

16 October 2019

Mr Jonathan Coppel
Presiding Commissioner
Inquiry into Remote Area Tax Concessions and Payments
Productivity Commission
4 National Circuit
Barton ACT 2601

Sent via email: remotetax@pc.gov.au

Dear Mr Coppel

RE: REMOTE AREA TAX CONCESSIONS AND PAYMENTS – DRAFT REPORT

The Chamber of Minerals and Energy of Western Australia (CME) is the peak resources sector representative body in Western Australia. CME is funded by member companies responsible for more than 90 per cent of the State's mineral and energy production and workforce employment. The value of royalties received from the sector totalled \$6.5 billion in 2018-19, accounting for 20 per cent of State Government revenue.^{1 2 3} In addition to contributing to a third of the state's total industry Gross Value Added,⁴ the sector is a major contributor to the local, state and national economies.

CME welcomes the opportunity to respond to the Productivity Commission's (the Commission) draft report on remote area tax concessions and payments (the inquiry), having also provided an initial submission to this inquiry. Efforts by the Commissioners to visit and consult with stakeholders in Western Australia are also appreciated.

1. Brief overview

CME reiterates our support for policy, regulatory and taxation arrangements that promote and sustain labour mobility and economic development of Western Australian regions and their communities. To attract and retain investment in Australia, particularly regional development, there should be no increase in taxation and compliance costs imposed on the resources sector.

In preparing this post-draft report submission, CME has sought feedback from mining and petroleum (energy, oil and gas) members operating across Western Australian regions classified as "remote" and "very remote" as per the Australian Bureau of Statistics' (ABS) definitions. As part of the recent inquiry into the effectiveness of the Australian Government's northern Australia agenda, CME has also canvassed specific feedback from members in the Kimberley and Pilbara, which is relevant and should be read in conjunction with this submission.⁵

This submission focuses on the report's draft recommendations to change treatment of remote area benefits under the *Fringe Benefits Assessment Act 1986* (Cth) (the Act). CME does not support changes to the Act that will negatively affect regional competitiveness and sustainability as it relates to the Western Australian resources sector, its workforce, and associated communities. As a highly trade exposed sector, maintaining and broadening eligibility of the fringe benefits tax (FBT) remote area tax

¹ Includes North West Shelf grants but excludes monetary contributions via other State taxes, levies, fees and charges.

² Government of Western Australia, *Budget paper no. 3: 2019-20 Economic and fiscal outlook*, Western Australian State Budget 2019-20, Department of Treasury, May 2019, p. 68.

³ Government of Western Australia, *Industry activity indicators: Royalties*, Department of Mines, Industry Regulation and Safety, September 2019: <http://dmp.wa.gov.au/About-Us-Careers/Latest-Resources-Investment-4083.aspx>

⁴ Duncan, A., Kiely, D. and Salazar, S., *Quarterly economic commentary: March 2019*, Bankwest Curtin Economics Centre, Curtin University, April 2019, p. 4.

⁵ CME, *Re: Select Committee on the effectiveness of the Australian Government's Northern Australia agenda*, submission to the Select Committee, September 2019: <https://www.aph.gov.au/DocumentStore.ashx?id=278ed089-5e87-4d12-b796-19510f77d05d&subId=670337>

concessions and exemptions will provide much needed certainty to project proponents in a time of increasing global competition and geopolitical tension.

CME has also discussed the report's draft recommendations with other relevant stakeholders in Western Australia and/or the broader resources sector, and understands an alignment of views exist on maintaining and broadening application of these remote area tax assistances.⁶ CME sympathises with and acknowledges concerns expressed by others, including:

*"If the recommendations in this report are adopted the Federal Government are clearly demonstrating they do not have a regional development agenda which would be exceptionally disappointing."*⁷

*"It would mean efforts to grow and maintain a local workforce in regional communities would be harmed... anti-regional Western Australia and anti-regional towns."*⁸

"The proposal is anti-jobs and will discourage workers from living in regional WA. It could potentially cripple some regional towns..."

Our policies today and into the future will continue to be focused on strengthening this vital [resources] industry and the regional and remote communities whose livelihoods depend on it...

*Any changes to remote tax arrangements would be agreed to only if they improved the position of West Australians currently living in regional and remote areas."*⁹

Recommendations made in this submission should be read alongside those previously included in CME's and the Minerals Council of Australia's (MCA) initial submissions to this inquiry.¹⁰ ¹¹ CME also notes and provide in-principle support to the views expressed in MCA's and the Australian Petroleum Production and Exploration Association's (APPEA) post-draft submissions.¹² ¹³

2. Concessions to address inequities in the FBT regime are justified

2.1 FBT exemptions for fly-in, fly-out and drive-in, drive-out arrangements are warranted

The Commission's view there should be no changes to the FBT treatment of fly-in, fly-out (FIFO) transport, temporary accommodation and meal expenses is supported. Specifically, CME welcomes the Commission's following views:

"FBT arrangements likely have only a minor influence on decisions to operate a FIFO workforce ... It is unlikely that the [FBT] concessions would be the main motivator. Other economic and social factors are at play."

"Concessions to address inequities in the FBT regime are justified..."

FIFO employment arrangements are often necessary due to remoteness (where there are no nearby labour sources), or for short-term projects (such as construction projects) where it would not be feasible for employees to change their permanent residence. In these cases, exemptions from FBT are appropriate."

These statements speak directly to the pervasive misperception by some stakeholders regarding the misuse of FBT arrangements for FIFO and associated business travel expenses. As noted in our initial submission, the practice of FIFO is a resulting combination of many internal and external factors. FBT is

⁶ City of Karratha, Department of Primary Industries and Regional Development, Goldfields Voluntary Regional Organisation of Councils, the Office of Senator Dean Smith and WA Local Governments Association.

⁷ Boydell, J., *Tax breaks and concessions essential for Pilbara*, statement by The Nationals WA Deputy Leader, 10 September 2019.

⁸ Government of Western Australia, *Parliamentary debates: Housing – Regional Western Australia – Tax concessions*, Legislative Assembly, 25 September 2019, 829 (the Hon. Mark McGowan MLA, Premier).

⁹ Buttery, N., *Premier to dig in on mining tax*, statement by the Premier, Federal Treasurer and Senator Dean Smith, The Weekend West, 21 September 2019.

¹⁰ CME, *Remote area tax concessions and payments: Issues paper*, initial submission to the Commission, July 2019:

https://www.pc.gov.au/_data/assets/pdf_file/0016/243340/sub095-remote-tax.pdf

¹¹ MCA, *Review of remote tax concessions and payments*, initial submission to the Commission, May 2019:

https://www.pc.gov.au/_data/assets/pdf_file/0011/241679/sub076-remote-tax.pdf

¹² MCA, post-draft submission to the Commission, October 2019: https://www.pc.gov.au/_data/assets/pdf_file/0009/246267/subdr173-remote-tax.pdf

¹³ APPEA, *Draft report on remote area tax concessions and payments*, post-draft submission to the Commission, October 2019: https://www.pc.gov.au/_data/assets/pdf_file/0019/246223/subdr151-remote-tax.pdf

by no means the primary driver of why FIFO has continued to become the preferred workforce arrangement adopted by many employees today.

While CME is pleased the Commission has recommended continued exemption of FIFO expenses is warranted, the report's remaining recommendations to restrict eligibility and application of the Act and other forms of tax assistances such as zone tax offsets and remote area allowances are concerning. It is disappointing many of these recommendations will effectively increase the tax and compliance burden imposed on the resources sector and its workforce.

2.2 Exemptions for employer-provided housing are not generous

CME has long argued the provision of remote area housing to employees is an expense incurred in the ordinary course of carrying out business. These expenses are operational, linked to the remoteness, isolation, volatility, spatial and temporal variability of projects typical of the resources sector. **We strongly disagree with the Commission's assertion these employer-provided housing expenses constitute an "overly generous" private benefit to be partially taxed.** CME and its members therefore do not support the Commission's draft recommendation #8.1:

"The Australian Government should amend the Act 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)."*

Maintaining the exempt treatment of these employer-provided housing expenses, which are necessary for operations, is vital to ensuring the resources sector can continue to contribute to Australia's economic growth and prosperity. Removing this exemption would disproportionately impose a higher tax burden on businesses operating in northern Western Australia, roughly equivalent of what one local government in regional Western Australia would receive in total rates revenue each year. CME is thus concerned with the report's statement:

"As an overly generous concession with loose eligibility rules, the exemption results in excessive forgone tax revenue for the Australian Government and places a disproportionate burden on other taxpayers."

We also strongly encourage the Commission to consider expanding the coverage of existing exemptions to include, and in turn incentivise, the renovation and construction of quality residential housing in remote areas for employees and their families. CME understands the Department of Primary Industries and Regional Development is currently underway with preparing the *2019 Regional Price Index*. CME encourages the Commission to discuss the housing basket of goods¹⁴ with the Department, which has significant weight in developing the index.

CME acknowledges opportunities exist to refine eligibility, and from time to time, improve the integrity of the FBT regime. However, the recommendation to **revert the exemption to a concession is likely to result in a disproportionate burden of tax incidence on the resources sector**, as well as other large public sector employers in remote areas. It will impose higher taxes on a sector that already has a marginal effective tax rate as high as 45 per cent in Australia.¹⁵ For example, of Australia's top 50 corporate taxpayer entities in 2016-17, CME members alone contributed to more than 30 per cent of the Government's revenue from corporate tax income.¹⁶ **The proposed changes to the housing exemptions therefore appear contradictory to current Government initiatives to alleviate the cost and administrative burden of doing business in Australia**, i.e. the Commonwealth's *Deregulation Taskforce*, the Commission's inquiry into resources sector regulation and the State's *Streamline WA*.

CME maintains the provision of remote area housing by the resources sector does not privately benefit the employee in a manner that could reasonably be characterised as receipt of genuine remuneration of a non-salary nature.

¹⁴ Local government rates, mortgage interest rates, rents, cost of utilities, home, contents insurance and credit charges.

¹⁵ Inclusive of royalties.

¹⁶ Member companies with operations in Western Australia as well as other jurisdictions. Australian Taxation Office, *2016-17 Report of entity tax information*, corporate tax transparency excel dataset, 12 December 2018: <https://data.gov.au/dataset/ds-dga-c2524c87-cea4-4636-acac-599a82048a26/details>

CME is thus concerned with the following statement:

“High-income individuals could in principle use the exemption for expensive properties in less remote places like Darwin, Townsville, Cairns or Byron Bay.”

The Commission's use of interstate “outer regional” examples does not apply to Western Australian resource sector projects. Private housing markets close to the majority of regional operations are truly “remote” or “very remote” with little effective access to quality infrastructure and services. They are not similar to these highlighted towns, which are well established and mostly located on the east coast of Australia, which would suggest there is a benefit that ought to be taxed. As described below, employer-provided and employee-sourced housing for an employee's usual place of residence is operational in nature and provided on that basis.

CME is concerned this draft recommendation, if adopted, will have a number of unintended and unquantifiable negative effects. The Commission should consider these effects, including:

- Employment effects on workforce flexibility and mobility
- Availability and quality of regional housing, which could distort discrete property markets
- Sustainability of towns and their communities with relatively poor adaptive capacity
- Increased taxation costs from not only FBT but also other regimes which are reliant on reportable remunerated fringe benefits, and
- Increased burden of administration in complying with an amended Act.

It is important to note at this stage, it is unknown how employers who maintain large portfolios of housing in northern Western Australia will respond to an increased tax and compliance burden.

2.3 Concessions on employee-sourced housing improves policy neutrality

As the report notes, the uptake of employee-sourced housing concessions on mortgage interest and rent assistance is narrowly used. This may be due to a variety of factors underpinned by a general preference by employees to reside in urbanised areas. As the report notes, this could be because:

- Ongoing administrative difficulties in demonstrating nexus of mortgage interest payments
- High build costs for residential and commercial properties
- High repair and maintenance costs in cyclone and flooding-prone zones
- Higher cost of living, e.g. rates and insurance
- A high payable transfer duty on property purchases
- Greater difficulty in accessing finance, or
- Lack of quality options available in private housing markets.

Whilst acknowledging there is a low uptake for these reasons, [CME does not support the Commission's draft recommendation #8.2:](#)

“The Australian Government should amend the Act to remove the 50 per cent concession on employee-sourced housing (section 60)”.

Removing this concession will undermine the current shift in labour markets to be more agile and flexible to suit an employee's preferences. In the absence of other mechanisms to adequately support labour mobility, CME endorses the MCA's views on this recommendation. The imposition of FBT on the cost or value of assisting employees to source housing would simply increase the cost for those employees wishing to reside in regional areas close to operations, and instead may result in employees favouring employer-provided housing. As described later in this submission, this reduction in flexibility is an outcome neither CME, its members, its workforce nor its communities would support.

As outlined above, [these associated housing assistances are operational and do not genuinely remunerate employees in a manner that should be subject to the highest marginal tax rate.](#) Instead of abolishing the concession available on employee-sourced housing, for simplicity and policy neutrality, [CME maintains the concession should be equalised to a full exemption.](#) This will reduce the administrative complexity employers currently experience in complying with arbitrary concessions. In CME's view, broadening application, eligibility and quantum of assistance this exemption offers has not

been given due consideration in this inquiry. With the volume of other stakeholders advocating broadening of the exemption, CME strongly recommends this recommendation be revisited.

On page 216 of the report, the Commission has also depicted substantial tax savings can be derived from salary packaging these remote area housing exemptions and concessions. This is a misleading example based on a number of hypothetical assumptions. It fails to take into account the sector does not, as a whole, incorporate “overly generous” benefits into pre-tax salary packages for high-income individuals. On the contrary, remote area housing is provided exclusive of remuneration to support ongoing operations.

2.4 Other remote area concessions

We note with disappointment there is no mention of early childhood education and care services in the report despite a recommendation made by CME on this matter. Currently the gender gap for Western Australian workforce participation is the highest in the regions, with an overall 57 per cent of females citing lack of childcare as a barrier to further work.¹⁷ [Extending the FBT exemption to other forms of off-premise childhood education and care services in regional and remote Australia would be transformational for both workforce and residential diversity.](#) It would also increase attractiveness for employees to relocate with their families, reducing underemployment and increasing part-time and full-time workforce participation of females aged 25 to 45 years.¹⁸ It may also serve to replenish declining regional populations and supplement an ageing workforce.

Concerning concessions on residential fuel and holiday transport, CME does not support changes that will effectively increase taxation, compliance and administration costs thereby detracting retention of appropriately skilled labour close to operations.

3. Uncertain effects

The Commission’s draft report focuses on justifying the removal of concessions and exemptions without a thorough evidence-based assessment of the quantitative and socioeconomic impacts the recommendations could have for business, industry, its workforce and regional communities.

3.1 Compliance costs would increase

Reverting the employer-provided housing exemption and removing the employer-sourced housing concession needs to carefully consider and quantify the net increase on administration and compliance burdens. As noted by many, compliance with the FBT regime is complex and onerous. CME therefore has concerns regarding the following issues:

- It will introduce an annual requirement to value the provision of employer-provided housing in “*very remote areas with thin housing markets*”. Such cases are likely to occur more frequently than what the Commission has identified to be a “rare” instance, particularly for small private housing markets in regional Western Australia where public subsidised housing and renting is prevalent. As a restraint there is often little activity in these markets to provide a reasonable benchmark for valuation. Requiring employers to use approximations such as the Commission’s suggested “*risk-adjusted rate of return*” is onerous.
- Introducing a new reportable category also introduces additional compliance uncertainty for both business and the Australian Taxation Office (ATO). The Commission’s argument “*additional compliance costs are justified by the benefits of more equitable tax treatment*” fails to consider the likelihood of increased enforcement activity by the ATO in auditing and reviewing FBT returns.
- Administration difficulties in allocating the cost or value of the housing benefit across different sites, accommodation villages, rosters and shift arrangements for disclosure on an individual employee’s payment summary. For workforces deployed and rotated across a number of sites for shutdowns or commissioning of construction projects, this can be difficult for members that do not have sophisticated systems already in place.

¹⁷ Government of Western Australia, *2019 Women’s report card: An indicator report of Western Australian women’s progress*, Department of Communities, August 2019, p. 138.

¹⁸ Baker, A. and Ball, M., *Indicators of labour market conditions in advanced economies*, Bulletin, Reserve Bank of Australia, June 2018, p.10.

- Currently remote area housing and residential fuel benefits are exempt from payroll tax in Western Australia. Although all jurisdictions have harmonised payroll tax requirements, an exemption to forgo inclusion of these benefits in calculating the payroll tax liability was retained to “recognise Western Australia’s extensive and unique regional industries.”¹⁹ With the report’s draft recommendations, this could introduce discrepancies and administrative complexity for Western Australian businesses operating in more than one jurisdiction. It may distort reporting and reconciliation requirements between the two tax regimes across jurisdictions.
- Insurance premium rates for workers compensation in Western Australia are calculated on remuneration, which includes fringe benefits. The report’s draft recommendations will increase reportable remuneration and therefore the required amount levied under WorkCover WA.

CME acknowledges the Commission has suggested the ATO should provide additional guidance on valuing housing. However, unless the guidance is (a) legally binding and (b) provided upfront, valuation is likely to be subjective with the risk of “teething” issues and legal disputes. As with any new or amended tax legislation, the ATO typically provides guidance on a retrospective basis as incidences occur over time. This is distinct from providing prospective guidance to encourage best-practice compliance.

CME recommends the interaction of the report’s draft recommendations with the above issues is considered and quantified. This will enable a holistic assessment of the overall impact on compliance burdens. There is a risk the recommendations will simply increase the net cost of employment via on-costs and reporting obligations, adding pressure to a gradually tightening labour market and not necessarily the full realisation of forgone tax revenue as the Commission purports.

3.2 Labour mobility will reduce

With \$108 billion worth of projects in the pipeline for the Western Australian resources sector,²⁰ it is generally accepted a skills shortage is on the near term horizon. Where shortages have previously been drawn from interstate and overseas, the projected skills shortage across all industry sectors will put additional pressure on attracting and retaining a skilled workforce in Western Australia. The maintenance of existing FBT arrangements to support labour mobility is critical for the market to respond to changes in economic and labour conditions.

Specifically, CME supports the use of policy and economic instruments to improve spatial and temporal labour flexibility and mobility. To reinforce CME’s previous views, these dual objectives are crucial for the economy to meet the existing and future demand for skilled labour, whilst also providing flexible, attractive work and lifestyle arrangements for employees in regional and remote Western Australia. In a tighter labour market, employers need to offer more salary and non-salary benefits to attract workers. The increased demand for flexible work arrangements, both time and location-based, is a function of greater labour mobility.

The Commission’s draft recommendations to reduce tax assistances appear contrary to these objectives. It will constrain labour mobility. For example, reducing employer-provided assistance with housing is likely to impact an employee’s willingness to relocate their usual place of residence, along with their family, to regional areas close to work. The recommendations do not support increased flexibility and choice for employees. Rather, they restrict mechanisms available for employers to attract and retain regional employment. CME therefore opposes any reduction or removal of remote area assistances that would impede flexibility and thus labour mobility.

Within the limits of operational and occupational health and safety requirements, there are a number of roster and shift arrangements now available to suit a range of employees who wish to maintain their lifestyle preferences. However, even with the allure of above-market salaries and diverse work arrangements it remains challenging to attract and retain skilled labour. For example, the Goldfields region has succeeded in developing a Designated Area Migration Agreements (DAMA) to increase their

¹⁹ Explanatory Memorandum to the Pay-roll Tax Assessment Amendment Bill 2010 (WA):

[https://www.parliament.wa.gov.au/parliament/bills.nsf/47C1E565BC192CDE482576D400204302/\\$File/EM+107-1.pdf](https://www.parliament.wa.gov.au/parliament/bills.nsf/47C1E565BC192CDE482576D400204302/$File/EM+107-1.pdf)

²⁰ Government of Western Australia, *Industry activity indicators: Royalties*, Department of Mines, Industry Regulation and Safety, September 2019: <http://dmp.wa.gov.au/About-Us-Careers/Latest-Resources-Investment-4083.aspx>

flexibility to respond to economic and labour market conditions. Other regions, including the Pilbara, are also advocating for DAMAs. As the report highlights, there is a practice of high non-salary costs in regional Australia to combat these existing issues:

“Additionally, although businesses bear higher costs by offering higher wages, these wages alone are often not enough to attract or retain workers. Many businesses also provide non-monetary benefits to entice employees, including housing or vehicles suited for unsealed roads. Part of the reasoning is that, especially for housing, there are often thin or non-existent markets in remote areas.”

The draft recommendations do not alleviate these difficulties. CME strongly urges the Commission to maintain, and where appropriate expand, concessional treatments to influence mobility of skilled workers. In turn, this may incentivise employees to relocate to the regions and generate sustained economic activity.

3.3 Unintended effects on local housing markets

CME notes and is concerned with the Commission’s statement:

“Even in these areas, total tax savings from the current exemption (estimated to be in the range of \$10 to \$50 million per year for the Pilbara region are relatively small in comparison with economic output... these regions are much more significantly affected by commodity price volatility”.

We encourage the Commission to consider the impact of increased taxation on the ongoing sustainability of regional and remote communities when times are indeed “tough”. CME recommends the Commission consider the likelihood and impact of these externalities on communities with a below average adaptive capacity and a high reliance on a single sector, i.e. Karratha and Port Hedland:

“Regions with mines that have high cost structures (and that are therefore only economically viable during periods of relatively high commodity prices) face challenges from cyclical downturns. For example, in the Kimberley region of Western Australia, three mines that accounted for 30 per cent of gross regional product when iron ore prices were at their peak are now in care and maintenance.”²¹

In stark contrast to the rest of regional Australia, the Kimberley, West and East Pilbara regions also experienced the single largest declines home ownership and value of new building approvals.²² CME recommends the Commission consider and quantify the implications of imposing FBT on employer-provided housing and the likely response by local property markets, particularly where supply and demand is sensitive or elastic. As an example, the average residential property price in these regions increased from \$548,545 in 2007 to \$814,200 in 2012, followed by a sharp decline to \$329,261 in 2017. As the report notes, there is a high percentage of rentals in these markets.

The Commission should also be aware a majority of members operating in areas with high concentrations of employer-provided housing are competing on a global scale with low-cost producers in Africa and South America or competitive business environments such as Qatar and the United States. It can be reasonably inferred the possession of significant housing portfolios in these areas is partly a result of keeping costs down to remain globally competitive. By keeping these costs down, the sector is able to scale up and down in response to commodity prices.

4. Geographical restrictions should be updated to reflect current populations

Whilst CME supports periodic reviewing of the “remote” geographical boundaries, such as every second or third Census, determining the legislative frequency to update whilst also minimising disruption is a complex exercise in itself. CME recommends any changes that would add to existing compliance burdens are deferred until the Government responds to the Board of Taxation’s review on FBT compliance costs. The frequency needs to be suitable for longer-term applications to provide project proponents with reasonable investment certainty and clarity.

Any refresh to the definition of eligible zones, as defined in tax legislation, should consider a wider range of factors such as population size, demographic composition, socio-economics, access and quality of

²¹ Commonwealth of Australia, *Transitioning regional economies: Study report*, Productivity Commission, December 2017, pp. 136-7.

²² Commonwealth of Australia, *Progress in Australian regions: Yearbook 2018*, Department of Infrastructure, Regional Development and Cities, October 2018.

infrastructure and higher costs of living. A threshold fixed on a historical population of 14,000 is not fit-for-purpose. Any proposed changes that preclude those in Kalgoorlie, Karratha and Port Hedland from claiming these tax assistances is contrary to the State and Commonwealth Government's promised outcomes of regional economic development.²³ If the boundaries are not decoupled from the zone tax offset, [CME endorses MCA's recommendation the threshold is periodically indexed relative to Australia's overall population](#). Indexation ensures ongoing contemporaneity is built-in, whilst relativity ensures there is fairness in disparity between "rural vs. urban Australia".

Due to the state's geography, Western Australia has also typically been the greatest jurisdiction affected by any change to the ABS definition of remoteness, which underpins Australia's system of horizontal fiscal equalisation (HFE).^{24 25 26 27} As evidenced by the Commission's recent inquiry and Government's corresponding legislated support for Western Australia to receive top-up payments, the HFE redistribution system is not perfect. Although it takes into account the higher per capita expenditure on service delivery in remote areas, it does not adequately consider:

- Socioeconomics of isolation
- Truncates the calculated cost disability at a fixed distance
- "Effective" accessibility, nor
- Degrees of remoteness beyond the category "very remote".

These issues have contributed to chronic underfunding of public infrastructure and services throughout remote and regional Western Australia. As a result, the resources sector has historically invested significantly in physical and social infrastructure for nearby towns, communities and workforce accommodation villages to attract and retain employees to work and live close to operations. If the ABS definitions of remoteness are adopted, it should be noted these types of flaws already exist.

5. The difficulties of doing business

At 2.5 million km², Western Australia's geography is significantly more vast and diverse than any other jurisdiction in Australia. The resources sector and its workforce acutely feel the effects of remoteness, isolation and population dispersal. Diseconomies of scale and lower population densities results in smaller markets, fewer opportunities for operational efficiency and limited availability of quality infrastructure and services.

Members with significant housing portfolios in northern Western Australia are affected by higher costs. Due to high winds caused by cyclones (region D) and seasonal flooding caused by intensive periods of tropical rainfall, upfront build specifications and ongoing repairs of buildings, infrastructure and ancillary services are more stringent and costlier. Premiums for home and contents insurance are also up to four times more for Onslow and Dampier when compared to the rest of Australia.²⁸ The Australian Competition and Consumer Commission's (ACCC) inquiry into the supply of home insurance in northern Australia highlights these inherent issues:

*"While these [recommendation] measures will bring improvements to insurance markets, it will still leave underlying affordability issues for some individuals that are so sharp that a strong public policy response may be required if northern Australia is to achieve its economic and liveability potential."*²⁹

Without remote area tax assistances, the cost of doing business in the regions is high – both salary and non-salary costs. As described above, the HFE system is inadequate to address uneven economic

²³ Future Battery Industry Strategy, Western Australian Renewable Hydrogen Strategy, National Hydrogen Strategy, Critical Minerals Strategy and National Resources Statement.

²⁴ Commonwealth of Australia, *2015 Review: Remoteness classification*, staff discussion paper CGC 2013-01, Commonwealth Grants Commission, April 2013.

²⁵ Government of Western Australia, *Western Australian comments on staff discussion paper CGC 2013-01 Remoteness classification*, Western Australian Treasury, June 2013.

²⁶ Government of Western Australia, *Western Australia's further comments on the remoteness classification*, Western Australian Treasury, July 2013.

²⁷ Government of Western Australia, *Inquiry into horizontal fiscal equalisation*, submission to the Commission, June 2017, p. 86.

²⁸ ACCC, *Northern Australia insurance inquiry: First interim report*, November 2018, p. 34.

²⁹ ACCC, *Northern Australia insurance inquiry: First interim report*, November 2018, p. 238.

development, and as described below, there is limited assistance of material value available for regional businesses to access. We therefore do not support the Commission's view:

"Uneven economic development across Australia does not, in itself, justify a national policy intervention..."

In supporting delivery of current Commonwealth initiatives such as the *National Resources Statement* and *Australia's Critical Minerals Strategy 2019*, national assistance is justified. Again, the report's draft recommendations appear contrary to these initiatives. CME maintains stable taxation arrangements are needed to minimise difficulties of doing business in regional and remote areas. Providing this certainty to the resources sector also provides certainty for industries that service the sector, as well as towns and communities whose livelihoods depend on the sector's growth.

"Data on inter-industry linkages tell us that activity in industries that service the mining industry quadrupled as a share of Gross Domestic Product between the early 2000s and the peak of the mining investment boom in 2012/13."³⁰

Given most commodities are located in the regions; there is strategic significance and value in continuing to support the regions through the maintenance of these tax arrangements.

Even though CME agrees with the Commission's view below on removing barriers for business, this is unlikely to occur within a reasonable timeframe.

"There are more effective (and less distorting) ways for governments to support businesses in remote areas, if and where appropriate, without introducing (further) inefficiency, inequity and complexity into the tax system..."

Removing unnecessary regulatory impediments on business development regardless of location."

A material reduction in barriers to investment regardless of location is difficult to achieve and has been subject of many previous Parliamentary inquiries, Commission reviews and reforms. Despite a flurry of reviews currently underway across and within governments, there has been limited appetite for real and meaningful tax reform since the *2015 Tax White Paper*. With this in mind, CME does not support changes to the Act that would materially increase taxation and compliance costs.

6. The broader policy context

CME notes the Commission has identified there are other mechanisms that could be more fit-for-purpose for achieving the policy objectives of regional development, using this as an argument to support the removal and reduction of remote area tax assistances. However, these mechanisms are not consistently offered across all sectors and jurisdictions.

Similar to the devolution from State to local governments, CME would have concerns about transferring sole responsibility for regional development to the states and territories. Noting the Commonwealth, rather than the states and territories, would receive the increased FBT revenue, CME would question the ability for the State Government to implement mechanisms of sufficient scale and influence. For example:

- Unlike Queensland, Western Australia does not currently offer payroll tax discounts for businesses in regional areas. A fixed two-year rebate although is offered for new indigenous employees.
- Unlike Victoria, Western Australia does not currently offer land transfer duty concessions for businesses in regional areas.
- The Commonwealth's *Building Better Regions Fund* is focused on infrastructure projects and community investments undertaken by local governments and not-for-profits, not regional businesses.
- The Commonwealth's *Northern Australia Infrastructure Facility* did not implement effective governance arrangements to support integrity and transparency of decision-making processes.
- The State's *Royalties for Regions Fund* was under scrutiny for failing to spend taxpayers' funds wisely on regional projects that delivered value for money and lasting benefits.

³⁰ Heath, A., *Australia's resource industry: A look into the crystal ball*, speech address to the Association of Mining and Exploration Companies, Reserve Bank of Australia, 5 June 2019.

In the absence of a unified whole-of-government approach that adequately addresses existing inequities, across not only tax regimes but also other spheres, CME does not support changes to remote area tax assistances that would leave regional businesses and communities worse off. CME also does not support changes underpinned by populist rhetoric and political opportunism. Any material changes need to consider the full spectrum of externalities across a longer-term horizon.

7. Conclusion

Australia's global competitiveness as a place to do business has recently dropped two ranks because other countries have succeeded in improving their operating environments.³¹ The Commission's draft recommendations, as they are, are unlikely to contribute to lifting Australia's productivity potential.

CME acknowledges there is a need to review the effectiveness of any outdated piece of legislation. CME recommends any changes should consider the potential for achieving real and meaningful economic development in the regions, but also the importance of maintaining competitiveness and stability in taxation arrangements. This is more so important in the context of a globally competitive environment rife with geopolitical developments. Any changes to existing arrangements should support increased labour flexibility and choice – not restrict it.

CME looks forward to the Commission's consideration of the matters raised in this letter. Should you have questions, please contact Linh Nguyen, Policy Adviser for Economic Competitiveness

Yours sincerely

Paul Everingham
Chief Executive Officer

Copy:
Mr Paul Lindwall
Commissioner
Productivity Commission

³¹ Klaus, S., *The global competitiveness report 2019*, insight report, World Economic Forum, October 2019, p.13.