

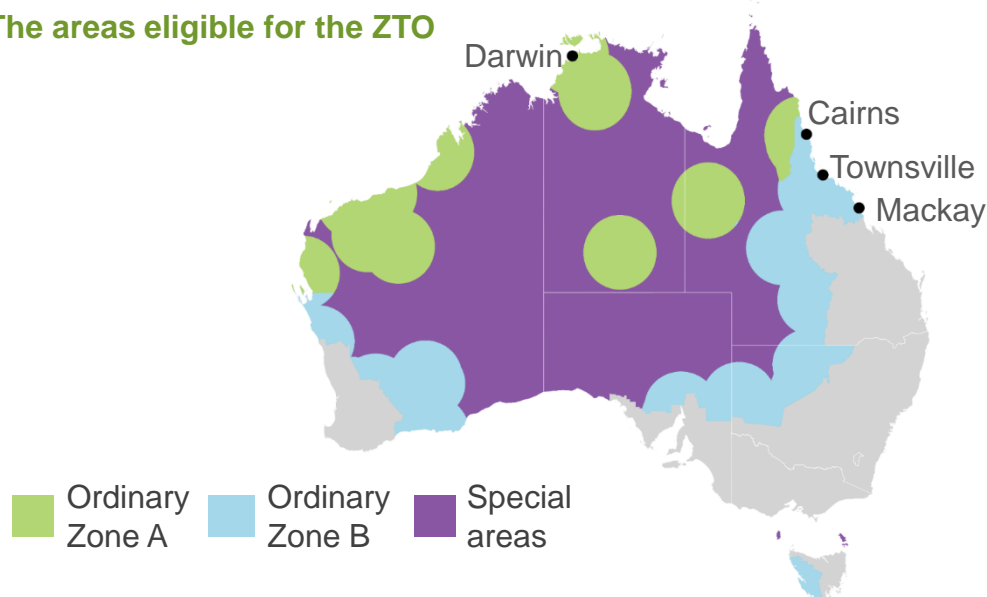


REMOTE AREA TAX CONCESSIONS AND PAYMENTS — DRAFT REPORT

## ZONE TAX OFFSET

The zone tax offset (ZTO) is an income tax offset available to residents of specified parts of Australia (referred to as the ‘zones’ — see figure). It is designed to compensate residents for harsh climatic conditions, isolation, and a higher cost of living in the zones. The precursor to the ZTO was put in place in 1945.

### The areas eligible for the ZTO



In 2016-17 about 480 000 taxpayers claimed the ZTO, with claims worth \$153 million. Many claimants earn above-median incomes.

### Payment rates

There are three rates available, with people in more remote areas eligible for a larger offset.

- Special areas: \$1173 offset, plus 50 per cent of applicable dependant rebates.
- Ordinary Zone A: \$338 offset, plus 50 per cent of applicable dependant rebates.
- Ordinary Zone B: \$57 offset, plus 20 per cent of applicable dependant rebates.

ZTO rates have not increased since 1993-94, and the value of the offset to claimants has fallen significantly in real terms. Today, the ZTO represents less than 1 per cent of after-tax income for more than 80 per cent of claimants.

[MORE]



### **The zones are outdated**

The zones are outdated. Nearly half of claimants live in Townsville, Cairns, Darwin, or Mackay, which are now well-developed and connected cities. Their residents can no longer be considered isolated.

### **The ZTO lacks a contemporary rationale**

Arguments in favour of the ZTO generally fall in one of two categories.

One argument is that it is necessary to compensate residents for the disadvantages of life in remote areas. However, Australians face a range of advantages and disadvantages wherever they live, and will typically locate themselves to the area they value most highly. And in many cases, higher remuneration for jobs in remote Australia compensates workers, at least to some extent, for the disadvantages of remote living.

The second argument is that the ZTO should support regional economic development, including by encouraging people to relocate to particular areas. A tax offset is not well suited for encouraging people to move to particular areas, because the employment opportunities, liveability and amenities available in particular places tend to play a more important part in where people decide to live and work. Further, attempts by governments to create an artificial advantage for a remote community, or to attract people to live in high-cost areas through tax concessions, are unlikely to be effective and typically result in net losses to the broader Australian community.

The Commission does not consider that either argument justifies maintaining the offset.

### **What is the Commission proposing?**

As it stands, the ZTO is ineffective and poorly targeted, and the Commission does not consider that there is a compelling, contemporary justification for it to continue.

The ZTO should be abolished. In most cases, this is likely to have a small or modest impact. For the majority of recipients, including residents of Cairns and Townsville, the average impact will be around \$2.50 per week.

If the Australian Government decides to retain the ZTO, it should be reconditioned. The ZTO should only be available to residents of *very remote* areas (as defined by the ABS) and provided as a flat offset at the current special area rate (\$1173).

[END]