

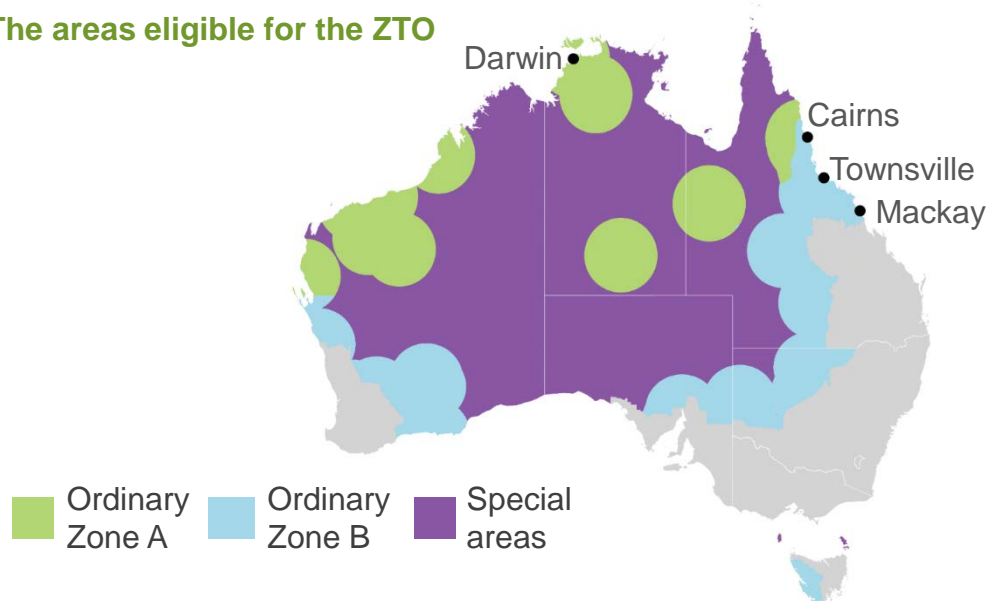


REMOTE AREA TAX CONCESSIONS AND PAYMENTS — DRAFT REPORT

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 uncongenial climate 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, reflecting higher wages and salaries (in general) across the zones compared to the rest of Australia.

Payment rates

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

- Special areas: \$1173 a year base rate, plus 50 per cent of applicable dependant rebates.
- Ordinary Zone A: \$338 a year base rate, plus 50 per cent of applicable dependant rebates.
- Ordinary Zone B: \$57 a year base rate, 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The zones are outdated

The zones are outdated and include areas that can no longer be considered remote. Nearly half of claimants live in Cairns, Darwin, Townsville and Mackay, which are now well developed and connected cities.

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. Australians face a range of advantages and disadvantages wherever they live, and will typically locate themselves to the area they value most highly. Further, there is evidence of higher remuneration in the zones across a wide skill spectrum, which suggests that the labour market already 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. The employment opportunities, liveability and amenities available in particular places play an important part in where people decide to live and work. Attempts by governments to artificially create an advantage for a remote community, or attract people to live in high-cost areas through tax concessions 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 to modest impact.

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.

[END]