Our ref: 190923/JN

Mr Jonathon Coppel
Presiding Commissioner
Remote Area Tax Concessions and Payments study
Productivity Commission

*Lodged online: 9 October 2019*

Dear Commissioner Coppel

**REMOTE AREA TAX CONCESSIONS AND PAYMENTS – DRAFT REPORT**

The Parliamentary National Party of Western Australia (PNP) writes in response to the Productivity Commission's *Remote Area Tax Concessions and Payments* draft report, released in August 2019.

We highlight and thank the Commission for its response to requests by The Nationals WA to bring consultation hearings to the regional cities of Kalgoorlie-Boulder and Port Hedland earlier this year. These locations represent key areas of economic activity, predominantly driven by the mining and resources sector, and between them represent residential populations of almost 45,000. We felt it was important that these communities were afforded the opportunity to provide direct feedback regarding their remote area tax concessions and payment experiences, and note Kununurra was also visited.

Although well intended, remote area tax concessions and payments are outdated, inequitable and poorly designed. They should be rationalised and reconfigured to reflect contemporary Australia. Local economies across Australia are diverse in nature and the use of average data across regions greatly distorts and underplays local circumstances which encourage economic development and productivity. This distortion occurs on both a macro scale and within sectors of individual towns where a casual customer service worker may not see any benefit from FBT exemptions compared to a high paid permanent employee in the oil and gas sector. Consequently, we believe the analysis, cost and benefit described in the report is simplistic and the output is at great risk of misrepresentation.

Modern Australian development has occurred as a result of economic growth primarily through agriculture and mining activity. However, the traditional situation of a population moving to areas of growth has been considerably distorted since the Fringe Benefits Tax (FBT) and FBT exemptions were introduced in the 1980s. This has primarily occurred due to Fly-in, Fly-out (FIFO) work practices, which have unintentionally and preferentially benefited FIFO employees through FBT, travel and accommodation tax exemptions compared to residential populations in which the economic activity occurs.

West Australians living regionally or remotely are faced with circumstances unique to our side of the country. Geographic vastness, cost of living, job opportunities, housing and service delivery are challenges and expenses that need to be managed each day. For many, the aforementioned issues are viewed as a barrier or disincentive for people and families to live regionally.

As such, the PNP has always supported incentives provided by all levels of government that work to counterbalance those barriers for individuals, families and businesses. By way of background and as noted on page 103 of the report, between 2008 and 2017 The Nationals WA in Government invested almost $7 billion through the Royalties for Regions program.

This investment was always designed to be above and beyond normal levels of expenditure that previous State Government's directed to regional development through consolidated account spending. The objective – which was being achieved – was to enhance living standards, improve infrastructure and essential services, attract private investment and expand other key pillars that make regional communities thrive: better health services, access to more education and developing greater economic opportunities.

While we broadly support modernisation of the tax concession framework looked at by the Commission's study, commentary below highlights several points our team wishes to make in response to the draft report. Our concerns and proposals are broken into the three areas of tax concessions and payments examined by the Commission.

**Zone Tax Offset (ZTO)**

The PNP disagrees with the Commission's recommendation to abolish the ZTO. It is our view that the ZTO should be significantly increased to make up for decades of no indexation being applied to payments. The only way the ZTO's real value can increase is if the amount of payments increase in keeping with CPI.

Given the last increase was in 1993-94, the PNP recommend payment levels be adjusted to meet rolling CPI over the period that has elapsed, commencing in the 2020-21 financial year and continue to be applied each year thereafter for a trial period of five years. Over the trial time, recipients should be surveyed to determine if they consider they are receiving real term value from the payments, regardless of their zone classification. This surveying would help the Australian Government understand how to best amend the payment rate in the future.

The Commission's suggestion to tighten eligibility by redrawing zone boundaries is supported by the PNP, particularly given some outer boundaries have not changed since being introduced in 1945. However we do not support reducing concessions to apply to very remote areas only, preferring an incremental payment amount based on the level of remoteness.

**Remote Area Allowance (RAA)**

As with the recommendation of redrawing ZTO zone boundaries, the RAA should be subject to the same redraw. The PNP support both recommendations 6.1 and 6.2 with emphasis on ensuring any revised payment rates take into account inflation that has occurred since rates were last adjusted.

**Fringe Benefit Tax (FBT)**

The change to full FBT concessions for employer provided housing in remote areas in 1997 and 2000 resulted in a two-tier employment market and economy in some communities, where employees of large corporations are provided full accommodation and gain a higher proportional housing benefit than small privately owned companies that can only afford partial housing allowances taxed as Pay As You Earn (PAYE). A similar situation exists with part-time and casual workforces that do not gain FBT exemption benefits. This distortion in treatment of allowances disincentivises casual and part-time workers from living regionally. As the market for casual and part-time employees grows, so does the distortion in regional economies and the preference for FIFO employment.

Due to current tax concessions, large corporations inadvertently control the rental market through sole provider FIFO accommodation pricing and influence open market property prices and rent due to FBT exempt benefits their employees gain. This effectively disincentivises smaller miners, the agricultural and tourism sectors by limiting traditional accommodation which would otherwise flourish, thus limiting diversification and regional economic growth.

Another example of FBT exemptions causing distortion that impacts on rental values is to low paid employees receiving a partial housing allowance (subject to PAYE tax) to compensate for the high local rental costs. Not only is the employee not entitled to FBT exemptions but the taxable housing benefit lifts their net income and reduces their entitlement to family tax benefits.

In Western Australia many government employees gain a housing benefit as part of their employment package below market rates. These employees only gain a benefit if renting and lose all benefits if they purchase a property or own an investment property within 50km of their workplace. This effectively stops these employees from investing in the local community, increases staff turnover (reducing overall productivity) and discourages regional growth.

Despite faults in the current system, any changes to current tax exemption needs to be carefully analysed and some arrangements grandfathered. A prime example is of an employee in their own home carrying a mortgage who may not be able to make mortgage repayments without existing FBT exemption benefits. Removal of FBT exemptions will result in reduced effective income and unwinding of both rental and property values. Similar scenarios and losses may occur with companies that have purchased housing and companies that provide FIFO accommodation under long-term contracts.

In the Pilbara this has created an unprecedented situation where one third of Australia's total exports is produced by a regional population of less than 60,000 and large FIFO populations exist within 100km of large town populations. This situation is replicated in other mining areas of Australia including northern Queensland.

Removing concessions or current exclusions in relation to FBT would dramatically impact household incomes, compounding cost of living burdens faced by those living remotely and regionally. We reject the proposition that changing a partial concession would stimulate the economy, especially in regional areas where those concessions or exclusions apply to housing.

To eradicate distortions and inconsistencies with the application of FBT exemptions by employers, we recommend the productivity commission investigate the replacement of rent and mortgage interest payments on primary residences, relocation costs and stamp duty FBT exemptions with equivalent PAYE tax reductions (based on actual cost and capped) in remote areas. This will standardise benefits to employees, irrespective of their employer or employment status or income, and remove the distortion that large company policies can have on small communities with only one or two primary employers. Such a policy change may increase housing availability in regional communities and buffer rental and property prices through commodity price cycles by allowing the property market to respond quicker and with lower risk to new demand.

We also oppose any reduction or removal of concessions for holiday travel or relocation. Concessions provided for employees and their families for the purpose of holiday travel are important for keeping individuals and their families connected and rested, one of the key trade-offs that should be expected in return for making the decision to live and work in a remote or regional location. These exemptions enable population and employee mobility across regional Australia. We believe these concessions or equivalent measures should be kept, with additional measures enacted to encourage temporary and part-time employees to relocate flexibly.

**Concluding remarks**

In its 2018 *Cost of Living Report*, the WA Council of Social Services notes that regional Western Australia is exposed to a highly volatile rental market, high cost of food and beverage supply and high cost of electricity for those properties connected outside the Southwest Interconnected System (SWIS). Rent in particular costs 41.1% of regional households' average fortnightly income. With living and household costs continuing to rise, there is a need to lessen the burden families and individuals face when living regionally. Exclusions to reduce inequities are a necessary measure to allow a trajectory toward a more level playing field when considering expenses faced by households across WA.

Several recommendations made in the draft report are not conducive to ongoing regional development and population growth in regional WA. Recommendations to remove the ZTO and reducing FBT concessions are likely to encourage proliferation of FIFO work practices and place greater financial impediments on those who wish to remain living regionally, or shift from living in the city to the bush. In WA, many of those who qualify for concessions and payments from the Federal Government are directly or indirectly associated with the mining, resources and agricultural sectors, which continue to be the powerhouse of our nation's economy.

The PNP views liveability in communities that revolve around mining and agricultural activity to be paramount not only to maintaining sustainable industry, but to alleviate some of the ever-increasing population pressures put on Perth and the South West. The PNP thanks the Commission for considering our response to the draft and looks forward to the final report towards the end of 2019.

Yours sincerely

Hon Mia Davies MLA
**LEADER, The Nationals WA**