



REMOTE AREA TAX CONCESSIONS AND PAYMENTS — FINAL REPORT

FRINGE BENEFITS TAX REMOTE AREA CONCESSIONS

Under Australia's fringe benefits tax (FBT) regime, employers may claim tax concessions for some goods, services, or financial assistance provided to employees working in designated remote areas.

These remote area tax concessions may apply to:

- housing provided by an employer as an employee's usual place of residence
- financial assistance with housing sourced by an employee
- residential fuel, for use in properties where the remote area housing concessions are used
- meals for primary production employees
- holiday transport for employees
- transport to and from a worksite for fly-in fly-out (FIFO) workers.¹

There are two main types of concessions: exemptions (where the good or service is not subject to FBT), and partial concessions (where the taxable value of the good or service is reduced, often by 50 per cent).

The concessions can provide significant tax savings

The exemption for employer-provided housing (as usual place of residence) can provide significant tax savings to higher-income employees in particular, and could cost as much as \$390 million per year in forgone FBT revenue. Use of the exemption is concentrated in northern Western Australia and Queensland, and in industries such as mining, agriculture, and public services.

Partial concessions on employee-sourced housing are less generous and have higher compliance costs than the exemption for employer-provided housing; the other remote area concessions (on residential fuel, meals for primary production employees and holiday transport) provide limited tax savings and have high compliance costs. These concessions are narrowly used.

The concessions are overly generous and go beyond what is needed to make the tax equitable

Stakeholders differ on the concessions' policy objectives. Some maintain that the concessions should promote regional development by giving employers greater financial capacity to attract and retain employees.

[MORE]

¹ Some additional exemptions, on temporary accommodation, meals and (in some cases) transport for FIFO workers, are not restricted by FBT remote area definitions.



Another perspective is that employers sometimes have operational reasons to provide goods and services (such as housing) to employees, and in these cases it would be inequitable to apply the full rate of the FBT. The full rate of FBT is equivalent to the top marginal income tax rate, and would act to discourage the provision of remuneration ‘in kind’ instead of wages; employers in remote areas would be disadvantaged relative to employers in locations where employees could buy the goods and services themselves with their wage earnings. The Commission considers this to be the most compelling argument for FBT remote area concessions.

However, as they are currently designed, the FBT remote area concessions do not address either of their purported objectives effectively. The current concessions are overly generous and complex, which creates other inequities including artificial cost advantages for some businesses which, in turn, encourage inefficient investment.

What changes is the Commission proposing?

The Commission is proposing several changes to the concessions’ rates and eligibility rules (table below). In particular, for employer-provided housing, the current exemption should be changed to a 50 per cent concession, as it was prior to 2000. The boundaries for the concessions should also be updated to reflect current populations and contemporary road infrastructure.

What impacts would the Commission’s proposals have?

These changes would better target the remote area concessions to address inequities in the FBT regime where there is an operational requirement to provide goods and services (such as housing) to employees. This would help to limit use of the concessions where there is not an operational requirement, without penalising employers where there is.

The proposed changes would reduce tax savings and cause some increase in compliance burdens. The employment and regional effects are likely to be small overall. To provide time to adjust, the changes to the FBT remote area concessions should be introduced with a delayed start date.

There is a case for the Australian Government to consider providing some of the assistance it currently provides (non transparently) through the FBT concessions in other ways. If the Australian Government adjusts the funding of service delivery agencies, general revenue assistance paid to State and Territory governments would be an effective way of doing so.

The Commission is not proposing changes to the existing exemptions for fly-in fly-out (FIFO) arrangements. However, FBT exemptions for FIFO workers, while widely used, are likely to have only a minor influence on decisions to maintain a FIFO workforce. The significance of the one concession for FIFO workers that explicitly links eligibility to remoteness (transport to and from a work site) would be even less.

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Proposed changes to FBT remote area concessions

	<i>Existing concessions</i>	<i>Proposed changes</i>
Employer-provided housing	Exemption from FBT for employer-provided housing in designated remote areas (FBTAA, s. 58ZC)	<ul style="list-style-type: none"> • Change the exemption to a 50 per cent concession. • Remove the provision that enables employers to claim the concession because it is 'customary' to provide housing (s. 58ZC(2)(d)(iii)). • Remove the extension of the concession to additional areas for 'certain regional employers' (s. 140(1A)). • Develop valuation methodologies for remote area housing. • Collect data on use of the concession.
Employee-sourced housing	Partial concessions on other forms of housing assistance in designated remote areas (FBTAA, s. 60 and Divisions 14A, 14B)	<ul style="list-style-type: none"> • Remove the partial concessions on employee-sourced housing.
Temporary accommodation, meals and transport for FIFO workers	Exemption from FBT for temporary accommodation, meals and transport for FIFO workers. (Note: remote area transport (s. 47(7)) is the only concession linked to remote area boundaries)	<ul style="list-style-type: none"> • No change to existing concessions for FIFO arrangements.
Residential fuel	Partial (50 per cent) concession for residential fuel used in housing that attracts an FBT remote area concession (FBTAA, s. 59)	<ul style="list-style-type: none"> • Limit access to the concession for use in conjunction with employer-provided housing to instances where there is an operational requirement for the employer to provide residential fuel (s. 59(1)). • Remove the concession for use in conjunction with employee-sourced housing (s. 59(2) and (3)).
Meals for primary production employees	Exemption from FBT for meals provided to primary production employees on work days (FBTAA, s. 58ZD)	<ul style="list-style-type: none"> • Limit access to instances where there is an operational requirement to provide meals. • Remove the definition limiting the exemption to meals 'ready for consumption'.
Holiday transport	Partial (50 per cent) concession on return holiday transport to specified destinations. (FBTAA, s. 60A and s. 61)	<ul style="list-style-type: none"> • Remove the holiday transport concession.
Boundaries for the concessions	Based on 1981 populations and 1986 road distances. Different population thresholds apply in ZTO zone and non-zone areas.	<ul style="list-style-type: none"> • Update the boundaries to reflect 2016 census populations and contemporary road infrastructure. • Align population thresholds at 40 km from communities with populations of 28 000 or more and 100 km from communities with populations of 130 000 or more (as currently in the ZTO zones). • Periodically update the boundaries using a 'two-strikes' rule to determine whether communities fall in or out of eligible areas.

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