# KPMG submission

# Remote Area Tax Concessions and Payments

## *Productivity Commission Issues Paper* March 2019

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# Executive Summary

KPMG welcomes the opportunity to provide a submission to the Productivity Commission's inquiry. In this submission we focus principally on some of the key technical and industry issues that we have observed in advising clients on the fringe benefits tax ("FBT") remote area concessions.

Our recommendations are:

1) The Productivity Commission's inquiry should focus on how to best deploy FBT concessions, such that they are most cost-effective in enhancing employers' ability to attract workers to roles in remote workplaces, regardless of whether this is on a residential or FIFO basis. This approach is preferred to a "FIFO versus residential" comparison. For the foreseeable future both types of workforce will be necessary to support the economic development of remote areas of Australia, and so flexibility for employers should be supported.

2) The Productivity Commission should consider whether it is appropriate to recommend that the FBT rules for identifying a remote area should be streamlined in order to be more easily applied.

3) The Productivity Commission should consider whether the current differentiation in FBT treatment between the costs of an employer-leased (fully tax exempt) and employee-leased (partially tax-exempt) remote area main residence remains appropriate.

   KPMG's view is that the FBT rules should be modified such that the reimbursement of the full amount (rather than maximum 50%) of an employee's remote area rent could be exempt where the other current qualifying criteria are met. Such a modification would meet the requirements of equity, efficiency and simplicity.

# Detailed comments

## 1. About KPMG

1.1 KPMG is global network of professional firms providing a full range of services to organisations across a wide range of industries, government, and not-for-profit sectors. In Australia, KPMG has more than 6,000 people. The independent member firms of the KPMG network are affiliated with KPMG International Cooperative (KPMG International), a Swiss entity.

1.2 In Australia, KPMG provides a range of employment tax services which cover the issues that are the subject of the Productivity Commission's inquiry. We work with our clients to manage compliance risks and reduce costs. We assist with the complexities of an international and local workforce through fringe benefits tax compliance, due diligence and planning, salary packaging, payroll tax, and contractor, superannuation and termination payments advice.

## 2. Background to the Review

2.1 The federal government first announced a review into the remote area tax concessions on 28 November 2018 which is "*in response to concerns raised that the current remote tax assistance has failed to keep pace with a changing Australia*".

2.2 Earlier that month, a report *Keep it in the regions* was prepared by the House of Representative Standing Committee on Industry, Innovation, Science and Resources, exploring how the development of the mining sector can support businesses in regional economies. A range of tax and non-tax issues were considered and recommendations made.

2.3 Following the government announcement, the Productivity Commission released an issues paper *Remote Area Tax Concessions and Payments* (Issues Paper) in March 2019 seeking submissions on the current concessions, and in particular on 'what is working well, or not so well' and 'what can be improved'. The scope of the inquiry includes the zone tax offset, fringe benefits tax remote area concessions and the remote area allowance.

## 3. KPMG comments

3.1 KPMG welcomes the opportunity to provide a submission to the Productivity Commission's inquiry. In this submission we focus principally on some of the key technical and industry issues that we have observed in advising clients on the fringe benefits tax ("FBT") remote area concessions.

3.2 In our experience of working with employers and employees on the application of the FBT provisions, we have not found that the availability of a particular FBT concession or exemption is a driver of whether employers prefer a locally-based rather than a "fly-in, fly-out" workforce, or vice versa, to staff a remote workplace.

3.3 From an employer's perspective, "fly-in, fly-out" or "FIFO" arrangements are relatively costly, risky and administratively burdensome, regardless of any FBT exemptions that may apply, when compared to sourcing a local workforce. Therefore an employer typically only uses FIFO arrangements in circumstances where the necessary skills are not available locally, and the employer's expectation is that those skilled employees would not be prepared to relocate their main residence to the remote area.

3.4 Nonetheless, the availability of the FBT concessions applicable to FIFO workforces impacts positively on the economic profile of that project, and may contribute to projects proceeding in Australia that otherwise might be of smaller scale or not proceed at all.

3.5 From an employee's perspective, key factors in determining whether to reside in a remote area include the extent of lifestyle opportunities and key infrastructure, and the likelihood of securing long-term employment. This last element can be particularly acute when the employment is on a construction project in the resources sector, and there are highly uncertain prospects of further employment in the area once the construction is complete.

3.6 Again, the FBT concessions for benefits provided to employees whose main residence is in a remote location are a positive contributor to employers being able to staff their remote operations with suitably skilled people.

***Recommendation***

The Productivity Commission's inquiry should focus on how to best deploy FBT concessions, such that they are most cost-effective in enhancing employers' ability to attract workers to roles in remote workplaces, regardless of whether this is on a residential or FIFO basis.

The above approach is preferred to a "FIFO versus residential" comparison. For the foreseeable future both types of workforce will be necessary to support the economic development of remote areas of Australia, and so flexibility for employers should be supported.

### *The zone tax offset*

3.7 The zone tax offset started in 1945 when the government introduced income tax deductions for inhabitants of remote areas, which it justified as compensating people for the relatively high living costs, isolation and 'uncongenial climate in remote Australia'.

3.8 Arguably these factors of relatively high costs of goods and services, isolation and climate concerns still exist today. Any changes to the zone tax offset should be part of broader policies in promoting people living in and developing regional and remote communities.

***FBT remote area rules***

3.9 The current rules for identifying an eligible "remote area" depend on whether the location is within a certain radius of an urban centre with a certain population as per census data from 1981. The Australian Taxation Office ("ATO") provides some guidance on its website in terms of towns that it considers to be remote and non-remote, but this is not exhaustive and does not explain how the ATO has reached its conclusion. Therefore the website guidance may be of limited value for those who do not live in one of the named locations.

***Recommendation:***

The Productivity Commission should consider whether it is appropriate to recommend that the FBT rules for identifying a remote area should be streamlined in order to be more easily applied.

3.10 The current remote area FBT rules for residential workforces treat rental accommodation differently depending on whether an employee rents directly on the private market or the employer rents the accommodation and makes it available to the employee.

3.11 Rent incurred by an employer for an employer-rented property can be fully exempt from FBT. However, an employer may only reimburse on an FBT-exempt basis a maximum of 50% of rent that the employee has incurred directly.

***Recommendation:***

The Productivity Commission should consider whether the differentiation in FBT treatment between the costs of employer-leased and employee-leased accommodation remains appropriate.

KPMG's view is that the FBT rules should be modified such that the reimbursement of the full amount of an employee's remote area rent could be fully exempt where the other current qualifying criteria are met. Such a modification would meet the requirements of equity, efficiency and simplicity.