

City of Kalgoorlie-Boulder

Submission: Remote Area Tax Concessions and Payments



April 2019

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Summary

The City of Kalgoorlie-Boulder (the City) welcomes the opportunity to respond to the Productivity Commission's Remote Area Tax Concessions and Payments Issues Paper. Current remote area tax concessions and payments have a significant impact on regional communities like Kalgoorlie-Boulder, creating and sustaining FIFO workforces at the expense of regional Australia. A significant portion of the West Australian Mining sector workforce (at least 50 per cent), are employed in fly-in-fly-out (FIFO) arrangements¹. Kalgoorlie has not been exempt from the trend. Our City's population, like many regional centres across Australia, has been declining since 2013². This is despite the significant employment and quality lifestyle opportunities offered by Kalgoorlie-Boulder and the wider Goldfields region. It is clear that current Fringe Benefit Tax (FBT) arrangements for remote areas need significant reform to better attract and retain regional populations to support productivity.

As part of a suite of recommendations, the City is proposing that current remote area FBT concessions be equalised to enable employees residing in regional and remote areas across Australia access the same allowances as their employers. This change would recognise the isolation, feeling of remoteness and higher costs to access critical services often experienced by individuals and families residing away from Australia's major cities. It would also support residential workforces by giving employees an attractive alternative to FIFO arrangements, increasing the long-term sustainability of regional centres like Kalgoorlie-Boulder.

Furthermore, we propose that the incentives should be amended to encourage employers to use a residential workforce and to invest in long-last infrastructure required to grow regional Australia, as opposed to FIFO workforces. This could be achieved by limiting the FIFO FBT exemption to worksites that are truly remote and not within a reasonable travel distance from a significant regional centre. Examples of how the current concessions and legislation could be reformed is outlined in the attached Policy Proposal.

The City also recognises that the current Tax Offset Zones have lost relevance and do not go far enough to support regional communities. Under current arrangements, regional cities such as Bunbury and Mandurah, located just over an hour from Perth, are eligible to claim the same concessions as Kalgoorlie-Boulder which is located over 600 kilometres away. The current zones need reviewing to better support regional populations, reflecting the challenges and issues associated with geographic isolation faced by those residing in remote, regional Australia.

In addition to this submission, the City, the Kalgoorlie-Boulder Chamber of Commerce (KBCCI), the Goldfields Esperance Development Commission (GEDC), and a range business and industry stakeholders from across the Goldfields region welcome the opportunity to meet with representatives from the Productivity Commission prior to the release of the draft report on Remote Area Tax in August 2019.

¹ Australian Bulletin of Labour 2014, *Determinants of Employee-turnover Intentions in Atypical Employment: The FIFO Mining Industry in Western Australia*, Accessed: <http://eds.b.ebscohost.com/eds/pdfviewer/pdfviewer?vid=5&sid=f4cfb081-b39d-444d-b7aa-faaa000fd1b5%40sessionmgr103>

² Australian Bureau of Statistics, *Regional Population by Age and Sex, Australia, 2017*, Cat. 3235.0 (2016-17 data was released on 28 September 2018. 2017-18 data is expected to be available in March 2019).

Recommendations

The City appreciates the Productivity Commission's commitment to thoroughly reviewing remote area tax concessions, and recognises that this is part of a suite of solutions to ensure the continual sustainability and attraction of regional and remote Australia.

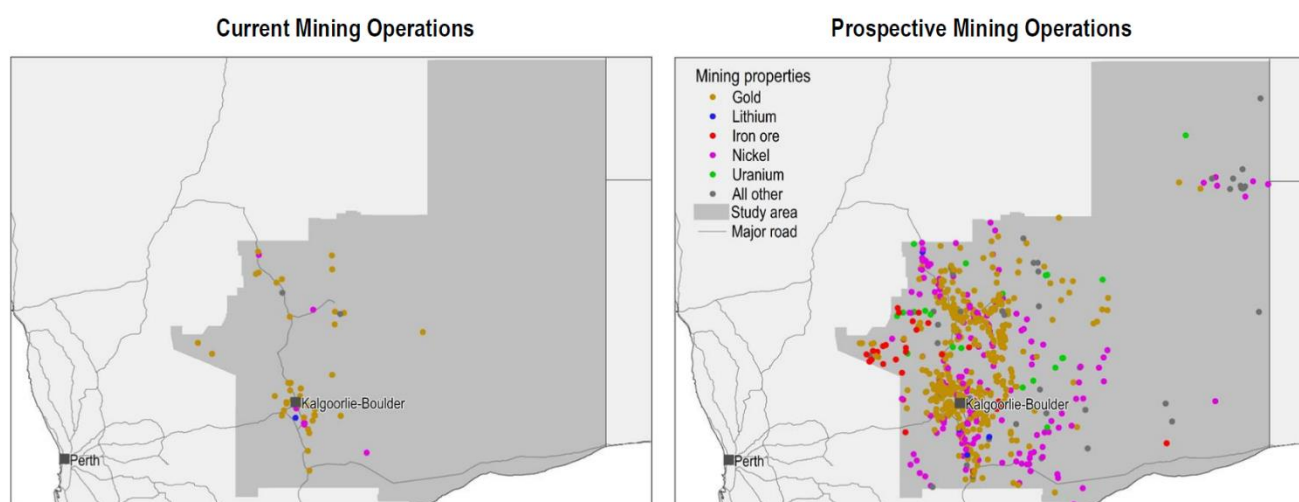
In response to the Productivity Commission's Issues Paper, the City recommends the following:

- FBT remote area concessions should encourage and sustain residential workforces in regional and remote Australia, rather than FIFO employment arrangements.
- Current FBT remote area concessions should, at a minimum, be equalised to give employees residing in regional Australia the opportunity to claim the same benefits as their employers.
- That current FBT travel and accommodation concessions for employers operating within 100 kilometres of a significant regional centre (population of >10,000) be reduced, encouraging residential workforces. This is anticipated to drive investment in regional and remote Australia, catalysing regional productivity, investment in long-lived assets and population growth outside of Australia's major cities.
- That the Zone Tax Offset (ZTO) special area boundaries be redrawn to reflect contemporary settlement patterns and relative access to services.
- Simplify and reduce compliance remote area FBT exemptions and concessions so that it is easier for small to medium sized enterprises and workers in regional and remote Australia to access concessions.
- Reform remote area tax concessions and payments to better attract and retain labour to remote and regional areas where there is a high demand for workers.
- Attract students and graduates possessing in-demand skills to regional areas by providing fee HELP relief or forgiving HELP debts.
- Reform remote area tax concessions and payments to ensure that mining companies are able to fulfil their social and economic responsibilities to regional communities.

About Kalgoorlie-Boulder

Kalgoorlie-Boulder is 'WA's Inland Capital' and the largest city in outback Australia. It is approximately 600 kilometers northeast of Perth, with an area of 95,576 km². Traditionally known for its mining industry and rich gold and nickel mineral deposits, Kalgoorlie is the second largest resource producing region in WA and one of the most significant in the world. Kalgoorlie-Boulder is also expected to play a significant future role in the State's battery mineral extraction and refinery industry³.

In September 2016, there were 106 active mining properties in the Kalgoorlie-Boulder Economic Zone. A further 697 mining properties are either classified as under consideration or possible. These are illustrated in the diagram below. Resources mined are generally gold, nickel, iron ore, uranium or lithium. Kalgoorlie-Boulder's economic zone includes an additional 1,100 businesses who play a major role in supporting the town's 30,500 residents, as well as the surrounding mining equipment, technology and services (METS) sector. A major contributor to both the West Australian and Australian economies, Kalgoorlie-Boulder's Economic Zone Gross Regional Product was estimated at \$3.27 billion in 2017-16⁴.



Source: Kalgoorlie-Boulder Economic Zone Mining Operations, Ancil Allen Consulting, 2017

It is estimated that 15,527 people work in Kalgoorlie-Boulder, with over 25 per cent employed in the mining industry⁵. Kalgoorlie-Boulder has an annual average unemployment rate of 3.5 per cent⁶, which

³ Government of Western Australia – Department of Jobs, Tourism, Science and Innovation (JTSI) 2019, *Future Battery Industry Strategy*, JTSI, retrieved 29 April 2019, < <https://www.jtsi.wa.gov.au/economic-development/economy/future-battery-industry-strategy/future-battery-industry-strategy> >.

⁴ Latest REMPLAN data incorporating Australian Bureau of Statistics' (ABS) 2017 Census, *Economic Overview Kalgoorlie/Boulder (C) (2017 Release 3)*, Accessed: <<https://www.remplanlogin.com.au/economy/>>.

⁵ Latest REMPLAN data incorporating Australian Bureau of Statistics' (ABS) 2016 Census Place of Work Employment Data, 2014 / 2015 National Input Output Tables and June 2017 Gross State Product. Accessed: < <https://www.economyprofile.com.au/kalgoorlieboulder/trends/jobs#bar-chart> >.

⁶ Kalgoorlie-Boulder unemployment rate, Economy Profile - Source: Department of Jobs and Small Business, Small Area Labour Markets (SALM). (June Quarter 2018 was released in September 2018. September Quarter 2018 data will be available in December 2018.)

is well below the national and West Australian average annual unemployment rate of 5.4 per cent⁷ and 6.2 per cent⁸ respectively. The low unemployment rate in Kalgoorlie-Boulder has meant businesses in the region have difficulties filling jobs locally. This led to the establishment of the Goldfields Designated Area Migration Agreement (DAMA) in partnership with the Department of Home Affairs in March 2019⁹. The Goldfields DAMA provides a fast-tracked migration process for skilled overseas workers to settle in Kalgoorlie-Boulder and surrounding local government areas, including the Shires of Coolgardie, Leonora and Menzies.

Kalgoorlie-Boulder has had an average annual population turnover rate of 22 per cent since 2007. The City is ranked 510 out of 563 for population retention in Australia.¹⁰ In response to the high turnover rate, the City has made major investments and undertaken a comprehensive, multiplatform communications campaign in recent times to ensure Kalgoorlie-Boulder meets the lifestyle and infrastructure expectations of current and future residents.

⁷ Labour Force August 2018, Western Australian Economic Notes, Department of Treasury - Data sourced from Australian Bureau of Statistics Cat. 6202.0 Labour Force, Australia

⁸ Labour Force August 2018, Western Australian Economic Notes, Department of Treasury - Data sourced from Australian Bureau of Statistics Cat. 6202.0 Labour Force, Australia

⁹ Australian Government, 2018, 'Joint Media Release with Rick Wilson MP – Kalgoorlie-Boulder Secures DAMA', Minister for Immigration, Citizenship and Multicultural Affairs, 21 March 2019, <https://minister.homeaffairs.gov.au/davidcoleman/Pages/kalgoorlie-boulder-secures-dama.aspx>

¹⁰ Growing Kalgoorlie-Boulder: Planning for Growth Under the Regional Centres Development Plan, Part 1: Strategic Overview, page 17.

Response to Productivity Commission Issues Paper

The extent to which fringe benefits tax (FBT) remote area concessions influence employers' decisions between offering fly-in fly-out and regular employment

The impact of the concessions and payments on wage and employment decisions

The impact of the concessions and payments on labour mobility and retention, and changes to these impacts as the real value has eroded

Recommendations:

FBT remote area concessions should encourage and sustain residential workforces in regional and remote Australia, rather than FIFO employment arrangements.

Current FBT remote area concessions should be equalised to give employees residing in regional Australia the opportunity to claim the same benefits as their employers.

Current FBT concessions limit the growth of regional and remote towns and cities

- Taxation should work to encourage resource companies to provide a resident workforce in existing towns and cities¹¹. Under current arrangements, the exact opposite is happening.
- Through existing remote area FBT concessions, companies are rewarded for having a FIFO workforce through tax concessions at the expense of regional communities like Kalgoorlie-Boulder. Workers who fly-in and fly-out of the City rarely stay in town for work, nor do their wages trickle back into the community. Similarly, workers who do stay in camps close or inside towns throughout the Goldfields are generally not permitted to leave their accommodation sites, and as a result their money and time is not spent in the community.
- As revealed in a 2013 parliamentary enquiry, "the subsidisation of FIFO and DIDO work practices through taxation concessions to mining corporations distorts the capacity of workers to make the choice to live and work in regional communities and, in fact, discourages the practice"¹². This has had a significant impact on local employers' ability to attract and retain skilled workers in Kalgoorlie-Boulder, with many raising concerns about the exodus of workers from the region in recent years.

¹¹ Burns, S 2013, *The fly-in, fly out debate: What happens to the communities?* [online]. Health Promotion Journal of Australia: Official Journal of Australian Association of Health Promotion Professionals, Vol. 24, No. 2, Availability: <<https://search.informit-com-au.ezproxy-f.deakin.edu.au/documentSummary;dn=682714622915324;res=IELAPA>>.

¹² Parliament of Australia, 2013 'Cancer of the bush or salvation for our cities? Fly-in, fly-out and drive-in, drive-out workforce practices in Regional Australia', Canberra, PA, retrieved 18 April 2019, <https://www.aph.gov.au/parliamentary_business/committees/house_of_representatives_committees?url=ra/fifodido/report.htm>

- At the peak of the last mining 'boom' in 2013 the region had 33,267 people and this has slowly declined to 30,579 by 2017.¹³ Many Goldfields locals who had moved out of the region have since purchased homes in Perth, and are not prepared to return to the Goldfields to live and work¹⁴.

High non-resident population

- The total service population of Kalgoorlie-Boulder is also considerably larger than the resident population, due largely to the number of additional FIFO or DIDO workers.
- At the time of the 2016 Census, there were 1,780 non-residents in Kalgoorlie-Boulder.¹⁵ A year later, the City's total airport passenger numbers was at its highest, totalling 266,768 according to the 2017-18 Airport Traffic Report.
- The high non-resident population prevents growth in the region, as well as the City's aspiration to grow Kalgoorlie-Boulder's current population from 30,500 to 40,000 by 2030. Increasing the City's population would provide long-term stability to Kalgoorlie-Boulder businesses whilst building social and economic capital.¹⁶
- Despite the substantial resources, excellent liveability, services and housing available to accommodate new employees in Kalgoorlie-Boulder, several mining companies and contractors operating within 100kms of the City continue to offer FIFO positions from Perth.

Cost of FIFO

- As revealed in a recent report by the Goldfields Esperance Development Commission (GEDC), anecdotal evidence suggests that each FIFO worker represents an annual expense of around \$25,000 per annum to the employer, though this can vary between operations. Allowing for the costs of set up, servicing and maintenance of the mining worker camp, each employee could potentially cost up to \$75,000 per annum¹⁷.
- This amount would better invested as an incentive or assistance to live in the nearest regional community like Kalgoorlie-Boulder, in line with the findings of a Chamber of Minerals and Energy study¹⁸. FIFO concessions should also be amended to provide support for building long-term assets such as roads, railways, utility infrastructure and community facilities in regional and remote towns, rather than isolated mining camps.

¹³ Kalgoorlie/Boulder Population, Economy Profile - Source: Australian Bureau of Statistics, Regional Population by Age and Sex, Australia, 2017, Cat. 3235.0 (2016-17 data was released on 28 September 2018. 2017-18 data is expected to be available in March 2019).

¹⁴ 2017 Goldfields Labour Market Review, Government of Western Australia Department of Training and Workforce Development, page 18

¹⁵ Latest REMPLAN data incorporating Australian Bureau of Statistics (ABS) 2016, *Usual Address on Census Night Report (2016 Census, Place of Usual Residence)*, Accessed: < <https://www.remplanlogin.com.au/community/>>.

¹⁶ Growing Kalgoorlie-Boulder: Planning for Growth Under the Regional Centres Development Plan, Part 1: Strategic Overview, page 24

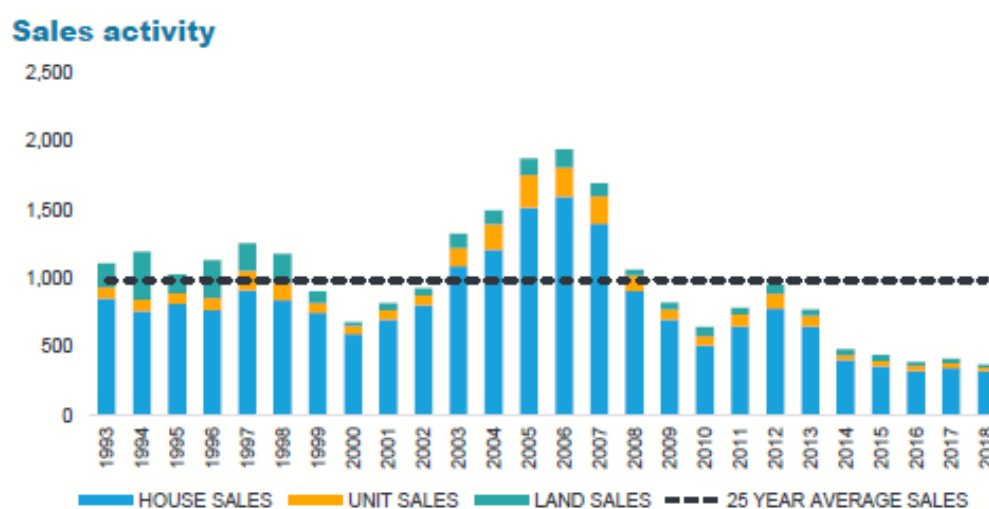
¹⁷ Goldfields Esperance Development Commission (GEDC) 2016, *Goldfields-Esperance Regional Investment Blueprint*, Regional Investment Report, retrieved 24 April 2019, http://www.gedc.wa.gov.au/GEDCRDS/media/documents/G-E_RIB_Executive_Summary.pdf

¹⁸ CME, Key Findings of the CME Workforce Survey, <http://www.fifofacts.com/images/files/2015-CME-WA-workforces-survey.pdf>.

- By actively discouraging workers from residing in the community they work in, FIFO workforces pose a significant risk to Kalgoorlie-Boulder's long-term sustainability and liveability.
- The City recognises that maintaining a viable resources sector workforce is often challenged by a tightening of the skilled labour market¹⁹. However, through increasingly offering FIFO employment, mining companies and contractors have deprived their workforce of the opportunity to experience the quality, relaxed lifestyle on offer in regional Australia. Without this experience, many METS sector employees have developed a preference for maintaining an urban, coastal lifestyle at the expense of communities essential to their employer's development and growth²⁰.
- Where there are viable regional centres within 100 km of mining operations, the City advocates that tax concessions and arrangements should be designed and utilised to support a residential workforce.

FIFO's impact on Kalgoorlie-Boulder's property market

- The mining sector's strong influence on Kalgoorlie-Boulder's economy is reflected through the City's property market trends over the past 25 years. The City has always experienced boom and bust periods in the past, but from 1993 to 2008 residential workforces supported the property market to stabilise and steadily increase in value.
- The significant impact of FIFO on Kalgoorlie-Boulder's property market is clearly illustrated by the sharp and ongoing reduction in real estate sales by almost 50 per cent from 2012 to 2018:



Source: Housing Market Trends, Kalgoorlie-Boulder, REIWA, January 2019

¹⁹ Chamber of Minerals and Energy WA 2019, <https://www.cmewa.com/policy-and-publications/policy-areas/people-and-communities/fly-in-fly-out-fifo-workforce>

²⁰ Australian Bureau of Statistics 2001, *Regional Population Growth, Australia and New Zealand*, 3101.0, Australian Bureau of Statistics, retrieved 23 April 2019, <<http://www.abs.gov.au/ausstats/abs@.nsf/previousproducts/1301.0feature%20article32004>>.

- Given the degree of risk associated with purchasing property in highly resource dependent regions, the City asserts there is a strong case for FBT tax concessions to help ameliorate the side-effects of market failure experienced by highly trade-exposed regional economies with a thin industry base.

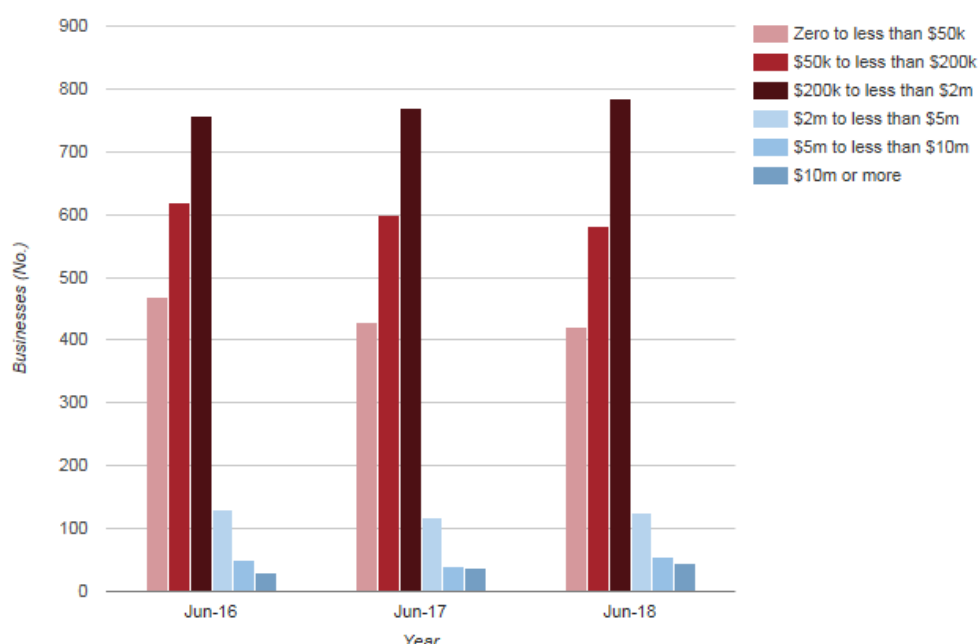
FIFO's impact on Kalgoorlie-Boulder's business community

- Without a growth in population, opportunities for Kalgoorlie-Boulder's economy to diversify or expand over the past three years has been limited. This is reflected through the stagnant growth of local businesses from June 2016 to June 2018, with the number of businesses operating in Kalgoorlie-Boulder only increasing slightly during this period.

Kalgoorlie/Boulder

Business Counts (Turnover)

► All Industries



Source: Australian Bureau of Statistic Business Register, 2018, Accessed through REMPLAN.

Thriving regional communities, not flying miners

- As revealed in a 2013 Parliamentary enquiry, "whilst resource companies may no longer have full control and responsibility for resource communities; as major employers, they have a social and economic responsibility to support the communities that support them in a more holistic way"²¹.

²¹ Parliament of Australia, 2013 'Cancer of the bush or salvation for our cities? Fly-in, fly-out and drive-in, drive-out workforce practices in Regional Australia', Canberra, PA, retrieved 18 April 2019, <
https://www.aph.gov.au/parliamentary_business/committees/house_of_representatives_committees?url=ra/fifodido/report.htm>

- The City has been strong and consistent in voicing its opposition to FIFO and the negative impact this has on the Kalgoorlie-Boulder community. It was Kalgoorlie's previous Federal MP (now Mayor) John Bowler who called FIFO and DIDO employment arrangements the 'cancer of the bush' in 2006²². This phrase was later used as the title for a damning Parliamentary enquiry into the impact of such workforce practices on regional Australia in 2013²³.
- Over a decade later, and the City still maintains that FBT concessions should be amended to encourage employees to live and work in Kalgoorlie-Boulder and remote regional Australia²⁴.
- As outlined in report by the GEDC, there are many benefits to housing workers and their families within existing regional communities, for both the employers and employees, including:
 - o Reduced operation costs and staff turnover;
 - o Service provision quality supported by larger population;
 - o Local business viability improved through access to more customers; and
 - o Social cohesion and interaction²⁵
- A report produced by the Regional Australia Institute (2019) recently revealed that many people are showing a strong preference for living in the regions, with over 400,000 Australians relocating from capital cities to regional areas between 2011 and 2016²⁶. Enhancing the liveability and affordability of regional areas like Kalgoorlie-Boulder through FBT reform will increase this flow naturally, reducing pressure on capital cities.
- The impact of FIFO and DIDO arrangements on the physical and mental health of employees has been well documented, further strengthening the case for residential workforces. In 2018, a study of more than 1,100 FIFO workers, published in the Medical Journal of Australia, found that 28 per cent had high or very high psychological distress, compared with 10.8 per cent for Australia overall.²⁷

Equalising FBT concessions to support regional, residential workforces

- It is clear that current FBT remote area concessions need significant reform to better attract and retain residential workforces in regional and remote Australia.
- Under current arrangements, employees that continue to live and work in the Goldfields are disadvantaged, denied access the same accommodation concessions as their employers.

²² John Curtin Institute of Public Policy, 2008 'FIFO and Regional Development', Perth, retrieved 18 April 2019, <<http://www.fifofacts.com.au/images/files/research/090613%20FMCKFIFOandReglDev08.pdf>>

²³ Ibid 11.

²⁴ Watkinson, N 2018, 'FIFO a brake on Kal's growth', *Kalgoorlie Miner*, 11 October 2018, retrieved 14 April 2019, <<https://thewest.com.au/news/kalgoorlie-miner/fifo-a-brake-on-kals-growth-ng-b88985880z>>.

²⁵ Goldfields Esperance Development Commission (GEDC) 2016, *Goldfields-Esperance Regional Investment Blueprint*, Regional Investment Report, retrieved 24 April 2019, <http://www.gedc.wa.gov.au/GEDCRDS/media/documents/G-E_RIB_Executive_Summary.pdf>

²⁶ Regional Australia Institute 2019, *National Population Plan for Regional Australia*, RAA, retrieved 18 April 2019, <http://www.regionalaustralia.org.au/home/wp-content/uploads/2019/02/2019_RAI_NationalPopulationPlanForRegionalAustralia_Final.pdf>.

²⁷ MJA, 2018, 'Psychological distress in remote mining and construction workers in Australia', *The Medical Journal of Australia*, 14 May 2018, <https://www.mja.com.au/journal/2018/208/9/psychological-distress-remote-mining-and-construction-workers-australia>

- The City is therefore proposing that the current FBT remote area concessions be equalised, giving employees residing in regional and remote Australia the opportunity to claim 100 per cent FBT for their rent or mortgage. This would support more employees to live, work and purchase homes in regional centres like Kalgoorlie-Boulder. It would also play an integral role in attracting and retaining skilled workers in regional areas.
- Kalgoorlie-Boulder and the wider Goldfields region is well placed and equipped to support a population increase, offering new residents a relaxed lifestyle, welcoming community and world-class facilities.
- If FBT concessions were equalised, employees would have a greater capacity to take advantage of Kalgoorlie-Boulder's generous level of available housing stocks, with median house and rental prices significantly lower than Perth and Sydney:



Source: Kalgoorlie-Boulder Investment Prospectus 2017

- Examples of how the current concessions and legislation could be reformed is outlined below and in the attached Policy Proposal.

Evidence that employers pay more to attract and recruit labour to remote areas where there is demand for workers

Recommendation:

Reform remote area tax concessions and payments to better attract and retain labour to remote and regional areas where there is a high demand for workers

The Government should seek to attract graduates possessing in-demand skills to regional areas by forgiving their HELP debts.

Difficulties attracting and retaining workers

- The City in partnership with the Chamber of Minerals and Energy Western Australia (CMEWA), the KBCCI, Regional Development Australia Goldfields Esperance (RDAGE) and the Shires of Menzies, Leonora and Coolgardie have been working tirelessly to attract Australian workers to the region over the last few years, with little success.
- This is reflected in the Kalgoorlie-Boulder annual average population decrease of 1 per cent from 32,208 in 2011 to 30,579 in 2017²⁸. A lack of alignment across State, Federal and Local Government policies is a possible contributing factor to declining regional populations.
- Over the last 12 months, the Kalgoorlie-Boulder region has averaged 1,000 job vacancies advertised on Seek²⁹. Following a rise in new projects and demand for support services across the region, this job vacancy rate is forecast to continue, if not increase, over the next 12 months.
- To attract workers to the Goldfields, the region has implemented initiatives such as the Goldfields DAMA, with the support of the Federal Government, and an annual Kal Jobs Expo in Perth to attract job seekers.
- Remote Area Tax reform could play a critical role in supporting local businesses, increasing productivity and attracting workers to the Goldfields region to uptake the significant employment opportunities currently on offer.

Supporting regional business and industry

- Kalgoorlie-Boulder does have high average income, however only 25 per cent of the population is employed by the mining industry³⁰. Many non-resource sector employers that operate in the region are unable to pay higher wages, making it very difficult to attract and recruit suitably qualified and experienced workers.

²⁸ Australian Bureau of Statistics 2016, 2016 Census QuickStats Kalgoorlie-Boulder, LGA54280, Australian Bureau of Statistics, retrieved 24 April 2019, <<http://www.abs.gov.au>>.

²⁹ Chamber of Commerce and Industry WA, 2018, *Labour shortage amps up in the Goldfields*. Accessed 1 October 2018 from <https://www.cciwa.com/about-us/news-and-media-statements/labour-shortageamps-up-in-the-goldfields>

³⁰ Ibid – 26.

- This was reflected in the KBCCI's 2018 Goldfields Business Report, compiled to reflect business trends facing managers and owner operators of small to medium sized enterprises in the Goldfields region from July 2017 to September 2018.
- Through the report, businesses expressed that:
 - "Sourcing locally based or professionals wishing to relocate to the region continues to be an issue..."
 - "Trade positions (fitters, electricians, boilermakers, auto electricians) easily the hardest [to recruit] follow by experienced underground operators (jumbo operators, bogger operators, etc)."
 - "Attracting and retaining skilled labour still an issue"
 - "Skills shortage has affected business. Has the potential to expand, however no qualified people in town..."
 - "Very difficult to find staff who want to work & live in Kalgoorlie"
 - "Sourcing locally based or professionals wishing to relocate to the region continues to be an issue..."

Source: 2018 Goldfields Business Report, Kalgoorlie-Boulder Chamber of Commerce and Industry

Positive regional measures to attract workers – Goldfields DAMA

- Critical skill shortages in the Goldfields region across a range of industries including hospitality, childcare and agriculture led to the establishment of the Goldfields DAMA, officially approved by the Department of Home Affairs in March 2019.
- This skilled migration program will enable approved Goldfields employers to recruit and relocate suitably qualified overseas workers to the region. The City will start endorsing applications in July 2019.
- There has already been significant interest from employers across the Goldfields in accessing the Goldfields DAMA Labour Agreement. The applications, assessment and relocation process will be paid for by businesses, demonstrating that employers in remote areas have to expend more and resort to extreme measures to attract and recruit labour.
- In the interest of capturing the most current and relevant labour market condition for the Goldfields DAMA Region, in November 2018, the DAMA Committee conducted a Workforce Survey distributed across the networks of the committee.
- The survey results brought valuable data and commentary from 80 respondents across sectors and business sizes. On the following page is a snapshot of the comments from the respondents on the main challenges of attracting and retaining workers for their business. Overwhelmingly, the consistent theme from the comments were that 'remoteness', 'remote location', and 'lack of qualified people' were the top three challenges.

- Reforming remote area tax concessions would further support Kalgoorlie-Boulder businesses to attract and retain suitably qualified workers, compensating employees for the feeling of remoteness and challenges to access critical services often experienced by those residing regionally.

- The City supports providing HELP fee relief for students and alleviating the HELP debts of graduates as a way to attract and retain students and skilled workers in regional and remote areas.
- Alleviating the HELP debts of graduates with in-demand skills in areas of social and community significance would help to address Kalgoorlie-Boulder's critical skills shortage, whilst also supporting the City's growth and sustainability.
- Teachers, nurses, doctors and allied health professionals are just some of the graduates that are in demand and would be readily welcomed by the Kalgoorlie-Boulder community.
- Curtin University's WA School of Mines in Kalgoorlie-Boulder is ranked number 2 in the world for minerals and mining engineering. The City would like to continue the University's strength in minerals and mining engineering through a growth in enrolments, with graduates supported to achieve employment throughout the Goldfields.

- Isolation and high airfares influence people's long-term decisions to live in regional areas like Kalgoorlie-Boulder, as well as their quality of life. Those who frequently need to travel for business or to visit family, as well as those who are forced to travel due to sickness, emergency or other family incidents, are especially impacted.

- Airfares to and from Kalgoorlie-Boulder remain unreasonable high by any comparison. A return one hour flight from Kalgoorlie to Perth can cost anywhere between \$450 and \$900. Depending on availability and time of booking, this cost can easily reach four figures.
- The City recently presented the Committee conducting the Inquiry into Regional Airfares in Western Australia on Thursday 14 March 2019. On this date, it was \$1257 to book a return flight from Kalgoorlie to Perth. To put this cost into perspective, according to WACOSS' 2018 Cost of Living Report, \$1257 equates to:
 - o Food for a family of four for a month
 - o Rent for a family of four for a month
 - o Utilities for 5 months for a family of four
 - o Transport costs for 2 months for a family of four³¹
- High airfare prices also inhibits the growth and expansion of Kalgoorlie-Boulder's tourism offerings. With unaffordable airfares, tourism and associated businesses in our region cannot grow, unable to compete with heavily marketed and subsidised Australian destinations, as well as cheap overseas locations.
- To help tackle Kalgoorlie-Boulder's high airfare prices, the City recently agreed to rebate the \$25.95 per passenger landing fees for those passengers who use the new Qantas Kalgoorlie-Boulder residents discount trial fares each month. It is estimated that this will cost the City approximately \$250,000 per annum.

³¹ West Australian Council of Social Service (WACOSS) 2018, *Cost of Living 2018*, WACOSS, retrieved April 2019, <<https://wacoss.org.au/wp-content/uploads/2018/12/Cost-of-Living-Report-2018-web.pdf>>.

The materiality of the remote area FBT exemptions and concessions to businesses and industry (for example, levels of uptake and total amount claimed)

Recommendation:

Simplify remote area FBT exemptions and concessions so that it is easier for small to medium sized enterprises and workers in regional and remote Australia to claim.

- The current remote area FBT exemptions and concessions are complex and confusing, making it difficult for small to medium sized enterprises to access concessions. Consultation conducted by the City with stakeholders and local employers revealed that complying with the current requirements can be a costly process, making the concessions less worthwhile.
- The concessions can also be confusing and have limited benefits for employees who can access the concessions through their employers. This is evident through the City, an employer who actively offers and encourages employees to access the current FBT concessions. Despite offering the concessions, only 4.6 per cent of the City's 456 staff (*including casual and part time workers*) consider the benefit is worth the effort required to claim.
- It is clear that the current remote area exemptions and concessions need to be simplified to better support both regional employers, workers and residents.

The materiality of the Remote Area Allowance for individuals and families in remote areas, including Indigenous communities (for example, levels of uptake and share of income)

Recommendation:

That the Zone Tax Offset (ZTO) special area boundaries be redrawn to reflect contemporary settlement patterns and relative access to services.

- Zone rebates have not been reviewed for almost four decades.
- Kalgoorlie-Boulder is located in Tax Zone B, and is therefore ineligible for the Remote Area Allowance³². This is despite being located over 600kms from Perth.
- As revealed in the Health Promotion Journal of Australia, living costs have increased to almost unaffordable levels for many families in major WA resource towns³³, and Kalgoorlie-Boulder has not been excluded from this trend. The higher costs of food, travel expenses and petrol impacts the entire Kalgoorlie-Boulder population, but especially those within the community who are most vulnerable.
- Aboriginal people account for 7.3 per cent of Kalgoorlie-Boulder's population, higher than the national average of 2.7 per cent³⁴. The average income per person in an Aboriginal household in Kalgoorlie-Boulder of \$379 per week, is only 52 per cent of the average for the total population (\$730)³⁵.
- Redrawing the ZTO special area boundaries to reflect contemporary settlement patterns and relative access to services would be a great first step towards supporting our region's most vulnerable people. Better still, would be reforming the current FBT concessions to encourage the METS sector to employ and upskill local Aboriginal people, and unskilled residents before resorting to FIFO arrangements.
- An example of how the remoteness of regional and remote cities and towns could be reclassified is outlined in the attached policy.

³² Australian Department of Human Services 2018, *Remote Area Allowance Who can get it*, DHS, retrieved 17 April 2019, <<https://www.humanservices.gov.au/individuals/services/centrelink/remote-area-allowance/eligibility-payment-rates/who-can-get-it>>.

³³ Burns, Sharyn. The fly-in, fly out debate: What happens to the communities? [online]. Health Promotion Journal of Australia: Official Journal of Australian Association of Health Promotion Professionals, Vol. 24, No. 2, Aug 2013: 158.

³⁴ 2016 Census - https://quickstats.censusdata.abs.gov.au/census_services/getproduct/census/2016/quickstat/LGA54280

³⁵ *Growing Kalgoorlie-Boulder: Planning for Growth Under the Regional Centres Development Plan, Part 1: Strategic Overview*, page 16.

Conclusion

FIFO is contributing to the erosion of Kalgoorlie-Boulder's liveability to such an extent that employees working in the region are denied the ability to 'live-in', rather than simply 'cash-in'³⁶. The City believes the solution is restructuring the current Remote Area Tax Concessions and Payments to make the benefits more equitable across both employees and employers. Exemptions for mining companies operating within 100kms of viable regional centres, as well as the current Tax Offset Zones, also need review. Examples of how the current concessions and legislation could be reformed is outlined in the attached Policy Proposal.

The City appreciates your consideration of the matters highlighted in this submission and would welcome any opportunity to provide further context and evidence on the significant positive impacts remote area tax reform could provide.

Should you have any further questions, please do not hesitate to contact Alex Wiese, Executive Manager Economy and Growth

³⁶ Ibid – 11.

Attachment – Policy Proposal

Remote Area Housing Benefits

**Levelling the playing field between employees and
employers**

**A Proposal for FBT Policy Reform
to the Productivity Commission**

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EXECUTIVE SUMMARY

1. This paper is prepared in response to the review of the Remote Area Tax Concessions and Payments review undertaken by the Productivity Commission. Specifically, this paper addresses the various Remote Area Housing concessions provided in the *Fringe Benefits Tax Assessment Act 1986 (FBT Act)*. This paper does not address the current Zone Tax Offset (**ZTO**) and the Remote Area Allowance (**RAA**).
2. The current rules with respect to the FBT Remote Area Housing concessions remain overly complex and produce unfair outcomes as the rules apply differently to different employer/employee circumstances, thereby not applying equally to ALL remote area employers and employees.
3. This FBT reform proposal seeks to:
 - (i) Remove the inconsistencies that exist between employer-provided and employee-provided housing in remote areas that effectively discriminate against employees residing in remote areas who commit to that location through the acquisition of a home or the entering into of a lease on a house in their own name
 - (ii) Provide consistency on the treatment of the provision of household water under the FBT remote area concessions by including it within the definition of Residential Fuel; and
 - (iii) Better target the Remote Area Housing benefits to employees residing in areas that truly need assistance and incentives to retain and attract a residential workforce by increasing the distance from an Eligible Urban Centre from 100km to, say, 400km.

BACKGROUND TO THE REMOTE AREA HOUSING CONCESSIONS

4. When the FBT Act was introduced in 1986, Remote Area Housing was not exempt from FBT but was treated as a special category of housing assistance. In 1997, an exemption from FBT was introduced for Remote Area Housing provided by a primary producer. In 2000, the concession was extended to an exemption for all Remote Area Housing where the provision of housing was both *necessary* and *customary* in the industry in question.
5. The concessions are intended to alleviate the higher costs of living for employees who work and reside in remote areas and assist employers operating in remote areas to recruit and retain their employees. Furthermore, the Explanatory Memorandum to *A New Tax System (Fringe Benefits) Act 2000* stated that the changes would enhance the fairness of the taxation system by extending the exemption to ALL employers (whereas previously it was just for primary producers) and would reduce the costs of compliance and record keeping costs borne by employers in remote areas.
6. However, we submit in this paper that the current rules on the FBT Remote Area Housing concessions remain overly complex and produce unfair outcomes as the rules apply differently to different employer/employee circumstances, thereby not applying equally to ALL remote area employers nor resulting in the stated reductions in compliance and record keeping costs for employers who provide these benefits.
7. A further consequence of the complexity and compliance costs associated with the provision of these benefits is that some employers choose not to offer these benefits to their employees, negating the positive impact and policy reasons for introducing such concessions.
8. This proposal seeks to remove the inconsistencies that exist between employer-provided and employee-provided housing in remote areas that effectively discriminate against employees residing in remote areas who commit to that location through the acquisition of a home or the entering into of a lease on a house in their own name.

COMPLEXITY AND UNFAIRNESS UNDER THE CURRENT FBT REGIME

9. The main FBT concessions on Remote Area Housing benefits and housing-related benefits are provided under section 58ZC, 59 and 60 of the FBT Act. These concessions will collectively be referred to as **FBT Remote Area Housing concessions** in this paper.

Definition of a Remote Area

10. The concessions apply to units of accommodation that are located in remote areas. An area is remote for FBT purposes if one of the following classifications apply³⁷:

Table 1. Remote Area Classification List

If	Then
Classification 1 The location is all of the following: not in Zone A or Zone B for income tax purposes; at least 40 kms from an urban centre that had a population of 14,000 to less than 130,000; and at least 100 kms from an urban centre that had a population of 130,000 or more.	The location is remote.
Classification 2 The location is all of the following: <ul style="list-style-type: none"> • in Zone A or Zone B for income tax purposes; • at least 40 kms from an urban centre that had a population of 28,000 to less than 130,000; and • at least 100 kms from an urban centre of 130 000 or more. 	The location is remote.
Classification 3 All of the following are satisfied: <ul style="list-style-type: none"> • the employer is a "certain regional employer"; • the employer is providing a housing benefit; and • the location is at least 100 kms from an urban centre that in the 1981 Census had a population of 130,000 or more. 	The location is remote.

11. It is our view that the current definition of a 'remote area' for FBT purposes does not reflect the changing nature of Australian population since the FBT regime was introduced in 1986. Accordingly, we have made a proposal for change in this regard at paragraph 26 below.

³⁷ This table has been adapted from the guidance provided by the Australian Taxation Office (**ATO**). We have attached the ATO's guidance and list at Appendix 1.

Remote Area Housing Concessions

12. Broadly, the following requirements must be satisfied to be eligible for the FBT Remote Area Housing concessions:

- a) The accommodation is located in a remote area;
- b) The accommodation is the usual place of residence of the employee during the FBT year; and
- c) it is necessary for the employer to provide the accommodation to the employee because:
 - (i) the nature of the employer's business is such that employees are likely to move frequently from one residential location to another;
 - (ii) there is insufficient suitable residential accommodation otherwise available; or
 - (iii) it is customary in the employer's industry to provide free or subsidised accommodation.

13. However, the FBT Remote Area Housing concessions apply differently to different circumstances, including the following scenarios:

- (i) Employer provided rental accommodation
- (ii) Employee provided rental accommodation
- (iii) Employee incurred mortgage interest
- (iv) Employer provided housing loans
- (v) Employee incurred "residential fuel"

14. Provided the relevant requirements are satisfied, the above five scenarios attract different FBT concessions, as follows:

Scenarios	FBT Treatment	Concession Types
Employer provided rental accommodation Employer provided & owned accommodation	The benefits are 100% exempt.	Remote Area Housing (section 58ZC of the FBT Act)
Employee provided rental accommodation Employee incurred mortgage interest Employer provided housing loans	A reduction of 50% of the taxable value of the benefits.	Remote Area Housing Assistance (section 60 of the FBT Act)
Employee incurred electricity, gas and other fuel	A reduction of 50% of the taxable value of the benefits.	Remote Area Residential Fuel (section 59 of the FBT Act)

15. As demonstrated in the table above, the FBT remote area concessions effectively discriminate between Remote Area Housing benefits provided directly by employers and those incurred by employees. The FBT consequences are inconsistent and the outcomes depend on who directly provides the housing benefit and not who receives it.
16. The following table demonstrates the different tax outcomes that result for employers and employees under the current rules on the FBT Remote Area Housing concessions:

Concession Category	FBT consequences to employer of a \$1,000 housing benefit ³⁸	Savings available to a salary packaging employee for a \$1,000 housing expense ³⁹
Exempt Remote Area Housing benefits	\$0	\$345.00
50% Exempt Remote Area Housing benefits	\$443.40	\$172.50
No concession	\$886.80	Nil

17. The table above demonstrates the different outcomes to a hypothetical employee earning gross wages of \$80,000 per annum and depending on the nature of the Remote Area Housing arrangement with the employer. Under the first category, the lease agreement is under the employer's name and the employer, therefore, is eligible for the full exemption from FBT. The net saving for the employee on the salary packaging of the \$1,000 housing expenses in this case is \$345. However, if the lease agreement is under the employee's name (or the employee owns the home and salary packages an equivalent amount of the interest on their mortgage), the employer is only eligible for the 50% reduction in the taxable value of the Remote Area Housing Benefit such that the net saving for the same employee is reduced to \$172.50.

18. Therefore, we are of the view that the current operation of the FBT remote area concessions:

- (i) Encourages the rental of homes in remote communities instead of home ownership by employees;
- (ii) Encourages Employers to acquire or rent a house and then provide that to an employee rather than the employee making that commitment;
- (iii) Given the resources required to acquire a house (or houses), this is often only available to larger employers who have the resources to fund the acquisition of a house or houses, or are prepared to take the risk of renting a house in the employer's name for the use of an employee who could resign during the tenancy period; and
- (iv) As a result, produces inconsistent and variable outcomes to employers and employees for what is essentially the provision of the same benefit, being Remote Area Housing.

³⁸ The calculation is based on the FBT rate of 47% and the type-1 gross-up rate of 1.8868 for the FBT year ending 31 March 2019.

³⁹ The calculation is based on a hypothetical employee earning gross wages of \$80,000 per annum in the 2019 income year.

Complexities in the Interpretation of the Legislation

19. The current legislation in this area is unnecessarily complex. In particular, some of the requirements have added another layer of complexity without any clear policy rationale behind them. This includes, but is not limited to the following requirements:

1. it must be **customary** for employers in the industry to provide similar benefits to their employees; and
2. the following specific anti-avoidance provisions (in addition to the general FBT anti-avoidance provision) may apply to the provision of remote area housing benefits:
 - the arrangement must be an **arm's length arrangement**; and
 - the arrangement must not be entered into for the purpose, or for purposes that included the purpose, of **enabling the employer to obtain the FBT concessions**.

20. The issues and complexities raised above can be illustrated in a number of taxation rulings and interpretative decision released by the Australian Taxation Office (**ATO**) that seek to clarify the Commissioner's position with regard these legislative terms, as follows:

Type of Benefits	ATO Rulings	Comments
Remote Area Housing – Employer Provided	Taxation Determination TD 94/97	The ATO provides its view on the meaning of the phrase 'customary for employers in the industry' for the remote area housing benefits purpose.
	ATO Interpretative Decision ID 2001/761	The ATO provides that the remote area anti-avoidance provision applies to deny the remote area housing exemption where there is a novation of an existing lease agreement for a house in a remote area, (between the employer, employee and landlord).
	ATO ID 2010/183	On the other hand, the ATO states the anti-avoidance provision does not apply to a novation of a new lease agreement.
	ATO ID 2002/412	Further, the ATO states that the anti-avoidance provision does not apply where the employer enters into a rental agreement with a landlord for a residential property immediately after the termination of a previous rental agreement of that same property between the employee and the landlord.
	ATO ID 2005/156	The ATO states that, even though the employer and employee are not at arm's length (e.g. the employee is also the sole shareholder and employee of the employer company), the exemption is still available provided the housing right is provided under an arm's length arrangement.

	Private Ruling PBR 20773	Finally, the ATO in a Private Binding Ruling has applied the anti-avoidance provision in the following circumstances: 1) the employee has an existing rental agreement and then enters into a sub-lease with the employer who then grants the employee a right to occupy the unit of accommodation at no cost; or 2) the employee purchases a property in the remote area location and the lease it to the employer who then grants the employee a right to occupy the unit of accommodation at no cost.
Remote Area Housing Rent	ATO ID 2003/159	The ATO provides an example of the calculation where the 50% reduction is applied before the employee contributions.
Remote Area Housing Loan Interest	ATO ID 2003/157	The ATO provides an example of the calculation where the 50% reduction is applied after the employee contributions.

21. The last two Interpretative Decisions above illustrate how different wordings used in the legislation for the remote area housing rent on one hand and the remote area housing loan interest on the other hand, result in different calculations being required and different outcomes occurring for the taxable value of these benefits.
22. Effectively, this means employers are required to pay more FBT in general for the provision of the remote area housing interest benefit compared to the provision of remote area housing rent. These unintended consequences of the legislation can encourage the rental of housing rather than home ownership by employees in remote areas.
23. Further, some employers are not aware of the ATO's views on this issue, given they have not been formalised in a Tax Ruling, and have incorrectly calculated the taxable value of remote area housing loan interest and residential fuel benefits. This is a clear example of the unnecessary complexity within these FBT rules, for essentially similar benefits.

High Compliance Costs to Employers and Employees

24. It is difficult to obtain accurate information about the compliance costs to employers on the FBT Remote Area Housing Concessions specifically. However, a KPMG Survey in 2018 estimated that FBT raises only 1% of government revenue, even though compliance costs are almost five times higher than other taxes⁴⁰.
25. At the time of writing this proposal, the Board of Taxation (**BoT**) is currently undertaking a comprehensive review of the compliance costs associated with obligations under the FBT legislation. As part of the review, the BoT conducted a round of focus group meetings and an anonymous online survey to help determine what recommendations will most effectively reduce the time and money employers incur to comply with FBT obligations. Some initial feedback

⁴⁰ We have been unable to obtain the actual survey report but it has been referred to in:
<https://www.mybusiness.com.au/finance/5536-tax-agents-think-businesses-drive-up-fbt-costs>

received from the focus groups was that record keeping, data validation, and collecting information from employees for the purposes of FBT are burdensome for many organisations regardless of their size⁴¹.

26. The BoT is yet to release the final report. We understand that the BoT is still considering the feedback provided through a number of research initiatives and intends to provide the final report to the Government in “early 2019”.
27. However, with respect to the FBT Remote Area Concessions, we have been advised by Kalgoorlie based employers and their tax agents that employers who offer or who propose to offer Remote Area Benefits to their employees will often spend thousands of dollar in tax advisory fees seeking advice from their advisors and/or private rulings from the ATO to ensure they qualify for those benefits, given the FBT risk of getting it wrong lies directly with the Employer.
28. Further, employers are also responsible for the documentation and substantiation requirements. For employee-provided remote area benefits, employers will need to collect information from their employees, such as the rental agreement, loan mortgage statements, electricity and gas bills, as well as signed declaration forms. This is in contrast to employer-provided remote area benefits where the level of documentation is less onerous

Residential Fuel

29. This differential treatment also exists with the provision of scheme or household water to employees. Water is not included within the definition of residential fuel and therefore does not qualify for the 50% FBT exemption, even though it is a necessary and often expensive cost of living in remote and regional areas.
30. However, such is the inconsistency with the application of the remote area benefits, the ATO states⁴² that the provision of water as part of a Remote Area Housing benefit provided by employers under section 58ZC of the FBT Act is exempt from FBT. However, the exemption is not available under the Remote Area Housing assistance benefit (section 59 of the FBT Act) where the housing is employee-provided.

PROPOSAL FOR CHANGES TO THE REMOTE AREA CONCESSIONS

31. Although the original intention of the FBT remote area concessions was to assist employers operating in remote areas to attract and retain employees, the operation of the rules are unnecessarily complex and discriminate against employee-provided Remote Area Housing benefits.
32. The core tenant of these proposed reforms is to remove the inconsistencies and level the playing field for both employer-provided and employee-provided housing benefits for remote area employees. In addition, we also seek to ensure that the provision of household water can be treated consistently where an employee resides in a remote area, regardless of how the provision of their accommodation is arranged.

⁴¹ We have been unable to obtain any written report from the BoT but it has been reported at: <https://www.accountantsdaily.com.au/tax-compliance/12232-accountants-called-on-in-light-of-fbt-regime-review>

⁴² ATO ID 2005/158 and the ATO’s FBT - Guide for Employers

33. **Firstly**, we recommend that the 50% reduction of the taxable value under the Remote Area Housing Assistance under section 60 of the FBT Act is increased to 100%. This will bring the concession in line with the treatment of employer-provided Remote Area Housing benefits under section 58ZC of the FBT Act, removing the current inconsistency.
34. The proposed change will also remove the complexity for employers in determining which type of benefit is provided and whether a full or partial exemption applies, and if a partial exemption, the FBT consequences to the employer of providing that benefit (including calculating any contributions required to be made by the employee to manage their FBT obligations).
35. Under this proposed change to the Remote Area Housing assistance benefit, we estimate that employees could increase their take home pay as follows:

Example 1: Employee earns the minimum wages of \$50,648 per annum⁴³ and enters into a salary sacrifice arrangement for gross rent of \$600 per week under Scenario 1 and \$300 per week under Scenario 2.

	Scenario 1		Scenario 2	
	Current Law	Proposed Reform	Current Law	Proposed Reform
Gross Salary	50,648	50,648	50,648	50,648
Less:				
Salary Sacrifice Amount	(15,600)	(31,200)	(7,800)	(15,600)
	35,048	19,448	42,848	35,048
Less:				
Income Tax⁴⁴	(3,201)	(237)	(5,473)	(3,201)
Medicare Levy	(701)	-	(857)	(701)
Take-home Wages	31,146	19,211	36,518	31,146
Less:				
Rent	(15,600)	-	(7,800)	-
Disposable Income	15,546	19,211	28,718	31,146
Increase in Disposable Income		\$3,665		\$2,427

⁴³ This is based on the median salary for workers in the Kalgoorlie-Boulder area as provided in the 2016 Census report

⁴⁴ The income tax and Medicare levy are calculated based on the individual's tax rates for the 2018/19 income year.

Example 2: Employee earns gross wages of \$99,236 per annum⁴⁵ and enters into a salary sacrifice arrangement for gross rent of \$600 per week under Scenario 1 and \$300 per week under Scenario 2.

	Scenario 1		Scenario 2	
	Current Law	Proposed Reform	Current Law	Proposed Reform
Gross Salary	99,236	99,236	99,236	99,236
Less:				
Salary Sacrifice Amount	(15,600)	(31,200)	(7,800)	(15,600)
	83,636	68,036	91,436	83,636
Less:				
Income Tax⁴⁶	(18,728)	(13,658)	(21,328)	(18,728)
Medicare Levy	(1,673)	(1,361)	(1,829)	(1,673)
Take-home Wages	63,235	53,017	68,279	63,235
Less:				
Rent	(15,600)	-	(7,800)	-
Disposable Income	47,635	53,017	60,479	63,235
Increase in Disposable Income		\$5,382		\$3,756

⁴⁵ This is based on the average salary of workers in the Kalgoorlie-Boulder area based on the SEEK's City Spotlight research.

⁴⁶ The income tax and Medicare levy are calculated based on the individual's tax rates for the 2018/19 income year.

Example 3: Employee earns gross wages of \$150,000 per annum⁴⁷ and enters into a salary sacrifice arrangement for gross rent of \$600 per week under Scenario 1 and \$300 per week under Scenario 2.

	Scenario 1		Scenario 2	
	Current Law	Proposed Reform	Current Law	Proposed Reform
Gross Salary	150,000	150,000	150,000	150,000
Less:				
Salary Sacrifice Amount	(15,600)	(31,200)	(7,800)	(15,600)
	134,400	118,800	142,200	134,400
Less:				
Income Tax⁴⁸	(37,225)	(31,453)	(40,111)	(37,225)
Medicare Levy	(2,688)	(2,376)	(2,844)	(2,688)
Take-home Wages	94,487	84,971	99,245	94,487
Less:				
Rent	(15,600)	-	(7,800)	-
Disposable Income	78,887	84,971	91,445	94,487
Increase in Disposable Income		\$6,084		\$3,042

⁴⁷ This is based on the \$2,000-\$2,999/week income band earned by workers in the Kalgoorlie-Boulder area as provided by REMPLAN data incorporating Australian Bureau of Statistics' (ABS) 2016 Census Place of Work Employment Data at: <https://www.economyprofile.com.au/kalgoorlieboulder/workers/work-in/income>.

⁴⁸ The income tax and Medicare levy are calculated based on the individual's tax rates for the 2018/19 income year.

Example 4: Employee earns gross wages of \$200,000 per annum⁴⁹ and enters into a salary sacrifice arrangement for gross rent of \$600 per week under Scenario 1 and \$300 per week under Scenario 2.

	Scenario 1		Scenario 2	
	Current Law	Proposed Reform	Current Law	Proposed Reform
Gross Salary	200,000	200,000	200,000	200,000
Less:				
Salary Sacrifice Amount	(15,600)	(31,200)	(7,800)	(15,600)
	184,400	168,800	192,200	184,400
Less:				
Income Tax⁵⁰	(56,077)	(49,953)	(59,587)	(56,077)
Medicare Levy	(3,688)	(3,376)	(3,844)	(3,688)
Take-home Wages	124,635	115,471	128,769	124,635
Less:				
Rent	(15,600)	-	(7,800)	-
Disposable Income	109,035	115,471	120,969	124,635
Increase in Disposable Income		\$6,436		\$3,666

36. **Secondly**, we recommend that the provision of household water is included as residential fuel and is specifically excluded from the definition of 'housing rights' under section 58ZC of the FBT Act. This will also provide consistency on the treatment of the provision of household water under the FBT remote area concessions.

Comparison between FIFO and Remote Area-based Employees

37. Under the current law, employers that employ Fly-in Fly-out (**FIFO**) employees enjoy certain FBT concessions, including accommodation, meals and flights (to and from remote areas). These concessions are distinct from the remote area benefits. The FBT concessions available for FIFO employees mean that it may be cheaper for employers to employ FIFO workers rather than residential employees who live locally remote areas.

38. This can be illustrated in the following example provided for a hypothetical employer and employees who are provided with the equivalent benefits (accommodation, meals and flights where travel is required) as part of their remuneration package:

⁴⁹ This is based on the highest income band earned by workers in the Kalgoorlie-Boulder area as provided by REMPLAN data incorporating Australian Bureau of Statistics' (ABS) 2016 Census Place of Work Employment Data at: <https://www.economyprofile.com.au/kalgoorlieboulder/workers/work-in/income>.

⁵⁰ The income tax and Medicare levy are calculated based on the individual's tax rates for the 2018/19 income year.

Example 5: Comparison of employer costs of employing a FIFO employee and a residential employee who enter into a salary sacrifice arrangement with their employer for equivalent benefits.

	FIFO ⁵¹	Current Law (50% Exempt)	Proposed Reform (100% Exempt)
Gross Salary (Annual)	120,000	120,000	120,000
Add:			
Accommodation⁵²	17,829	31,200	31,200
Meals⁵³	6,626	11,596	6,626
Flights⁵⁴	26,000	-	-
FBT costs⁵⁵	-	21,731	6,479
Total Costs	170,455	179,557	164,305
Additional Costs/(savings) for Employers		9,102	(6,150)

39. The example above demonstrates there is an **additional cost of \$9,102** to the employer for employing a residential employee compared to employing a FIFO employee based on current legislation.

40. The calculation is made on the following basis:

- (i) The reduced accommodation cost for the FIFO employee reflects the fact that they work on a rotation basis and often live in shared accommodation. So, the accommodation cost for this particular employee is apportioned on the basis of 8-days on and 6-days off.
- (ii) The reduced meal cost for the FIFO employee also reflects the facts that they work on a rotation basis and, therefore, should be apportioned. While it is common to provide meals to FIFO employees and not residential employees, for the purposes of this example we have included the same meal costs for ease of comparability.

⁵¹ We use a roster of 8-day on and 6-day off for the FIFO employee which is the most commonly used roster at the time of writing this paper.

⁵² The cost of the accommodation used here is \$600/week, consistent with the previous examples.

⁵³ The meal costs used are based on the Commissioner's reasonable amount of \$265/week for the FBT year ended 31 March 2019 less the statutory food amount of \$42/week and then being reduced in accordance with the FIFO roster.

⁵⁴ The flight costs are based on an estimate of \$1,000 for one return flight between Perth and Kalgoorlie and the FIFO employee travel for 26 times in one year (e.g. a cycle of 14 days per shift).

⁵⁵ The FBT has been calculated on the basis that the accommodation costs are subject to 50% or 100% FBT exemption as the case may be but the meal costs are subject to 100% FBT for residential employees under both the current law and the proposed reform.

- (iii) While employers generally incur flight costs for transporting FIFO employees to the worksite, employers do not need to pay travel costs for residential employees and, therefore, this represents a cost saving for the hypothetical employer in our calculation.
- 41. However, if our recommendation is adopted, namely 100% exemption for employee-provided accommodation, then the hypothetical employer would have a **saving of \$6,150**. This represents a significant reduction of the costs of employing residential employees and should provide an economic incentive for employers to employ more residential employees and/or encourage their current FIFO employees to live in the local area.
- 42. Furthermore, whilst our recommendation for a consistent full exemption for Remote Area Housing benefits would provide an economic incentive to the Employer costs between FIFO and Residential workforces, we submit that Employers should be further encouraged or incentivised to prefer a Residential workforce to a FIFO workforce. This could be achieved by limiting the FIFO FBT exemption to worksites that are truly remote and not within a reasonable travel distance from a significant regional centre.
- 43. For example, using part of the criteria from the Classification 1 definition of a Remote Area as noted in Table 1 above, the full FIFO FBT exemption should not apply to worksites that are within 40 kms of an urban centre that had a population of 14,000 to less than 130,000.
- 44. The limitation may be achieved simply by reducing the FIFO FBT Exemption to, say, 75% of the travel, accommodation and meal expenses for FIFO employees engaged at remote area worksites that fall within either the 40km or 100km zones and have a population of 10,000 or more.

Managing the Costs to Tax Revenue

- 45. The proposed changes are aimed at providing equal access to the Remote Area Housing benefits to employees regardless of how that benefit is provided. However, in order to better target the benefits to employees residing in areas that have greater need for assistance and incentives to retain and attract a residential workforce, we also recommend the remote area Classifications 1 and 2 as provided in Table 1 be amended such that the area must be, say, at least 400 kms, rather than 100 kms, from a Capital City or an eligible urban area.
- 46. This proposed change will provide a restriction on the number of areas that are listed as remote to better reflect the areas where employers have difficulty in attracting and retaining a residential workforce. We have provided a list of potential areas that may be affected under the proposed change at Appendix 2.

CONCLUSION

47. The Productivity Commission is tasked with examining the economic and employment impacts of the ZTO, FBT Remote Area concessions and RAA as well as reviewing whether the ZTO, FBT Remote Area concessions and RAA are delivering on their policy objectives.
48. While the paper does not address the ZTO and RAA, we submit that the current FBT Remote Area concessions are not delivering its policy objectives. In particular, there is no clear policy rationale for the different treatments between the benefits provided directly by employers and those incurred and provided by employees. It is submitted that this differential treatment violates the principle of 'fairness' as one of the criteria for a good tax system.
49. It is our view that the proposed changes will better align the framework for the Remote Area Housing concessions to:
 - (i) Encourage employees to directly rent or own homes in regional and remote areas, rather than rely on employers to make that commitment;
 - (ii) Level the playing field such that it is the provision of the benefit that dictates whether the FBT exemption applies and not the way the benefit is provided;
 - (iii) Provide a consistent treatment for the provision of household water in relation to a Remote Area Housing Benefit by incorporating it into the definition of "residential Fuel"; and
 - (iv) Better target the Remote Area Housing Benefits to regional and remote areas that require assistance in attracting and retaining a residential workforce.
50. Finally, the current remote area FBT regime disproportionately benefits larger businesses over SME businesses. Whilst it was the usual practice for some larger businesses to directly provide their employees with accommodation, either employer owned or employer rented accommodation, attracting the full FBT exemption on the benefits provided, SME businesses do not provide this type of benefit to their employees. This is due to the small size of their workforce and the costs and resources involved in providing the accommodation directly. They, and their employees, are therefore treated differently, due only to the way in which the same benefit (Remote Area Housing) is provided.
51. We would welcome the opportunity to further discuss and present the principles outlined within this paper and ask that you contact Alex Wiese, Executive Manager Economy and Growth on (08) 9021 9873 or via alex.wiese@ckb.wa.gov.au.

APPENDIX 1

Link to the Australian Government Taxation Office:

[Fringe benefits tax – remote areas](#)



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*This information is available in alternative formats
upon request, please contact us for assistance.*

