZTO and FBT schemes.

The PC issues paper identifies some factors that were considered to have contributed to a sense of isolation when the ZTO policy was first implemented in 1945. These include unsealed highways and truck routes, the expense and safety of plane travel, reliance on snail mail and absence of email, and limited or no access to government services. While there are more sealed roads, many remain unsealed. Plane travel is far more prevalent, but travelling to towns in remote and regional Australia remains significantly limited in terms of flight schedules and is considerably more costly than travelling between metropolitan centres. Email is a significant improvement on the postal system in terms of timeliness, but relies on a reliable internet service. In most parts of remote and many parts of rural Australia, internet services are not reliable nor offer anywhere near the kind of download and upload speeds enjoyed in Australia's major cities. Similarly, access to government services in remote and rural Australia varies and, in general, is not as easily accessible as in cities.

The point here is that isolation is a relative concept. It is inaccurate to measure 'isolation' today by comparing the transport, communications and government services provided in 1945 with those of today. Rather, isolation should be considered in terms of the transport, communications and government services enjoyed by most Australians living in major cities with those living in remote and rural areas. On this measure, and recognising most regions are behind cities in terms of connectivity, infrastructure and services, isolation remains a real challenge in remote and rural Australia today.

Uncongenial climate:

The question of whether the climate in remote, and rural, Australia is 'uncongenial' has both subjective and objective aspects. For the purpose of determining whether the state of the climate in these areas warrants compensation, this question should be addressed based on the objective aspects and should include access to basic amenities, personal comfort, and impact on health and wellbeing. Underpinning these aspects are the temperature extremes in which people living in remote and rural areas live and work, how long people are exposed to the elements in the course of a normal day, access to water, access to services that cater to people's comfort, health and wellbeing. On this measure, and again compared to the conditions experienced by people living in major cities, there is a case for compensation.

In sum, the NFF considers there remains a strong policy case for continuing to compensate people, via the tax system, who live in remote areas of Australia and that the current level of compensation is inadequate. We also argue there is a case for extending tax concessions to

⁹ Chan (2018), *Rusted-Off: Why Rural Australia is Fed Up*, Random House Australia.

¹⁰ Black, Roberts, Li-Leng (2012) Depression in rural adolescents: relationships with gender and availability of mental health services, *Rural and Remote Health*, 12: 2092.

people living in rural areas beyond the current geographic boundaries identifying remote areas for taxation purposes.

2) Do the objectives of the ZTO and FBT concessions remain appropriate in a contemporary Australia

Taxation concessions that compensate people for living and working in remote areas remain appropriate in contemporary Australia. The NFF considers the concessions should be extended to people working and living in rural areas in order to incentivise people to seek work opportunities in these areas.

As outlined above, differences in standards of living between those who live in remote and rural areas and metropolitan areas, the impact of isolation, and differences between the environment experienced by those living in remote and rural areas and those in metropolitan areas justify continuation of remote area tax concessions on equity grounds.

These concessions should be extended to rural areas in order to incentivise people to live and work in these areas.

The workforce in rural Australia has steadily declined as a percentage of the overall workforce¹¹. The Australian agricultural sector is struggling to fill employment gaps which is impacting on the sector's ability to meet its productive potential¹². Indeed the sector is heavily dependent on temporary migrant labour. Expanding the objectives of the policy to include incentivising people to move to rural areas would help address the agricultural sectors employment needs.

3) Operation of the ZTO and FBT remote area concessions in terms of the levels of assistance provided, indexation and the boundaries of eligible areas and prescribed zones

Level of assistance:

As noted above, the NFF considers the level of assistance provided by the ZTO does not adequately compensate people managing the challenges of living in remote and rural areas.

Indexation:

Noting the ZTO was last increased in 1993, indexation of the ZTO has been inadequate. The payment has clearly not kept up with the cost of living. It provides no meaningful support for people living in remote areas or incentive for people to consider living and working in remote areas.

Boundaries:

As outlined in the issues paper the zone tax offset, and fringe benefits tax remote area concessions were introduced to compensate people for the hardship involved with living in remote areas. The zoning was supposed to reflect the different levels of infrastructure, living

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<http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/by%20Subject/1301.0~2012~Main%20Features~Employment%20in%20Australian%20Industry~241>

¹² Howe et al, *Towards A Durable Future: Tackling Labour Challenges In The Australian Horticulture Industry*. 2019 University of Adelaide

costs, and remoteness in different areas of Australia. These zones were drawn based on the latitude, rainfall, distance from population centres, population density, predominant industries, access to road and rail services, and the cost of food and groceries¹³. 'Special areas' were added in 1982 that were areas more than 250 kilometres from a town of more than 2500 people.

The NFF argues 'remoteness' is not be a useful criteria for identifying those who should benefit from a tax concession that compensates them for the challenges of living in areas that lack the kinds of services and work conditions enjoyed by most Australians. It also is not a relevant criteria to the proposed policy objective of incentivising people to live and work in rural and remote areas.

The NFF believes that these zones should be redrawn and based on the amended objectives of compensating people for living in remote and rural areas and incentivising people to move to rural areas in order to grow the rural workforce.

4) Should businesses in remote areas be provided with similar support

The NFF considers that these measures should be extended to businesses in rural and remote areas. The NFF's proposed criteria for compensating people living in rural and remote regions of Australia (relatively lower standard of living based on access to services, isolation, and working conditions) can apply equally to those running general businesses in these regions as much as farming businesses.

The NFF would also argue that its proposed policy objective, to incentivise people to live and work in rural and remote areas, should include incentivising people to seek employment in rural and remote businesses and or open businesses in these areas.

5) Are there alternative mechanisms to better provide this support to Australians residing in specified geographic areas.

The NFF in principle supports measures which incentivise people to move to regional areas and take up employment opportunities that exist in these areas. Forgiving the HECS-HELP debts of graduates, for example, who choose to work in rural and remote areas is one possibility. There are some professions, nursing for example or mining, that provide a range of benefits to encourage people to take up and remain in the profession. This can include above average wages, generous overtime and penalty rates, health and or life insurance premium payments, fitness centre discounts, or even free cell phones.

While the NFF is open to considering alternative measures that would fill the proposed policy purpose (compensation and incentivisation), taxation concessions would seem to provide an existing, and simple mechanism for achieving the proposed policy objectives.

Recommendations Summary

In sum, the NFF makes the following points in response to the specific terms of reference addressed in this submission:

¹³ Tax in Agriculture (2017), Rural Industries Research and Development Corporation, p. 93.

1. whether the zone tax offset, and FBT remote area concessions are delivering on their policy objectives;

The ZTO is not meeting its policy objective of compensating people living in remote areas. ZTO compensation is inadequate and should be increased. FBT is meeting its policy objective of making it easier for employers to attract and retain staff in remote areas.

2. whether those objectives remain appropriate in a contemporary Australia;

ZTO and FBT policy objectives remain appropriate but the criteria used to measure equitable outcomes should be amended by replacing cost of living considerations with standards of living, 'uncongenial climate' with environmental hardship, and retaining isolation.

The ZTO and FBT policy objectives should also be amended to include incentivising people to work and live in rural and remote areas.

3. the operation of the zone tax offset and FBT remote area concessions in terms of the levels of assistance provided, indexation and the boundaries of eligible areas and prescribed zones;

The levels of ZTO concessions provide inadequate compensation and should be increased.

Indexation of ZTO payments has not kept pace with inflation contributing to inadequate compensation. Indexation should be aligned with inflation.

The boundaries of eligible areas and prescribed zones should be replaced with criteria that better meet the policy objectives of 1) compensating people for the inequitable standards of living, isolation and environmental hardship experienced by those living in remote and rural areas, and 2) incentivising people to live and work in remote and rural areas.

4. whether businesses in remote areas should be provided with similar support;

Businesses in remote and rural areas should be provided with similar support.

5. whether there are alternative mechanisms to better provide this support to Australians residing in specified geographic areas.

Alternative mechanisms for achieving the dual objectives of compensation and incentivisation should be considered in addition to amending the ZTO and retaining the FBT scheme but should not replace these schemes.

Should you have any questions with regard to this submission, please do not hesitate to contact Dr Prudence Gordon, General Manager Trade and Economics.

Yours sincerely

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CEO