



Submission to the Productivity Commission

Inquiry into the appropriate ongoing form
and function of the zone tax offset, FBT
remote area concessions, and Remote
Area Allowance

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1. Executive summary

This submission by the LGAQ seeks to inform the discussion and to note recent studies for the information of the current Inquiry. The LGAQ would also like to draw to the Commission's attention to individual submissions received from the Cook Shire Council (11 April 2019) and a previous submission from the Darling Downs and South-West Queensland Council of Mayors representing 10 councils. There may be further submissions provided directly to the Inquiry by other Queensland Councils and Regional Organisations of Councils.

There is a widespread expectation by communities and local governments in remote areas that the policy commitments indicated in the Northern Australia White Paper, to be implemented by the Office of Northern Australia, will improve the conditions for economic development, including achieving investment and workforce attraction.

It is not the place of this submission to speculate on political motivations or constitutional considerations. However, there is clear evidence that while policy statements over many years have indicated a consensus on the need for remote area incentives, there has been a lack of maintenance of the policy mechanism over many decades.

The effect of this has seen the real value of the incentives reduced to levels that can only be described as ineffective in terms of their ability to support the policy objective. This may be part of the reason why recently some State Governments have begun examining ways in which they can incentivise remote and regional development through their fiscal policies.

Some commentators suggest that the 'Constitutional validity' question that is raised from time to time is a matter that has been dealt with in other policies, with at least one observer suggesting the issue is raised as a distraction: 'if it was a genuine concern, then s 79A of the Income Tax Assessment Act 1936 has been unconstitutional since 1945.'

On this point, this submission simply suggests that an agreed set of indicators could provide a potential solution to address any outstanding ss51(ii) or s99 Constitution issues concerning the application of zone boundaries.

This submission notes the following five key points for the consideration of the Inquiry.

1.1. Incentives are required for individuals and families who live, and businesses located and operating, in remote areas

Our recent history of economic development shows that remote areas experience forms of market failure and socio-economic disadvantage. Contrary to the theory, investment and labour has not autonomously flowed to remote areas of Australia to take up opportunities.

All recent reports and Ministers' responses to LGAQ Annual Conference resolutions agree that effective remote area incentives should be maintained. Against this setting, there are calls for incentives to be extended in terms of both benefit value / level of compensation and coverage based on economic need. This view is underpinned by a shared appreciation that:

- remote area populations sustain remote and regional communities and economies, which in turn make significant contributions to the national economy and trade; and
- remote area residents and businesses incur higher costs of living, higher costs to (where possible) access essential services and higher costs in operating in remote areas.

1.2. Incentives are aligned with population and economic development policies

Many councils have long expressed concerns about declining populations and demographic trends that indicate a shifting age profile of the population in many regions. Reduced economic activity is a direct consequence of a declining the local work force. In addition, many remote councils provide age care facilities and services and changing population profiles will place an increasing burden on council budgets at a time when their own-source revenues are declining.

1.3. Incentives provide an economic benefit that substantively compensates for socio-economic disadvantage

A number of councils have noted that the amount of remote area incentives should substantively compensate for socio-economic disadvantage. Some have drawn parallels with first-home buyer grants and suggest the dollar amount of remote area incentives should be of a similar amount.

1.4. Determine eligibility using an open methodology based on socio-economic disadvantage indicators (current zonal approach)

Eligibility criteria need to be based on agreed measures of socio-economic disadvantage. For example, at least one council noted that eligibility could consider indicators of socio-economic disadvantage, such as those published in the ABS 2033.0.55.001 Socio-Economic Indexes for Areas (SEIFA) 2016. The Productivity Commission's recent research paper *Rising inequality? A stocktake of the evidence* on 28 August 2018 may inform the work of this Inquiry in relation to need / eligibility. The use of an appropriate indicator(s) could help resolve ss51(ii) or s99 Constitution issues concerning 'zones'.

1.5. Open publication of data on the take-up of remote area incentives

For an incentive to have an impact, it needs to be communicated to and taken up by its target client group. It is therefore important to promote the program by communicating the benefits prospective recipients, to encourage investment, labour mobility and the economic activity these would bring to remote areas. Open publication of data also allows the performance of programs to be assessed and can be used to inform future program reviews and modifications. Data on the take-up of remote area incentives would represent an important contribution to establishing data sets that support better coordination of regional economic development policies across levels of government and the service sector.

2. Inquiry Terms of Reference

On 28 November 2018, the Treasurer requested the Productivity Commission conduct an inquiry into the appropriate ongoing form and function of the zone tax offset, FBT remote area concessions, and Remote Area Allowance, to commence in February 2019 and to provide a final report with recommendations to the Government within 12 months of commencement.

Terms of Reference

Background

The Australian Government provides assistance to Australians who reside in specified geographic areas through the zone tax offset, the fringe benefits tax (FBT) remote area concessions and the Remote Area Allowance.

The eligible zones for the zone tax offset were originally established in 1945 and were based on exposure to uncongenial climatic conditions, isolation or a relatively high cost of living. The zones still largely reflect the original design in 1945, notwithstanding the demographic and infrastructure changes that have occurred in regional Australia in recent decades. The areas eligible for FBT remote area concessions are partly determined by reference to the zone tax offset boundaries, and the Remote Area Allowance is available to recipients of Australian Government income support payments who live in specified zone tax offset areas.

There have been concerns that the design of these mechanisms has not evolved to adequately reflect varying degrees of demographic, infrastructure and cost-of-living change occurring in Australia.

Scope of the report

The Productivity Commission is asked to determine the appropriate ongoing form and function of the zone tax offset, FBT remote area concessions, and Remote Area Allowance.

In conducting this review, the Productivity Commission is to:

- examine the operation of the zone tax offset and FBT remote area concessions, including the levels of assistance provided, indexation and the boundaries of eligible areas and prescribed zones
- examine the economic and employment impacts of the zone tax offset, FBT remote area concessions, and Remote Area Allowance, including the effect of applying indexation, in regional Australia
- examine the operation of the Remote Area Allowance, which extends the benefits of the zone tax offset to income support recipients in remote zones
- consider whether the zone tax offset, FBT remote area concessions, and the Remote Area Allowance are delivering on their policy objectives and whether those objectives remain appropriate in a contemporary Australia
- consider if businesses in remote areas should be provided with similar support
- consider if there are alternative mechanisms to better provide this support to Australians residing in specified geographic areas.

3. Introduction

The Local Government Association of Queensland (LGAQ) is the peak body for local government in Queensland. It is a not-for-profit association established solely to serve councils. The LGAQ has been advising, supporting and representing local councils since 1896, to help them improve operations and strengthen relationships with their communities.

The LGAQ does this by connecting councils to people and places; supporting their drive to innovate and improve service delivery through smart services and sustainable solutions; and delivering them the means to achieve community, professional and political excellence.

In preparing this submission, the LGAQ called for contributions from all councils and thanks those councils that provided information. Some Queensland councils and Regional Organisations of Councils (ROCs) may also make direct submissions and the LGAQ recommends these to the Inquiry as they provide valuable insights based on direct experience in remote communities.

On behalf of its member councils, the Local Government Association of Queensland is pleased to provide this submission for the consideration of the Productivity Commission Inquiry into the appropriate ongoing form and function of the zone tax offset, FBT remote area concessions, and Remote Area Allowance in Australia. If the Inquiry requires any clarifications or further information, please contact Simone Talbot, Manager – Infrastructure, Economics and Regional Development - Advocate, Local Government Association of Queensland via email simone_talbot@lgaq.asn.au or telephone 07 3000 2222.

3.1. The importance of incentives to sustain remote communities

Queensland local governments have long recognised, and advocated for, the need to attract, build and retain populations in regional areas.

LGAQ Annual Conferences of Queensland's 77 councils have, over a number of years, carried resolutions calling for a review of the Zone Tax Offset and related remote area living incentives to improve the effectiveness of such measures in supporting remote communities.

Specific outcomes sought in those resolutions have included to:

- design incentives and eligibility requirements to stimulate regional economies;
- extend the coverage of eligibility to particular regions experiencing economic decline to stimulate local expenditure (including the Mareeba, Wide Bay Burnett and Western Queensland regions);
- review the dollar amount of the Zone Tax Allowance to a per annum amount that provides a stronger incentive eg. a suggested amount of \$10,000 per annum;
- increase the movement of families to small rural towns to stabilise the social fabric and economic viability of towns and regions;
- consider the capacity of regions to support increased population in terms of existing infrastructure and incentivise migration to regions with capacity for population growth;
- introduce a minimum time for residency to qualify for an allowance / concession;
- increase the number of workers with transferrable skills moving to smaller towns and build a skilled labour force to support businesses, and support related skills transfer mechanisms to sustain a skilled workforce into the future;
- apply 'scale' formulae to incentives relative to the remoteness of the location where people live and work in isolated areas compared to urban centres (compensation for higher living costs).

As part of its advocacy and policy development process, the LGAQ refers Annual Conference resolutions to relevant Ministers and their agencies for information and to receive their advice.

The following is a summary of responses received on Zone Tax Offsets.

In April 2015, then Deputy Prime Minister and Minister for Infrastructure and Regional Development, Hon Warren Truss MP, responded to a 2014 resolution:

“Existing taxation arrangements will be considered in the upcoming White Paper on the Reform of Australia’s Tax System, expected to be completed by the end of 2015.

The White Paper will be coordinated with the White Paper on Reform of the Federation. I understand that the LGAQ is working collaboratively with the Australian Local Government of Association providing its views and submission to this and a range of other state and federal policy initiatives.” [NB: The Tax White Paper was discontinued.]

In March 2016 then Treasurer the Hon Scott Morrison responded to a 2015 resolution:

“Thank you for your personal representations of 17 December 2015 on behalf of the Local Government Association of Queensland (LGAQ) concerning the LGAQ Annual Conference resolutions.

You suggested that the zone tax offset (ZTO) be significantly increased and that the boundaries be reviewed. I understand that remote communities can face higher costs of living and I applaud your goal to encourage more people to reside in rural and remote Australia. While the base amounts of the ZTO are not indexed and have not increased since 1993, the amounts of some dependency tax offsets (that a taxpayer may be eligible for as part of their ZTO) are indexed to the Consumer Price Index. As a result, the maximum amount of ZTO for taxpayers with certain dependants has increased over time.”

In December 2016, then Treasurer the Hon Scott Morrison responded to a 2016 resolution:

“Thank you for your correspondence of 4 November 2016 concerning the Local Government Association of Queensland's 120th Annual Conference Resolution.

You noted that the LGAQ has passed resolutions in relation to working holiday makers and the remote area zone tax offset. My responses to the following resolutions raised in your letter are provided in attachments to this reply:

Resolution 50 - Taxation - Review of "Backpacker Tax" - Attachment A

Resolution 85 - Taxation - Increasing Remote Area Zone Tax Rebate

The Government understands that remote communities can face higher costs of living and applaud the LGAQ's goal to encourage more people to reside in rural and remote Australia. However, it is generally preferable that such support be delivered through direct assistance rather than the tax system, as payments can be better targeted to those most in need. This is because individuals with the lowest incomes generally do not pay tax and therefore do not benefit from tax relief.

The Government is committed to regional Australia and is delivering targeted regional assistance through a number of different programs. This includes for example, the Community Development Grants Programme, which promotes stable, secure and viable local and regional economies.”

The December 2016 response also noted nationally contestable funding programs for regional infrastructure (typically 50% matched), including the Building Better Regions Fund, Regional Jobs and Investment Package and the Northern Australia Infrastructure Facility (loans).

The LGAQ is currently pursuing grant reform as a key element of its fiscal policy reform agenda. In the context of better targeting support for remote and regional communities, including for public infrastructure, allocative programs such as Financial Assistance Grants and Roads to Recovery have proved successful as models that better achieve fiscal equalisation outcomes and allow councils to undertake appropriate planning to meet the needs of their communities.

The LGAQ has also noted the importance of incentives for remote areas in recent submissions, including:

- 2010 submission to the Queensland State Government on the need to include incentives as part of a comprehensive population policy;
- 2014 submission on the Federal Government's *Northern Australia White Paper*;
- 2015 representations to the Federal Treasury on the *Taxation White Paper* process; and
- 2018 submission to the Senate Economics References Committee Inquiry on *Indicators of, and impact of, regional inequality in Australia*.

Further reference is made to these later in this submission.

The LGAQ also notes for reference a paper titled *The Case for Reviewing Income Tax Zone Rebates* (Nov 2011), provided by the Council of Mayors Darling Downs and South-West Queensland.

A summary of the findings is presented in the following panel.

There remain three arguments for the continuation and updating of Zone rebates, including the related social security Remote Area Allowances.

• **Support for remote-area economic development.** Zone rebates provide partial compensation for the reduction in the competitiveness of remote-area export industries which has occurred as an unintended side-effect of the market-determination of the exchange rate coupled with heavy reliance on monetary policy to counter inflation. Zone rebates also assist in the provision of local infrastructure and support services in the remote areas. This infrastructure is important for the export industries, for defence and for the future of remote indigenous communities. (In discussions of public finance, this is essentially an economic efficiency argument.)

• **Compensation for the higher prices of necessities in the remote areas,** particularly food. This is particularly important for social security recipients. (In discussions of public finance, this is essentially an ability-to-pay argument.)

• **Partial compensation for the costs of accessing government services** from the remote areas. Though the primary responsibility here lies with service providers, the Zone rebates recognise that remote area residents bear a share of these costs. (In discussions of public finance, this is essentially a benefit principle argument.)

p27 The Case for Reviewing Income Tax Zone Rebates, NIEIR, Nov 2011.

In addition to the consideration of the current 'zonal' approach, some councils have noted that need and eligibility could be based on indicators of socio-economic disadvantage, such as those published in the ABS 2033.0.55.001 Socio-Economic Indexes for Areas (SEIFA) 2016.

This point was also made in the LGAQ submission to the Senate Economics References Committee Inquiry into the indicators of, and impact of, regional inequality in Australia, currently due to report by the last sitting day of June 2019 (submission #115 on the web site https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/Regional_inequality_in_Australia).

4. Studies on the influence of the zone tax offset (ZTO), fringe benefits tax (FBT) remote area concessions and the Remote Area Allowance

4.1. New South Wales Legislative Assembly Committee on Investment, Industry and Regional Development - Report 2/56 - January 2018 - Inquiry into Zonal Taxation Interim Report

Although this recent report looks at New South Wales State Government administered incentives, it is nonetheless instructive on the rationale and opportunities for government to incentivise and support remote communities. The report also briefly describes some examples in the UK and China (p2, 24). The terms of reference for the report were to look at:

- exemptions from, or concessions in relation to, payroll tax, stamp duty, and land tax;
- concessions in relation to utility charges;
- the impact of fuel levies on regional growth; and
- any other related matters.

The Committee has identified the following five key issues for discussion and further inquiry:

1. The current \$750,000 payroll tax threshold may act to discourage regional businesses from expanding due to the payroll tax liability that would apply should a business exceed the threshold.
2. The recently implemented Victorian regional payroll tax rate (which, although applying after a lower threshold, at 3.65% is lower than for non-regional Victorian businesses at 4.85%, compared to 5.45% in New South Wales) represents a new approach to payroll tax in Australia.

This scheme should be closely reviewed by the Government, and if successful, consideration could be given to applying it in New South Wales regions. The Victorian scheme will require particular analysis to determine if it creates disparities for New South Wales communities on the Victorian border.

The Committee is seeking further evidence on possibilities for regional payroll tax approaches in New South Wales.
3. Providing a favourable payroll tax scheme to a specific geographic area may disadvantage neighbouring areas and unfairly provide assistance to only some businesses within the state. The viability of a more widespread model could be examined, such as the Victorian approach, that only distinguishes between 'regional' and 'metro' zones, rather than particular regions.

The Committee is looking at this in greater detail and invites submissions on this issue.
4. The application of different regional payroll tax thresholds and rates within the state could result in additional administrative complexity for businesses that operate across multiple regions.
5. Stamp duty concessions for the purchase of commercial property in regional areas could stimulate regional business investment.

The Committee is seeking further evidence on possibilities for (and implications of) such stamp duty concessions in regional New South Wales.

There is a brief mention of inviting an expert in order to discuss potential constitutional issues (p38), however this point is not expanded upon in the report. The precedent set in Victoria may have considered these matters.

4.2. Kettlewell & Yerokhin, 2017 - Area-specific subsidies and population dynamics: Evidence from the Australian zone tax offset

Kettlewell and Yerokhin (2017) undertook a study on the effects of the zone tax offset. Their research was in part “motivated by the observed population decline in rural areas. ... Typically place based policies target economically disadvantaged areas [with the] aim to increase local employment and earnings... [and] population can be an important determinant of economic development of rural areas due to the economies of scale which determine firm location decisions.” (op cit p1-2)

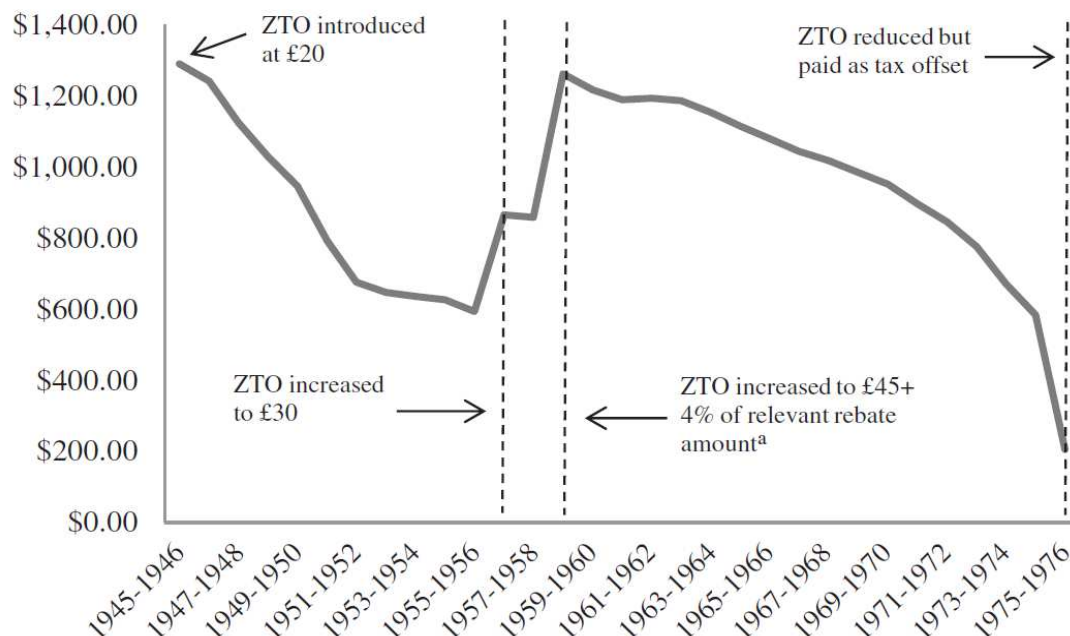
The objectives of the study included whether income support programmes influence local population growth and the conditions under which such policies are effective.

The results indicated a relatively large but temporary impact of the ZTO on population growth.

The study considered the two broad aspects:

- temporal aspect, by estimating a number of difference-in-difference specifications. The study proposed that areas geographically proximate to one another are more likely to be similar with regards to underlying determinants of population growth and considered samples at fixed distances from the ZTO boundary in New South Wales and Queensland where the policy boundary does not straddle major cities.
- spatial discontinuity created by the policy boundary, by estimating a semi-parametric spatial regression discontinuity (RD) model with a two-dimensional running variable based on the geographical coordinates of each locality.

The study concluded that between 1945 and 1947 the ZTO slowed down population decline by 5 to 7 percentage points per year. However, the study did not find evidence of sustained differences in population growth in the subsequent years.



Base value of the ZTO for Zone B residents 1945–1976 (reproduced from op cit: 5)

The study estimated that the ZTO represented about 6% of average earnings in 1946. Over subsequent years the real value of the ZTO declined from its introduction until around 1956. This is illustrated in the above graph in 2013 dollar terms.

Although the ZTO was re-set on two occasions in the late 1950s to a real value comparable to what it was at the start of the program, it declined in real terms over subsequent decades.

In 1975–1976 when the gross benefit was reduced but paid instead as a tax offset (a fixed reduction in the recipient's tax liability). In addition to no indexation, this policy change marked a further decline in the real value of the ZTO.

Compared with an original tax deduction value in Zone B of \$1,291, the base value for people living in Zone B is now \$57, although it increases slightly with the number of dependants.

Clearly over time the ZTO has also declined as a proportion of average earnings.

It is likely that the declining real value of the incentive over time has diminished the effectiveness of the ZTO in influencing location decisions and labour mobility.

“While the ZTO policy remains in place today, the magnitude of the offset is small (in the order of 50 Australian dollars) and cannot provide a meaningful economic incentive for relocation into remote and rural areas. For this reason, we focus on the early period when the policy presented a significant economic incentive.”

(Kettlewell & Yerokhin 2017: 6)

The lack of indexation and declining real value of remote area incentives is commonly recognised as an issue to the effectiveness of these needed measures.

“Due to growth in earnings and lack of indexation of the rebate, its value has now been eroded to an increase of 0.7 per cent in the disposable income of a zone A resident without dependants receiving average weekly earnings. The value of the rebate for a taxpayer without dependants working in the special zone now stands at an increase in disposable income of 1.8 per cent.” (ALGA 2015)

This submission has not attempted to calculate what the current benefits represent as a proportion of normal average weekly earnings, and therefore how strong this incentive may be in influencing labour mobility / relocation decisions, including for families.

The 2014-15 State of the Regions report by NIEIR for the Australian Local Government Association (ALGA) estimated that the 1947 Zone A allowance increase to £120 when workers were typically paid around £500 a year had the effect of increasing disposable income in the order of 6 per cent for workers on average weekly earnings (ALGA 2015: 99). The ALGA report also confirmed the reduction in real value over time:

‘By March 2014, all classes of zone rebate were worth around 58 per cent of their value in 1993 (adjusted by the Darwin CPI). Longer term comparisons are more difficult because of changing consumption patterns, rising incomes and the switch from tax deductions to rebates. Updating using the consumer price index, the current zone A rebate is worth approximately 65 per cent of the value of the zone A rebate to a single worker on average earnings in 1948, but in relation to average weekly earnings the current zone A rebate is worth less than a quarter of its value in 1948.’ (ALGA 2015: 81)

A government agency with access to all relevant data could calculate how the real value of benefits has changed over time. This would inform consideration of whether current incentives are sufficient, how they could be redesigned to address this situation.

The consensus view from studies that have considered changes in the real value of incentives is that they have significantly diminished over time and are therefore likely to be less effective in delivering the policy outcomes that these measures are intended to support.

4.3. McLaren J., 2016 - The economic development of Northern Australia: a critical review of the taxation benefits and incentives both past and present and the potential taxation options for the future.

McLaren (2016) undertook a study on current tax benefits for those living and working in the north, such as zone rebates, and the merits of offering tax benefits in order to attract investment and people to develop the north.

The study also considered tax concessions that existed in the past, such as an exemption from income tax pursuant to the now repealed s23(m) of the *Income Tax Assessment Act 1936 (Cth)* for companies resident in the Northern Territory (NT) prior to 1947 and the Darwin Trade Development Zone that was abolished in 2003.

This paper cites recent Commonwealth reports for the support they provide to the policy of incentives based on the economic significance of communities in Northern Australia, including:

- Pivot North – Inquiry into the Development of Northern Australia 2014, and
- The White Paper on Developing the North 2015.

In addition to the ZTO, McLaren also considered some specific examples of incentives that are intended to support aspects of remote area living, access to services and business:

- FBT exemption on remote area housing;
- Financial incentives for rural doctors;
- Export Market Development Grants (EMDG); and the
- Innovation Tax Concession, Venture Capital and R&D Tax Concessions.

The study suggested assumptions that investment and growth will flow into Northern Australia driven by economic opportunity have not been adequately supported with necessary policies:

“Most of the foreign investment in the mining boom period of 2010 to 2015 was directed in the north and the Government at the time of the [Northern Australia] White Paper expected it to continue. In 2012 it was \$206 billion. As history has now shown, the mining boom is over and investment has reduced substantially as new infrastructure and plant has been constructed. However, it is contended in this paper that private investment both domestically and foreign will not be attracted to the north without some form of taxation benefits.” (McLaren 2016: 4)

The study concludes more needs to be done to incentivise regional economic development:

“The Northern part of Australia will not reach its full potential without Commonwealth, State and Territory intervention in the form of tax benefits for both individuals and businesses. ... The cost of living is higher than the costs faced by other Australian individuals living and working in the south in major urban and regional centres. ... The north does not have the population or infrastructure needed to attract businesses without some financial incentives.” (McLaren 2016: 19)

The study recommends that:

- to attract individuals to live and work in the north, the remote zone offset needs to be increased to take into account the cost of living in the north and remoteness; and
- to attract businesses, the Commonwealth, State and Northern Territory governments must make it financially attractive for businesses to establish in the north. The existence of free-trade agreements is not enough to attract investment, and tax concessions related to the promotion of innovation will not necessarily result in business development and investment in the north without additional taxation benefits.

4.4. Australian Local Government Association (ALGA) 2015 - The State of the Regions - report by National Institute of Economic and Industry Research

Chapter 6 of the 2014-15 State of the Regions report provides a detailed history of remote area incentives from post-war introduction through various reviews, including:

- the 1981 Cox Inquiry;
- the 2009 Henry Tax Review; and
- the House of Representatives Standing Committee on Regional Australia on fly-in fly-out and drive-in, drive-out workforce practices.

The study notes common principles supporting remote area incentives, including to support:

- equity in access to services and compensation for higher costs;
- regional (remote) economic development;
- structural change in the remote economy;
- achieving the intended 'incidence' of zone rebates;
- the appropriate definition of the remote areas (and eligibility); and
- resource development and regional (national) security.

On the compensation question, this report noted two members of the 1981 Cox Inquiry recommended more significant increases to allowances for remote area residents than were recommended in the final report:

- a rebate sufficient to raise the disposable incomes of taxpayers earning average weekly earnings in the special zone by 12.6 per cent (18.8 per cent if on the minimum wage); and
- a rebate sufficient to raise the disposable incomes of taxpayers earning average weekly earnings in a revised zone A by 16.8 per cent (22.2 per cent if on the minimum wage).

The report notes that while there have been periodic increases, but this has been insufficient to maintain the real value of the incentive and therefore the effectiveness of these measures:

“The rebates were [subsequently] increased in 1984, 1985, 1992 and 1993, but since then the zone A rebate has remained at \$338 plus a 50-per cent loading on dependant rebates.

Due to growth in earnings and lack of indexation of the rebate, its value has now been eroded to an increase of 0.7 per cent in the disposable income of a zone A resident without dependants receiving average weekly earnings. The value of the rebate for a taxpayer without dependants working in the special zone now stands at an increase in disposable income of 1.8 per cent.

The value of the remote area allowance for social security recipients stood in 2011 at an increase of 2.6 per cent in the disposable income of a single pensioner and 3 per cent in the disposable income of a couple.” (ALGA 2015: 99)

The study concludes that zone rebates are justified by arguments invoking the major principles of taxation. There is a strong case that the levels of rebate be revised to better achieve the intended policy outcomes, and that the zones should be updated to reflect prevailing need.

This is particularly important for recipients of social security and needs to be urgently addresses in the context of an ageing population profile with a higher proportion of retirees and people with care and health service needs.

4.5. Fullarton, A R 2014 - *Are you still here, Mr Hasse? A study of Australia's Tax Rebates for Residents in Isolated Areas*, Journal of the Australasian Tax Teachers Association 2014 Vol. 9 No. 1

Fullarton (2014) provides an excellent illustrated history and explanation of the elements that underpin the current system. The paper also provides a political economy analysis of the ZTO and related policies over recent decades.

The paper looks at the fundamental concept of reducing the tax liability of certain taxpayers to compensate them for living or working in remote regions of Australia compared with the population living in more populous centres.

The conclusions suggest that the reluctance of Federal governments to increase taxation concessions to compensate for the uncongenial climatic conditions, isolation and high cost of living of remote Australian taxpayers is influenced by political expedience, '[that is,] numerically, voters in those regions are now vastly outnumbered by, and of less political significance than, other Australians.' (Fullarton 2014: 25).

It further concludes that this political consideration of electoral influence is greater than the legal, or socio-economic, factors of equity or fairness, referred to as vertical equity, and considered to be an essential element of a 'good' taxation system, in defining government taxation policies.

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APPENDIX 1 – Cook Shire Council submission

Cook Shire

11th April, 2019

To Whom It May Concern

Productivity Commission Review - Remote Area Tax Concessions and Payments

Remote Area Tax Concessions and Payments form a vital part of income for residents of Cook Shire for the following reasons:

Recruitment and retention of staff — Remote area benefit salary packaging

Attracting and retaining people in the region is difficult because of the remote location. Some businesses can offer salary packaging which includes remote area benefits applied due to the tax zone.

Cost of living in a remote area

Flights — if leaving the area additional flights from Cooktown to Cairns are required prior to being able to travel any further.

Vehicle expenses — If flights are not available it is 400km to Cairns to access connecting services.

Fuel — electricity, petrol, gas costs are significant.

Freight — lack of availability of products means that additional freight must be purchased.

Shopping / grocery cost — groceries are more expensive due the freight requirements.

Housing — rent is expensing as housing is scarce.

Schools — for education choices parents needs to look at boarding schools if the local schools do not provide what they are looking for.

Hospital — for specialist medical treatment or dentistry people are required to travel to Cairns or further south.

Social demographics

Regional areas often consist of low socioeconomic people. Incomes are low and with the added cost of living in a remote area the remote tax concessions is an added financial gain to a low income household.

Employment opportunities

Employment opportunities are rare and people are required to travel significant distances to find work, adding financial pressure.

Home loans and saving

Because of the remote area people are required to save for and submit 20% deposit for homes, this is a significant cost compared to more central locations that are required to provide 10%. Where a home is not affordable people are required to rent, the cost of rent is high due to the lack of housing.

housing.

APPENDIX 2 – Darling Downs and South-West Queensland Council of Mayors submission on zone tax rebates (to the Senate Economics References Committee, May 2018)

On behalf of the Darling Downs & SW Qld Council of Mayors, consisting of the 10 councils from the SA border to the Great Divide, I would like to offer the attached report prepared by NIEIR on the case for reviewing Income Tax Zone Rebates, to augment LGAQ's submission to the Senate Committee Inquiry.

The aim of the review would be to help address the inequalities facing families and industry right across this state. Current Zones are based on outmoded concepts and data, and do little to alleviate the challenges faced in regional and remote Queensland.

Our Council of Mayors is terribly concerned about the bleeding of population away from the west, especially from the smaller population centres. Changes such as those recommended here are essential to keep younger people and families committed to productive lives on the properties in our wider region, which supports 25% of the state's cattle and 75% of its grains and pulses production. Without change, agricultural and community sustainability will continue to be undermined.

Another factor threatening rural and remote families and workers is access to health services. There is a major inequality in access to consistent health services, including continuity of access to the same medical professionals in rural and regional Queensland. Residents in remote and regional Queensland don't have access to the same medical staff with whom to build relationships, with the effect of often discouraging residents from using medical services.

We greatly appreciate the role being played by LGAQ in support of all Queensland local governments, including your response to this Inquiry. We hope that our perspectives can be incorporated in the LGAQ submission.

Please let me know if we can provide more to assist you.

Kind regards,

Cr Paul Antonio
Mayor, Toowoomba Regional Council, and
Chair, Darling Downs & South West Queensland Council of Mayors.

APPENDIX 3 - Recent related LGAQ and ROC submissions

1. on regional air services - LGAQ submission to the Senate Rural and Regional Affairs and Transport References Committee Inquiry into the operation, regulation and funding of air route service delivery to rural, regional and remote communities – February 2018 “*Environmental Scan of Air Route Service Delivery to Rural, Regional and Remote Communities*” (prepared by AEC Group for the LGAQ);
<https://www.aph.gov.au/DocumentStore.ashx?id=85db12a2-a889-4ed0-89a9-a10d40da86ff&subId=564076>
2. on digital economies – the 2017 LGAQ Digital Productivity Report;
<http://bit.ly/digitalproductivity>
3. on remote and regional indigenous communities - LGAQ Response to the Draft report of the Queensland Productivity Commission *Inquiry into service delivery in remote and discrete Aboriginal and Torres Strait Islander communities*, November 2017,
<http://bit.ly/Response-InquiryIntoServiceDeliveryInremoteAndDiscreteAboriginalAndTorresStraitIslanderCommunities>
4. LGAQ Submission to the *Inquiry into service delivery in remote and discrete Aboriginal and Torres Strait Islander communities*, June 2017;
<http://bit.ly/Submission-InquiryIntoServiceDeliveryInRemoteAndDiscreteAboriginalAndTorresStraitIslanderCommunities>
5. on remote Indigenous community housing - LGAQ submission to the *Review of the National Partnership Agreement on Remote Indigenous Housing* (NPARIH) Dec 2016;
<http://bit.ly/Submission-ReviewOfTheNationalPartnershipAgreementOnRemoteIndigenousHousingNPARIH>
6. LGAQ Submission to the Department of Transport and Main Roads *Review of Long Distance Passenger Services*, March 2013;
<http://bit.ly/Submission-ReviewofLongDistancePassengerServices2013>
7. The Case for Reviewing Income Tax Zone Rebates, NIEIR for the Council of Mayors Darling Downs and South-West Queensland and RDA - Darling Downs & SWQ, November 2011
<http://bit.ly/TheCaseforReviewingIncomeTaxZoneRebatesNIEIR>

APPENDIX 4 - Recent papers on Regional Inequality in Australia

1. ABS SEIFA 2016 (released 27 March 2018)

The Australian Bureau of Statistics “broadly defines relative socio-economic advantage and disadvantage in terms of people's access to material and social resources, and their ability to participate in society” as indicated by the socio-economic conditions of a community (ABS SEIFA p6).

Based on ABS Census data, the Socio-Economic Indexes for Areas 2016 (SEIFA) provides a series of indicators. SEIFA 2016 has been created from Census 2016 data and consists of four indexes: Relative Socio-economic Disadvantage (IRSD), Relative Socio-economic Advantage and Disadvantage (IRSAD), Education and Occupation (IEO), and Economic Resources (IER).

An analysis of local government areas (LGA) is provided in table 2033.0.55.001. According to these data across Australia, analysis of Queensland's 77 councils indicates that two thirds of Queensland LGAs are ranked in the lowest 50 per cent of socio-economic disadvantage.

The ABS SEIFA indexes provide valuable indicators when formulating policy based on the needs of regions and in designing effective delivery programs to address inequality issues.

2. Productivity Commission *Transitioning Regional Economies*, Dec 2017 and *Rising inequality? A stocktake of the evidence* August 2018

The recent research paper *Rising inequality? A stocktake of the evidence* released on 28 August 2018 contributes to the discussion in Australia by bringing together and taking stock of the latest and most complete evidence measuring the prevalence of, and trends in, inequality, economic mobility and disadvantage across Australian society.

The 2017 Productivity Commission report *Transitioning Regional Economies* includes a range of indicators and recommendations. While the Federal Government has decided to take a different direction on some matters, there remain a number of recommendations which would contribute to improved regional development policies.

In particular, the LGAQ supports the following recommendations:

Recommendation 5.3

State and Territory governments, in consultation with local governments and communities, should develop a single consistent definition of Australia's regions to be used to inform regional development planning and policy.

Regions should be based on functional economic regions, so as to take into account the stronger linkages and interdependencies between neighbouring communities.

State, Territory and local governments should adopt these classifications for guiding regional policy and planning.

On Productivity Commission Recommendation 5.4, in Queensland the LGAQ recommends that the Regional Organisations of Councils (ROC) provide the appropriate entity at a functional economic region level with which to engage. ROCs are also linked into the Queensland Regional Roads and Transport Groups (RRTGs) network. State Government agencies, business and regional communities already engage with ROCs in the way recommended by the Productivity Commission.

On Productivity Commission Recommendation 5.5, similar to the points made above, LGAQ supports the utilisation of existing Regional Organisations of Councils (ROC) arrangements in Queensland to promote the development and implementation of regional plans. For example, councils and RRTGs are working with the State Government to develop Regional Transport Plans. These will further inform the integration of priorities across the State and local road networks, with the objective of improving productivity

On integrated approaches to planning between the State and local governments, in Queensland the *Planning Act 2016* provides the overarching framework and policy for land use planning and development assessment and local government should be recognised as the sphere of government immediately responsible for integrated land use planning and management.

Specifically, local governments are responsible for creating planning schemes, in consultation with their communities, that are consistent with state planning requirements, and for assessing development applications in their local area.

Local governments are also responsible for the planning and provisions of 'trunk infrastructure' which is typically shared between different developments and includes water supply, sewerage, transport, stormwater management, parks and land for community facilities.

Key ongoing challenges for Queensland local governments in relation to infrastructure provision include:

- the vertical fiscal imbalance that exists in Australia whereby local governments collect only 3% of the total taxation revenue,
- the funding gap that exists for local governments in terms of revenue and costs associated with trunk infrastructure, estimated to be \$481.9 million annually across Queensland's high growth local governments, and
- the current capped infrastructure charging regime which means Queensland councils are heavily subsidising development for trunk infrastructure by over 30% of the infrastructure costs.

In relation to regional planning in Queensland, local government supports the introduction of a statutory regional planning framework that:

- represents a true regional partnership between the State and local governments;
- addresses matters of State and regional interest; and
- informs local planning instruments."

At present, the State Government's regional planning framework does not comprehensively cover all of Queensland's regions and does not necessarily include infrastructure considerations that support the implementation of the *State Infrastructure Plan* (released in March 2016).

In the *LGAQ 2018 Advocacy Action Plan*, local government seeks the "development of regional infrastructure plans as part of a statutory regional planning program, including State budget reforms to deliver long term infrastructure projects outlined in the *State Infrastructure Plan*."

3. ALGA State of the Regions 2017-18 – Pillars of Regional Growth

The latest edition of the Australian Local Government Association (ALGA) *State of the Regions* report emphasises four drivers of productivity growth - skills formation, capital investment, knowledge-creation and the formation of supply chains.

These drivers are identified as being key to regional economic growth and, in turn, to improving regional equality. The report makes the point that each of these drivers are supported by public infrastructure and services that must be adequately funded.

The Report Appendices provide time series for indicators that can be used to compare the activity of regions. Appendix 5 provides definitions for the comparative indicators used in comparing the relative performance of regions.

The Report notes that, over Australia's economic history, Federal governments have been prepared to use a wide range of policy mechanisms to improve regional economic activity and equality, including tax-financed education and other measures to promote equality of opportunity thereby ensuring the best utilisation of the country's human resources.

More recently there has been a reliance on the finance sector premised on the belief that market decisions and market incentives, conducted within a competitive framework, will maximise economic growth.

However, markets that operate well in a capital city may not operate as well, and often times do not exist, in the regions. While this approach has provided benefits in more populous centres in Australia, the regions have not enjoyed the same level of benefit.

4. CEDA How unequal? Insights on inequality April 2018

In April 2018 CEDA released its report *How unequal? Insights on inequality*. This is a collection of seven essays by academic researchers each dealing with an aspect of regional equality.

Essay 3 emphasises that education is an essential component of any nation's economic, political, cultural and social development.

"It is the main vehicle for social mobility for individuals. It develops skills, attitudes and attributes that are essential for creating active, engaged and productive citizens. It is the key to promoting a tolerant, cohesive, prosperous and innovative society."

Essay 5 suggests that geographic inequality can be identified by comparing the relative rates of social and economic development between different geographical areas compared at state, region, postcode and neighbourhood levels.

This essay provides a table of dominant characteristics of disadvantaged locations for each state and territory from a 2015 study *Dropping off the Edge*. For example, key disadvantage characteristics for Queensland are listed as youth disengagement, long-term unemployment, prison admissions, low family income and access to internet.

5. Centre for Labour Market Research, University of Canberra, Australia Regional Inequality and the Trade Cycle, Michael Corliss and Phil Lewis

The paper examines employment and incomes, and the effect that economic growth has had on regional inequality. Overall, the study found that while economic growth acts to significantly reduce jobless rates, “reducing the differences between SLAs is much more stubborn, particularly for remote regions.” While strong economic growth increased employment opportunities, it did nothing to change the structural differences between (and within) regions regarding the jobless rate.

Analysis of tax data found that growth was associated with diverging incomes, and downturns are associated with converging incomes between areas.

The influence of the business cycle mostly impacted upon the of capital cities and remote regions where there was greatest differences between regions. The remaining regions showed considerably less difference between regions and the business cycle was of little consequence.

According to this study, the business cycle and economic growth has a greater impact upon higher income areas in both the upturn and in the downturn phase of the business cycle.

6. Grattan Institute Working Paper No. 2017-8, Regional patterns of Australia’s economy and population August 2017

This paper examines incomes, employment and demographics across regions of Australia over the past decade. Figure 2.3 provides a map showing average taxable incomes by region (ABS SA3).

The paper notes that data have been influenced by broad economic events, including mining investment in particular regions and the structural shift of employment from agriculture and manufacturing to services.

“Since the mid-1980s, the share of jobs in agriculture, forestry and fishing has fallen from 6.1 per cent to 2.5 per cent and in manufacturing from 16.1 per cent to 7.5 per cent. Manufacturing’s share of the economy declined accordingly” (ABS 6291.0).

7. Local Government National Report 2014-15 (February 2017) - on the operations of the Local Government (Financial Assistance) Act 1995 (Cth).

The Local Government National Report 2014-15 (App E) applies a classification to councils by each State and territory and shows the per capita funding under the General Purpose Grant, and per kilometre funding under the Identified Roads Grant.

While the report is published with a significant lag, each year the Commonwealth Grants Commission applies its relativities formulae to allocate funding to States and Territories.

In turn, the respective State local government grants commissions apply formulae based on the equalisation principles to allocate funding to local governments across their jurisdiction.

That is, there are timely, regularly updated analyses of regional differences (including indices and adjustment factors) available. This report found that for reference when developing policies that seek to improve regional equality.

8. ACOSS Inequality in Australia 2015 (first edition of Inequality in Australia part of the 'Poverty and Inequality in Australia' series)

Using income as a measure of equality, the report found that "There is an urban and regional pattern to income inequality, with people in capital cities more likely to be in the top 20%, while those outside capital cities are more likely to be in the bottom 20%."

This report also found that "Australia's level of income inequality is above the OECD average, but below countries such as the United States or the United Kingdom, which have very high levels of inequality. While inequality in Australia is not extreme by international comparison, we are moving in the wrong direction."

9. The Australia Institute - Income and wealth inequality in Australia - Policy Brief No. 64 July 2014 (Richardson and Denniss)

Similar to other papers, this report found that "inequality between those with the most and those with the least is rising in Australia." The report concludes that a progressive taxation system remains a primary policy tool "to redistribute income [more] effectively to reduce inequality."

Better use of the taxation system, including region concessions / rebates for residents, is also called for in the submissions from a number of regional Queensland councils.

10. ACELG & LGAQ Community Wellbeing Indicators - Measures for local government - May 2013

The majority of Queensland councils have developed a long-term community plan that embodies respective community views, visions and values, and outlines how the community aspires to reach its full potential.

The amended *Local Government Act 2012* (Qld) removed the legislative requirement to adopt long term community plans. However, where community plans are in place across Queensland, there is reasonable community expectation that councils implement initiatives based on these plans. There is also widespread evidence across local governments in Queensland of an interest in using effective indicators for community planning before and after these legislative amendments.

The inter-relationship between community well-being, economic development, ecological sustainability, the built environment, social equity and justice have long been recognised as integral to the role of local government.

This is reflected in a resurgent global interest in these inter-relationships, most evident in the Organisation for Economic Co-operation and Development's (OECD) *Global Project for Measuring the Progress of Societies* and nationally with the Australian Bureau of Statistics *Measures of Australia's Progress* (2012) and Australian National Development Index (ANDI).



**Local Government Association
of Queensland**
LGAQ

Local Government House
25 Evelyn St, Newstead QLD 4006
P: 1300 542 700

www.lgaq.asn.au