



Study into Remote Area Tax Concessions and Payments

Submission by the Goldfields Voluntary Organisation of Councils (GVROC) to the Productivity Commission on its Draft Report released 4 September 2019

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REMOTE AREA TAX CONCESSIONS AND PAYMENTS DRAFT REPORT - SUBMISSION BY GOLDFIELDS VOLUNTARY REGIONAL ORGANISATION OF COUNCILS

The Productivity Commission is seeking submissions on its draft report released on 4 September 2019, which investigates the appropriate ongoing form and function of the zone tax offset, FBT remote area concessions, and Remote Area Allowance.

This submission is from the Goldfields Voluntary Regional Organisation of Councils (GVROC), which is an established partnership between local government authorities (LGAs) in the Goldfields Esperance Region of Western Australia including - City of Kalgoorlie-Boulder and the Shires of Coolgardie, Dundas, Esperance, Laverton, Leonora, Menzies, Ngaanyatjarraku, Ravensthorpe and Wiluna. GVROC LGAs are classified as either Remote or Very Remote (ABS Remoteness Area Classification, 2011).

The GVROC previously submitted an initial submission to the enquiry on 29 April 2019 for consideration by the Productivity Commission (see attached).

Initial Comments on Draft Report

GVROC believe the current draft report misses the issues that the Productivity Commission should be addressing in its review.

Many of the recommendations in the report seem to be premised on the Commission's view that the objective of the Remote Area Tax Concessions is not to promote regional development, but is to deal with inequities in the FBT regime where employers have operational reasons to provide these benefits to employees.

The draft report states that it is the Commission's view that it is the role of State and local governments to support and promote regional development, not the tax system. If you accept the Commission's view that regional development should not be an objective, it follows that FIFO benefits are more important than residential employee benefits.

However, if supporting regional development is an objective, the recommendations are unfounded. GVROC believes that the issue, therefore, is more about intent and the objectives of the concessions and less about their complexity or interpretation.

The GVROC challenge the Commission's view that the 'policy objective' is to deal with FBT inequality when in reality operational reasons require employers to provide such things as housing etc. to employees in many remote and regional towns.

GVROC would like the Commission to reinstate regional development as an objective in the final report and not just deal with the perceived FBT inequalities.



Additional Comments on the Draft report

1. Objectives are a matter for the Federal Government

GVROC believe the objectives of Remote Area Tax Concessions and Payment are a matter for the Federal Government and not the Commission.

2. Primary objective is Regional Development

The original intent and objective of remote area taxation support was to compensate people for the relatively high living costs, isolation and uncongenial climate in remote Australia (as acknowledged in the issues paper and report). Governments have not made changes to reduce or remove support for Regional Development as an objective. The second objective, equitable tax treatment, was added in 1986 and expanded in 2000.

3. Regional development cannot be discounted or ruled out as objective of Fringe Benefits Tax Assessment Act (FBTAA)

The draft report acknowledges that FBTAA does not specify the objectives of FBT remote area concessions and that stakeholder views differ (p212), yet the Commission in 7.3 (p227) states the there is no basis for governments to subsidise regional development by offering FBT concessions for remote areas, and the objective should be to address inequities and not to promote regional development (p228). If the Government wanted to rule out regional development as an objective for remote area concessions it would be specified in the FBTAA.

4. It is in Australia's economic and strategic interests to encourage people to settle, live and operate businesses in remote areas.

In short, the theme of the draft report tends to be on the basis that regionalisation no longer exists, and the Commission is happy for outback and remote towns / areas to become ghost towns.

The upper two tiers of government have been advocating for regionalisation for many years. In fact, at the last Federal election the government's pitch was incentivising workers to move to regional areas including support for skilled migration, reforming FBT guidelines and developing a National Settlement strategy. Enhancing remote area tax concessions and payments should be an avenue to stimulate employment in regional and remote WA, rather than how the Commission has outlined its recommendations in the draft report. It is also noted that many politicians have come out since the release of the draft report continuing to support regionalisation and refuted the Commission's stance.



A number of the comments under the Heading “Key Points” of the draft report are very short sighted and if the draft proposals are implemented it will make it extremely difficult to attract people (and more importantly families) to work / live in the regions.

There are many government (Federal, State & Local) services located in the remote areas to service the communities that are largely made up of indigenous persons, and then local businesses started to value add to this. The object is to make the towns / communities a better place for all Australians to live.

Cutting the employment and FBT benefits that currently apply to the remote areas will pretty much render the services / businesses non-existent. In fact the towns will simply become a hove for indigenous Australians to revert back to the way of life that existed many years ago and undo all of the work that has been put into place over many decades to provide a better quality of life with improved services, lifestyle, facilities and amenities.

The current major cities have become overcrowded, havens of crime and welfare; have water and power supply issues, and it seems the Commission wants larger cities that become even more unsustainable.

Many smaller communities have already been ravaged by government policies being centralised into ever growing cities, including rural cities. Governments have centralised public housing, community services, hospital and nursing needs, basic medical services, education, and this has turned many once thriving communities into ghost towns.

Again, the overcrowding of cities and the ever-increasing demand for social services creates anger, hostility, domestic violence, family feuding, drug use and abuse and other crimes.

The Draft Report appears to not comprehend that regional and remote Australia is the engine room of Australia producing vast sums of export dollars through mining and agriculture and employs thousands of workers.

The Report ignores the need to get populations, workforces and growth away from cites and into the areas where the wealth is created – not where it is consumed and intends to penalise people who choose to live and work away from major cities.

In addition to the above, the majority of Australia’s (or indeed WA’s) Gross Domestic Product emanates in the Pilbara, Goldfields and rural areas with little return to these areas in royalty or other payments. It is difficult to understand the logic behind the Commissions comment on page 17 of the draft report:



“The Commission does not consider that higher living costs or other aspects of life in remote areas warrant compensation from other taxpayers. Everyone faces a range of advantages and disadvantages in where they live and will typically locate themselves in the area they value most highly”.

If there is no additional cost or hardship associated with residing in remote / regional Australia then the Government needs to enforce and apply equal costs for food, clothing, fuel, housing, etc. across every town, city & suburb in the country. For example, currently a person in the city can buy a fresh lettuce at Coles for \$3, while someone living in remote regional WA normally pays \$5 for a lettuce that may be a week old before it hits the supermarket shelf. This is just one of many examples of the inequality of costs that people residing in remote and regional Western Australia face on a daily basis.

For our cities and regional centres to be strong and flourish there needs to be sustainable rural and remote towns that supports them. Currently there is a strong and growing mining industry that is the backbone of the Western Australia economy, however with the need to increase food production and resolve some of the fluctuations that results from the resource sector a strong emphases needs to be placed on the development and sustainability of agricultural and pastoral industries.

Tourism is a growing industry that required the support of remote and rural towns so they can obtain food, water, fuel and accommodation as the travel around Australia. All levels of government need to invest in infrastructure that can encourage and develop tourism, which includes both domestic and international tourist. An underdeveloped market is Indigenous Tourism, tourism want to experience the oldest culture which is Australian based. There is a real and sustainable business opportunity for our Indigenous communities to benefit from their culture, but they will need support from all levels of government if any positive outcomes are to be achieved.

It may be difficult for people who currently live in our cities to understand the real issues faced by rural and remote communities on a day to day basis. We are required to travel great distances to access basic government services, that our city cousins enjoy daily. Access to reliable communication services is another challenge which is a requirement for our business to operate. Without good reliable communications it is difficult to recruit or retain good, skilful staff.

All around Australia rural town and communities have had significant reduction in their populations as people move to the cities and coastal areas. As a nation we all need to determine if the depopulation of our rural areas will continue.

Local Governments are established across Australia to provide services to the local community. If we take an example such as Ngaanyatjarraku Shire Council which is a remote indigenous shire with no rate payers. The housing stocks are owned by State and Federal Government who exempt themselves from paying rates on their buildings.



The Shire pays an Award rate of pay and conditions similar to other local governments in the state. However, most of those local governments are not extremely isolated or have comparable cost of living. Would somebody in Perth consider \$630 per week rent as 'market value', no fresh milk and pay \$3.65 for a UHF milk that is on the shelf for \$0.95c in supermarkets elsewhere. Pay \$2.25/L for petrol with the nearest city 950kms away with over 550kms of that over unpaved roads. As the 'Award' does not cover the cost of living, Remote Shires must also pay in addition to the award:

- Expensive relocation cost for staff to remote locations;
- Additional leave entitlements to get out of a remote location;
- Travel costs to get out as there are no public travel services;
- Location cost of living allowance as the Remote Zone Allowance does not cover the costs,

Please note these amounts are also taxed through payroll.

As previously mentioned, rental housing market value is \$630 per week and electricity utility costs \$0.60/kilowatt. These rates are not comparable to other less populated parts of the country. Note, FBT is paid on utility benefits with the 50% FBT discount but given the FBT gross-up factor there is no reduction with a 47% tax rate.

If the Productivity Commission now wishes to remove the exemption from employer provided housing, remote Local Governments have no capacity to cover this additional cost. Without employer exempt housing the Productivity Commission is correct in suggesting that employees will typically locate themselves in the area they value most highly. This will not be remote rural Australia.

An additional impact is that all businesses accessing FBT benefits to support a residential workforce are disadvantaged. For small and mid-tier businesses FIFO would not be economically viable. This would in turn increase the cost of doing business, cost jobs and reduce population in regional areas.

5. Alternative mechanisms to support Australians residing in specified geographic areas is not addressed.

The current draft report does not adequately address the last item from the scope of the report.

Scope of the report (last item/dot point)

'consider if there are alternative mechanisms to better provide this support to Australians residing in specified geographic areas.'

The proposed changes to FBT remote area concession significantly reduce support for a large number specified geographic areas. No substantive alternative mechanisms are put forward in the draft report.



The recommendation that '*governments role is to create successful business environments*' (i.e. through infrastructure investment) has no detail and no substance.

Recommendations

The GVROC appreciates the Productivity Commission's commitment in producing the draft report and reviewing remote area tax concessions. It recognises that this is part of a suite of solutions to ensure the continual sustainability and attraction of regional and remote Australia.

In response to the Productivity Commission's Draft Report, the GVROC reiterates its initial recommendations, which it would like to see contained within the final report as follows:

1. The GVROC is of the opinion that a review of the current tax offset zones is required with ongoing reviews conducted after each Census release.

The GVROC requests that the Australian government consider the socio-economic issues and labour shortages in the region and increase the tax offset or bring it into line with other very remote or remote areas in Australia such as Northern Queensland.

2. The GVROC also requests the Australian Government consider implementing Queensland's Strong and Sustainable Resource Communities Act 2017¹ which ensures that residents of communities near large resource projects benefit from construction and operation of large projects. The Act prevents the use of "100 percent FIFO workforce arrangements on operational large resource policies."

The implementation of a similar program to Queensland's Strong and Sustainable Resource Communities Act 2017, would encourage companies to demonstrate local workforce recruitment efforts bringing positive outcomes in the community such as sustainability and reduced mental health issues.

3. There is also an immediate need to support business and industry in the region with a decline reported from 2016 to 2018 of -1.26% compared to an increase in WA of 2.48%.

It is apparent that industries operating in the region are being impacted by stagnant or declining populations caused by an increased reliance on FIFO workforces to keep pace with the growth in regional mineral production.

4. To address skill shortages in the region, the GVROC recommends that the Australian government consider offering graduates from in-demand vocations tax concession incentives attract them to reside in regional areas.

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<http://eisdocs.dsdip.qld.gov.au/Strong%20and%20Sustainable%20Resource%20Communities%20Bill%202016/strong-and-sustainable-resource-communities-act-2017-factsheet.pdf>



5. Given the critical labour shortage in the region, the GVROC requests that the Australian Government consider providing a fringe benefit tax (FBT) concession to encourage drive in drive out and residential employment in the Goldfields region. It is proposed that the FBT concession would be applied to the provision of living and housing expenses paid by mining companies, commercial businesses and local governments.

While providing this current submission to the draft report, as the Chair of the GVROC, I would also like to request on behalf of our members an extension from the Commission to prepare a more detailed response to the draft report. The GVROC have formed a special Strategic Working Group to review the draft report in detail and to investigate more fully the taxation incentives and other possible benefits for business and communities (in general) in remote and regional areas to encourage growth in regional Western Australia.

I look forward to hearing your response on our request for an extension and to further explore the draft report recommendations. Should you have any questions regarding this initial submission, please do not hesitate to contact me.

Kind regards

Malcolm Cullen - Chair
Goldfields Voluntary Regional Organisation of Councils

11 October 2019