

## Response – Draft Report

### PRODUCTIVITY COMMISSION INQUIRY REMOTE AREA TAX CONCESSIONS & PAYMENTS

The City of Kalgoorlie-Boulder (the City) welcomes the opportunity to respond to the Productivity Commission's (the Commission) Draft Report for the Remote Area Tax Concessions and Payments Inquiry.

This response is made in addition to our Submission lodged in April 2019, as well as the discussion facilitated at the Kalgoorlie Community Forum held at the City Administration Building on 7 May 2019.

Having reviewed the Draft Report, the City makes the following comments for consideration:

#### **1. Fringe Benefit Tax (FBT) Concessions in Remote Areas *should* promote regional development**

The Productivity Commission recognises that FBT Concessions for remote areas have dual objectives: equitable tax treatment where employers have operational reasons to provide goods and services to employees, and regional development (Draft Report, p.2).

However, the Commission has stated that the full exemption for employer-provided housing in remote Australia is "overly generous", proposing that the current exemption be reverted to a 50 percent concession (Report Overview, p. 31).

The Commission has also stated, "Where there is no operational reason to provide a particular good or service - where it is not required in order to perform employment duties, and can be readily purchased by the employee themselves - there is no case for an FBT concession, and employees should purchase these goods and services themselves from their after-tax income" (Report Overview, p. 30).

This would render employers in regional Australia, including businesses operating in Kalgoorlie-Boulder, ineligible to claim any FBT concessions for employer-provided housing.

If these proposed changes were adopted, businesses in regional Australia who utilise the current FBT concessions to attract and retain skilled residential workforces would be significantly disadvantaged.

By proposing a 50 percent reduction and reducing regional employer's ability to access the concessions, the Commission has underestimated the difficulties employers in regional Australia experience attracting a skilled residential workforce.

Although the current FBT concessions do benefit the employee by reducing their taxable income, this exemption promotes regional development and incentivises skilled workers to remain in regional Australia.

This has positive flow-on effects to regional communities, encouraging economic growth, livability and community development.

By decreasing the concession to 50 percent, the attractiveness of regional Australia as a place to work, live and operate a business decreases. The opposite also applies in that productivity in already overcrowded capital cities will be exacerbated.

The City recognises that the concessions for Fly In, Fly Out (FIFO) workforces are necessary for operations in remote areas. However, where there is “already a community nearby with a least basic services and a degree of livability” (Report Overview, p. 29), such as Kalgoorlie-Boulder, FBT concessions should be designed to encourage a residential workforce.

The City disputes the Commission’s claim that:

“State and Territory governments carry primary responsibility for regional development, and each jurisdiction will have its own challenges. A broadly applied tax concession is unlikely to be a cost-effective approach to incentivise employees or employers to move to or invest in specific regions in a way that aligns with these priorities” (Report Overview, pp. 29-30).

Regional development should be a priority across all levels of Government. Only through working collaboratively across Federal, State and Local Government levels can positive outcomes for regional communities be achieved.

It is in Australia’s economic and strategic interests to encourage people to relocate, reside and operate a business in regional Australia, and this should be reflected in Tax legislation.

Discounting or removing regional development as an objective of FBT concessions in remote areas would be detrimental to regional Australia. For this reason, the City strongly encourages the Commission to reconsider their proposed reduction of FBT concessions for employer and employee sourced housing in remote areas.

## **2. Adjustment of Remote Area Allowance (RAA) Boundaries**

The City agrees that the RAA Boundaries need to be updated to reflect contemporary Australia. However utilising the Australian Bureau of Statistics’ (ABS) Remoteness Areas Structure boundaries, as proposed by the Commission, does not adequately reflect the needs and level of isolation experienced by some regional communities.

Despite being located over 600 kilometers from Perth, Kalgoorlie-Boulder is classified as Outer Regional Australia according to the ABS’ Remoteness Structure. Contrastingly, the town of Coolgardie, which is only located 40 kilometers from Kalgoorlie and closer to Perth, is classified as Very Remote Australia.

In practice, this would mean that businesses operating in Coolgardie would be eligible to claim FBT remote area concessions, whereas businesses in Kalgoorlie-Boulder would not.

This is despite being only 40kms apart, and facing similar challenges in regards to workforce attraction and retention, access to services, and isolation.

If the ABS’ Remoteness Structure is used to form the RAA Boundaries, the City requests that there is a mechanism for regional communities, such as Kalgoorlie-Boulder, to apply to have their classification reviewed.

## **3. Zone Tax Offset (ZTO) should be reformed, not abolished**

The ZTO was introduced in 1945 recognising the disadvantages of residing in remote parts of Australia – in particular, the isolation and the high cost of living associated with living regionally.

People living in rural and remote areas do not have access to the same level of publicly funded services as metropolitan areas, and pay substantially more for services that are available.

The ZTO requires an overhaul to align with the current state of the economy. ZTO rates have not been altered since 1994, and at the current rate would have little to no effect on people's overall decision to live or relocate to regional areas.

The Commission's position that the ZTO lacks a "contemporary rationale" does not adequately consider nor reflect the needs of those residing in remote, regional Australia (Draft Report, p. 171).

Although the "employment opportunities, livability and amenities available" in particular places play an important role in where people decide to live and work, Australians should not be disadvantaged by their choice to live away from major cities (ZTO Factsheet, p. 2).

Reform of the ZTO could assist in levelling the playing field for those residing regional Australia, recognising the disparity in level of access and cost of essential services in remote areas compared to major cities.

#### **4. Part of the Report's Scope is not adequately addressed:**

**"Consider if there are alternative mechanisms to better provide this support to Australians residing in specified geographic areas"**

Although the Commission has proposed significant reform to current Remote Area Tax Concessions and Payments, the City is disappointed that the Report does not include any substantive alternative mechanisms to better support Australians residing in remote and regional areas.

This is a clear gap, and if the Commission's recommendations are adopted in absence of alternative mechanisms to support regional communities, both employers and employees residing in remote Australia will be worse off as a result of the Inquiry.

#### **Summary**

Thank you for the opportunity to respond to the Productivity Commission's Draft Report into Remote Area Tax Concessions and Payments. I hope that our feedback is considered during the compilation of the final Report.

Should you require any further information from the City of Kalgoorlie-Boulder, please do not hesitate to contact me.

Kind regards,

**John Walker**  
Chief Executive Officer  
City of Kalgoorlie-Boulder



**City of Kalgoorlie-Boulder**  
577 Hannan Street, Kalgoorlie WA 6430  
PO Box 2042 Boulder, WA 6432

T: (08) 9021 9600  
E: [mailbag@ckb.wa.gov.au](mailto:mailbag@ckb.wa.gov.au)  
[www.ckb.wa.gov.au](http://www.ckb.wa.gov.au)

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