



29<sup>th</sup> October, 2019

The Commissioners  
The Productivity Commission

Dear Commissioners

**SUBJECT: Submission regarding Remote Area Tax Concessions and Payments Draft Report  
August 2019.**

The King Island Council would like to respond to a number of issues raised in your Draft Report concerning the Zone Tax Offset (ZTO) and the Fringe Benefits Tax Remote Area Concessions (FBT).

King Island economy is geographically disadvantaged because all access of residents, tourists and produce into and from the island depends on air movements through the Council owned and maintained airport or through a sea port owned and maintained by Tasmanian Ports Corporation with the main shipping service being another Tasmanian State Government instrumentality Bass Island Line.

Our response as to the effect on the King Island community and economy to the arguments you considered and the conclusions you reached on each of these two measures is set out below.

**Zone Tax Offset (ZTO)**

The Federal Government has a responsibility to provide all Australians with adequate health services and also seeks to fund a similar capacity in all regions for provision of public services. These are responsibilities to individuals regardless of support for businesses or industries.

In order to do so, the Federal Government puts in place additional payments to doctors and health professionals; State Governments provide remote area allowances for teachers and police. Without these extra payments, *regardless of the liveability of the area*, such professionals would not be attracted to work on King Island.

Measures noted as being in place from State Governments include access to specialist medical services, but these benefits are only available for people on income support or who pay private health cover.

None of the measures considered above, benefit the average wage earning resident on King Island. Consequently, the unemployment rate on King Island is low (2.7%) because unless people have jobs it is too expensive to live here.



The only income support mechanism to alleviate the high living costs of the remote area is the ZTO. This benefits the average worker, not the high earning doctors and teachers but the farm, fishery and factory workers who support our high value primary production.

We would argue that your statement “there is **some** evidence that employers provide financial compensation for the disadvantages of remote living”<sup>1</sup> is contradicted by your own statistics in Figure 3 Graph E<sup>2</sup> which shows that Farm, forestry and garden workers are not paid noticeably more in remote areas. Since these are the major types of workers needed on King Island to support our substantially agriculturally based economy your own statistics argue against the removal of the ZTO which supports the ability of our farming businesses to attract and keep workers.

Even the existence of the ZTO does not offset the higher costs of living which make retention of lower paid workers an issue for employers. The lack of long term job seekers is offset by employing “back packers” who come for approximately six months and work for the Lion cheese factory, various larger farmers or the Kelp Industries factory.

If, as noted, “zone tax concessions were originally designed to help remote area employers”<sup>3</sup> then we would argue that the measure is achieving its purpose on King Island; **and that an increase in the payment and relaxed eligibility criteria would be of even more benefit.**

An increase in the benefit would alleviate the high cost of living and make King Island a more attractive place for the level of workers employers have the most difficulty in attracting. This problem of attracting this level of worker is shown by:-

- The continual and increasing need for temporary workers, the large majority of whom are not Australian tax residents.
- The increasing age of our residents. It is the older residents who value the “liveability” of King Island and who have the strong community attachments.
- Our volunteer organisations – and our Ambulance, Fire Services and SES organisations are totally staffed by volunteers – are struggling as the age of the residents increase and there are no incoming permanent workers.
- The ongoing discussions Council has with potential King Island investors as to how they can source extra employees.

In summary, to remove the ZTO will impact the after tax take home pay of a large proportion of our 600 ratepayers by more than 5%<sup>4</sup> For a person on \$50,000 wage this would mean a

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<sup>1</sup> Productivity Commission Draft Report *Overview Remote Area Tax Concessions and Payments*, August 2019 page 17.

<sup>2</sup> Productivity Commission Draft Report *Overview Remote Area Tax Concessions and Payments*, August 2019 page 15.

<sup>3</sup> Productivity Commission Draft Report *Overview Remote Area Tax Concessions and Payments*, August 2019 page 16.

<sup>4</sup> Productivity Commission Draft Report *Overview Remote Area Tax Concessions and Payments*, August 2019 page 18.



reduction of almost \$50 per week. At that point living and working on King Island may become unsustainable.

### **Fringe Benefit Tax Remote Area Concessions**

The current proposal is to change the exemption on employer provided housing from a full exemption to a 50% exemption.

In our total property market of approximately 650 occupied dwellings, 56 of these are known to be provided by employers as part of a remuneration package. This is 8% of King Island's total occupied housing stock.<sup>5</sup>

Employers providing housing include:-

- King Island Council – 3 houses
- Cape Wickham Golf Course- 10 houses/units
- King Island District High School- 10 houses
- Waverley Station Pty Ltd – 8 houses
- TRT Pastoral Group – 9 houses
- King Island District Hospital – 8 houses/units
- Tasmanian Police – 3 houses
- Tasmanian Hydro Corporation -2 houses
- Lion Dairy & Drinks – 3 houses.

Reducing the FBT concession from the current 100% to the proposed 50% would have a significant impact on the Island. These businesses are essential to our Island's economy and the servicing of our community. Increasing their costs of doing business will have a direct negative impact on our economy.

Attached is a letter from Mr George Crouch, the Managing Director of Waverley Station Pty Ltd setting out the impact on their farming operation on King Island of any proposed change to the FBT remote area concessions.

### **Summary.**

The impact on King Island economy of the abolition of the ZTO, and by inference the proposed changes to the FBT remote area concessions, is acknowledged by the Commission to be larger than in almost any other jurisdiction.<sup>6</sup>

Indeed, to adequately support the ability of our current and future employers the King Island Council would like to see, not only the FBT concessions remain, but also an increase in the Zone Tax Offset.

Our argument is that allowing a minimum number of remote areas e.g. King Island and Lord Howe Island to remain beneficiaries of the an increased ZTO and full FBT will achieve, at a minimal cost to taxpayers, the advantage of economic growth which will benefit all Australian taxpayers.

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<sup>5</sup> 2016 census reported 656 households / occupied dwellings and 844 total dwellings.

<sup>6</sup> Productivity Commission Draft Report *Overview Remote Area Tax Concessions and Payments*, August 2019 page 18.



King Island produces in excess of \$150 million gross regional annual production<sup>7</sup> for Australia but cannot continue to do so without attracting the lower/medium skilled workforce needed by our agriculturally based businesses. These businesses directly contribute 48% of our total value-added GRP and employ 26% of the FTE jobs on the island.

As noted in your own report, the majority of these jobs (Fig. 3 Graph E) are no more highly paid than similar jobs in non-remote areas. To reduce already base remuneration by in excess of 5% after tax; and to increase the direct costs to employers of employing that labour would have a sustained negative impact on the King Island economy.

**Yours sincerely**

Julie Arnold  
**Mayor**

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<sup>7</sup> 2017-18 Gross Regional Production

