



Remote Area Tax Concessions and Payments Study

Productivity Commission
GPO Box 1428
Canberra City ACT 2601

11 October 2019

Dear Sir/Madam,

Subject: Remote Area Tax Concessions – Submission from Northern Star Resources Limited

Northern Star Resources Limited (**Northern Star** or **the Company**) welcomes the opportunity to provide a submission to the Productivity Commission in response to the Draft Report (dated August 2019) and the Issues Paper (dated March 2019) in relation to remote area tax concessions and payments.

Executive Summary

Our view is that the proposed changes to the FBT concessions and exemptions will adversely impact Kalgoorlie-Boulder (and surrounding areas) and may give rise to an increase in FIFO arrangements. We therefore recommend that the application of remote area FBT concessions (or exemptions) are maintained for geographic locations such as Kalgoorlie-Boulder and similar regional towns to support the residential community, and provide a framework for attracting prospective employees and their families.

About Northern Star

Northern Star is an ASX 100 gold production and exploration company with assets located in highly prospective and low sovereign risk regions of Australia and North America. As the second largest Australian gold producer, Northern Star continues to deliver on its strategic objective of being a safe, quality gold company that delivers outstanding value to its Shareholders.

Northern Star in the Community

Northern Star operates its business built on the belief that it must be guided by a purpose beyond profit, and that the support and endorsement of its activities by the communities in which we operate are fundamental to the long-term success of the business. Northern Star thinks of "purpose beyond profit" in terms of how it operates in our work regions, and the contribution it makes to a better future for the communities in which it operates.

Northern Star values its social licence to operate and actively encourages open and reciprocal dialogue with local communities and key stakeholders. The Company regards its reputation amongst the communities in which it operates as a strategic advantage and seeks to ensure that local communities benefit from its presence. In particular by:

- encouraging consultation and providing opportunities for local communities to share in the benefits which flow from mining activities in their regions, including local employment and business opportunities; and
- incorporating sustainable development initiatives in business plans to ensure that the social and economic benefits obtained by communities are safeguarded in the long-term.

Modernising the remote area tax concessions

For the purposes of remote area tax concessions, we understand the need to modernise the criteria which deems a town as remote, very remote or any other classification. We understand that in the modern world, simply being in the North of Australia does not render a town as inhabitable as it may have in 1945.

Kalgoorlie is remote

We note that Kalgoorlie currently has a population of circa 30,000 people which therefore provides a level of services which are not located in smaller towns. However, our view is that the population of Kalgoorlie does not mean that Kalgoorlie is not remote. We consider Kalgoorlie to be remote for the following reasons:

- Kalgoorlie is 600kms to closest capital city;
- Kalgoorlie is 400 kms to the coast;
- return flights from Kalgoorlie to Perth can typically cost \$800 return;
- there is no international airport;
- major (and minor) events are not held in Kalgoorlie and require travel to Perth;
- public transport is ineffective or unreliable given the tyranny of distance;
- whilst there is a hospital Kalgoorlie, major health matters (i.e. specialists, surgery etc.) typically require travel to Perth.

Therefore, despite whether the ABS define Kalgoorlie as "outer regional", our view is that Kalgoorlie is remote. As such, we believe that the remote area tax concessions should be applicable to Kalgoorlie. Perhaps there could be specialised zones introduced, on top of the ABSs defined areas of remote and very remote, which include geographical areas where there is a greater purpose to include those regions.

The remote area tax concessions most relevant to Northern Star

The Issues Paper and Draft Report comment on, and make recommendations in relation to, the Zone Tax Offset (**ZTO**), Remote Area Allowances (**RAA**) and certain fringe benefits tax (**FBT**) concessions. Whilst we acknowledge the impact of any proposed changes to the ZTO and RAA may be substantial, they will generally be relevant to individuals. Whilst Northern Star's stakeholders will include individuals who receive and rely on the ZTO and the RAA, we have not commented on their application in this submission.

As FBT is a tax on employers, Northern Star will be directly impacted. However, and more importantly, we provide our comments below regarding the impact that the proposed changes will have on our employees and the communities in which we operate.

This submission from Northern Star only seeks to comment on the implications of any proposed changes to the FBT rules as set-out in the Draft Report, and, the FBT concessions which have current application to Northern Star. These are:

- the 50% concession for employee-sourced housing; and
- the 50% concession for residential fuel.

Whilst we acknowledge that the other FBT concessions and exemptions discussed in the Draft Report do not have current application to Northern Star, we understand that there will be stakeholders who use and rely on them.

Northern Star does not currently offer any employer provided housing. Therefore, other submissions may comment on the findings and recommendations in the Draft Report in relation to these matters. However, we would assume that removing the FBT exemption, and instead providing a 50% concession, would have a similar impact to what we envisage for the proposed changes to the employee-sourced housing.

Northern Star's business

Northern Star uses a largely fly-in, fly-out (**FIFO**) workforce at our Tanami (650km North-West of Alice Springs), Jundee (585kms North of Kalgoorlie) and Paulsens (215 kms East of Tom Price) sites as these locations are extremely remote and not located close to a town with an abundant workforce. As such, there is no ability to source employees locally and there appears to be no alternative to a FIFO workforce in these locations.

However, Northern Star also operates at many locations within the City of Kalgoorlie-Boulder and close to the Town of Coolgardie in Western Australia's Goldfields region (**Kalgoorlie Operations**). In doing so, Northern Star's preference is to employ people who reside in the local area. This is not just a cost driven decision, but also relates to our "purpose beyond profit" and wanting to ensure that we contribute to the communities in which we operate (as discussed earlier).

We also believe that it is safer and more sustainable for our people. In particular, by offering residential roles, it allows Northern Star to offer much more flexible working arrangements (such as 9 hour shifts, adaptable or changeable rosters, be at home every night with family etc) and therefore should ensure that our employees are happier (and safer) than if working long shifts and for long swings away from home when compared to a FIFO arrangement.

There is a requirement to offer FIFO arrangements to certain employees. For instance, certain skilled employees where there is a shortage of eligible candidates. In these examples, Northern Star must offer FIFO arrangements to these people in order to ensure that they can choose to work for Northern Star, in Kalgoorlie, rather than work for another mining company in another location. Put simply, some roles are particularly competitive, and we need to offer what people want or face not being able to recruit enough people in key roles.

However, a large part of our Kalgoorlie Operation's workforce are people who live in the local community. It is Northern Star's preference to source local employees or relocate employees to Kalgoorlie rather than offer FIFO arrangements for our Kalgoorlie Operations. Northern Star currently employs approximately 1750 people (not including contractors working on Northern Star sites). Approximately 950 of these employees work in our Kalgoorlie Operations. Of the Northern Star employees working in Kalgoorlie, approximately 175 are FIFO and 775 reside in Kalgoorlie and surrounding areas.

Northern Star encourages people to live in Kalgoorlie and the Goldfields communities by paying a relocation allowance of up to \$35,000 per employee to relocate to Kalgoorlie. Therefore, Northern Star is contributing to assist our local communities in a meaningful way. Our view is that mining companies cannot be asked to fund every initiative. Mining companies are already asked to pay for a lot in the community, for their employees, as well as substantial amounts in federal, state and local taxes. Our view is that, if there is to be a joint initiative to encourage people to live in regional towns, rather than FIFO from cities, there needs to be some government assistance.

Northern Star's view as to the impact of the proposed changes

Northern Star's view is that the current recommendations set-out in the Draft Report will penalise people who live and work in Kalgoorlie.

Northern Star currently has about 80 employees who receive benefits which are eligible for the 50% employee-sourced housing and/or residential fuel FBT concessions. On average, the value of the expenses reimbursed is around \$10,000 per employee. These amounts are subject to FBT however, after applying the 50% concession, the taxable value for FBT purposes is around \$5,000 and therefore the value of the FBT reduction from applying the concession is also around \$5,000.

Northern Star has generally entered into salary sacrificing arrangements with these employees to include the cost of housing and associated energy costs. To summarise, the employees source housing and Northern Star reimburses the costs. These expense payments become subject to FBT which Northern Star calculates, grosses-up and passes on to the employee via their salary sacrifice arrangement. The employee then has the amount of the housing costs and associated FBT reduced from their gross remuneration.

Under the current FBT provisions, and including the 50% concessions, employees are marginally better off than if they incurred the housing costs using after tax dollars (on average circa \$1,000 for someone earning \$120,000 per annum pre-tax, and receiving \$10,000 of expenses reimbursed which are subject to the 50% FBT concessions).

If the 50% employee provided housing, and residential fuel, concessions are removed, Northern Star would either cease offering salary sacrifice arrangements for housing in Kalgoorlie or pass on the additional FBT cost to the employees. As a result, the employees will be worse-off.

As a result of the above, the proposed changes may encourage more people to adopt FIFO arrangements to Kalgoorlie. It is already a fine line between people preferring to be residential or FIFO. Any changes which penalise residential employees, regardless of how small, will impact people who compare FIFO versus residential arrangements.

If more employees become FIFO, Northern Star would, generally, be able to deduct the cost of their arrangements and no amount would be subject to FBT. Northern Star would be more competitive by being able to attract FIFO workers from around the State and the rest of Australia. If this was the case, Northern Star would also pay less FBT for items such as car fringe benefits, as there would be less cars used for private purposes in and around Kalgoorlie. The main loser in all of this will be the communities in and around Kalgoorlie where our people currently reside.

People who work in the mining industry (gold in particular) which is the major industry for Kalgoorlie, have options of where to work. There are many gold mines located in WA which provide FIFO opportunities. Kalgoorlie, and Northern Star, face significant competition for employees and offering residential accommodation in Kalgoorlie (incentivised or concessionary) is one way in which it helps to assist people who may live in the community rather than FIFO from Perth or East coast cities.

If FIFO arrangements are increased, there will be a large impact on the towns where people were living (such as Kalgoorlie). Even if just a small percentage of people move from residential to FIFO, there would appear to be no counter impact causing other people to move to the towns. This will reduce opportunities for everyone in these towns as money is spent in capital cities rather than in regional towns. This, in-turn, could force other people in Kalgoorlie (i.e. other service providers) to leave the town as the population of Kalgoorlie and surrounding towns declines.

Our view is that FBT is a poorly constructed tax. It penalises employers (and therefore employees) at the highest marginal tax rate, regardless of the employee's individual tax rate. There needs to be some concession to compensate for its poor construction. Alternatively, it could be used as a lever to assist regional towns retain and attract residents. Whilst an FBT discount may appear to be a "concession" it must be remembered that FBT seeks to ensure non-cash payments are not excluded from income tax. However, the FBT rate applied is generally higher than the employee's marginal tax rate and, in some cases, double. Therefore, a concession may just deliver a fairer outcome (for the employee living in a regional town) and not be a concession at all for the mining company. If the concession assists companies to employ people who live in regional towns, then that could be the real benefit.

Northern Star already incurs large FBT costs. If we were able to not provide "benefits" and therefore remove arrangements from the FBT provisions, it would be preferable to do so. An instance of this is housing arrangements. It is complicated for NST to administer it. Our FBT is further complicated by the presence of the arrangements and the FBT cost is punitive. However, as our employees are marginally better off under the arrangements, we offer it to people who choose to reside in Kalgoorlie.

Yours faithfully

RYAN GURNER
Chief Financial Officer
Northern Star Resources Limited