



REMOTE AREA TAX CONCESSIONS AND PAYMENTS — DRAFT 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 work site for fly-in fly-out (FIFO) workers.¹

There are two 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 \$430 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 little-used.

FBT exemptions for fly-in fly-out workers, while widely used, are likely to have only a minor influence on decisions to maintain a fly-in fly-out 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.

[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.



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. The Commission considers that State and Territory governments carry primary responsibility for regional development, and that a broadly-applied tax concession is unlikely to cost-effectively incentivise people to act in ways that align with those governments' priorities.

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, the current concessions are overly generous and complex, going beyond what is needed to make the tax equitable.

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 Commission is proposing that the current exemption should be reverted to a 50 per cent concession, as it was prior to 2000. These changes would help to limit use of the concessions where there is not an operational requirement, without penalising employers where there is.

What next?

The Productivity Commission welcomes feedback on this draft report. You are welcome to make a written submission to the Commission by Friday 11 October. Alternatively, you can leave a brief comment. The draft report and information on how to submit submissions and brief comments is available on the study's website: www.pc.gov.au/remote-tax.

[MORE]



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 back 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))
Employee-sourced housing	Partial (50 per cent) concession on other forms of housing assistance in designated remote areas (FBTAA, s. 60)	<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 that remote area transport (s. 47(7)) is the only FIFO 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

[END]