



Department of  
**Primary Industries and  
Regional Development**

**SUBMISSION TO THE PRODUCTIVITY COMMISSION  
REVIEW OF REMOTE AREA TAX CONCESSIONS  
AND PAYMENTS**

**MAY 2019**

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## Executive Summary

Regional WA is home to 20 per cent of the State's population and directly contributes 37 per cent of the State's economic activity. The vastness and remoteness of WA is distinctly different to that of (for example) Europe, New Zealand or Canada, and is even marked in the unique Australian context compared to other Australian States, creating unique challenges and opportunities for regional economic development.

While there are some commonalities between regions, there are fundamental differences: geographic, demographic, environmental and economic.

Although we have focused on the Zone Tax Offset (ZTO) and Fringe Benefits Tax (FBT) remote area concessions, this submission addresses the main issues identified by the Commission in its Issues Paper and the Review's Terms of Reference. It is intended to assist the Commission in reviewing a complex and difficult to quantify area of taxation policy.

While it is difficult to empirically assess the impact of the current tax concessions and payments on wage and employment decisions by employees and employers, anecdotally and based on the prevalence of their use by remote area employers, the impact is considered significant.

Removing the concessions would be expected to adversely impact wages and employment decisions.

The Government of WA supports the objective of ensuring the ZTO, the FBT remote area concessions and the Remote Area Allowance (Commonwealth remote area concessions) have clear policy rationales and assist regional development.

The Government of Western Australia encourages the Commission as it progresses its review to:

- i. ensure that the Commonwealth remote area concessions are well-targeted to achieve desirable social and economic outcomes.
- ii. appreciate that addressing the disadvantages of remoteness remain valid and important – costs of living are higher, communication is more difficult, climate is harsher and amenities such as health, education and shopping are less extensive.
- iii. acknowledge that regional growth plays an important role in economic productivity as an enabler to the majority of Australian export industries.
- iv. practically consider tax concessions and payments that offset the disadvantages of remoteness as this remains important to be able to attract employees across industries and salary levels – therefore the Commonwealth remote area concessions can deliver a national economic benefit, provided they are well targeted and of meaningful value to those who would benefit from them.

- v. support, from a social and infrastructure perspective, vibrant and well-served regional areas that, over time, reduce some of the population congestion in cities.
- vi. place emphasis on permanent jobs rather than transient roles.
- vii. acknowledge and reflect in its deliberations that Commonwealth remote area concessions play an important role in effectively improving employee remuneration packages and providing employers with flexibility to deliver remuneration so as to address particular concerns relevant to remote areas.

There is, however, scope to improve the application of the current Commonwealth remote area concessions. We support retaining these concessions. However, they can be enhanced, including to be more relevant in a contemporary context.

For example, the current level of the ZTO has not kept pace with increases in the cost of living in remote areas since the ZTO was introduced. Therefore, we believe that the ZTO should be increased to better reflect the original ZTO amounts adjusted for wage increases over time. These increased amounts should be used to assess the effectiveness and economic benefits of the ZTO, not the current levels of the ZTO.

The ZTO should also be redirected to areas of greater need, with larger population areas being ineligible.

The FBT remote area concessions should not be reduced. However, they could be improved, for example by simplifying the concessions for housing and utilities and considering extending them to include other high-impact benefits such as education and health.

WA considers it appropriate to refresh the definition of “remote” for tax purposes. Detailed analysis would be required to ensure a definition is developed that is suitable for a longer term horizon (30 years and beyond).

## **Information Requested**

This submission addresses many of the specific questions posed by the Commission in the issues paper as well as providing an overview of some of the issues considered particularly relevant in answering these points.

This submission focuses on the ZTO and FBT concessions.

## **Objectives of Remote Area Assistance Programs**

### ***Policy rationales***

Policy rationales that support remote area tax concessions and payments continue to be relevant in contemporary Australia. The income tax concessions for remote areas were originally introduced to attract workers to remote jobs and to compensate them for 'disabilities of uncongenial climatic conditions, isolation or relatively high cost of living'.

Over the past 25 years, Australia's population has increased by about 40 per cent, however, many regional areas have experienced decline in their population during this time.<sup>1</sup> Growth has occurred mainly in major cities and immediate surrounds leaving many remote areas still with very low population density. About 64 per cent of Australians live in Australia's five largest cities.<sup>2</sup>

The objectives of the tax concessions and payments which continue to be relevant are:

- a. Promoting regional development.
- b. Compensation for higher cost of living.
- c. Compensation for isolation and lack of access to good quality government services and amenities.
- d. The additional cost of living in harsh climates.

## **Regional Development**

The State Government is committed to creating jobs and growing and diversifying the economy. Primary industries and regional economic development are key elements of the State's underlying economic strategy.

Regional WA is home to 20 per cent of the State's population and directly contributes 37 per cent of the State's economic activity. The vastness and remoteness of WA creates unique challenges and opportunities for regional economic development. While there are some commonalities between regions, there are fundamental geographic, demographic, environmental and economic differences. This has necessitated a culture of innovation, partnership and pragmatism that is a significant asset for the State.

Sustained development of regional WA requires economic diversification and regional living standards of a sufficient quality that together support a stable and economically active population. People living in regional WA are more likely to be socio-economically disadvantaged, particularly Aboriginal people. Fluctuations in mining and

resources activity, longer term declines in direct agricultural employment and climate change, risk further exacerbating disadvantage.

The regional and metropolitan economies are inter-related and inter-dependent. Regional economic development can only be sustained co-operatively alongside Perth's economic development:

- a. A significant proportion of the total economic value generated by primary industries is produced in Perth, through processing, transport and related activities.
- b. Natural resources and primary industries in regional WA have historically provided the foundation for Perth's economy, including financial and professional services, transport and logistics and mining and agricultural services.

The State's objectives in regional economic development:

- a. Champion the regional economy and regional communities, collaborating with WA's Regional Development Commissions to act as the voice for the regions across and beyond government.
- b. Support the generation of sustained economic activity and jobs in the regions, driving the implementation of the regional dimension of the Government's strong commitment to jobs, growth and diversification.
- c. Prioritise and facilitate investment in the infrastructure required to underpin regional economic development and drive the realisation of benefits from government investment.
- d. Boost regional living standards and economic participation, particularly for Aboriginal people.

Regional prosperity is a key priority of the State and under the recently launched *Our Priorities* program<sup>3</sup> each priority will be measurable. A prosperous State means supporting stronger regional economies. WA will share prosperity throughout all communities by delivering new infrastructure and supporting private sector investment to drive employment growth across the State's regions. The State is committed to creating by 2023-24 an additional 150,000 new jobs, including increasing the number of employed persons in regional WA by 30,000.

This acknowledges that some parts of regional WA have not shared in the benefits of strong growth, with some locations experiencing weaker (or negative) jobs growth in the last five years.

Regional development has always been one of the rationales for providing remote area assistance. In WA, several regional areas have experienced higher employment and investment in recent years due to the increased activity in the mining industry. However, since the fall in commodity prices from the peak and the decline in the industry, these regions face significant challenges in successfully transitioning to a more sustainable economic base.

The Commission's own research has found that, in particular, mining regions have relatively lower adaptive capacity in transitioning out of the industry.<sup>4</sup> As such, these remote regions will require additional support to ensure ongoing development.

### ***Higher cost of living and harsh climate***

There is clear evidence that the cost of living in regional areas is higher than in the metropolitan areas.

WA prepares a Regional Price Index (RPI) biennially comparing the cost of a common basket of goods and services at a number of regional locations to the Perth metropolitan region.

The RPI is used as one component for calculating the District Allowance for public sector employees in regional Western Australia and by the private sector to assist in setting regional wages and salaries.

The 2017 RPI evidences the increased cost of goods and services in regional locations relative to Perth, with the highest prices in the most remote areas being the Kimberley, Pilbara and Gascoyne regions. For example, the RPI shows that housing costs (e.g. rates, rents, utilities) in the Pilbara region are around 20.6 per cent higher compared with Perth. This equates to an additional annual expense of \$4,329.<sup>5</sup>

The cost of housing is an element with significant weighting in the index (22.7 per cent of expenditure in the 17<sup>th</sup> series CPI weighting pattern introduced in the December quarter 2017).<sup>6</sup>

The lower cost of housing in some regional areas can offset the higher costs in other categories of expenditure. However, it is important to recognise the differences in the underlying data sets. For example, there are fewer new dwellings constructed by owner-occupiers in regional areas as the cost is often prohibitive, with the result that the quality of accommodation may not be comparable to the equivalent in the city data set.

The remote areas in the north of Western Australia also suffer from the danger, cost and inconvenience of the annual cyclone season, which runs from mid-December to April. The Pilbara coast experiences more cyclones than any other part of Australia.

It is noteworthy that the Commonwealth Grants Commission (CGC) recognises that the cost of providing State services increases with remoteness. It redistributes a substantial amount of GST between the States as a result.

The CGC has previously measured the cost of remoteness for schools and police, using the Australian Bureau of Statistics (ABS) definitions of remoteness. The CGC assessed the following costs per unit of service, relative to major cities.

	<b>Inner Regional</b>	<b>Outer Regional</b>	<b>Remote</b>	<b>Very Remote</b>
Schools	+3.7%	+17.9%	+57.1%	+67.9%
Police	+7.3%	+24.8%	+31.7%	+60.7%

These relative costs reflect national average experience, as measured by Australian Curriculum, Assessment and Reporting Authority data and State-provided police data. The CGC is currently considering updating these costs and collecting data for more services.

Although the schools and police data show substantial increases in costs from remoteness, the CGC allowances are still generally inadequate for Western Australia, because the impact of distance is truncated, and additional costs are not recognised for very small communities, harsh environments and varying remoteness within the 'remote' and 'very remote' classifications. For example, the methods currently assume remote and very remote locations in Tasmania attract the same higher costs as remote and very remote locations in Western Australia.

Western Australia also suffers a comparatively smaller population across a considerably larger geographical footprint than other States, and is very isolated from other capital cities.

Even with additional incentives in place to counter the harshness of living in remote areas of Western Australia, it remains difficult for business and government agencies to attract workers. For example, in 2017-18, 19 per cent of agency nursing requests from the Western Australian Country Health Service went unfilled.

As well as the additional costs described above, the CGC also allows for diseconomies of scale in remote areas.

When taking account of all regional costs, including demand for services, Western Australian Police data from 2016-17 show that per capita direct costs of police services in the Kimberley are over 500 per cent higher than in Perth. Costs in the Pilbara are 260 per cent higher.

Further, 2015-16 data from the Western Australian Department of Communities show that total expenditure per dwelling (including property and tenancy management, maintenance, damage and other costs) in the Kimberley is 250 per cent higher than Perth, and 200 per cent higher in the Pilbara.



## Isolation

While questions have been raised as to whether some of the elements of remoteness remain valid in contemporary Australia, in some cases these impacts are not fully understood. Examples include the standard of internet and mobile telephone services and satisfaction with education and training options.<sup>7</sup>

It has been posited that the ease of long distance communication may ease some of the features of remoteness, but where reliable mobile connectivity and broadband is lacking and/or continues to significantly trail metropolitan standards, this has a significant impact on productivity, communication and safety.<sup>8</sup>

*“In an increasingly interconnected world, the perceived poor standard of these services may be limiting the potential for regional people and businesses to capitalise on new opportunities,”<sup>9</sup>*

For most regional residents, local options for higher education are limited. For working age respondents to the RPI survey, improved professional development and education and training options are a key reason to move elsewhere.<sup>10</sup>

Schooling options are also a concern. Better schooling options are a reason for 60 per cent of parents of primary school students in regional areas moving out of the region.<sup>11</sup>

In June 2014, KPMG was commissioned by the then WA Department of Regional Development to undertake a review of the national and international literature relating to regional development approaches, policies and frameworks. KPMG noted in its report that:

*After reviewing the international literature, it became evident that the term “regional” in a WA context was distinctly different to that of (for example) Europe, New Zealand or Canada, and to some extent, some Australian States. To compare jurisdictions, Western Australia would be considered “remote” development due to the vastness of the State, the distance between communities and the small scale of towns.*

WA is one of the least densely populated of Australia’s states and territories. Small, widely-dispersed populations in many areas mean that there are few economies of scale. This creates barriers to growth, including high business entry and development costs, inadequate infrastructure provision and inefficient value chains.

Many regional areas in WA find it difficult to attract and retain a critical mass of population and a skilled workforce, which further exacerbates issues related to lack of scale. In addition, social challenges arise from unequal opportunities and outcomes for Indigenous people, a lack of community engagement and partnership in some areas, and a need for strong leadership. There are significant challenges to overcome for regions to realise their potential.

Attracting and retaining people in the regions through tax concessions and payments can help create economies of scale, and bring benefits from increased agglomeration.

## **Options for Revising Current Arrangements**

We support the Productivity Commission's design principles of efficiency, equity and simplicity.

We support the retention of both the ZTO and FBT remote area concessions. There is merit to having an income incentive that individuals access directly and FBT concessions administered by employers.

While the ZTO compensates individuals, the FBT concessions primarily compensate employers. In many instances however, providing the relevant benefits under salary sacrifice arrangements results in the employer passing on the full FBT saving to employees. Each is discussed further at Appendix 1.

### **ZTO**

From an individual perspective, it is appropriate for individuals to be directly entitled to compensation without relying on their employer's involvement.

The level of compensation should be more than nominal to genuinely influence decisions about living and working in remote areas. It should also be more appropriately targeted to reflect the underlying objectives.

As the Productivity Commission has identified in its March 2019 Issues Paper, the real value of the ZTO has been significantly eroded over time. Accordingly, the value of the ZTO should be increased to ensure that it reflects the real value of the ZTO when it was originally introduced. That is, the value of the ZTO be adjusted in line with wage increases since the ZTO was introduced.

This increased value of the ZTO, rather than the current levels of the ZTO, should be used to assess the future effectiveness and economic impact of the ZTO.

Means testing may also be appropriate to ensure assistance is directed to those most in need. It may be appropriate to limit eligibility to those on certain tax bands, e.g. certain other income tax concessions are limited to those earning under \$180,000.

We would support revising the eligibility for the ZTO to more appropriately reflect the regions now considered remote. The considerations for defining what is "remote" are discussed further below.

### ***Remote area FBT concessions***

It is also appropriate for employers to be incentivised, to encourage investment and decisions that must be made on a larger scale.

For example, the remote area housing concessions encourage employers to develop housing ownership schemes that can increase the supply of housing by providing assistance with deposits, mortgage funding, interest and rent reimbursements.

Where benefits are subject to FBT in full, depending on the benefit provided, the FBT can almost double the cost of providing the benefit from the company's perspective.

There are a number of exemptions and concessions from FBT available for companies providing benefits to employees working on a FIFO basis or residing in remote areas.

Due to the direct impact on cost of labour, these concessions may influence a company's decision to utilise either a FIFO or residential workforce. In totality however, the concessions for residential and FIFO arrangements result in a similar quantum of savings to employers and employees.

To address the objectives of equity, efficiency and simplicity, we support simplifying the concessions for housing and utilities, with consideration being given to extending concessional treatment to education and health.

### ***Revising remote area definition***

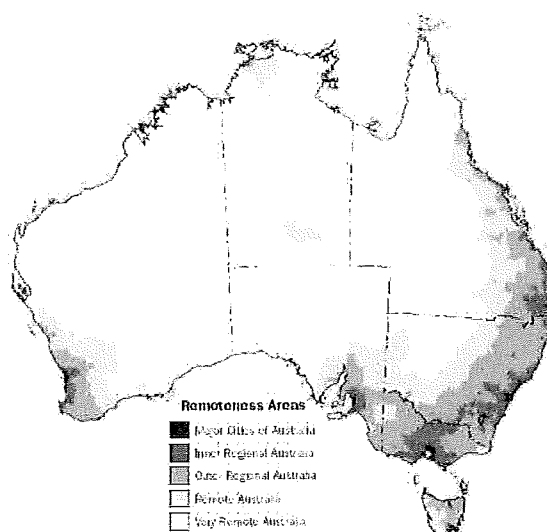
The Commission has raised whether the FBT definition of "remote" is outdated as it refers to census populations in 1981.

While a change of this nature would involve a period of adjustment and a reasonable transitional period should be allowed in acknowledgement of this, a better approach to define remote should take into consideration the following elements:

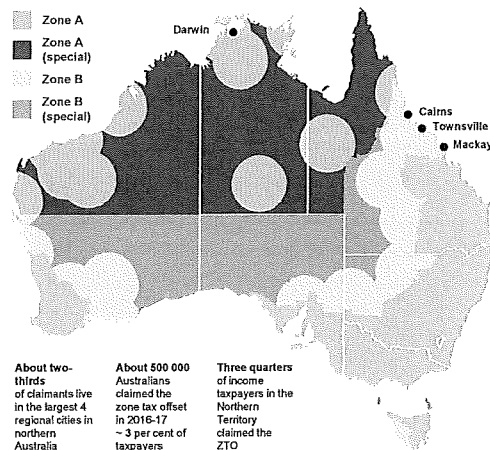
- a. Proximity to a population area, based on more reasonable limits on both distance and population than the 1981 figures.
- b. Extent of infrastructure.
- c. Ease of travel.
- d. Availability of facilities and services including education, hospitals and employment for individuals outside the resources industry.

The Australian Bureau of Statistics (ABS) categorises areas by remoteness on the basis of a measure of relative access to services. There are five classes of remoteness, as follows:

- a. Major cities
- b. Inner regional
- c. Outer regional
- d. Remote
- e. Very remote.



This may be compared to the areas regarded as remote for ZTO purposes.



There are some key points to consider regarding the use of remoteness areas. Remoteness areas are updated regularly, with 2016 providing the most recent boundaries and a prior map existing for 2011.

It would not be appropriate to establish a definition of remoteness that may change within such a short period. It is necessary, to permit for long term decision making, planning and budgeting, that the boundaries remain stable for a longer term period of twenty to thirty years.

It is also necessary to consider which areas should be eligible for assistance. We suggest the remote and very remote areas should be targeted for the greatest assistance. However incentivising additional investment and promoting employment in outer regional areas may also have considerable productivity benefits.

It is helpful to establish clear boundaries between remote and non-remote areas. If adopting the ABS remoteness areas as the framework, we suggest towns classified as outer regional areas which are effectively surrounded by remote areas, should also be classified as remote for FBT purposes. This is to ensure clarity from a planning perspective and avoid confusion where isolated towns have a different classification to the surrounding area. It also reflects the fact that such towns suffer the disadvantages of distance and isolation, despite having a slightly higher population base.

The following Appendices provide additional information to assist the Commission with its analysis:

- a. Appendix 1 provides comments on the Commission's Analytical Approach including Case studies modelling the impact of remote area tax concessions.
- b. Appendix 2 provides comments on the impact of the concessions and the extent to which they influence labour, mobility and businesses.

## Appendix 1

### The Commission's Analytical Approach Including Case Studies

We support the Commission taking a community-wide perspective in assessing the efficacy and relevance of Commonwealth remote area concessions.

The economic contribution of remote areas to Australia's export market is clear when considering the significant impact of industries concentrated in remote areas. The top 12 sectors make up almost 65 per cent of Australia's total export market, with remote areas playing a central role in eight of the top 12 and WA contributing to a significant proportion of more than half of these.<sup>12</sup>

Rank	Sector	% share of Aus exports	Value of Aus Export (A\$ million)	Value of WA Export (A\$ million)
1	Iron ore and concentrates	18.35	63,168	62,435
4	Natural Gas	12.59	43,333	5
6	Gold	5.56	19,136	17,467
7	Aluminium ores and conc. (inc. alumina)	3.29	11,341	56
8	Beef	2.52	8,666	201
9	Crude petroleum	2.35	8,102	6,068
10	Copper ores and concentrates	1.74	6,000	1,676
12	Wheat	1.18	4,068	2,204

It is therefore both relevant and necessary in assessing the impact of Commonwealth remote area concessions to do this with regard to the contribution of remote areas to the Australian economy as a whole.

Australia's major cities are facing increasing strain on infrastructure and there is a desire for population growth to be less concentrated in cities to spread both the benefit and burden<sup>13</sup>.

Perth as a region represents 58.4 per cent of Western Australia's GDP.<sup>14,15</sup> With majority of the remaining area falling into some definition of 'remote', it is evident that the remote areas of Western Australia are significant contributors to the domestic economy, as are remote areas across the country more generally.

### Quantification

Quantifying the use and effects of the ZTO and FBT remote area concessions is not straightforward. Regarding the FBT remote area concessions, there is limited data available to estimate the value of remote area benefits received by employees and the implied loss of tax revenue associated with the concessions.

Where a benefit is not subject to FBT or where the value is reduced, the exemptions and reductions claimed are not separately reported to the ATO. Therefore, any estimates provided will need to be based on a range of assumptions. These assumptions should be set out clearly to allow them to be validated.

We believe there should be an emphasis on the use of case studies and scenario modelling to help ascertain the value of the concessions received by employees and employers. Case studies can help to explain the complex application of remote area FBT concessions. This in turn will help draw out the extent to which it is likely the concessions play a factor in influencing decisions about employment and relocation.

Case studies can also assist the Commission in considering a wider range of remote area employees such as teachers and nurses, not only more highly remunerated categories such as mining workers.

We have summarised three numerical case studies below, which can help demonstrate the benefits provided and assist to draw analytical conclusions. Full details of these scenarios are provided below.

## Case studies: Modelling Impact of Remote Area Tax Concessions

### i) Employee impact

	Salary Band 1		Salary Band 2		Salary Band 3	
Salary/ benefit	Salary Uplift	Benefits	Salary Uplift	Benefits	Salary Uplift	Benefits
Base Salary	55,000	55,000	85,000	85,000	180,000	180,000
Accommodation assistance (uplift)	12,000	0	20,000	0	30,000	0
Benefits:						
Remote Area Housing/Rent/Mortgage		10,000		15,000		22,000
Utilities subsidy		1,000		3,000		5,000
Holiday Transport		<u>1,000</u>		<u>2,000</u>		<u>3,000</u>
Total benefits		12,000		20,000		30,000
Taxable income	67,000	55,000	105,000	85,000	210,000	180,000
Less: Income tax	(14,662)	(10,522)	(28,447)	(20,872)	(71,797)	(57,697)
Zone offset	<u>338</u>	<u>338</u>	<u>338</u>	<u>338</u>	<u>338</u>	<u>338</u>
Net income	52,676	44,816	76,891	64,466	138,541	122,641
Net remuneration package	52,676	56,816	76,891	84,466	138,541	152,641
Gain to employee from fringe benefits		4,140		7,575		14,100

### ii) Employer impact

	Salary Band 1			Salary Band 2			Salary Band 3		
Salary/ benefit	Salary Uplift	Housing	Rent/ interest	Salary Uplift	Housing	Rent/ interest	Salary Uplift	Housing	Rent/ interest
Base Salary	55,000	55,000	55,000	85,000	85,000	85,000	180,000	180,000	180,000
Accommodation uplift	12,000	0	0	20,000	0	0	30,000	0	0
Total benefits		12,000	12,000		20,000	20,000		30,000	30,000
Fringe benefits tax		978	5,412		2,444	9,095		3,911	13,666
Superannuation guarantee	6,365	5,225	5,225	9,975	8,075	8,075	19,950	17,100	17,100
Payroll tax and WorkCover	5,025	4,365	4,365	7,875	6,775	6,775	15,750	14,100	14,100
Total Cost to Employer	78,390	77,568	82,002	122,850	122,294	128,945	245,700	245,111	254,866
(Cost)/saving to employer from fringe benefits		822	(3,612)		556	(6,095)		589	(9,166)

iii) Employee impact with salary sacrifice

Salary/ benefit	Salary Band 1			Salary Band 2			Salary Band 3		
	Salary only	Sal sac housing	Sal sac rent/int	Salary only	Sal sac housing	Sal sac rent/int	Salary only	Sal sac housing	Sal sac rent/int
Base Salary	55,000	55,000	55,000	85,000	85,000	85,000	180,000	180,000	180,000
Benefits:									
Remote Area Rent/Lease Reimbursement		(10,000)	(10,000)		(15,000)	(15,000)		(22,000)	(22,000)
Utilities subsidy		(1,000)	(1,000)		(3,000)	(3,000)		(5,000)	(5,000)
Holiday Transport	-	(1,000)	(1,000)	-	(2,000)	(2,000)	-	(3,000)	(3,000)
FBT on benefits	-	(978)	(5,412)	-	(2,444)	(9,095)	-	(3,911)	(13,666)
Taxable Income	55,000	42,022	37,588	85,000	62,556	55,905	180,000	146,089	136,334
Less Income Tax	(10,522)	(6,045)	(4,515)	(20,872)	(13,129)	(10,834)	(57,697)	(44,472)	(40,667)
Zone Tax Offset	338	338	338	338	338	338	338	338	338
Net Income	44,816	36,316	33,411	64,466	49,765	45,409	122,641	101,955	96,005
After-tax expenses									
Accommodation (interest / rent)	(10,000)			(15,000)			(22,000)		
Utilities	(1,000)			(3,000)			(5,000)		
Holiday Transport	(1,000)			(2,000)			(3,000)		
Disposable Income	32,816	36,316	33,411	44,466	49,765	45,409	92,641	101,955	96,005
Savings obtained through salary sacrifice		3,500	595		5,299	943		9,314	3,364
Equates to salary uplift %		6.36%	1.08%		6.23%	1.11%		5.17%	1.87%
Equates to disposable income uplift %		9.64%	1.78%		10.65%	2.08%		9.14%	3.50%

**Assumptions**

- Each scenario is based on the same total remuneration package, comparing where remote area assistance is taxable to the employee or alternatively provided via the same value of concessional benefits
- All rates are for the year ending 30 June 2019
- Housing is provided by the employer and exempt from FBT whereas reimbursing the entire rent or mortgage interest incurred results in FBT at 50%
- WorkCover rate assumed at 2%
- PRT rate assumed at 5.5%
- Salary sacrifice models the scenario where an employer does not provide any salary uplift (i.e. is cost neutral to employer), but full savings for salary sacrifice are passed on to the employee

**Other domestic or international studies**

Domestic studies or reviews which have considered some of the issues the Commission seeks to address include:

- Cancer of the bush or salvation for our cities? Fly-in, fly-out and drive-in, drive-out workforce practices in Regional Australia, House of Representatives Standing Committee on Regional Australia.<sup>16</sup>
- Keep it in the regions – Mining and resources industry support for businesses in regional economies, House of Representatives Standing Committee on Industry, Innovation, Science and Resources.<sup>17</sup>



- c. Transitioning Regional Economies, Productivity Commission.<sup>18</sup>
- d. Perceptions and Realities of Regional Airfare Prices in Western Australia, Economics and Industry Standing Committee.<sup>19</sup>

In its report on Transitioning Regional Economies, the Commission developed the economic metric of relative adaptive capacity to identify regions most at risk of failing to adjust successfully to economic disruptions. Regions with the lowest relative adaptive capacity are concentrated in outer regional and remote or very remote areas. The vast majority of WA is in the categories of least adaptive or below adaptive.<sup>20</sup>

The Commission identified reforms to facilitate the transition and development of regions, including reducing regulations that impede businesses and removing disincentives to mobility.<sup>21</sup> Improving employment prospects, particularly for those most disadvantaged, was also highlighted as important.<sup>22</sup>

There are several other jurisdictions around the world where remote areas are provided with concessional tax treatment. These include Canada<sup>23</sup>, Russia<sup>24</sup> and the US.<sup>25</sup> We suggest further analysis is done to consider any studies conducted or approaches taken in those locations which may be relevant to inform the approach here.

It is common practice around the world to provide employees with assistance where they are required to work in remote or undue conditions. This may be largely done by employers, via remuneration packages. Providing government concessions to individuals or employees is appropriate where doing so has an economic and social benefit.

## Appendix 2

### Issues for Investigation

#### ***The impact of the concessions and payments on labour mobility and retention***

Employers recognise that to attract workers to remote areas they need to provide employment packages that are highly competitive and address some of the specific perceived disadvantages of living and working in a remote area.

The State Government is the largest employer in WA. Of its 139,812 employees, 25 per cent work outside of the metropolitan area. Several Government employers experience difficulty in attracting and retaining employees to regional areas, primarily in critical service roles such as child protection officers. While strategies are being considered to overcome existing and potential disruption to services, which include additional financial benefits, being able to offer personal income tax relief will assist in attracting and retaining employees in regional WA.

The policy rationales for introducing concessions and payments for remote areas are ultimately linked to the need to provide incentives necessary to attract a workforce to remote communities and encourage their ongoing presence.

WA has experienced a severe labour shortage in recent years and relied heavily on both domestic and overseas migration to meet the labour demands of our strong economy.<sup>26</sup> Much of this migration was to remote areas.

As outlined in the Commission's report '*Geographic Labour Mobility*', the key drivers of an individual's mobility decision can be grouped into 3 categories: personal factors, locational factors and transitional factors. The report concludes that legal and administrative costs, together with other transitional costs, play a significant role in individuals' mobility decisions.

The report outlines the most significant transitional cost is the buying or selling a home. This, when often combined with a higher cost of living, lower employment prospects and reduced availability of social and economic infrastructure, can make relocating to a remote area a difficult decision.<sup>27</sup>

FBT concessions directly assist with ameliorating the costs of buying and selling a home (noting this concession is not restricted to remote areas) and with ongoing costs of housing and utilities, as well as certain transport costs. This assistance can go towards offsetting other disadvantages.

Therefore, they play a necessary role in promoting labour mobility to regional areas and workforce retention in those areas.

#### ***The materiality of the FBT remote area concessions to businesses and industry (levels of uptake and total amount claimed)***

Given the estimated cost range contained in the Commission's Issues Paper for the FT remote area concession, it appears the ATO does not have the required data to estimate the cost of the FBT foregone in connection with exempt and concessional remote area benefits as these items are not separately disclosed by employers in FBT

returns. Any estimates should be clearly supported by assumptions and details of the methodology for arriving at the estimates.

As an indication, Government Regional Officers' Housing (GROH) is provided by WA State Government agency employers to public sector employees in a number of regions. The vast majority of these are in remote regional areas, 99 per cent outside the metropolitan area and 90 per cent being the remote areas north and east of Perth.

Under GROH arrangements, employees are provided with housing and may contribute discounted rent. They also receive assistance with utilities, particularly air-conditioning costs which are essential to deal with climate discomfort.

Changing the FBT treatment of housing and utilities would significantly increase the costs to these agencies.

The materiality of the FBT remote concessions in totality is illustrated by the case studies above which model employees receiving similar benefits at differing wage brackets. When extended over an entire workforce or industry, these differentials are significant.

As can be seen from these examples, where an employer can access FBT concessions, there will be a benefit to both the employee and the employer. In some instances, this can benefit the employee by providing additional income equivalent to a salary uplift of around 10 per cent.

***The likely impost on business and industry if the FBT remote area concessions were removed***

In our view the impact of removing the FBT remote area concessions would be to disadvantage both employees and employers, compared to the current arrangements.

This is supported by the prevalence of salary sacrifice arrangements. Under a salary sacrifice arrangement, the employee bears the cost of FBT via a pre-tax salary deduction. However, the entire saving that results from being provided benefits as opposed to cash is passed on to the employee. Therefore, removing benefits that are largely salary sacrificed would result firstly in a reduction in effective packages to employees who salary sacrifice those benefits.

For employers who bear the cost of FBT, increasing the FBT is likely to reduce the extent to which they can subsidise employee benefits in remote areas. Therefore, it is unlikely the changes would result in significant additional revenue to redeploy.

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

To quantify the increased costs of hiring labour in remote areas would require surveying businesses and reviewing the entire composition of packages in comparison to equivalent positions based in metropolitan areas.

Within the public sector, regionally based employees are entitled to a district allowance (excluding teachers who have their own regional provisions). This allowance recognises the increased cost of living, climate and isolation in regional locations, especially for families. For an employee with dependants, the allowance is doubled.

The district allowance is from \$1,239 to \$9,449 p.a for employees outside the south west region. The allowance also provides for different payments for specific towns within a region.

Employees in these remote locations often receive other uplifts to compensate them for their remote living. For example, employees working in the North West receive additional annual leave, including a travel concession. Any employee required to relocate will receive a removal allowance or reimbursement to assist with the costs of moving to remote areas.

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- <sup>3</sup> <https://www.wa.gov.au/government/our-priorities-sharing-prosperity>
- <sup>4</sup> Transitioning Regional Economies, Productivity Commission Study Report 2017, p127
- <sup>5</sup> Assumes full wage is spent on the Consumer Price Index (CPI) basket of goods and services. Calculated based on the Perth CPI weight of 23 per cent for housing costs and the ABS Ordinary Full Time Adult Weekly Earnings for Western Australia of \$91,369 in November 2018.
- <sup>6</sup> Australian Bureau of Statistics 2019, *6461.0 – Consumer Price Index: Concepts, Sources and Methods, 2018*, available at:  
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- <sup>7</sup> Living in the Regions survey 2016
- <sup>8</sup> Ibid, p16
- <sup>9</sup> Ibid, p17
- <sup>10</sup> Ibid, p23
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